MODEL MEMORANDUM OF UNDERSTANDING

FOR

STATE LEVEL PUBLIC SECTOR ENTERPRISES

Department of Public Enterprises
Ministry of Heavy Industries and Public Enterprises
Government of India
New Delhi

Chapter-1

Introduction

Public Sector Enterprises, both at the Central level and at the State level have played a very important role in the industrialization and the overall economic development of the country. While the macro-economic objectives of Central Public Sector Enterprises (CPSEs) have been derived from the Industrial Policy Resolutions and the Five Year Plans, the need for public utilities in the states has been the main motivation behind the establishment of State Level Public Sector Enterprises (SLPEs). The SLPEs have, therefore, contributed greatly towards the development of infrastructure in the country. Some of the private sector enterprises that were taken over to protect the interest of the workers/shareholders have also added to the list of public sector enterprises. While various forms of organizations prevail vis-à-vis the structure of public sector enterprises, the 'company form' and 'statutory corporations' are the more dominant ones.

1.1 Central Public Sector Enterprises (CPSEs)

The Central Public Sector Enterprises (CPSEs) include Government companies in which the shareholding of the Central Government is more than 50% and their subsidiary companies as well as statutory corporations set up under specific Acts of Parliament. While there were only 5 enterprises as on 31.3.1951 with an investment of Rs.29 crore, there are today 242 CPSEs with and investment (equity + loan) of Rs.455409 crore as on 31.3.2008. The service sector constitutes the largest component of investment in CPSEs (40.40%) followed by electricity (27.95%), manufacturing (22.23%) and mining (8.83%). CPSEs, in agriculture sector, have only 0.04% share in investment. The remaining 0.55% share is in on account of enterprises under construction.

The turnover of CPSEs during the period 1997-98 to 2007-08, increased from Rs.276002 crore in 1997-98 to Rs.1081925 crore in 2007-08; the networth for all the CPSEs during the same period increased from Rs.134443 crore to Rs.520855 crore; net profit increased from Rs.13582 crore to Rs.79730 crore and dividend declared increased from Rs.3609 crore to Rs.28081 crore. All the CPSEs together contributed Rs.165994 crore in the form of dividend, interest and taxes (and duties) to the Central Exchequer during 2007-08.

1.2 Department of Public Enterprises (Government of India)

The Department of Public Enterprises (DPE) is the nodal department in the Government of India for Central Public Sector Enterprises (CPSEs). It is involved in policy formulation of CPSEs and also lays down policy guidelines for performance improvement (and evaluation), increased autonomy/financial power delegation, personnel and management and on other related areas. It also collects, evaluates and maintains information on several areas in respect of CPSEs. DPE is also the interface between the administrative Ministries/Departments and the CPSEs. The main activities of the Department accordingly relates to coordination of matters of general policy affecting all CPSEs; Memorandum of Understanding (MOU) between CPSEs and their administrative Ministries/Departments; settlement of disputes through Permanent Machinery of Arbitration (PMA) among PSEs and between PSEs and Government Departments except disputes relating to tax matters; Voluntary Retirement Scheme and Counseling, Retraining and Redeployment of rationalized employees of CPSEs; Reservation policies; Publication of Annual Survey of CPSEs known as ‘Public Enterprises Survey’, etc.

Chapter –2

State level Public Enterprises (SLPEs)

State level Public Enterprises (SLPEs) form an important part of state economies and have played a very important role in the overall development of the states. Most states have also set up Bureau of Public Enterprises/ Public Enterprises Departments for coordinating/management of SLPEs. In other states, these functions are performed by the Departments of Industries, Finance or Planning, etc. The SLPEs thus fall under the administrative control of various Ministries/Departments in different states. The main functions of the administrative Ministries/Departments concerning the SLPEs include the following:

(a) Allocation of finance/Budgetary Support
(b) Regular review of performance
(c) Approval of various schemes/policies/personnel matters (subject to the concurrence of the Finance Department, Law Department and Public Enterprises Department).

Chapter - 3

MoU System in CPSEs

The Memorandum of Understanding (MoU) as applicable to public sector enterprises is a negotiated document between the government and the management of the enterprise specifying clearly the objectives of the agreement and the obligations of both the parties. The main purpose of the MoU system is to ensure a level playing field to the public sector enterprises vis-à-vis the private corporate sector.

MoU system in India was first introduced in 1986 as a result of the recommendations of the Arjun Sengupta Committee Report (1984). The Committee laid emphasis on medium term contract between the Government and the Central Public Sector Enterprises (CPSEs) and recommended a five-year agreement that may be reviewed annually. Since the CPSEs have been set up as part of the national/central plan, the Committee favored MoUs especially in CPSEs operating in the core sectors of steel, coal, power, petroleum, fertilizer and petro-chemicals.

