Article

A Comparison of Corporate Governance Practices in State-owned Enterprises and Their Private Sector Peers in India

IIM Kozhikode Society & Management Review
5(2) 200–216
© 2016 Indian Institute
of Management Kozhikode

S. Subramanian[1]

Abstract

In India, Corporate governance norms were prepared with the assumption that firms were controlled by private players. However, in India, there are many firms that are majority-owned by the State or the government. Literature on corporate governance has highlighted the differences in the governance practices of government- and private-owned enterprises. But the parameters on the basis of which such differences emerge have not been studied. This article attempts to fill in the research gaps by analyzing the corporate governance practices of State-owned enterprises, known as public sector undertakings (PSUs), and family-owned enterprises in the Indian context by using the case study method. Five PSUs along with five family-owned private sector enterprises were selected for the study and their board practices were compared. The findings indicate significant differences in the board structure and the director's compensation structure of PSUs and family-owned firms. These findings suggest that policy-makers need to consider the State ownership issue separately while making corporate governance norms.

Keywords

State-owned enterprises, corporate governance, PSUs, board practices, independent directors, India.

Introduction

The State-owned enterprises (SOEs), also known as public sector undertakings (PSUs), played a very important role in shaping the industrialization process in India. At the time of independence, India was an economically poor country with a variety of problems such as high income inequality, low growth in income and savings, very poor infrastructure and inadequate technological resources. A vast majority of basic as well as heavy goods like railway coaches were being imported. Rapid industrialization was the need of the hour. The industries that already existed were not enough to cater to the needs of such a vast country (Dewan, 2006). The private firms were also not in a position to make huge investments and bear the long gestation periods. Also they were interested in investing in selective regions and not across the country. In order to overcome such a situation and to meet the requirements, the Government of India created PSUs. Most of the PSUs were operating in a near or absolute monopoly environment from 1960s till early 1990s. In the late 1960s, 1970s and early 1980s, the role of PSUs increased as a result of the nationalization of private firms in industries such as banking, coal mining and general insurance. Private sector enterprises that were on the verge of bankruptcy were also nationalized. As a consequence, the share of PSUs in the national gross domestic product (GDP) went up, from around 8 per cent in 1959 to 26.1 per cent in 1991 (Nagaraj, 2006).

Till 1991, PSUs were wholly owned by the government and were merely an extended arm of the State. The governance structures of these PSUs were such that they allowed the administrative departments in the concerned ministry to exercise complete control over their functioning (Varma, 1997).

During the early 1990s, the central government sought to dilute its ownership in PSUs through disinvestment.

[1] Assistant Professor (Strategy Area), Indian Institute of Management Kozhikode, Kerala, India.

Corresponding author:
S. Subramanian, Indian Institute of Management Kozhikode, IIMK Campus PO, Kunnamangalam–673570, Kozhikode, Kerala.
E-mail: s.subramanian@iimk.ac.in

Disinvestment was a gradual process. Disinvestment as a policy decision was announced in 'interim Budget' of Indian government presented in March 1991 by then caretaker government. The next government led by Mr P.V. Narashima Rao took it forward. Initially government stakes in PSUs were sold in small bundles to mutual funds and institutional investors in 1991–1992. It sold minority stakes of many of the PSUs through public offerings and got them listed in the stock markets as part of its disinvestment process. Simultaneously, the government also removed the monopoly status of public sector entities in industries such as telecom, airlines and insurance. This, in turn, forced the PSUs to compete with private players.

The government also started privatizing the PSUs through outright sales, but the process got stalled in the mid-2000s after a change in the government. Government also started privatizing the PSUs through outright sales, but the process got stalled in 2004, when a new central government took over with support of left parties, subsequent to the elections. However, the disinvestment process continued through sale of minority stakes. The listed PSUs had outside shareholders, but in almost all of them the government continued to function as the majority and controlling shareholder. In such a situation, the concerns of the outside/minority shareholders are often overlooked, which lead to the corporate governance problem of protecting the interests of minority shareholders from that of the controlling shareholders.

The common corporate governance framework implicitly assumes that the ownership role of the government in PSUs would not be different from that of the private sector firms where an individual or a family is usually the dominant shareholder. While this may be true to an extent in terms of control dynamics, there are several other issues of public accountability and constitutional mechanisms that lead to differences between the governance processes of the two types of dominant shareholders (Reddy, 2005).

There has not been any systematic effort, as evident from the available literature, to bring out the differences between corporate governance systems in PSUs and private enterprises. The corporate structure of India provides the perfect platform to carry out such a research, as in India private sector firms as well as SOEs have always been co-existing, unlike in China or Russia where there were only SOEs in the past or the Anglo-American countries where the presence of SOEs was negligible (Chakrabarti, Megginson, & Yadav, 2008; Puffer & McCarthy, 2003; Schipani & Liu, 2002; Shleifer & Vishny, 1997). In this article, an attempt has been made to understand the differences between corporate governance systems in SOEs and private enterprises.

A two-pronged approach has been adopted to examine the corporate governance system in the listed PSUs and its differences with that of private sector enterprises. First, the structural and conceptual differences between the corporate governance systems in private sector companies and PSUs, especially in the Indian context, were analyzed with the help of available literature. Second, the case study method was used with certain select parameters to examine the practical differences in the corporate governance practices of private sector companies and PSUs.

It is expected that this effort will create a foundation for new research areas on corporate governance in SOEs in the Indian context. It will also provide new insights into the concerned authorities to fine-tune the governance regulations by taking into account the differences based on the type of controlling owner, that is, the State or the private players.

The article is organized as follows. First, it presents a thorough review of literature, focusing mainly on India, in order to explain the different approaches through which the corporate governance system is understood. Then it goes on to discuss the conceptual and structural issues of corporate governance in the listed Indian PSUs. Next, an analysis has been provided on the differences between the corporate governance systems of PSUs and their private sector counterparts through the case study method. It is followed by a conclusion.

Approaches to Corporate Governance

The term 'corporate governance' gained importance after a series of corporate scandals in the United Kingdom in the late 1980s and the subsequent Cadbury Committee report in the early 1990s (Boyd, 1996; Pye, 2000). The issues addressed in the report, however, had been around since chartered companies came into existence in the country in the mid-sixteenth century. One of the main problems of governance faced by these chartered companies was that only a few shareholders used to control the company, whereas others who were outside shareholders used to have little control over the operational issues (Carlos & Nicholas, 1990). The English East India Company, one of the earliest companies in the world, used a mechanism that was typically adopted by contemporary chartered companies to overcome the above-mentioned problem. The charter of the company made a provision for the creation of a committee to monitor its performance. The committee, in principle, was similar to the board of directors of present-day companies, except in name (Chaudhuri, 1965). The members of the committee would be elected by the shareholders annually, and the committee members,

in turn, would elect one of them as the Governor (read chairman) of the company. Later, during the formation of the Bank of England in 1694, the term 'Governing Board' was introduced in its charter and the members were called 'Directors' (Gevurtz, 2003). The system of 'Board of Directors' came into existence thereafter.

The next flip for corporate governance came when Berle and Means (1932) predicted that, future corporations would have widespread shareholding pattern, with shareholders not having management control and they would be managed by the professional managers. This prediction became a reality after the Second World War, especially in the United Kingdom and Anglo-American countries such as the United States of America. As firms grew in both size and number, shareholding became widespread and professional managers started gaining control (La Porta, Lopez-de-Silanes, & Shleifer, 1999).

