



A STUDY OF STRUCTURE OF CORPORATE GOVERNANCE IN CENTRAL GOVERNMENT ORGANIZATIONS IN INDIA

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Abstract

Government Departments are not the same as for-profit corporations, but they face many similar challenges. They need to be business-like. They can do this by tapping into the expertise of senior leaders with experience of managing complex organizations in the commercial private sector. These experts will provide challenge and support through their membership of Departmental Boards, which will provide the collective strategic and operational leadership of Government Departments. Government departments do have measurable performance goals and strategic challenges. They have structured controls and organizational statures, but they are very different normally from the profitable organizations. For example secretaries of State chair their departmental board. Boards comprise other Ministers, senior officials and non-executive board members, largely drawn from the commercial private sector and appointed by the Secretary of State in accordance with Cabinet Office guidelines. Their Corporate Governance mechanism is completely different from that of the profit making organization. Present paper aims to understand the hierarchy and organization structure of corporate governance of central government organization in India as well as the challenges and in the mechanism. Research paper also aims to understand the bottlenecks of the present corporate governance structure.

Key Words: *Corporate Governance, Legal Frame Work, Direct Taxes, Central Government.*

(I) INTRODUCTION

Corporate governance is the way in which organizations are directed, controlled and led. It defines relationships and the distribution of rights and responsibilities among those who work with and in the organization, determines the rules and procedures through which the organization's objectives are set, and provides the means of attaining those objectives and monitoring performance. Importantly, it defines where accountability lies throughout the organization. Government Departments are not the same as for-profit corporations, but they face many similar challenges. They need to be business-like. They can do this by tapping into the expertise of senior leaders with experience of managing complex organizations in the commercial private sector. They have structured controls and organizational statures, but they are very different normally from the profitable organizations. Present paper describes the structure of Corporate Governance hierarchy of central government organization in India as well as the challenges and in the mechanism.

(II) STRUCTURE AND NATURE OF CHALLENGES IN CENTRAL GOVERNMENT ORGANIZATIONS

Central Government Organizations are also governed by the basic structure of Board formation, The Boards will be balanced, with roughly equal numbers of Ministers, senior civil servants, and non-executives from outside government. They will be chaired by the Secretary of State and meet on at least a quarterly basis. Boards are advisory in the sense that they will provide advice to the department on issues within their remit, such as strategy and the deliverability of policies. They are supervisory in the sense that they scrutinize reporting from the department on performance, and challenge the department on how well it is achieving its objectives. Policy will be decided by Ministers alone, with advice from officials. Boards will give advice and support on the operational implications and effectiveness of policy proposals, focusing on getting policy translated into results. They will operate according to recognized precepts of good corporate governance in business.