The MOU system was started with 4 CPSEs signing MOU with the Government in the year 1986-87. This number has increased to 143 CPSEs who had signed MOU with the Government for the year 2007-08. Almost all CPSEs have been covered in the MOU system in 2007-08 as in addition to Holding companies; their subsidiaries signed MOU with the respective Holding Companies separately.

3.1 Performance Contract and Autonomy

MoU in CPSEs is aimed at providing *greater autonomy* to these enterprises. The 'management' of the enterprise is, at the same time, made accountable to the government through promise for performance or *'performance contract'*. The government has thus control over these enterprises through *setting targets* in the beginning of the year and *performance evaluation* at the end of the year.

The Arjun Sengupta Committee identified three areas of Government -PSE interaction for grant of autonomy, namely (a) price fixation, (b) investment planning and (c) financial management. In regard to price fixation the Committee observed that price control/administered price/retention price may be retained only in areas where the nature of the product so justifies. It further stated that wherever CPSEs are operating *under competitive market conditions*, the CPSEs should be left on their own to fix the price of their output. While fixing prices for products of CPSEs operating *under monopoly conditions,* these should be benchmarked with international prices.

In regard to autonomy for investment planning, greater powers were subsequently delegated to the Board of Directors as recommended by the Committee. The Board of Directors of MoU signing CPSEs could sanction capital expenditure without the prior approval of the government, especially so if the required funds could be found from the internal resources of the enterprise. In regard to financial management especially with reference to 'auditing', the Committee was of the view that subsequent to evolving of appropriate accounting standards by the Comptroller and Auditor General of India (CAG), supplementary audit by CAG for the non-core sector should be given up. In the case of the enterprises in the core sector, however, the Committee recommended that the audit by the CAG may continue.

3.2 Performance Evaluation under the MoU System

Performance evaluation at the end of the year indicates the extent to which the mutually agreed targets between the CPSEs and the administrative ministries were achieved. The *methodology of performance* *evaluation* has, however, undergone several changes over the years as discussed below.

3.3 MoU Evaluation recommended by the Sengupta Committee

The Arjun Sengupta Committee favoured appropriate financial return for consideration of performance evaluation of CPSEs. It, generally, recommended for the financial ratio of *Gross Margin on Assets.* For 'service enterprises', however, it recommended the financial ratio of *Gross Margin on Sales.*

In case of enterprises in the 'core sector' and operating under 'price control' (administered price mechanism), the Committee favoured normative financial return measurable in terms of the financial ratio of *Net Profit on Net Worth.*

In regard to non-financial criteria for performance evaluation, the Committee favoured criteria, such as, increase in productivity, technical dynamism and project implementation. *No weights were, however, assigned to the different parameters.*

3.4 Signaling system and Performance Evaluation

The MoU system in CPSEs prevalent since 1986 was revamped in 1989, and it moved closer to the "signaling system" of the Pakistani and the Korean models as developed by Prof. Leroy P. Jones (Director, Public Enterprises Programme, Boston University). The 'performance contract' under the MoU system, moreover, got de-linked from the medium-term agreement as recommended by Arjun Sengupta Committee. Under the new MoU system that was implemented from the financial year of 1989-90, performance evaluation came to be based on the *annual targets* agreed upon between the government and the CPSEs, rather than the five-year target. Another novel feature of the new system was finalization of MoU under the overall supervision of a third party, namely, the *MoU Task Force* constituted by the Department of Public Enterprises. The MoU Task Force is independent of both the administrative ministry and the CPSE.

The new system provided for (five) different targets; the actual performance, in turn, is evaluated against the five targets on a 5-point scale of 1 (for 'excellent'), 2 (for 'very good'), 3 (for 'good'), 4 (for 'fair') and 5 (for 'poor'). The targets are fixed in two stages of (a) determining the basic target and (b) determining the percentage difference *or the spread* between one (target) level of performance and another. Each of the parameters is, furthermore, assigned weights to distinguish a more important evaluation parameter from a less important parameter (evaluation criterion). The final performance evaluation or *'the composite score'* is arrived at by adding the weighted score of the actual achievements (at the end of the year) against each of the parameters, in comparison to the targets that have been finalized (in the beginning of the year) on the 5-point scale.

Under the existing MoU Guidelines of the Department of Public Enterprises (Government of India), moreover, *the basic target* is graded as '*Good' (having a score of 3)*. These targets should not to be less than the (actual) achievements of the previous year. If, however, a CPSE is operating at 'full capacity utilization', *the basic* (*MoU) target* is placed in *'Very Good'* column (having a score of 2). *Difference in target values* between 'Very Good' and 'Good'; 'Good' and 'Fair' and 'Fair' and 'Poor' columns is uniform at 5%. The *difference* between '*Excellent*' and '*Very Good'* targets is however, significantly higher than 5%. (>5% to 10%) and is left to the discretion of the MoU Task Force.