The problem in professional managers controlling the firm, which is owned by outside shareholders, was highlighted as agency problem by Jensen and Meckling (1976). They viewed the corporation as a nexus of contracts among self-interested and potentially opportunistic parties. When managers' wealth is not tied directly to the firm value through stock ownership, they may not work with the objective of creating wealth for shareholders. They may instead seek to consume perquisites at the expense of the firm or attempt to satisfy their personal ambitions like empire building, which may not benefit the investors. In other words, the insiders (managers) may use the net cash flow of the firm for their own benefit rather than returning it to the outside investors. It is true that contracts do exist between managers and capital providers (shareholders) about how the former could use the capital. However, such contracts do not cover every aspect of business decisions because of significant uncertainty, information asymmetry and contracting cost (Grossman & Hart, 1986; Hart, 1995). Besides, the contracts have also to be monitored while implementing their various clauses. The cost of monitoring contracts is called 'agency cost' (Jensen & Meckling, 1976). In such an environment, additional mechanisms are required to bring control over conflicts. The precise manner in which these mechanisms are set up and the way they fulfil their role in a particular firm define the nature and characteristics of that firm's corporate governance system.

Contracts among professional managers and residual risk bearers (i.e., outside shareholders) provide the main focus in most of the discussions about corporate governance. Corporate governance structures—the set of institutional arrangements that tend to align the interests of management and residual risk-bearing shareholders—serve to economize transaction costs that accompany the specialization of organizational functions (Williamson, 1984).

Based on the above principle Shleifer and Vishny (1997, p. 737) defined corporate governance by stating that it 'deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment'. The Agency Problem (also known as Principle-Agent problem) arises in Anglo American firms, where the shareholding is widespread and the companies are run by professional managers. Thus, in the Anglo-American context, corporate governance ensures that professional managers (i.e., the agents) work with the objective of creating wealth for the shareholders.

Corporate governance practices in continental Europe and East Asia (read Japan, Taiwan and South Korea) are different from the Anglo-American model. Most of the firms in continental Europe and East Asia are controlled by promoter families who provide strategic directions (La Porta, Lopez-de-Silanes, & Shleifer, 1999). In other words, the managers of the firms are also the controlling shareholders. Even in such an environment, governance problems may arise due to conflict of interest between the controlling shareholders and the outside/minority shareholders. Conflict of interest may arise if the controlling shareholders seek to extract and optimize personal benefits at the expense of the minority shareholders (Morck & Yeung, 2004).

Though corporate governance issues in the context of continental Europe and East Asia are based on protecting the minority shareholders, the focus of the governance system and its mechanisms are broad. The family controlled firms in these regions depend mainly on debt rather than on equity to meet the capital requirements. Hence the lenders, mainly the banks, have an important say in the strategic decisions of the firms (Morck, Nakamura, & Shivdasani, 2000). Besides, they typically possess a dual board structure where employee representation is also provided for. Their corporate governance structure focuses on all stakeholders of the firm rather than on shareholders alone.

Taking these differences into account, John and Senbet (1998, p. 372) proposed a more comprehensive definition of corporate governance which states that it 'deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected'. The authors here used the term 'stakeholders' to include both financial stakeholders (shareholders and debt holders) and non-financial stakeholders (employees, suppliers and customers).

Corporate Governance in India

Corporate governance in the Indian context differs from the models defined in the previous section. The main concern with Indian firms is the existing conflict between the dominant and the minority shareholders (Varma, 1997), which is similar to that of continental Europe. The focus of corporate governance, however, is on protecting the shareholders rather than all stakeholders, which is similar to the Anglo-American model (Reed, 2002; Subramanian & Reddy, 2010, 2012). The main reason behind this dichotomy is the legal system that is in place for business governance in India, which is based mainly on the British common law system (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). The Companies Act of 1956, which provides the framework of governance practices for Indian firms, borrowed many clauses from the Companies Act, 1913, that was framed by the British government. In India, the management of firms is controlled by a single-tier board. The board members, at least in paper, are elected by the shareholders. The major creditors were also nominating some board members until recently. Other stakeholders, particularly the employees, have no representation in the board (except in government-owned banks, known as public sector banks [PSBs]).

In 1991, following the economic crisis, the Government of India introduced liberal economic policies. These policies incorporated reforms in the corporate laws of the financial sector as well as in trade, foreign investment and industrial policies. A formal, structured corporate governance framework was introduced in 2000 by incorporating Clause 49 in the listing agreement mandated by the regulator, that is, the Securities and Exchange Board of India (SEBI). In order to comply with the mandate of SEBI, all listed companies were required to sign with the stock exchanges in India. The framework thus developed for corporate governance in India was modelled on the Anglo-American system that focused on shareholders' interests (Reed, 2002). This is despite the fact that some of the important corporate governance mechanisms in US context, like the market for 'corporate control activity' (where the poorly performing management is removed through a hostile takeover), are missing in India.

Corporate Governance in Indian PSUs

The PSUs in India are classified into three categories. These are as follows:

- *Central Public Sector Enterprises (CPSEs):* Companies where the central government, that is, the Government of India, or other CPSEs have the controlling shareholding and hence the management control.
- *Public Sector Banks (PSBs):* Scheduled commercial banks where the direct holding of the Central or state (provincial) government or other PSBs is 51 per cent or more.
- *State Level Public Enterprises (SLPEs):* Companies where the direct holding of the state (provincial) governments or other SLPEs is 51 per cent or more.

For this study, only the CPSEs have been considered.

Conceptual and Structural Issues

The problems of corporate governance in the listed Indian PSUs are more complicated than their private sector counterparts and the reasons can be classified into conceptual and structural ones.

The conceptual problem arises while defining the objectives of the controlling and outside shareholders. In private sector firms, as indicated earlier, the governance problem comes with the tendency of the controlling shareholders to use firm resources for personal interests through activities like tunnelling. Such objectives of the controlling shareholders are illegal and hence not explicit. In the case of PSUs as well, the differing objectives of controlling and minority shareholders are an issue. The minority shareholders invest in the listed PSUs with an objective of making profits. But the objective of the government as the controlling shareholder is not to merely make profits. As indicated by Bhattacharyya (2005), a PSU is not simply a vehicle for creating wealth for investors. PSUs, particularly the ones that are operating in areas of strategic importance, are expected to create 'positive externalities'. Bhattacharyya (2005) further provides evidence that the government uses PSUs as instruments for social welfare and not as a pure commercial venture. Unlike private sector firms, the 'social welfare' objective of PSUs is explicit and legal. The government tends to treat PSUs as cash cows and milk them for supporting finances (Khanna, 2015), but such objectives are also legal and ethical. Hence, the corporate governance problem in PSUs is about protecting the interests of the minority shareholders (i.e., wealth creation), which is in conflict with that of the controlling shareholders (i.e., social welfare). PSUs consequently have two sets of residual stakeholders, having differing interests, which are explicitly defined and have legitimacy (Ring & Perry, 1985). To manage the explicit and legally accepted differences between residual claimants becomes a complicated task when one claimant controls the decisions.

The corporate governance problems in PSUs have a structural dimension, too. The government plays multiple roles in the PSUs as a regulator, an owner, an adjudicator and an executive, however with conflicting objectives. The multiplicity and ambiguity of roles help the government in using the PSUs as agents of political interest rather than public policy. Subsidy to consumers or the targeted sections at the cost of the public enterprise, and also special grants and bail-out packages, have offered the government reasons, even if misplaced, for continued special controls and rights (Reddy, 2001).