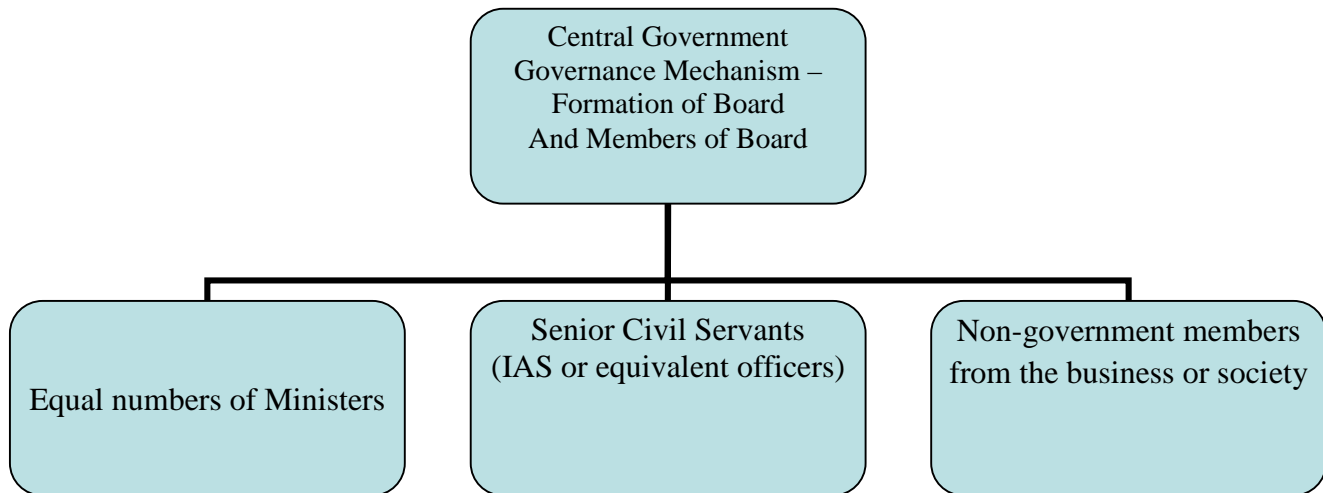


Diagram -1, Structure of Board of Central Government organization

(III) IMPORTANT ROLES OF BOARDS RESPONSIBILITIES

Central Government Governance Code 2005 and its various amendments have clearly spelled out guidelines of formation of board and their responsibilities. Key elements guided in the code 2005 regarding roles and responsibilities of the boards are explained here.

- Leadership – articulating a clear vision for the Department and give clarity about achieving this vision, including setting risk appetite and managing risk; Effectiveness – bringing a wide range of relevant experience to bear.
- Accountability – promoting transparency through clear and fair reporting.
- Sustainability – taking a long-term view about what the Department is trying to Achieve and what it is doing to get there. Boards advise on, and supervise, five main areas.
- Strategic Clarity – setting the vision and/or mission and ensuring all activities, either directly or indirectly, contribute towards it.
- Commercial Sense – approving the distribution of responsibilities; advising on signoff of large operational projects or programmes; ensuring sound financial management; scrutinizing the allocation of financial and human resources to achieve the plan; ensuring organizational design supports attaining strategic objectives; setting the Department’s risk appetite and ensuring controls are in place to manage risk; evaluation of the board and its members, and succession planning; Talented People ensuring the Department has the capability to deliver and to plan to meet current and future needs.
- Results Focus – agreeing the operational business plan, including strategic aims and objectives; monitoring and steering performance against plan; scrutinizing performance of sponsored bodies; and setting the Department’s standards and values; Management Information – ensuring clear, consistent, comparable performance information is used to drive improvements.

(IV) GOVERNANCE MECHANISM OF BOARD

The board forms the committees for the various operations. As a minimum there should be committees responsible for Audit and Risk (the responsibilities of which will include reviewing the comprehensiveness of assurances and integrity of financial statements), and Nominations and Governance (the responsibilities of which will include ensuring there are satisfactory systems for identifying and developing leadership and high potential, scrutinizing the incentive structure and succession planning for the board and the senior leadership of the Department, and scrutinizing governance arrangements).

Diagram 2 represent the mechanism of controls.

