



Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Final Report

March 2017

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On 11/15/54, the Board of Directors met in regular session and discussed the proposed acquisition of the assets of the [Company Name] and the proposed formation of a new corporation to acquire the same.

The Board of Directors has approved the proposed acquisition and the formation of the new corporation, and has authorized the officers of the corporation to execute all necessary documents to carry out the same.

The Board of Directors has also approved the proposed terms of the acquisition and the formation of the new corporation, and has authorized the officers of the corporation to execute all necessary documents to carry out the same.

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Executive Summary

State Public sector enterprises (SPSEs) in Karnataka have undergone a vibrant and dynamic growth journey till now. However, many are facing challenges due to changes in the market environment. The government has taken several measures to empower these PSEs. Keeping in view of their increasing contribution in the state economy and future potential, this report discusses the performance of all PSEs with respect to the sector in which they are operating and functional areas.

The report outlines sector-wise performance of PSEs in: finance and operations, human resource, information technology, policy and administration functions and also case examples discussing best-practices in each of these areas. It also highlights the actions taken by the public sector enterprises in Karnataka towards sustainable growth: automation in processes, adoption of upcoming technologies in Information and Communications Technology (ICT), infrastructure development, green initiatives, CSR activities etc.

The performance of all the PSEs were graded based on an overall classification criteria taking cue from eligibility criteria laid down by the Government for grant of Maharatna, Navratna and Miniratna status to Central Public Sector Enterprises. The PSEs performance was further benchmarked with respect to the industry in which they are operating namely - Manufacturing, Financial, Power, Road Transport, Infrastructure Development, Irrigation, Mining, Tourism, Marketing & Trading, Forest Development, Agro, Food & Beverages, Community Development (Commercial & Non-commercial), Housing and Others.

Further, this report mentions way forward to address key challenges or concerns faced by public sector enterprises in Karnataka in terms of functional areas which are often due to operational inefficiencies, human resource management procedures, compensation concerns, lack of autonomy in decision making etc.

1. Introduction

1.1 Background and Context of Study

State Public Sector Enterprises (SPSEs) play a **key role** in the socio-economic development of the state of Karnataka. Their mandate is **primarily** development and welfare oriented with the objective of assisting the government in **better** governance and provide requisite services such as infrastructure and administrative support to benefit the people of Karnataka. The primary activities they undertake include rural development, social development, infrastructure, energy, institution **building**, traditional industry etc.

In keeping with their mandate, it is imperative that **systems** and structures are in place to enhance State PSEs efficiency, streamline their **efficacy** and optimize their output to enable them to sustain and cope with a highly **competitive** and fast changing business environment. As PSEs play a critical role in the socio-economic development of state and with the fact that the share of turnover of these PSEs to State GDP had reduced from 10.10 percent in 2010-11 to 7.12 percent in 2014-15 brings **about** the definitive need for improving their performance. While some of the PSEs are doing **exceedingly** well, others are not.

There is a need to identify the good practices of **well performing** PSEs and at the same time to identify the critical performance gaps and areas of **improvement** for other PSEs and the sector as such.

1.2 Objective of Study

In the above context, it is imperative that **systems and structures** are in place to enhance their efficiency, streamline their **efficacy** and **optimize** their output to enable them to stay ahead in a competitive environment. For which Federation of Indian Chambers of Commerce & Industry (FICCI), in association with KPMG Advisory Services Private Ltd., has been contracted by the Department of Public Enterprises (DPE), Government of Karnataka to conduct a study in order to provide **recommendations** and develop guidelines.

The key objectives of the study are:

- Identify reasons behind performance gaps **between** leading PSEs and their non-performing counterparts
- Identify methods to improve efficiency, **increase** effectiveness and optimize outputs to cope with changing business environment
- Prepare guidelines for streamlining operations **to** achieve their strategic objectives.
- Prepare a roadmap for implementation of **guidelines** along with a performance monitoring framework with short, medium **and** long term objectives

1.3 Approach and Methodology

The study follows the below approach and methodology built around 3 main tasks namely:

- A. **Preparation and familiarisation of questionnaire** - Preliminary high-level analysis of the overall performance of the SPSEs supported by publicly available data to identify key focus areas of the questionnaire. Familiarization of the questionnaire focus areas to all PSE officials.
- B. **Analysis of survey results, PSE categorization and in-depth analysis of select PSEs** - Analysis of survey results to identify key takeaways in every business function. Categorization of PSEs basis select financial indicators and in-depth analysis of select PSEs in each category.
- C. **Recommendations and Action Plan** - Preparation of recommendations and action plan featuring key findings basis the benchmarking analysis conducted for the select PSEs and leading best practises.