One of the major reforms initiated by the Government of India in the early 1980s, well before the PSUs got listed, addressed to some extent the problem of having two sets of residual shareholders. In 1984, based on the Arjun Sengupta Committee recommendations, the government introduced a system of Memorandum of Understanding (MoU) with the objective of providing autonomy to the PSUs. According to this system, the government enters into an MoU with each PSU. The MoU is a negotiated agreement between the board of directors and the government, which sets targets for the PSU against various value drivers. It assigns weight to different drivers, highlighting the importance of each of them to achieve the desired results (Bhattacharyya, 2005). It was argued that once an MoU is signed, there would not be any need for the government to interfere in the working of the PSU, and the managers would also know what was expected from them. They would not require prior government sanctions for most of the strategic decisions, although the government could control the enterprise ex-post (Trivedi, 1988). Thus, it would provide more autonomy to the managers. Another benefit of the MoU system was that it clearly defined what the government expected from the PSU, ensuring that its contract with the managers was as complete as possible. This, in turn, made the minority shareholders the only residual shareholders in the listed PSUs. In theory, the MoU system should have simplified the corporate governance mechanisms, but in practice, problems still persist.

Not only are the corporate governance issues of PSUs more complex than that of private companies, but the mechanisms to protect minority shareholders are also weaker than those of their private sector peers. These components of corporate governance of PSUs are explained in the following section.

Governance Mechanisms in PSUs

The board of directors is considered to be the most important corporate governance mechanism for protecting the interests of outside shareholders (Banks, 2004; Shleifer & Vishny, 1997). The board members in PSUs, including the independent directors, are nominated by the administrative ministry with the help of the Public Enterprises Selection Board (PESB) and are appointed after an approval by the cabinet committee. The board has limited say in the nomination of the directors, including the independent directors.

The board also has a very little say in the selection of the chief executive officer (CEO) and other top managerial personnel. This role is again performed by the concerned ministry with the help of PESB. An implication of this system is that the board has little or no say on the succession planning at the top level.

The remunerations of full-time functional directors, the managing director (MD) and the executive chairman are fixed as per the guidelines issued by the Department of Public Enterprises (DPE). The independent directors are usually paid a very nominal sitting fee for every meeting. While this helps to overcome one of the major corporate governance problems, namely excessive executive compensation, it also hampers the efforts to get on board the best managerial talents in the market. This, in turn, might affect the performance of the firm in the long run.

The responsibilities of the board, as designed by the DPE, mostly relate to functional activities such as production management, financial management and general management. The illustrative checklist provided by the DPE recommends mostly managerial functions for the boards but provides for little control over governance and strategic aspects (Reddy, 2001). Varma (1997) highlights this point and argues that boards in PSUs do not play a meaningful role as far as strategic decisions are concerned. All strategic decisions are instead taken by the dominant shareholder (i.e., the government) through the concerned ministry. In the late 1990s and 2000s, the central government tried to overcome the above-mentioned problem in CPSEs by providing them with more strategic autonomy based on their performance. The CPSEs were classified into three categories, namely Maharatna, Navratna and Miniratna, on the basis of which their autonomy was defined (see Annexure 1). In spite of this, the board processes and procedures of PSUs reflect the dominance of compliance and operational bias rather than governance and strategy (Reddy, 2001).

Another important element of the corporate governance mechanism is the role played by audit committees. One of the important activities of the audit committee of a firm is to nominate the statutory external auditor. As per Section 619(2) of the Companies Act, 1956, the statutory auditors

for Government Companies (read PSUs) are appointed by the Comptroller and Auditor General (CAG) of India. There is very little that an audit committee can add to what the CAG does (Varma, 1997).

The corporate control activity, which is very weak in the Indian market (Chakrabarti, Megginson, & Yadav, 2008), is totally absent in PSUs. A PSU generally cannot have its board changed via a takeover or proxy contest and does not go bankrupt due to political reasons. The absence of potential takeovers and proxy contests reduce the drive that board members and managers require to maximize the value of the company. Moreover, an absence of bankruptcy can introduce a soft budget constraint, which reduces the pressure to contain costs (Sinha, 2009).

Over-governance

It is observed that the effectiveness of the regular corporate governance mechanism is restricted due to the structural issues involved with the system. The presence of some unconventional governance mechanisms in the PSUs further give rise to the problem of over-governance. Unlike private players, the PSUs are subject to the scrutiny of the agencies of Government of India, namely the Central Vigilance Commission (CVC), the Planning Commission[1], the administrative ministries and various parliamentary committees. The CVC issues guidelines on conduct, disciplinary cases, investigations and other related areas. The DPE issues guidelines on governance-related concerns, including appointment of board members and other personnel, wages and salaries. The Planning Commission has a role in long-term strategic planning (Reddy, 2001). The PSUs are also under the ambit of the Right to Information Act (RTI), which enforces the government entities to share their information with the public to ensure transparency. Such scrutinies lead to over-governance. Compliance to summons from various quarters comes at the cost of time and money. Over-governance promotes a conservative, cautious and risk-averse organizational culture where procedures take the primary importance and outcomes become secondary (Planning Commission, 2011).

The above analysis indicates that corporate governance in PSUs is different from that of their private sector peers, especially in the Indian context. However, further analysis is necessary to understand whether the conceptual and structural issues really do occur and affect the corporate governance mechanisms of the PSUs. The following section provides an analysis of the unique corporate governance mechanism in PSUs and the resultant issues, arrived at through the case study approach.

Corporate Governance Systems in PSUs and Their Private Sector Peers

The arguments put forth in the previous section on the differences between the corporate governance mechanisms of PSUs and private sector companies need to be analyzed in detail. Given that there has been little or no research on this topic, we used the case study method to analyze it. As Larsson (1993) points out, case studies focus primarily on the qualitative, multi-aspect, in-depth observations of one or a few cases. Such in-depth analysis would help to understand the fundamental differences that would not be captured by quantitative survey method.

The corporate governance practices of five listed PSUs were compared with their comparable private sector peers. The firms were chosen in such a way that they reflected the typical characteristics of PSUs, such as having monopoly and/or limited competition before the 1990s and displaying multiple roles played by the government. In other words, the leading PSUs in the industry where government control was explicit at least till the 1990s were chosen for the study. The industries chosen were telecom, power generation, steel, shipping and fertilizer. The government had the monopoly over the telecom industry till the early 1990s. Power generation and primary steel production, too, were reserved for government firms till the 1990s, with the exception of a few private firms such as Tata Iron and Steel Co. Ltd (TISCO, now known as Tata Steel) and CESC Ltd. The shipping industry was also dominated by the government-owned Shipping Corporation of India, which had monopoly over the sea transport of one of the most important imports, that is, crude oil. The fertilizer industry was also a controlled industry and continues to be a highly regulated one.

It was also ensured that PSUs chosen for analysis were from different categories of industry. Two firms each were selected from the Maharatna and Navaratna categories, and one from Miniratna, to highlight the differing capital investment autonomy given to the PSUs. Once the PSUs were chosen, comparable private sector players from the same industry were also selected. The firms selected for analysis are listed in Table 1. The brief profile of the selected firms are given in Annexure 2.

The following parameters were taken into consideration while comparing the corporate governance practices of the selected firms:

1. Board composition
2. Audit committee
3. Nomination and compensation committee
4. Directors' compensation

Table 1. Firms Chosen for Analysis

Category	Industry	PSU	Private sector
Maharatna	Steel	Steel Authority of India Ltd (SAIL)	Tata Steel Ltd
	Power	NTPC Ltd	Reliance Infrastructure Ltd (R Infra)
Navratna	Shipping	Shipping Corporation of India Ltd (SCI)	Great Eastern Shipping Co Ltd (GE Ship)
	Telecom	Mahanagar Telephone Nigam Ltd (MTNL)	Bharti Airtel Ltd (Airtel)
Miniratna	Chemicals & fertilizers	Rashtriya Chemicals and Fertilizers Ltd (RCFL)	Coramondel International Ltd (CIL)

Source: Author's own.

Board Composition

The issues that were considered while analyzing the board composition include: Chairman–CEO duality, size of the board, non-executive and non-independent directors, and independent directors and their independence. Table 2 presents the board structure of the selected firms as on 31 March 2013.