The 'composite score' is thus an index of the performance of the enterprises. The *grading* of the 'composite score' is done in the following manner:

MoU Composite Score	Grading
1.00-1.50	Excellent
1.51-2.50	Very Good
2.51-3.50	Good
3.51-4.50	Fair
4.51-5.00	Poor

3.5 NCAER study on MoU and Performance Evaluation

The Department of Public Enterprises assigned a study to the National Council of Applied Economic Research (NCAER) in 2003 to examine afresh the choice of criteria for performance evaluation and the allocation of weight to the different parameters. The NCAER finally came up with the following Principal Components of parameters for performance evaluation:

Principal Components of Parameters		Weight
I.	Financial Parameters	50%
II.	Non—financial Parameters	50%

While the performance evaluation under the earlier system allocated 60% weight to ‘financial parameters’ and 40% weight to ‘non-financial parameters’, the NCAER recommended equal weights (50%) to both ‘financial’ and ‘non-financial’ parameters. In this respect, it is similar to the ‘balanced score card’ approach of performance evaluation. The ‘non-financial parameters’ were further sub-divided into ‘dynamic parameters’, ‘enterprise-specific parameters’ and ‘sector-specific parameters’. Whereas the ‘static/ financial’ parameters generally relate to profit related, size related and productivity related parameters, the ‘dynamic’ parameters refer to *project implementation*, *investment in R&D* and *extent of globalization,* etc. Similarly, while the ‘sector-specific’ parameters refer to macro-economic factors like change in demand and supply, price fluctuations, variation in interest rates etc, that is, factors beyond the control of the management, the 'enterprise-specific' parameters relate to issues such as safety and pollution etc.

Moreover, while the above mentioned *principal components* were recommended to be the same for all CPSEs, the individual items suggested as criteria for performance evaluation under each of these principal components were indicated to be different for different CPSEs classified as (a) 'social sector', (b) 'financial sector', (c) 'trading and consulting sector' and (d) 'other than financial trading/consulting and social sector'. Besides the above, *the new approach allowed discretion to the Task Force to change the weights* of the different criteria included under 'dynamic', 'enterprise-specific' and 'sector-specific' parameters depending on their perception of the CPSE under consideration. The Government subsequently accepted the recommendations of the NCAER and the new methodology for setting up performance targets came into force since financial year 2004-05.

3.6 MOU Guidelines and the process of MoU

The process of finalizing the MoUs starts with the issue of detailed Guidelines by the Department of Public Enterprises (DPE) on the basis of which the CPSEs submit their draft MoU after getting them approved by the respective Boards and the Administrative Ministries. These draft MoUs are then discussed, improved and finalized during the MoU negotiation meetings of the Task Force Syndicates.

The DPE organizes these meetings, which is chaired by the Convener of the Task Force. Altogether there are ten separate Syndicates for the different groups of CPSEs. Each Syndicate comprises the Convener and seven to eight members who are all members of the MoU Task Force. Each Syndicate conducts the negotiations, which are attended by the Chief Executives of the CPSEs, Senior Officers from the administrative Ministries and the representatives of the nodal Government agencies namely, Planning Commission, Ministry of Finance and Ministry of Statistics and Programme Implementation.

3.7 MoU Task Force and MoU Negotiations

The MoU Task Force is an ad hoc body, which is constituted by the DPE every year. The honorary members of the Task Force comprise former Civil Servants, CMDs of Central Public Sector Enterprises, financial and technical professionals, Chartered Accountants and academics. They serve the various Syndicates, which are composed of CPSEs with greater homogeneity amongst themselves. Their main role is to oversee the MoU negotiations between the CPSEs and the administrative Ministries. The rich experience and knowledge of the TF members in different fields provides the necessary technical input in fixing more realistic targets. The DPE issues the Minutes of MoU negotiation meetings to the CPSEs (and the Ministry/Department concerned) for finalizing the MoUs, which have to be authenticated in the DPE to ensure that they are in accordance with the decisions on targets arrived at during the meetings. Subsequently, all MoUs have to be signed by the CMDs and the respective Secretaries of the concerned administrative Ministries before 31st March for implementation during the succeeding financial year.

3.8 High Power Committee on MoU

The High Power Committee (HPC) is the Apex Committee of Secretaries on MoU. HPC is headed by the Cabinet Secretary and Secretary, Department of Public Enterprises is the Member-Secretary of this Committee. The other members comprise the Finance Secretary, Secretary (Expenditure), Secretary (Planning Commission) and Secretary (Statistics & Programme Implementation). The Apex Committee of Secretaries on MoU has been, from time to time, giving directions in regard to the determination of the principles and parameters for performance evaluation of CPSEs.

3.9 *Model MOU System for SLPEs*

At present there is either no system of MOU signing by the SLPEs with their Ministries/Departments in the States/Union Territories or lacking uniformity in approach. Realizing the need for uniform MOU system in SLPEs for performance improvement with ensuring adequate autonomy vis-à-vis accountability, the Department of Public Enterprises has evolved a Model MOU System for the States/Union Territories for introduction in SLPEs in the respective states (Annex-I). The State Governments/Union Territories may adopt the Model MOU System for their SLPEs with or with out modification as per need.

