Tarun Das: Rescue PSUs, save a stalling economy

It is these PSUs that can, today, give India one per cent additional GDP growth

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India's growth rate is currently on a steady decline. From a peak of near 10 per cent, GDP growth for 2011-12 is being projected at near 7.5 per cent or even lower. All talks of allocation of more funds to development will die a natural death as revenues of the government dry up, a process that has already begun. This is a necessary fallout of the Reserve Bank of India's (RBI's) inflation-management policy of increasing interest rates to curb consumption. The corollary — lower investment, production and growth. This will also force policy-makers to look at other options.

There is one silver lining to India's growth potential that is largely neglected and mostly overlooked. This is the public sector with its enormous resources and assets covering many sectors of manufacturing and some in services. Looking only at manufacturing, it does not take a magician to understand that public sector industries are operating way below their true performance potential. So, the government, and ministries concerned, instead of only talking macro-policy, would do a national service if detailed attention were given to, at least, 100-odd public sector undertakings (PSUs) that can support higher economic development.

There is no one single magic-wand for all PSUs because these operate in different sectors of the economy. In fact, sectoral solutions and plans may also be infructuous. What is needed is to take each major PSU, quickly analyse its situation and decide, with the management, on action for growth. Fifty units, 50 one-sheeters summarising what the PSU needs, how it is to be done, when, where and by whom. Not difficult. But, they should not be macro but micro and unit-based.

Since the slide in India's growth is near-alarming, the priority units should be taken first and dealt with so that maximum benefit is achieved in the shortest time from the fewest PSUs. And with that, an efficient, empowered monitoring team to work side by side with the management to ensure speed of implementation. A question may well be asked about the administrative ministries' role. Is this not what they are supposed to do? The ministry of heavy industry, Department of Defence Production, ministry of petroleum, ministry of fertilisers and so on? Technically speaking they are, but in reality, are they? The ministries must be part of the exercise and process but their efforts are to be supplemented by finance, the Planning Commission and so on, so there must be an integrated, inclusive Empowered Group to take decisions and push implementation.

Apart from the business plans for PSUs, this Empowered Group has other work to do.

At the last count, there were many vacancies in the leadership of PSUs. There are, in addition, many unfilled positions at the senior management-level. The group should fill these on a fast-track basis. There is data to show that PSU performance and the lack of a CEO are apparently not related. But, this is not the right way to look at PSUs. They must have CEOs. These CEOs should have fairly long terms. They should be leaders with values and competence. One area in which India does not lack is talent and these positions can be filled, given the "will" and a non-partisan, non-political approach.

The "CEO" description is used because today's complexity and corporate governance clearly require that the chairman and the CEO should be two separate people. The "CMD" title has to be a thing of the past and the MD will find it extremely useful to have a non-executive chairman to consult, as long as he/she is not a "political" person but a "professional".

PSU boards also need quick review and restructuring to make them compact and competent. Competencies that must be represented are technology, law, accountancy, global business environment/trends, sector knowledge and M&A. PSUs are usually of a size and scale that offer opportunities for takeovers and acquisitions, not just in India but also abroad. The board should have some domain knowledge in this area.

PSUs in many cases are in the capital goods sector. And, usually, heavy capital investment-oriented industries. This is also an area in which significant imports are now occurring apparently on the grounds of price (imported prices are much lower) and delivery (imported deliveries are much faster). These are solvable problems.

It is no one's case that India reverts to an import-substitution model of development but India should not fast-forward to a "largely import-model" of growth. The ratio should be 70:30 with 70 per cent procurement from indigenous sources and 30 per cent from outside the country. And, this can certainly vary from time to time. This approach, again, would add to domestic growth, not only in the short term but on a continuing basis.

Why are PSUs, owned by the government, which means by the people of India, neglected and overlooked like orphans? Why are PSUs taken for granted, their management not trusted or given space and opportunity to perform freely and efficiently? Why are not policies and processes so designed as to ensure their competitiveness? Why are PSUs Indian economy's step-children?

Thousand of crores have been invested in PSUs. Hundreds of thousands of people are dependent on PSUs in a variety of ways. The country needs PSU products desperately. The infrastructure built for PSUs is usually elaborate and expensive. The social responsibilities performed by PSUs are often extensive and comprehensive. Their location is generally in developmentally backward areas where they play a signal role of employment-generation and community development. PSU executives also work at well below industry market rates.

And, yet, PSUs are rarely, if ever, lauded and appreciated. Usually, these are criticised and complained about. A sad state of affairs for a country desperately in need of maximum utilisation of resources — be it people, investments, assets or machines.

It is these PSUs that can, today, give India one per cent additional GDP growth. And, at least, 0.5 per cent in the next six months of 2011-12.

The author is former chief mentor, Confederation of Indian Industry