Chairman–CEO Duality

Chairman–CEO duality occurs when a single individual serves as the CEO as well as the chair of the board. It is one of the most widely discussed corporate governance phenomena (Dalton, Hitt, Certo, & Dalton, 2007). Theoretical and empirical works that discuss the effect of Chairman–CEO duality on corporate governance issues of firms provide two divergent views (Krause, Semadeni, & Cannella, 2014). On the one hand, scholars supporting the organization theory-based paradigms, such as stewardship theory (Donaldson & Davis, 1991) and resource dependence theory (Boyd, 1995), argue that Chairman–CEO duality promotes unity of leadership and, thus, facilitates organizational effectiveness. On the other hand, the agency theory suggests that boards should be independent from management to prevent managerial entrenchment (Eisenhardt, 1989; Fama & Jensen, 1983). According to agency theorists, Chairman–CEO duality reflects reduced board-oversight and stronger CEO power, whereas separation of the positions results in the opposite (Finkelstein, Hambrick, & Cannella, 2009).

Based on the views of agency theorists, some countries like the United Kingdom have made it mandatory for firms to separate the role of chairman and CEO. In India, however, it is not a mandatory requirement. None of the PSUs chosen for our analysis had separated the roles of chairman and CEO, generally called the MD. In other words, the MD or the CEO was also the chairman of the board. A further analysis outside the sample firms indicated that the same structure existed in almost all the PSUs across India.

On the contrary, none of the private firms selected for the study did combine the role of chairman and MD/CEO in its board. In companies such as Airtel and Great Eastern Shipping Company, the chairman had an executive role. Moreover, the vice-chairman of Great Eastern Shipping Company was also its MD. Given that the chairman played an executive role, Airtel designated one of the independent directors as the 'lead' independent director. However, the phenomenon of separating the roles of

Table 2. Board Structure of Selected Firms

Sl. No.	Company	Status of Chairman	Chairman–CEO/MD Duality	Total no. of Directors	No. of Executive Directors	No. of Non-executive Directors	Independent Directors	
							Nos.	%
1	RCFL	Executive	Yes	6	4	2	0	0
2	CIL	Non-exe, promoter	No	8	1	3	4	50
3	NTPC	Executive	Yes	17	7	2	8	47
4	R Infra	Non-exe, promoter	No	6	0	3	3	50
5	SCI	Executive	Yes	15	5	2	8	53
6	GE Ship	Executive	No	9	3	1	5	63
7	SAIL	Executive	Yes	17	6	2	9	53
8	Tata Steel	Non-exe, promoter	No	13	2	4	7	53
9	MTNL	Executive	Yes	6	3	2	1	16
10	Airtel	Non-exe, promoter	No	13	3	3	7	54

Source: Annual reports of the selected firms.

chairman and CEO is not common across the listed private sector firms in India.

Size of the Board

The available literature on corporate governance does not provide conclusive information about the relationship between the board size and the performance of a firm. One school of thought is of the opinion that there is a positive impact of bigger boards on firm performance, as a bigger board allows directors to specialize, which in turn leads to more effectiveness (Klein, 2002). Also, a bigger board allows for the inclusion of experts from diverse fields who can be entrusted with the responsibility of making better strategic decisions, thereby enhancing the performance of the firm (Dalton, Daily, Johnson & Ellstrand, 1999). Moreover, a bigger board provides greater monitoring capacity and increases the firm's ability to form more external linkages (Goodstein, Gautam, & Boekar, 1994).

Another school of thought suggests that there is a negative association between the board size and firm performance (Kota & Tomar, 2010). A bigger board encounters problems such as lack of communication and coordination among the members of the board (Jensen, 1993; Cheng, 2008), high agency cost (Jensen, 1993; Cheng, 2008), less group cohesion (Evans & Dion, 1991) and high levels of conflict (Goodstein et al., 1994). In the Indian context, Kumar and Singh (2013) also suggested a negative relationship between board size and firm value.

With regard to the companies that were selected for the study, the board size was bigger in the PSUs compared to their private sector peers. Overall, the board size in PSUs ranged from 12[2] (in Mahanagar Telephone Nigam Limited [MTNL] and Rashtriya Chemicals and Fertilizers Limited [RCFL]) to 17 (in Steel Authority of India Limited [SAIL]). On the other hand, the board size of the private sector firms in our sample ranged from a minimum of six (in Reliance Infrastructure Ltd.) to a maximum of 13 (in Tata Steel). Further analysis indicates that across all PSUs, the board size is bigger than those of their private sector peers.

Non-executive and Non-independent Directors

In Anglo-American firms, where the shareholding is widespread, every non-executive director (NED) is an independent director. But in the Indian context, where firms have controlling shareholders, the NEDs may not necessarily be independent. These non-independent NEDs help in protecting the interests of the controlling shareholders/promoters. Limited research has been conducted so far to assess the influence that NEDs have on the corporate governance process. Kumar and Singh (2013) found a negative relationship between number of 'Non-Executive Non-Independent Directors' and firm value in Indian context.

Among the companies selected for the study, the number of NEDs in the board of private sector firms varied from one (in Great Eastern Shipping Company) to four (in Tata Steel). Most NEDs in these companies were either members of promoter families or their representatives. In the case of PSUs, all NEDs were government nominees and their number was restricted to two in the board, as per DPE guidelines. The government nominees were those who held an ex-officio position in the concerned ministry.

Independent Directors

Independent directors play a vital role in ensuring corporate governance, as they are considered to be the true monitors who can discipline the management and improve performance of the firm (Duchin, Matsusaka, & Ozbas, 2010; Fama & Jensen, 1983). They are financially independent of the management, and this helps them avoid potentially conflicting situations, which in turn alleviates agency problems and curbs managerial self-interest (Rhoades, Rechner, & Sundaramurthy, 2000). Singh and Gaur (2009) indicate that in an emerging market like India, where efficient external governance mechanisms are not available, corporate boards with independent directors are considered to be an important internal governance mechanism.

Clause 49 of the listing agreement prescribes that for the listed companies at least 50 per cent of the board members should be independent directors, headed by an executive chairman. For companies with a non-executive chairman, at least one-third of the board members should be independent directors. In the case of CPSEs, independent directors need to be nominated by the DPE. The PSUs are not able to fulfil the criteria laid down by Clause 49 due to a delay on the part of the DPE to nominate independent directors.

Among the PSUs considered for our study, the Shipping Corporation of India and SAIL complied to the requirement of having at least 50 per cent members in the board as independent directors, as on 31 March 2013. NTPC was required to have nine independent directors but had only eight as on 31 March 2013, and hence failed to comply to the norm.

As per the article of association of the company, the board of MTNL was required to have 12 directors which included four functional directors, two government nominee directors and six independent directors. But as on 31 March 2013, it had only six directors on the board, out of which only one was independent. The other positions remained vacant. The annual report[3] 2012–2013 of the company mentioned that the company has taken steps to comply with the requirements of Clause 49 of the Listing Agreement with the Stock Exchanges.

RCFL did not have even a single independent director on its board, as on 31 March 2013. The corporate governance

compliance report filed by the company for the March 2013 quarter stated:

The present Board of the Company consists of six Directors. As on date, there are no independent directors. The Company is a Central PSU, and its Directors on the Board are appointed by the President of India. The government is yet to appoint the required number of independent directors.

The cases discussed here clearly indicate the problem of non-compliance of the PSUs with the norm of independent directors as per Clause 49. As observed, this happens when the government plays the role of the owner as well as the regulator. All the five private companies under our study, on the other hand, fulfilled the criteria of minimum percentage of independent directors in their boards.