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Model MoU

for

State Level Public Enterprises

1. **Introduction**

Public sector enterprises are an important segment of various economies, whether they are 'mixed economy' or 'socialist economy'. They, generally, refer to company form of organizations and are different from 'departmental undertakings'. While the departmental undertakings have their expenses/costs met from the consolidated fund of the state (and their revenues deposited in the consolidated fund), the public sector enterprises have to be on their own and meet the expenses of their business activity through user charges or sale of products. The revenues earned by these enterprises over and above the usual payment of taxes and dividend, are likewise retained by them.

The states may set up these enterprises for providing public utility services, such as, supply of electricity, gas and water supply, providing irrigation and public transport as well as for general development and business opportunity. Since these enterprises are usually large and technologically complex entities, these need to be run on sound management principles. One of the foremost requirements for these complex organizations is that of 'skilled manpower'. Once the business prospects have been ascertained through ex-ante project appraisal, 'the management' (team of technocrats/employees) has to be given the required 'autonomy' to function. The *Memorandum of Understanding* (MoU) is intended to ensure this 'autonomy' to public sector enterprises.

2. **Memorandum of Understanding in SLPEs**

The system of MoUs in Central Public Sector Enterprises (in India) has been in existence since 1986. The State Level Public Enterprises (SLPEs) in this respect are a class apart; SLPEs have been set up by State Governments in sectors that come (mainly) under the State List of the Constitution of India. In view of the advantages that have accrued to CPSEs on account of MoU, different expert groups/apex institutions have been recommending for introduction of a similar system in states for the SLPEs.

A number of State Governments have already introduced the MoU system in their SLPEs. This needs to be extended/introduced in the remaining states. In the case of those states that have introduced the MoU system as well, there appears to be a need for a review. It is, furthermore, noticed that while the MoU system in CPSEs is based on *'the signaling system'* with five graded targets set out for each CPSE in the beginning of the year, the states have generally the practice of setting out only one target for every evaluation criteria.

3. Model MoU system for SLPEs

To reiterate, *the MoU system* as applicable to public sector enterprises *is a negotiated document* between the government and the management of the enterprise specifying clearly the Targets to be achieved by the enterprise. The Targets are set out in conformity with the long term Mission and Vision of the enterprise. The MoU system is, moreover, based on the twin objectives of 'autonomy' and 'accountability'. While 'autonomy' is necessary for good performance, the 'accountability' of managements is measured through performance evaluation. Furthermore, since the agreement is for a term of one-year period, the MoU has to be signed between the two parties every year.

3.1 Institutional Mechanism for MoU

The responsibility of ensuring this annual exercise on MoU for State Level Public Sector Enterprise (SLPEs) has to lie with a nodal division/Department. In a number of states, there already exists a *Department of Public Enterprises* for undertaking this task. In regard to signing of MoUs, however, there are two models existing to-day, namely

(a) MoUs to be signed between the SLPEs and the concerned administrative/sectoral Departments,

(b) MoUs have to be signed between the SLPEs and the Department of Public Enterprises/nodal Division.

In the later case (b), the role of the sectoral Departments is restricted merely *to formulation of policies* and they do not have any control over the enterprise. In their place, it is the Department of Public Enterprises (DPE) that has a greater say vis-à-vis these enterprises. The SLPEs, therefore, sign the MoUs with the DPE. *This is the model being followed in Karnataka.* The Karnataka model in this respect is akin to what holds good in China and South Korea where the SLPEs have been, more or less, made completely free from the control of sectoral Departments.

The MoU system in respect to CPSEs in India, however, is based on a decentralized approach. It is same as the model at (a) above, *and it in this model that is being recommended in this paper.* The function of the Department of Public Enterprises in the proposed model is to co-ordinate the MoUs between the SLPEs and the Sectoral Departments. Wherever, no such Department of Public Enterprises exists, the nodal Division for this task may be located either in the Department of Planning/Planning Board or the Department of Finance of the State Government. In any case, it has to be recognized that MoU has a cost, and one should be ready to incur this cost in view of the expected benefits in improving the performance of SLPEs through the introduction of MoU system.

The minimum strength of this unit/nodal division has to be as shown in Fig. 1 below. This is besides the MoU Section for keeping records and providing necessary assistance to the officers. The MoU unit/nodal Division may also need to have Committee Rooms/Conference Halls for arranging these annual meetings for MoU negotiations and MoU evaluations every year for the various SLPEs.