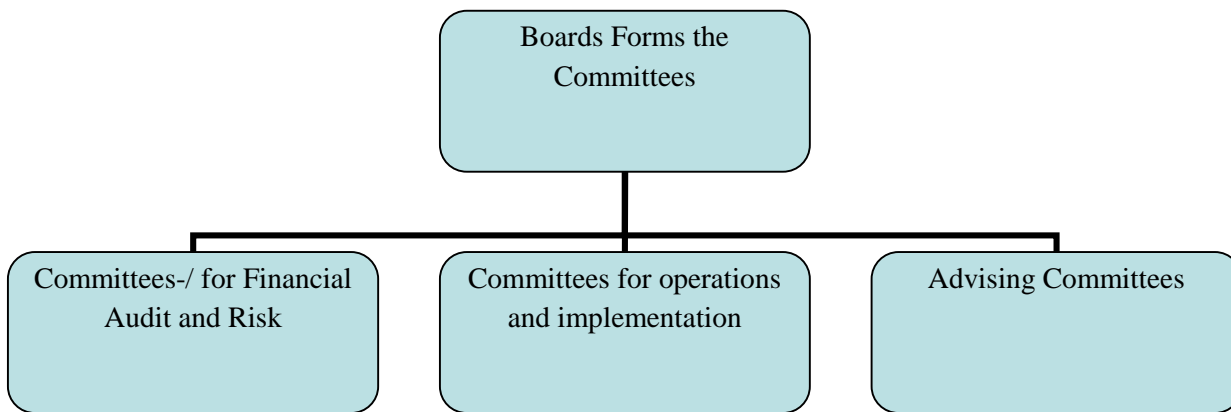


Diagram 2, Mechanis of Governance and Operations by Boards

Non-Executive Board Members, appointed by the Secretary of State, will be experts from outside Government. They will come primarily from the commercial private sector, with experience of managing complex organizations. In order to achieve representative Boards with broad-based experience, Departments will aim as far as possible to ensure that there at least one non-executive member with substantial experience in the public and/or not-for-profit sectors, in addition to members with strong commercial expertise. Departments are guided to aim to achieve boards which are diverse as well as it has been recommended that there should be at least one female non-executive board member. These considerations will also be kept in mind when planning for succession. They will exercise their role through influence and advice, supporting as well as challenging the executive. They will advise on performance (including agreeing key performance indicators), operational issues (including the operational/delivery implications of policy proposals), and on the effective management of the Department. They will also provide support, guidance and challenge on the progress and implementation of the operational business plan, and in relation to recruiting, appraising and ensuring appropriate succession planning of senior executives. Departments will support this work by providing appropriate management information and direct access to officials outside Board meetings. Non-Executive Board Members will report their views in their own section of the Department's annual report.

(V) FORMATION AND PROVISIONS OF CODE OF GOOD, (2005; 2011) GOVERNANCE PRACTICE

Central Government formed the original Code with an expert panel opinion and it was first published in July 2005 (the 2005 Code), it was the first time the principles of corporate governance had been codified in central government. Those principles are now largely common practice. The code has been amended in the year 2011, builds on the principles of the coded formed in the year 2005, by incorporating recent changes in best practice in the public, private and charity sectors. It sets out the role and functions of departmental boards, including how government departments will be business-like through drawing on the expertise of senior business leaders who sit on the boards as non-executive board members. It also incorporates other aspects of government policy, including that targeted at greater ministerial engagement with departmental business. The focus of the Code is on ministerial departments. Smaller departments are encouraged to adopt the practices set out in the Code wherever this is relevant and practical. The Code concentrates on principles. It focuses on the role of boards, since these provide leadership. Relevant government policy on how the principles should be implemented is clearly identified. Elsewhere, departments should apply the principles and supporting provisions in the Code to suit their business needs.

The most significant changes in this Code 2011 are:

- The provision that the senior ministers in each department should chair their departmental boards, This change aims to help ministers engage with their departments and enable them to lead their departments



effectively. The established accountability of ministers and permanent secretaries to parliament remains unchanged;

- The appointment of a government lead non-executive, who will work with, and through, non-executives on each departmental board. This will improve coordination from the centre and enhance the position of non-executives on boards;
- An emphasis on making departments more business-like (whilst recognizing that departments are not businesses), for example, through a more prominent role for non-executive board members;
- The removal of references to the independence of board members and a focus instead on the management of board members' potential conflicts of interest. They must, of course, be appointed on merit.

Six Key Guiding Principles of Code 2011.

- 1. Guiding Principles on Parliamentary accountability**
- 2. Guiding Principles on Role of Board**
- 3. Guiding Principles on Board Composition**
- 4. Guiding Principles on Boards Effectiveness**
- 5. Guiding Principles on Risk Management**
- 6. Guiding Principles of Arm's Length Bodies**

1. Key Parliamentary Accountability Principles

1. The minister in charge of the department is responsible and answerable to Parliament.
2. The departmental accounting officer is personally responsible and accountable to Parliament for the organization and quality of management in the department.
3. The lead minister in a department may devolve to his or her junior ministers.
4. In non-ministerial departments, there should be an agreement as to which minister(s) should answer for the department's affairs in Parliament.
5. Civil servants working for a departmental minister may exercise powers of the minister in charge of the department.
6. The official at the head of the department is normally appointed as its accounting officer (AO).
7. Parliament grants resources to departments for specified purposes. HM Treasury administers these resources on behalf of parliament and appoints the AOs.
8. The AO should establish and document a clear allocation of responsibilities amongst officials in the department.
9. At the request of the departmental AO, other senior officials in the department may be appointed as additional accounting officers for certain accounts, requests for resources, or distinct parts of an estimate.