Independence of the Independent Directors

Clause 49 of the listing agreement defines the term 'independent director' as a non-executive director of the company who:

- apart from receiving director's remuneration, does not have any pecuniary relationships/transactions with the firm, its promoters, senior management or its holding company and subsidiaries/associated firms;
- is not related to promoters/management at the board level or at one level below the board (read 'top management');
- has not been an executive of the firm in the last three financial years;
- is not a partner or an executive of the statutory audit firm and internal audit firm or firms that have a material association with the entity (legal and consulting firms) for the last 3 years;
- is not a business partner of the firm, which may affect independence of judgement of the director; and
- owns less than 2 per cent of the voting share in the firm.

All the independent directors in the PSUs and their private counterparts were independent as per the definition of Clause 49, but fell short when the spirit of the definition was taken into account. In practice, most of the independent directors in the PSUs were former government executives/PSU chairmen and were nominated by the DPE. Table 3 provides the partial list of independent directors in the PSUs selected for this study and the positions they formerly held in the government.

The problems associated with independent directors in private sector companies are different from those of PSUs. Unlike the independent directors of PSUs, who usually have just one term (i.e., for 3 years), those in private sector companies remain members of the board for a very long time. Besides, they can be in the board of multiple companies of the same group, which may lead to potential conflict of interest in related party transactions.

Let us consider the scenario from the private sector firms in our sample to understand the situation prevailing in India. Nusli Wadia and S.M. Palia have been in the board of Tata Steel as independent directors since 1979 and 1989, respectively. Nusli Wadia has also been there in the

Table 3. Profile of Selected Independent Directors

Company Name	Independent Director's Name	Former Position
SCI	S.C. Tripathi	Ex-Secretary to Govt. of India
	Arun Ramnathan	Ex-Secretary to Govt. of India
	S.K. Roongta	Ex-Chairman, SAIL
	U. Sundararajan	Ex-Chairman and Managing Director (CMD), Bharat Petroleum Corporation Ltd
SAIL	P.K. Sengutpta	Ex-CMD, Coal India Ltd
	Ranjana Kumar	Ex-CMD, Indian Bank & Ex-Chairperson, National Bank for Agriculture and Rural Development
	P.C. Jha	EX-Indian Revenue Service Officer, Govt. of India
NTPC	Ajit M. Nimbalkar	Ex-Chief Secretary, Govt. of Maharashtra
	S.R. Upadhyay	Ex-CMD, Mahanadi Coalfields Ltd
	H.A. Daruwalla	Ex-CMD, Central Bank of India
	A.N. Chatterji	Ex-Deputy CAG, Govt. of India
	A. Didar Singh	Ex-Secretary to Govt. of India
MTNL	S.K. Shingal	Ex-Chairman, Central Board of Excise and Customs, Govt. of India
RCFL	No independent directors	

Source: Annual reports of the selected firms.

board of other companies of the Tata Group, such as Tata Chemicals (since 1981) and Tata Motors (since 1998). Cyrus Mistry, the chairman of the Tata Steel, is there in the board of Bombay Dyeing Ltd, a company controlled by Nusli Wadia. This clearly is an example of mutual arrangement. It is, indeed, a debatable issue whether the independent directors, in such a situation, can actually remain independent and work towards the protection of the minority shareholders in their respective companies.

Other private companies in our sample also had independent directors serving their boards for long tenures. For example, Keki Mistry and Cyrus Guzder joined the board of Great Eastern Shipping Company in 2003, while Vineet Nayyar has been serving as an independent director since 2004. Similarly, N. Kumar joined the board of Airtel as an independent director in 2002 and retired in 2013, thus serving for more than a decade. Other than him, Airtel did not have any independent director serving for such a long period.

However there are exceptions and one our sample firms, Reliance Infrastructure, did not have any independent director serving for long period. The corporate governance policy of the company explicitly states that no independent director can serve for more than nine years. Likewise, Coromandel International, which belongs to Murugappa group, neither have any long-serving independent director, nor any of them possess membership in the boards of other group companies.

The question here is not about the quality of the independent directors but about the level of their independence. In the PSUs, where the independent directors are from government services, it is questionable as to what extent they would be independent of the controlling shareholder (i.e., the government) and work towards the interests of the minority shareholders. Similarly, in the case of private firms, when individuals serve the board for a long duration, they may lose their independence. If independent directors are not really independent, their presence may actually not help in enhancing the performance of the firm. This has been proved empirically in the Indian context by Kumar and Singh (2013) who opined that the relationship between independent directors and firm value is not very significant.

Although both PSUs and their private sector peers have questionable practices with regard to the functioning of independent directors, their issues concerning governance differ to a great extent.

Audit Committee

The audit committee of a board has the primary responsibility to oversee the firm's financial reporting process. It regularly meets the external and internal auditors as well as finance managers in order to review the financial statements, audit process and internal accounting controls (Klein, 2002). There are studies that point out the positive effect of audit committee in controlling the earnings of the management (Xie, Davidson, & DaDalt, 2003) and fraudulent reporting (Abbott, Park, & Parker, 2000).

Clause 49 makes it mandatory for all listed companies to have an audit committee with a minimum of three members. As per this norm, all the members in the committee should be non-executive directors, a majority should be independent and at least one director should have financial and accounting knowledge. It also states that the chairman of the committee should be an independent director, responsible for addressing shareholders' queries at the annual general meeting. Except RCFL, all other companies complied with this norm. RCFL could not follow it as it did not have any independent directors in the board. The audit committee is required to meet at least four times in a year and not more than 4 months should elapse between two meetings. Each of the companies followed the norm of meeting at least four times in a year. Not a single company allowed more than four months to lapse between two meetings. Table 4 provides the details about the audit committees of the firms selected for this study.

As per Clause 49, the primary responsibilities of the audit committee are to appoint/re-appoint and, if required, replace or remove the statutory auditor. It also plays a vital role in regulating audit fees of statutory auditors. All the five private companies selected for this study have included this rule as a mandate of their audit committees. But PSUs, except NTPC, have not mentioned this norm while providing the terms of reference to their audit committees. This is because, unlike private companies, the audit committees of the PSUs have only limited control over the above responsibilities, as the actual power is vested upon the CAG.

Non-mandatory Board Committees

The remuneration or compensation committee, a subgroup of the main board, is usually delegated the function of deliberating on and determining the payment of the top management, even though the overall responsibility lies with the board (Conyon & Peck, 1998). Williamson (1985) commented that the absence of an independent remuneration committee is akin to an executive writing his employment contract with one hand and signing it with the other. Main and Johnston (1993) highlighted the theoretical reason behind the formation of a remuneration committee, stating that it would exert influence on the payment of the

Table 4. Audit Committee Structure of Selected Firms

Company Name	No. of Meetings in 2012–2013	No. of Members in AC	No. of IDs in AC	No. of NEDs in AC	No. of EDs in AC	Chairman of AC
RCFL	4	3	0	1	2	NED
CIL	4	4	3	1	0	ID
NTPC	8	5	4	1	0	ID
R Infra	4	3	3	0	0	ID
SCI	10	4	4	0	0	ID
GE Shipping	4	3	3	0	0	ID
SAIL	8	5	5	0	0	ID
Tata Steel	6	4	3	1	0	ID
MTNL	8	3	2	1	0	ID
Airtel	4	6	4	1	1	ID

Source: Annual reports of the selected firms.
Notes: AC: audit committee; ID: independent director; NED: non-executive and non-independent director; ED: executive director.

top management keeping in mind the interests of the owners, that is, the shareholders.

The nomination committee is also a sub-committee of the board which has the responsibility to fill up board vacancies. Ruigrok, Peck, Tacheva, Greve, and Hu (2006) viewed the nomination committee as an improved decision-making mechanism, which can help resolve the power asymmetry between corporate boards and the management by reducing managerial influence on the selection of board members. The presence of such a committee helps in bringing a more objective approach to the selection of executive and non-executive board members (Bostock, 1995).