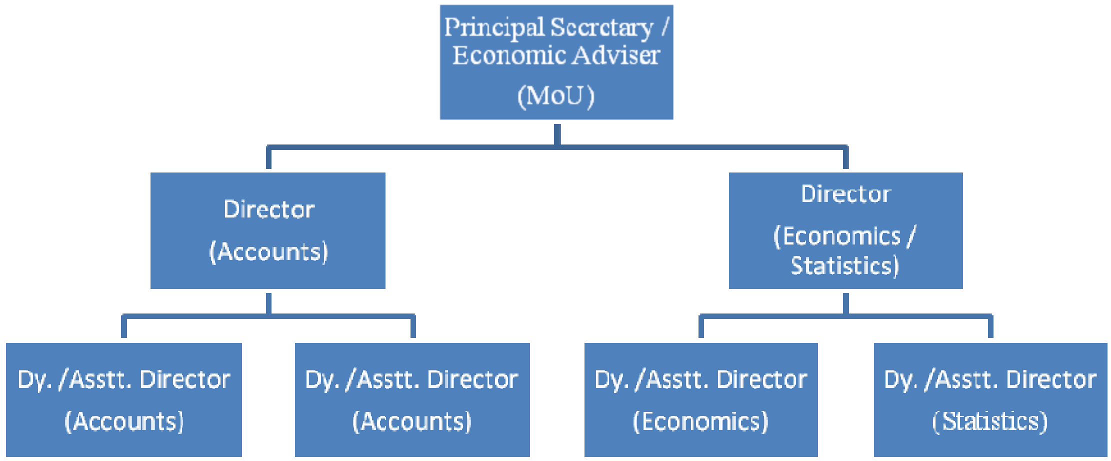

Fig. 1

3.2 Performance Evaluation and Balance Score Card Methodology

One of the more popular methodologies of "performance evaluation" of any business enterprises (public or private) has been '*the balance score card method*'. This method attaches equal weight to financial (50%) and non-financial (50%) parameters for evaluating the performance of an enterprise. The financial parameters for evaluation, in turn, may be both in absolute terms and in terms of ratios. These may broadly comprise the followings:

3.2.1 Financial Parameters (absolute values)

(i) Turnover (net)

(ii) Gross Margin

3.2.2 Financial/Management Ratios

(i) PBDIT/Turnover

(for Financial services/Trading companies)

(ii) PBDIT/Capital Employed

(for Manufacturing/Mining Companies)

(iii) Total cost of Production/Total Output
(for all Enterprises)

(iv) Net Profit/Net Worth
(for Listed Companies)

(v) PBDIT/Total Employment
(for all Enterprises)

(vi) Share in Market
(for all Enterprises)

(vii) R &D/Turnover
(for Manufacturing/Mining Companies)

3.2.3 Non-financial Parameters

The non-financial parameters for evaluation, in turn, may broadly comprise the followings:

(i) Capital Expenditure
1.1 Expansion
1.2 Technology Up-gradation

(ii) Project Implementation / Select Milestones

(iii) R&D
3.1 New Designs /Patents
3.2 New Products/Process/Patents
3.3 Cost Reduction /Patents
3.4 Energy Conservation/Patents

(iv) Strategic Planning
4.1 Capacity Utilization/Occupancy Rate
4.2 Forward Contract with buyers & sellers/vendors
4.3 Vertical Integration with suppliers / JVs/mergers & Acquisition
4.4 Advertising.
4.5 Customer Satisfaction.
4.6 Globalization/Exports
4.7 Diversification

(v) HRD

5.1 Recruitment &Training

5.2 Safety

5.3 Career Management

5.4 Employee Satisfaction

(vi) Environmental Conservation

6.1 Pollution control/CDM

6.2 Afforestation

(vii) Corporate Social Responsibility

3.3 Operational Autonomy and Strategic Autonomy

A distinction may be made between *'operational autonomy'* and *'strategic autonomy'*. While 'operational autonomy' refers to non-interference in the functioning of the company on a *day-to-day* basis, 'strategic autonomy' refers to independence in decision making vis-à-vis investment/expansion, diversification and joint ventures etc. It should be the aim of MoU to grant both kinds of autonomies to SLPEs. Strategic autonomy may, however, be granted subject to 'excellent'/very good' performance, for two to three years consecutively, by the SLPE.

3.4 MoU evaluation, 'the Signaling System' and Incentives

Besides the objective of giving autonomy to SLPEs, *performance incentive* may be made an integral part of the MoU system. The incentives, in turn, may often form part of the variable component of the employees pay. The signaling system of MoU, therefore, requires setting <u>five Targets</u> against each evaluating criteria. The five Targets are graded on the 5-point scale as 'Excellent'(1), 'Very Good'(2), 'Good'(3), 'Fair'(4) and 'Poor'(5). The final evaluation of performance is a weighted/composite score. In regard to incentives, if an enterprise gets an 'Excellent' grading in performance evaluation, full incentive (100%) is granted. If it is 'Very Good', only 75% of the incentive is granted, etc. The details about the same can be appropriately formulated.