2. Guiding Principles on Role of Board

1. Each department should have an effective board, which provides leadership for the department's business, helping it to operate in a business-like manner. The board should operate collectively, concentrating on advising on strategic and operational issues affecting the department's performance as well as scrutinizing and challenging departmental policies and performance, with a view to the long-term health and success of the department.

As a last resort, if Non-Executive Board Members judge that the Permanent Secretary is an obstacle to effective delivery, they will be able to recommend to the Prime Minister, Secretary of State and Head of the Home Civil Service that the Permanent Secretary should be removed from his or her post.

3. Guiding Principles on Board Composition

1. The board should have a balance of skills and experience appropriate to fulfilling its responsibilities. The membership of the board should be balanced, diverse and manageable in size as directed in details on formulation of board's norms in the code 2005.



2. The roles and responsibilities of all board members should be defined clearly in the department's board operating framework.

4. Guiding Principles on Boards Effectiveness

The board should ensure that arrangements are in place to enable it to discharge its Responsibilities effectively, including:

1. Formal procedures for the appointment of new board members, tenure and Succession planning for both board members and senior officials;
2. Allowing sufficient time for the board to discharge its collective responsibilities effectively; induction on joining the board, supplemented by regular updates to keep board members' skills and knowledge up-to-date; timely provision of information in a form and of a quality that enables the board to discharge its duties effectively;
3. A mechanism for learning from past successes and failures within the departmental family and relevant external organizations;
4. A formal and rigorous annual evaluation of the board's performance and that of its committees, and of individual board members;
5. A dedicated secretariat with appropriate skills and experience.

5. Guiding Principles on Risk Management

- 1 The board should ensure that there are effective arrangements for governance.
- 2 Risk management and internal control for the whole departmental family.
- 3 Committees are formed and advice about and scrutiny of key risks is a matter for the board, The board should be supported by: An audit and risk assurance committee chaired by a suitably experienced nonexecutive board member (NEBM); An internal audit service operating to Government Internal Audit Standards¹; A sponsor teams of the department's key arm's length bodies (ALBs).
- 4 The board should take the lead on, and oversee the preparation of, the department's governance statement for publication with its resource accounts each year.