In India, both remuneration committee and nomination committee are non-mandatory requirements as per Clause 49. The independent directors in PSUs are nominated by the DPE and, therefore, they do not constitute nomination committees. None of the PSUs under study was an exception to this norm. The salaries of the board members of PSUs are also determined by the government. However, DPE guidelines recommend the PSUs to have a remuneration committee to decide on the bonus and variable pay of the top management. SAIL had a remuneration committee consisting of three members (all independent directors) to determine the performance bonus for employees below the board level. The Shipping Corporation of India had a board sub-committee to perform a similar function. NTPC had a five member (three independent directors and two non-executive directors) remuneration committee.

MTNL constituted a remuneration committee in 2010, which was not functional because it did not have any members. As on 31 March 2013, it had one executive director (director—finance) as the permanent invitee and a company secretary as its secretary. Due to the absence of members, it did not meet during the financial year, 2012–2013. RCFL did not have a remuneration or a nomination committee as on 31 March 2013.

With regard to non-mandatory committees, the private sector companies had a mixed record. Airtel had both nomination and remuneration committees. The former had six members, of whom four were independent directors and two were non-executive directors. The committee, which met once in 2012–2013, was headed by a non-executive director. The remuneration committee of Airtel was known as HR Committee, which consisted of five members. Three of them were independent directors, including the chairman, and two were non-executive directors. The mandate of the committee included allotting compensation to the chairman, CEOs and other top managerial personnel. The HR committee met five times during 2012–2013. Besides the HR committee, the company also had an Employee Stock Option Plan (ESOP) compensation committee to deliberate on ESOP. The committee, which met four times in 2012–2013, comprised five members, out of which three were independent directors and two were non-executive directors including the chairman.

The Great Eastern Shipping Company did not have a nomination committee. However, it had a remuneration committee with three members (all independent directors), which met once in 2012–2013. Tata Steel had a remuneration as well as a nomination committee. The remuneration committee had three members (two independent directors and one non-executive director) and met thrice in 2012–2013. The nomination committee also had three members with a similar composition and met once during the same period.

Both Reliance Infrastructure and Coromandel International combined the remuneration and nomination committees to form a single committee. The combined

committee of Coromandel International consisted of three members (one non-executive director and two independent directors) and met thrice in 2012–2013. Similarly, the committee of Reliance Infrastructure also consisted of three members (all independent directors) and met twice in 2012–2013.

Compensation to the Board of Directors

In the Anglo-American context, where shareholding is widespread, the remuneration level of executive directors and managers becomes the cornerstone for the alignment of interests between executives and shareholders (Grossman & Hart, 1982). But the level of compensation/remuneration arrangements is a serious corporate governance issue, because the executive members of the board may formally or informally have the power to set their own salaries (Bebchuk & Fried, 2003; Hall & Liebman, 1998). Even in family-controlled firms in emerging economies like India, tunnelling of company resources may happen through board compensation/remuneration whenever board directors are none other than the controllers of the groups (Urzúa, 2009). Hence, board remuneration is an important issue in the Indian context as well. But in PSUs, the compensation of the board is typically low since it is decided by the government.

Table 5 provides data on the total compensation allotted to the board of directors (including the sitting fees of independent directors) along with the financial performance of the companies during 2011–2012. It also shows a huge difference in the remuneration of top-management personnel of the PSUs and their private sector counterparts. A high-executive salary is not a corporate governance issue with PSUs as the salary levels are fixed by the government. However, less salary might become an impediment to attracting experts from diverse fields into the top-management pool. This in turn may affect the overall performance of the firm, which can become detrimental to providing good returns for the shareholders in the long run.

Summary of Analysis and Limitation

The analysis conducted through this study clearly exhibits differences in the corporate governance practices between PSUs and their private sector peers. It also shows that there are significant differences in the issues faced by both set of companies, which are intertwined with their governance practices. Some of the important observations are as follows:

- PSUs possess Chairman–CEO duality in their boards.
- The board size of PSUs is bigger than their private sector peers.
- PSUs are plagued with the problem of not having enough independent directors as they have to rely on the DPE to fill up the vacancies in the board.
- Almost all independent directors in the boards of PSUs are retired government officials or PSU heads. Since independent directors are nominated by the DPE, and not by the board, they are compelled to owe allegiance to the government. This, as a result, hinders their independence and forces them to undermine their primary responsibility of protecting the interests of the minority shareholders.

Table 5. Profitability and Board Remuneration, 2011–2012

Company Name	Sales Income (in INR million)	Profit after Tax (in INR million)	PBDITA (as % of total income)	PAT (as % of total income)	PAT (as % of total assets)	Total Remuneration to Directors (in INR million)	Directors Remuneration (as % of total income)	Directors Remuneration (as % of PAT)
RCFL	65541.7	2492.4	9.09	3.69	5.26	9.43	0.014	0.378
CIL	98388.8	6932.7	13.51	6.91	11.02	47.42	0.048	0.684
NTPC	611154.3	92237.3	26.27	14	6.37	38.35	0.006	0.042
R-Infra	173388.4	20002.6	18.67	10.79	4.97	61.83	0.036	0.309
SCI	38373.3	–4282.1	14.93	–9.43	–3.15	31.71	0.083	NA
GE Shipping	17096.2	1433.4	39.85	7.03	1.47	113.94	0.666	7.949
SAIL	507340.8	35427.2	15.46	6.66	4.57	12.06	0.002	0.034
Tata Steel	368169.4	66964.2	35.09	17.48	7.15	141.77	0.039	0.212
MTNL	33927.8	–41097.8	–42.78	–113.37	–14.36	NA	NA	NA
Airtel	416038	57300	34.87	13.56	6.76	309.88	0.074	0.541

Source: Company annual reports; CMIE Prowess Database, available at http://prowess.cmie.com.
Note: INR—Indian Rupee.

- The PSUs mostly adhere to Clause 49 in terms of audit committee requirements, except the role that the committee plays in selecting the statutory external auditor.
- None of the PSUs have a nomination committee within its board, since the DPE wields the power to nominate independent directors.
- The PSU board usually have a remuneration committee to decide on the incentives and bonuses of the top management.
- The salary levels of the top management of PSUs are very low compared to those of their private sector counterparts.

The article has its own set of limitations. A major limitation is that it adopts the case study approach. Although such an approach helped us in analyzing the issues pertaining to corporate governance in detail, it also the results are not universally applicable as the sample size was small. The findings can lead to generalizations only if tested against a bigger sample. Moreover, only cross-sectional data have been analyzed, whereas the historical perspective of corporate governance practices has not been taken into consideration. A more detailed analysis of the historical data could have provided better insights, but such an analysis would have limited the sample size further.

Conclusion

The article provides empirical evidence that corporate governance problems in the listed Indian PSUs are different from those of private sector firms. The differences start with the conceptual approach to corporate governance in PSUs. The differing objectives of the controlling and minority shareholders are both explicit and legal in the case of the PSUs. In other words, the social objectives of the PSUs, which are not in the interest of the minority shareholders, are explicit and legal. This is not the case with private sector firms where the objectives of the controlling shareholders, which is to tunnel funds for their own benefit, are neither explicit nor legal. There are differences in the governance structure of PSUs when compared with their private sector peers. For example, the boards of the PSUs have very limited powers than those of the private sector firms. Further, the government plays multiple roles in PSUs (as shareholder, manager, regulator, etc.) with conflicting objectives. Hence, popular corporate governance models prevalent across the globe may not be effective in the Indian PSUs. This has been further confirmed through a detailed case study on the practices of five PSUs and their private sector counterparts. For example, the boards of the PSUs are filled with independent directors who are former employees of the government, that is, the controlling shareholder. This defeats the very purpose of having independent directors. However, the executive remuneration, which is a major corporate governance issue in private sector companies, does not cause much concerns in PSUs as the salaries are regulated by the government.