3.4.1 Calculation of Raw Score

Calculation of Raw score is the first step in evaluating the performance of the enterprise. Raw score reflects where the 'actual performance' falls/belongs to vis-à-vis *the particular evaluation criteria* on the 5 point scale of MOU targets. If actual performance is equal to or more than the Excellent target (1), *raw score* would be 1.00. If the actual performance is equal to or less than the Poor target (5), *raw score* would be 5.00. If, however, the actual performance falls in between Excellent (1) and Very Good (2) Targets, then in that case *raw score* would be 1 + (Excellent-Actual) ÷ (Excellent-Very Good). If actual performance falls in between Good (3) and Fair (4) Targets, then in that case *raw score* would be 3 + (Good-Actual) ÷ (Good-Fair). The Raw score for the rest can be similarly calculated if 'the actual' falls in between other columns.

3.4.2 Composite Score and Grading of Score

Composite score is the summation of all the raw scores *multiplied by the weights assigned to each evaluation criterion*. It is an index of the actual performance of the enterprise vis-à-vis 'the targets' set out in the beginning of the year on the 5-point scale. The Composite Score may either be (1), (2), (3), (4), or (5) or may have values between (1 to2), (2 to 3), (3 to 4) or (4 to 5). The final grading is, moreover, a range of the weighted score as shown below:

Grading	MoU Composite Score
Excellent	1.00 – 1.50
Very Good	1.51 – 2.50
Good	2.51 – 3.50
Average	3.51 – 4.50
Poor	4.51 – 5.00

Since the SLPEs may belong to the different sectoral groups of 'manufacturing', 'mining', 'financial services', 'social sector' and 'under construction' companies, the evaluation formats may have to be different for each one of them. A few illustrative formats for MoU negotiation/evaluation are given at Annex.1 to 5.

3.5 Determination of Basic Target against each criterion and the margin of difference between one Target and another on the 5-point scale

'Good' (having a score of 3) is the median value/Target and this may be considered the **Basic Target** to start with. It needs to be decided at the same time what should be the basis (or the principle) of deciding the Basic Target. The 'Basic Targets' should not to be less than the actual achievements of the previous year. If, however, a CPSE is operating at 'full capacity utilization', *the basic* (*MoU) target* is placed in *'Very Good'* column (having a score of 2). *Difference in target values* between 'Very Good' and 'Good'; 'Good' and 'Fair' and 'Fair' and 'Poor' columns is uniform at 5%. The *difference* between '*Excellent*' and '*Very Good'* targets is however, significantly higher than 5%. (>5% to 10%) and is left to the discretion of the MoU Task Force.

3.6 Performance Evaluation of CMDs

In addition to the performance evaluation of SLPEs, a separate evaluation for the performance evaluation of CMDs may also be instituted. This is the practice currently in South Korea. The evaluation format of CMDs is distinct from those of the SLPEs, and comprises elements like leadership, innovations introduced and ethical management, etc. Based on his performance, the CMD is entitled to attractive incentive for his contribution in improving the performance of the company. S/he has, at the same, needs to be given the desired 'autonomy' and security of tenure to perform.

3.7 MOU Task Force and Syndicates

The nodal Division on MoU in SLPEs may constitute a MoU Task Force of around 30-60 members who are honorary members, and are entitled to a sitting fee plus the usual TA/DA. They may comprise of ex-Secretaries, CMDs, Economists, Management experts, Chartered Accountants and (subject matter) specialists. They may usually hold tenure of 3 years period, which may be renewed by another term. The MoU Task Force may, moreover, be divided into different Syndicates. Each Syndicate may have 5-6 members. Each Syndicate may provide oversight vis-à-vis MoU negotiations for 9-10 SLPEs having similar characteristics. The senior most members may be designated as the Convener and it is he who chairs the MoU negotiation meetings of SLPEs in that Syndicate. Their main role is to oversee *both the MoU negotiations* and the *MoU evaluations* conducted by the Department of Public Enterprises/nodal Division and to ensure that MoU negotiations are in accordance with the MoU Guidelines issued by the nodal Division. Their role in these negotiations/evaluation is very prominent as they (may) modify the Targets as well the self-evaluation done by the SLPEs.

3.8 Schedule of Meetings/Activities

The Department of Public Enterprises/nodal Division formulates the MoU Guidelines, as the first step. The Guidelines subsequently need to be issued to all SLPEs by September/ October. The draft MoUs that have the approval of the Board of Directors of SLPEs and the sectoral/ concerned Department have then to reach the Department/nodal Division by mid-October/November in accordance with the Guidelines. These draft MoUs have then to be examined in the Department to ensure that they adhere to the MoU Guidelines. Subsequently, the draft MoUs are forwarded to the Syndicate members, *along with the critique thereon of the Department.* The MoU negotiation meetings may subsequently begin in mid-December and be over in regard to all SLPEs by mid-February of the next year. The MoU negotiation meetings have all the three parties, namely, the Management of the enterprise, the Department and the Members of the Syndicate. The meetings may generally begin with a power point presentation on the enterprise. The final MoUs, duly signed by the CEO/MD of the enterprise and the Secretary of the Department should reach the

Department of Public Enterprise/nodal Division for authentication before/by 31st March every year.