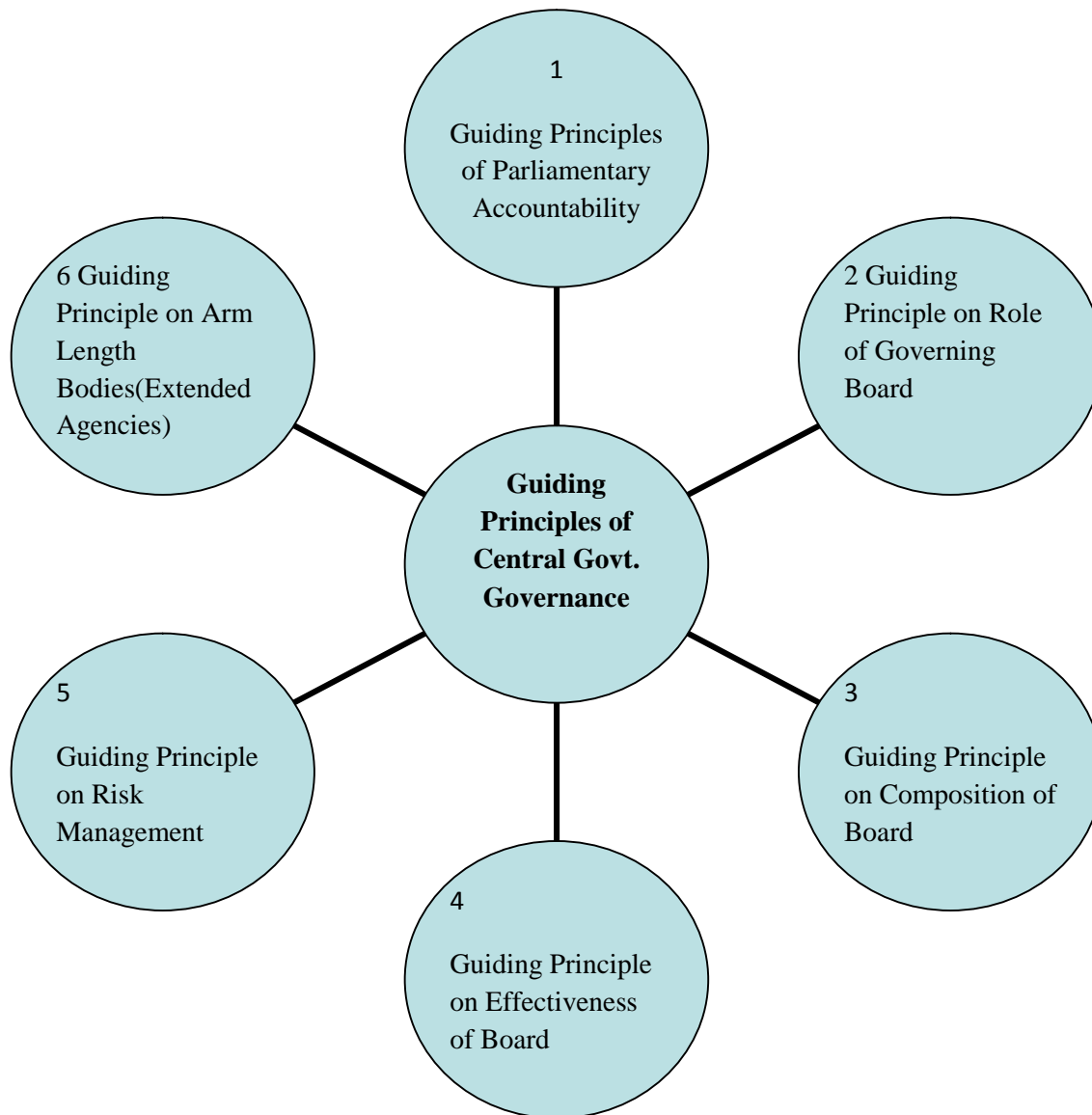
6. Guiding Principles on ALB (Arm Length Bodies)

Where part of the business of the department is conducted with and through arm's length Bodies (ALBs), the department's board should ensure that there are robust governance arrangements with each ALB board. These arrangements should set out the terms of their relationship and explain how they will be put in place to promote high performance and safeguard propriety and regularity.

It will be the board's regular agenda should include scrutiny of the performance of the department's sponsored bodies. ALBs are publicly accountable, whether funded directly from parliament, a central government department, or through a government sponsored commercial structure that enables the body to generate its own revenue. Therefore, ALBs are accountable to their sponsor department for performance and the use of their resources.

(VI) CONCLUSION

Need of the Governance mechanism like a Corporate Sector, was indeed found for the regulation and management in all central government organizations. The problem was thought and a Governance mechanism was formulated, with a written statement in the year 2005, as a Code of Governance. The same has been reviewed and amended timely. Last amendment was made in the year 2011. The Code has been centralized on the six guiding principles broadly and the same has been represented in Diagram 2



Since the function and the purpose of the central government organizations are quite different than the corporate purpose , the Governance mechanism and body also have a different role to play. Though there is a clear guidelines and principles on the Central government organizations and regulation mechanism is in place , there are certainly some flows , the major challenge is the implementation of the Governance mechanism and the amendment in the laws , the correction process is indeed needed to fasten as well as on time implementation is other major bottleneck. Presented paper has attempted to understand the Governance mechanism of the Central Government organization and have also tried to understand how the same is different than the Corporate or business purpose organizations.

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