Data Focus: How PSUs score on corporate governance

Most PSUs are non-compliant in composition of the board

Public sector enterprises, their operations, performances, and profitability have gained significance of late with the Centre wanting to divest stakes in these companies. Good corporate governance is essential to enable a company to perform to its potential. A survey of corporate governance in Maharatna and Navaratna companies by Excellence Enablers helps throw some light on the governance in some of the better-run public sector enterprises.

The Survey has considered 10 Maharatnas, including BHEL, BPCL, Coal India and GAIL, and 14 Navaratnas such as BEL, CONCOR, Engineers India and Hindustan Aeronauticals. Here are some takeaways:

Non-compliance in board, committee compositions

The survey found that all 24 PSUs surveyed are non-compliant in board composition as on March 2021. The number of non-compliant entities were 21 towards the end of FY20, and 13 in FY19. The disruption caused by the pandemic could possibly account for some of this non-compliance.

Around 16 companies fell short in the composition of their audit committees in FY21 while 17 companies did not adhere to the requirement for composing the nomination and remuneration committee.

Many PSUs fell short in having the required number of independent directors on the board. According to the survey, 11 companies had less than the prescribed minimum of 50 per cent IDs in all three fiscal years. Unlisted CPSEs are required to have at least one-third independent IDs on board. In FY20 and FY21, 1 unlisted company did not have the requisite IDs on its board, making it non-compliant.

According to the Department of Public Enterprises (DPE) guidelines, number of functional directors including CMD/MD should not exceed 50 per cent of the total board strength. This mix is necessary to ensure that the board benefits from the experience of non-executive members. While 23 PSUs were compliant with this requirement in FY19, the tables turned in FY21. Almost 19 PSUs had more than 51 per cent of the Board members who were whole-time directors or executive directors. Only 5 PSUs had Board with 50 per cent functional directors during the pandemic.

Gender Diversity

PSU companies seem to be ignoring the gender diversity criteria for composition of the board too. According to the Companies Act, every listed company or company with paid–up share capital of ₹100 crore or more; or turnover of ₹300 crore or more should have at least one women director on board.

While four of the 24 PSUs sampled had no women independent directors in FY19, the number increased to 13 in FY20 and further to 19 by FY21. As on March 31, 2021, nine cos had no women directors on their boards.

Tenure of directors

It is necessary for the board members to occupy the position long enough to make a difference to the company while not continuing too long to become a permanent fixture. The legal provision is that the directors should stay for maximum of 2 terms, with a maximum of 5 years in each term. But the survey reveals that the tenure of most directors is lower than desirable. The average tenure is also moving lower over the last three years.

For instance, the average tenure for Chairmen was 4.55 years in FY19. This moved lower to 3.73 years in FY21. Average tenure for independent directors and non-independent directors had declined below 2 years in FY21, indicating that there is a lot of unnecessary churn happening in board positions.

Attendance in board meetings has however improved greatly during the pandemic, this could be due to the meetings moving online. 88 per cent of the directors logged 100 per cent attendance in FY21, up from 60 per cent in FY20 and 55 per cent in FY19. 98 per cent of independent directors managed to attend all board meetings in FY21.

Source : https://www.thehindubusinessline.com/data-stories/how-psus-score-on-corporate-governance/article65500576.ece