3.9 Apex Committee on MoU

The Apex Committee on MoU is a permanent body, unlike the MoU Task Force that is to be constituted every year. Any review/policy change sought by the Department of Public Enterprises/nodal Division shall have to have the approval of the Apex Committee. The Chairman of the Apex Committee, furthermore, approves the scores of SLPEs as evaluated by the MoU Task Force. The Apex Committee on MoU may have the following composition:

Chief Secretary/Development Commissioner **-Chairman**

Members

1. Secretary, Department of Finance
2. Secretary, Department of Planning
3. Secretary, Department of Industry
4. Secretary, Department of Energy
5. University Head, Department of Economics in the State Capital

Pr. Secretary, Department of Public Enterprises – **Member Secretary**

4. Conclusion

The need for 'autonomy' for large corporation, whether in the private or public sector, is well documented. 'Decisions are arrived at after pooling information from several divisions and numerous individuals. In the absence of autonomy, the large corporations are vulnerable to any intervention by external authority, for given the nature of the group decision making and the problems being solved, such external authority will always be incompletely informed and hence arbitrary' (*J.K. Galbraith, 'The Industrial State',1967*). Autonomy, in turn, refers to independence in decision making not alone from government, but also from other shareholders and stakeholders, such as, the banks, labour unions, etc.

One of the important prerequisites for retaining autonomy is, however, to be free from dependence on others for financial support. The managements of good companies are able to do this through *earning profits* and deciding not to distribute all profits as dividends to shareholders. A loss making enterprise, on the other hand, is dependent on others for financial support and cannot have this freedom/autonomy. In other words, MoU is not a panacea for all the ills. It ensures a particular kind of autonomy and there are other aspects of autonomy that have to be achieved through other means/ better management.

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Annex-1.

MoU Format for SLPEs (Manufacturing/Electricity/ Mining/Construction SLPEs)							
			MoU Target				
Evaluation Criteria	**Unit**	**Weight (in %)**	Excellent (1)	VGood (2)	Good (3)	Fair (4)	Poor (5)
I. **Financial Parameters**							
1.1 Absolute Values of :							
1.1.1 **Turnover (Net)** 1.1.2 **Gross Margin (PBDIT)**	Rs. Cr. Rs. Cr.	20 20					
Sub Total (I.a) :		40					
1.2 Management Ratios							
1.2.1 PBDIT / Capital Employed 1.2.2 PBDIT/ Total Employment 1.2.3 Total cost/ Total Output 1.2.4 R&D/ Turnover	% Rs. Rs. %						
Sub-Total (I.b) :		10					
Total (I.a +I.b) :		**50**					
II. **Non-Financial Parameters** (indicative parameters)							
2.1 Capital Expenditure	Rs. Cr.						
2.2 Project Implementation / Milestones							
2.3 R&D							
2.4 Strategic Planning							

2.5 Capacity Utilization							
2.6 Customer Satisfaction.							
2.7 HRD							
2.8 Environmental Conservation							
2.9 Corporate Social Responsibility							
Sub-total (II) :		50					
Grand Total (I+II) :		**100**					

Annex-1.a

MoU Format for SLPEs (Manufacturing/Electricity/ Mining/Construction SLPEs)							
			MoU Target				
Evaluation Criteria	**Unit**	**Weight (in %)**	Excellent (1)	VGood (2)	Good (3)	Fair (4)	Poor (5)
I. **Financial Parameters**							
1.1 Absolute Values of :							
1.1.1 **Turnover (Net)** 1.1.2 **Gross Margin (PBDIT)**	Rs. Cr. Rs. Cr.	20 20					
Sub Total (I.a) :		40					
1.2 Management Ratios							
1.2.1 PBDIT / Capital Employed 1.2.2 PBDIT/ Total Employment 1.2.3 Total cost/ Total Output 1.2.4 Market share 1.2.5 R&D/ Turnover	% Rs. Rs. % %						
Sub-Total (I.b) :		10					
Total (I.a +I.b) :		**50**					
.							
II. **Non-Financial Parameters** (indicative parameters)							
2.1 Capital Expenditure							
2.2 Project Implementation / Milestones							
2.3 R&D							
2.4 Strategic Planning							

2.5 Capacity Utilization							
2.6 Customer Satisfaction.							
2.7 HRD							
2.8 Environmental Conservation							
2.9 Corporate Social Responsibility							
Sub-total (II) :		50					
Grand **Total :**		**100**					

Annex-2.