The results of this study provide a foundation for further research in the field of comparative corporate governance. Future research work can focus on the management of the multiple roles played by the government while protecting the outside/minority shareholders. This will help the regulators in recognizing the differing corporate governance problems in PSUs and develop additional or customized regulations based on the controlling ownership structure. Further, a change may be necessary in the definition as well as the selection procedure of independent directors in order to ensure that former government employees are not appointed under this capacity. The government, the controlling owner of PSUs, needs to look into the issue of the multiple roles it plays by creating firewalls between the various role-playing departments.

To sum up, this article provides important findings through an analysis of the differing corporate governance practices of PSUs and private sector players in the Indian context. Besides having significant implications for the regulators, these findings provide ample scope for future research in this area.

Annexure 1: Classification of CPSEs

Maharatna Firms: CPSE firms with an average turnover of ₹2000 million/year and an average net worth of ₹1000 million/year during the last three years are designated as Maharatna firms. Maharatna status empowers the boards of the firms to take investment decisions up to 15 per cent of their net worth in a project, not exceeding ₹500 million without seeking government approval.

Navratna Firms: The CPSEs which are part of schedule ‘A’ with Miniratna category-1 status and having at least three ‘Excellent’ or ‘Very Good’ MoU ratings during the last five years were designated as Navratna firms. These firms can invest up to 15 per cent of their net worth on a single project or 30 per cent on series of projects in a year, not exceeding ₹100 million without seeking government approval. They can also form joint ventures and alliances and float subsidiaries abroad.

Miniratna Firms: There are two sub-categories within Miniratna category. Miniratna category-1 CPSEs should have made profit in the last three years continuously with a positive net worth and, the pre-tax profit should have been ₹3 million or more in at least one of the three years. Miniratna category-2 CPSEs should have made profit for the last three years continuously and should have a positive net worth. Miniratnas can form joint ventures, set subsidiaries and overseas offices without government permission, subjected to certain conditions, depending upon the sub-category.

Annexure 2: Profile of the Selected Firms

State-owned Firms (PSUs)

Name	Year of Incorporation	Products	Plants and Capacity as on 31 March 2013	Year of Disinvestment	Govt. Shareholding as on 31 March 2013 (%)
SAIL	Set up as Hindustan Steel in 1954. Become SAIL in 1973 when all State-owned steel plants were brought under one umbrella	Steel: basic and special steel for construction, engineering, power, railway, automotive and defence industries	Five integrated steel plants, three special plants and one subsidiary in different parts of the country. Capacity: 13.5 million tonnes per annum (MTPA)	Early 1990s	80
RCFL	Formed in 1978 after the reorganization of erstwhile Fertilizer Corporation of India and National Fertilizers Ltd.	Fertilizer: large producer of nitrogenous and complex fertilizers	Two plants in Maharashtra with a capacity of ~3 million tonnes per annum	1992–1993	92.5
NTPC	1975	Electric power generation	17 coal-based and seven gas-based stations across India and another seven plants through joint ventures Capacity: 42,454 MW	2005, 2010 and 2012	75
SCI	1961, by merging Eastern Shipping Corporation and Western Shipping Corporation	Bulk carriers, crude oil and product tankers, container and passenger-cum-cargo vessels, chemical and LPG carriers and offshore supply vessels	79 vessels 5.9 million metric tonnes deadweight (DWT)	Late 1990s	63.75
MTNL	1986, by transferring the telecom assets of Department of Telecommunication in the cities of Delhi and Mumbai	Fixed telephones, GSM- (2G and 3G) and CDMA- based mobile services, ISDN, broadband and leased lines	35 million subscribers in the cities of Delhi and Mumbai	1997 in Indian stock exchanges and 2001 in New York Stock Exchange	56.25

Family-owned Firms

Name	Year of Incorporation	Products	Plants and Capacity as on 31 March 2013	Promoter Family
Tata Steel	1907	All types of steel products. One of top 10 steel makers in the world	9 MTPA in India and 29 MTPA in total (UK, the Netherlands, Thailand, Singapore, China and Australia)	Tata Group

Name	Year of Incorporation	Products	Plants and Capacity as on 31 March 2013	Promoter Family
Reliance Infrastructure	1929 as BSES	Power generation, transmission and distribution. Also into other infrastructure business like roads, metro rails, airports and specialty real estate	950 MW	Reliance Anil Dhirubhai Ambani Group
Great Eastern Shipping Company	1948	Dry bulk carriers and tankers. Subsidiary 'Greatship Group' is an offshore service provider to oil exploration firms	30 ships aggregating to 2.42 million DWT capacities	Sheth Group
Bharti Airtel	1995	Fixed telephones, GSM-based mobile service (2G, 3G and 4G), broadband and DTH	275 million subscribers of which 192 million are in India	Bharti Group
Coromandel International	1960	Fertilizers, specialty nutrients, crop protection and retail	2.9 million tons per annum: eight plants across India	Murugappa Group

Notes

1. Planning Commission existed during the period of study. It has been abolished now.
2. The actual strength of board as on 31 March 2013 was eight only for RCFL and MTNL, due to vacant positions.
3. Annual reports of the Sample firms for the years 2012–2013.

References

Abbott, L. J., Park, Y., & Parker, S. (2000). The effects of audit committee activity and independence on corporate fraud. *Managerial Finance, 26*(11), 55–68.

Banks, E. (2004). *Corporate governance: Financial responsibility, controls and ethics*. New York: Palgrave Macmillan.

Bebchuk, L. A., & Fried, J. M. (2003). Executive compensation as an agency problem. *Journal of Economic Perspectives*, *17*(3), 71–92.

Berle, A. A., & Means, G. C. (1932). *The modern corporation and private property.* New York: Macmillan.

Bhattacharyya, A. (2005, March 10). *Public enterprises—Corporate governance and the role of government*. Retrieved from SSRN: https://papers.ssrn.com/sol3/Data_Integrity_Notice.cfm?abid=697381 (last accessed on 4 March 2016).

Bostock, R. (1995). Company responses to Cadbury. *Corporate Governance: An International Review*, *3*(2), 72–77.

Boyd, B. K. (1995). CEO duality and firm performance: A contingency model. *Strategic Management Journal, 16*(4), 301–312.

Boyd, C. (1996). Ethics and corporate governance: The issues raised by the Cadbury report in the United Kingdom. *Journal of Business Ethics*, *15*(2), 167–182.

Carlos, A. M., & Nicholas, S. (1990). Agency problems in early chartered companies: The case of the Hudson's Bay Company. *The Journal of Economic History*, *50*(4), 853–875.

Chakrabarti, R., Megginson, W., & Yadav, P. K. (2008). Corporate governance in India. *Journal of Applied Corporate Finance*, *20*(1), 59–72.

Chaudhuri, K. N. (1965). *The English East India Company: The study of an early joint-stock company 1600–1640* (Vol. 4). London & New York: Taylor & Francis.

Cheng, S. (2008). Board size and the variability of corporate performance. *Journal of Financial Economics*, *87*(1), 157–176.

Conyon, M. J., & Peck, S. I. (1998). Board control, remuneration committees, and top management compensation. *Academy of Management Journal*, *41*(2), 146–157.

Dalton, D. R., Daily, C. M., Johnson, J. L., & Ellstrand, A. (1999). Number of directors and financial performance: A meta-analysis. *Academy of Management Journal*, *42*(6), 674–686.

Dalton, D. R., Hitt, M. A., Certo, S. T., & Dalton, C. M. (2007). The fundamental agency problem and its mitigation: Independence, equity, and the market for corporate control. *The Academy of Management Annals*, *1*(1), 1–64.

Dewan, S. M. (Ed.). (2006). *Corporate governance in public sector enterprises*. New Delhi: Pearson Education India.

Donaldson, L., & Davis, J. H. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of Management*, *16*(1), 49–64.

Duchin, R., Matsusaka, J. G., & Ozbas, O. (2010). When are outside directors effective? *Journal of Financial Economics*, *96*(2), 195–214.

Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, *14*(1), 57–74.

Evans, C. R., & Dion, K. L. (1991). Group cohesion and performance: A meta-analysis. *Small Group Research*, *22*(2), 175–186.

Fama, E. F., & Jensen, M. (1983). Separation of ownership and control. *The Journal of Law & Economics*, *26*(2), 301–325.

Finkelstein, S., Hambrick, D. C., & Cannella, A. A. (2009). *Strategic leadership: Theory and research on executives, top management teams, and boards*. New York: Oxford University Press.

Gevurtz, F. A. (2003). European origins and the spread of the corporate board of directors. *The Stetson Law Review*, *33*(3), 925–954.

Goodstein, J., Gautam, K., & Boekar, W. (1994). The effect of board size and diversity on strategic change. *Strategic Management Journal*, *15*(3), 241–250.

Grossman, S. J., & Hart, O. D. (1982). *Corporate financial structure and managerial incentives. In The economics of information and uncertainty* (pp. 107–140). Chicago: University of Chicago Press.

Grossman, S. J., & Hart, O. D. (1986). The costs and benefits of ownership: A theory of vertical and lateral integration. *Journal of Political Economy*, *94*(4), 691–719.

Hall, B. J., & Liebman, J. B. (1998). Are CEOs really paid like bureaucrats? *Quarterly Journal of Economics*, *113*(2), 653–691.

Hart, O. (1995). Corporate governance: Some theory and implications. *The Economic Journal*, *105*(430), 687–689.

Jensen, M. C. (1993). The modern industrial revolution, exit and the failure of internal control systems. *The Journal of Finance*, *48*(3), 831–880.

Jensen, M. C., & Meckling, W. H. (1976). Theory of firm, managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4), 305–360.

John, K., & Senbet, L. (1998). Corporate governance and board effectiveness. *Journal of Banking and Finance*, *22*(4), 371–403.

Khanna, S. (2015). The transformation of India's public sector. *Economic & Political Weekly*, *50*(5), 47–60.

Klein, A. (2002). Audit committee, board of directors' characteristics, and earnings management. *Journal of Accounting and Economics*, *33*(3), 375–400.

Kota, H. M., & Tomar, C. (2010). Corporate governance practices in Indian firms. *Journal of Management and Organization*, *16*(2), 266–279.

Krause, R., Semadeni, M., & Cannella, A. A. (2014). CEO duality: A review and research agenda. *Journal of Management*, *40*(1), 256–286.

Kumar, N., & Singh, J. P. (2013). Effect of board size and promoter ownership on firm value: Some empirical findings from India. *Corporate Governance: International Journal of Business in Society*, *13*(1), 88–98.

La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (1999). Corporate ownership around the world. *The Journal of Finance*, *54*(2), 471–517.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1998). Law and finance. *Journal of Political Economy*, *106*(6), 1113–1155.

Larsson, R. (1993). Case survey methodology: Quantitative analysis of patterns across case studies. *Academy of Management Journal*, *36*(6), 1515–1546.

Main, B. G., & Johnston, J. (1993). Remuneration committees and corporate governance. *Accounting and Business Research*, *23*(supplement 1), 351–362.

Morck, R., Nakamura, M., & Shivdasani, A. (2000). Banks, ownership structure, and firm value in Japan. *The Journal of Business*, *73*(4), 539–567.

Morck, R., & Yeung, B. (2004). Family control and the rent-seeking society. *Entrepreneurship Theory and Practice*, *28*(4), 391–409.

Nagaraj, R. (2006). Public sector performance since 1950. *Economic & Political Weekly*, *41*(25), 2551–2557.

Planning Commission. (2011). *Report of panel of experts on reforms in Central Public Sector Enterprises (CPSEs)*. New Delhi: Planning Commission, Government of India.

Puffer, S. M., & McCarthy, D. J. (2003). The emergence of corporate governance in Russia. *Journal of World Business*, *38*(4), 284–298.

Pye, A. (2000). Changing scenes in, from and outside the board room: UK corporate governance in practice from 1989 to 1999. *Corporate Governance: An International Review*, *8*(4), 335–346.

Reddy, Y. R. K. (2001). *The first principles of corporate governance for public enterprises in India*. Retrieved from http://www.academyofcg.org/firstprinciples.htm (accessed on 4 March 2016).

Reddy, Y. R. K. (2005). *Corporate governance in state-owned companies: International approaches for reform*. Synoptic note of the featured speech at Asia-Pacific Conference on corporate governance. Retrieved from http://academyofcg.org/data/2.%20YRK%20-%20CG%20in%20SOEs-Hong%20Kong%20paper-FINAL.doc (accessed on 4 March 2016).

Reed, A. M. (2002). Corporate governance reforms in India. *Journal of Business Ethics*, *37*(3), 249–268.

Rhoades, D. L., Rechner, P. L., & Sundaramurthy, C. (2000). Board composition and financial performance: A meta-analysis of the influence of outside directors. *Journal of Managerial Issues*, *12*(1), 76–91.

Ring, P. S., & Perry, J. L. (1985). Strategic management in public and private organizations: Implications of distinctive contexts and constraints. *Academy of Management Review*, *10*(2), 276–286.

Ruigrok, W., Peck, S., Tacheva, S., Greve, P., & Hu, Y. (2006). The determinants and effects of board nomination committees. *Journal of Management & Governance*, *10*(2), 119–148.

Schipani, C. A., & Liu, J. (2002). Corporate governance in China: Then and now. *Columbia Business Law Review*, *2002*, 1–69. Available at SSRN: http://ssrn.com/abstract=315050 or http://dx.doi.org/10.2139/ssrn.315050

Shleifer, A., & Vishny, R. (1997). A survey of corporate governance. *The Journal of Finance*, *52*(2), 737–783.

Singh, D. A., & Gaur, A. S. (2009). Business group affiliation, firm governance, and firm performance: Evidence from China and India. *Corporate Governance: An International Review*, *17*(4), 411–425.

Sinha, S. (2009). Corporate governance of state-owned enterprises: The case of BSNL. *Economic & Political Weekly*, *44*(41–42), 47–54.

Subramanian, S., & Reddy, V. N. (2010). Voluntary disclosures and international product market interactions. *The Decision*, *37*(2), 31–50.

Subramanian, S., & Reddy, V. N. (2012). Corporate governance disclosures and international competitiveness: A study of Indian firms. *Asian Business & Management*, *11*(2), 195–218.

Trivedi, P. (1988). Theory and practice of the French system of contracts for improving public enterprise performance: Some lessons for LDCs. *Public Enterprise*, *8*(1), 28–42.

Urzúa, I. (2009). Too few dividends? Groups' tunneling through chair and board compensation. *Journal of Corporate Finance*, *15*(2), 245–256.

Varma, J. R. (1997). Corporate governance in India: Disciplining the dominant shareholder. *IIMB Management Review*, *9*(4), 5–18.

Williamson, O. E. (1984). Corporate governance. *The Yale Law Journal*, *93*(7), 1197–1230.

Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York: Free Press.

Xie, B., Davidson, W. N., & DaDalt, P. J. (2003). Earnings management and corporate governance: The role of the board and the audit committee. *Journal of Corporate Finance*, *9*(3), 295–316.