MoU Format for SLPEs (Transportation & Trading SLPEs)							
			MoU Target				
Evaluation Criteria	**Unit**	**Weight (in %)**	Excellent (1)	VGood (2)	Good (3)	Fair (4)	Poor (5)
I. **Financial Parameters**							
1.1 Absolute Values of :							
1.1.1 **Turnover (Net)**	Rs. Cr.	20					
1.1.2 **Gross Margin. (PBDIT)**	Rs. Cr.	20					
Sub Total (I.a) :		40					
1.2 Management Ratios							
1.2.1 Sales/ Cost of Transportation/ Trading	Rs.						
1.2.2 PBDIT/ Net Turnover	Rs.						
1.2.3 Market Share	%						
Sub-Total (I.b) :		10					
Total (I.a +I.b) :		**50**					
II. **Non-Financial Parameters**							
	.						
Sub-total (II) :		50					
Grand Total (I+II) :		**100**					

Annex-3.

MoU Assessment Format for SLPEs – (Financial Companies/Corporations)							
			MoU Target				
Evaluation Criteria	**Unit**	**Weight (in %)**	Excellent (1)	VGood (2)	Good (3)	Fair (4)	Poor (5)
I. **Financial Parameters**							
1.1 Absolute Values of :							
1.1.1 Resource Mobilization / Receipts	Rs. Cr.	10					
1.1.2 Loan Sanction	Rs. Cr.	10					
1.1.3 Loan Disbursement	Rs. Cr.	10					
1.1.4 Project Commissioned	Rs. Cr	10					
Sub Total (I.a) :		40					
1.2 Management Ratios							
1.2.1 NPA	%						
1.2.2 PBDIT/ Turnover	%						
1.2.3 Project success	%						
Sub-Total (I.b) :		10					
Total (I.a +I.b) :		**50**					
II. **Non-Financial Parameters** (indicative parameters)							
2.1 Customer Satisfaction.							
2.2 HRD							
2.3 Corporate Social Responsibility							
Sub-total (II) :		50					
Grand Total (I+II) :		**100**					

Annex-4.

MoU Format for SLPEs (Social Sector / Section-25 Companies)							
			MoU Target				
Evaluation Criteria	**Unit**	**Weight (in %)**	Excellent (1)	VGood (2)	Good (3)	Fair (4)	Poor (5)
I. **Financial Parameters**							
1.1 Absolute Values of :							
1.1.1 **Turnover (Net)** 1.1.2 **Gross Margin (PBDIT)**	Rs. Cr. Rs. Cr.						
1.2 Management Ratios							
1.2.1 PBDIT / Capital Employed 1.2.2 PBDIT/ Total Employment 1.2.2 Total cost/ Total Output 1.2.3 Market share 1.2.4 R&D / Turnover	% Rs. Rs. % %						
Sub Total –(I)		**30**					
II. **Non-Financial Parameters** (indicative parameters)							
Sub-total (II):		**70**					
Grand Total (I+II) :		**100**					

Annex-5.

MoU Format for SLPEs – Loss Making							
			MoU Target				
Evaluation Criteria	**Unit**	**Weight (in %)**	Excellent (1)	VGood (2)	Good (3)	Fair (4)	Poor (5)
I. **Financial Parameters**							
1.1 Absolute Values of :							
1.1.1 **Turnover (Net)**	Rs. Cr.	15					
1.1.2 **Gross Contribution.**	Rs. Cr.	10					
1.1.3 **Net Contribution**	Rs. Cr.	5					
1.1.4 **Cash Loss**	Rs. Cr.	10					
Sub Total (I.a) :		40					
1.2 Management Ratios							
1.2.1 PBDIT / Capital Employed	%						
1.2.2 PDIT/ Total Employment	Rs.						
1.2.3 Total cost/ Total Output	Rs.						
1.2.4 Market share	%						
1.2.5 R&D / Turnover	%						
Sub-Total (I.b) :		10					
Total (I.a +I.b) :		**50**					
II. **Non-Financial Parameters** (indicative parameters)							
2.1 Capital Expenditure	Rs. Cr.						
2.2 Project Implementation / Milestones							

2.3 R&D							
2.4 Strategic Planning							
2.5 Capacity Utilization							
2.6 Customer Satisfaction.							
2.7 HRD							
2.7 Environmental Conservation							
2.8 Corporate Social Responsibility							
Sub-total (II) :		50					
Grand Total (I+II) :		**100**					

Annex.-6

MoU Format for SLPEs - Under Construction

			MoU Target				
Evaluation Criteria	**Unit**	**Weight (in %)**	Excellent (1)	VGood (2)	Good (3)	Fair (4)	Poor (5)
I. Physical parameters (Project Related)							
1) <u>Project related</u> i) Physical Achievement (Time over run) ii) Project cost (Cost over run).	Unit Rs. Cr.						
Sub Total (a) :		**70**					
II. Non -physical parameters							
i) Business plan ii) Project Implementation	% %						
Sub-Total (b) :		**30**					
Grand Total :		**100**					