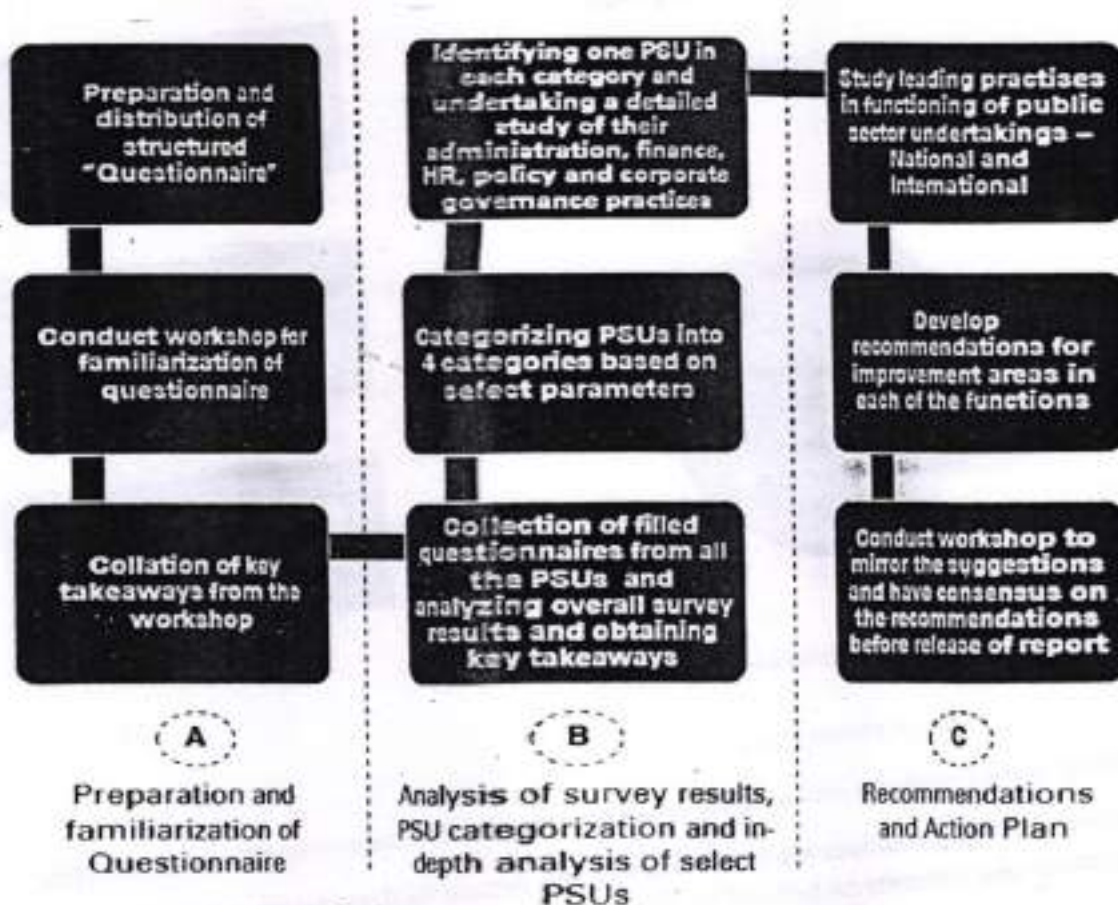


Figure 1: Methodology of Study

2. Public Sector Enterprises in Karnataka

2.1 Overview

The Public Sector Enterprises (PSE) of government of Karnataka include both state government companies and statutory corporations. Their main function is to execute commercial activities for the welfare of people and to boost the state economy.

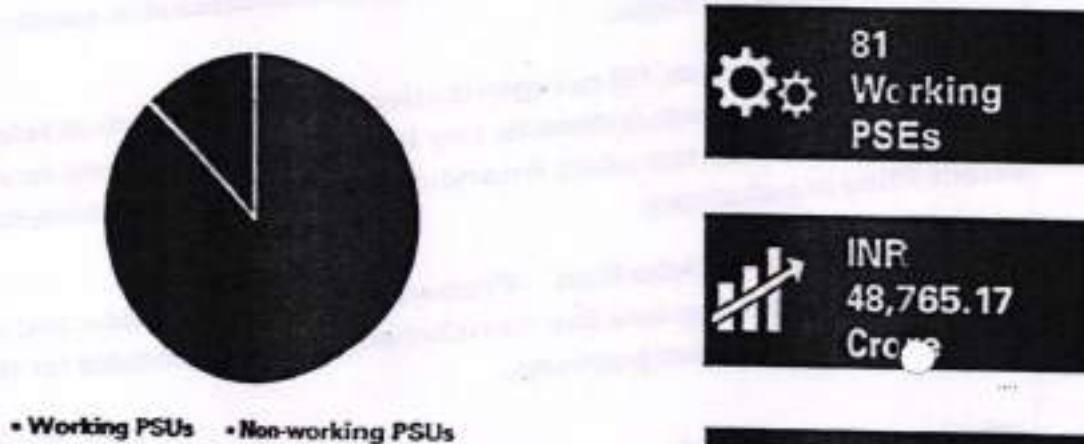


Figure 2: Total number of PSEs

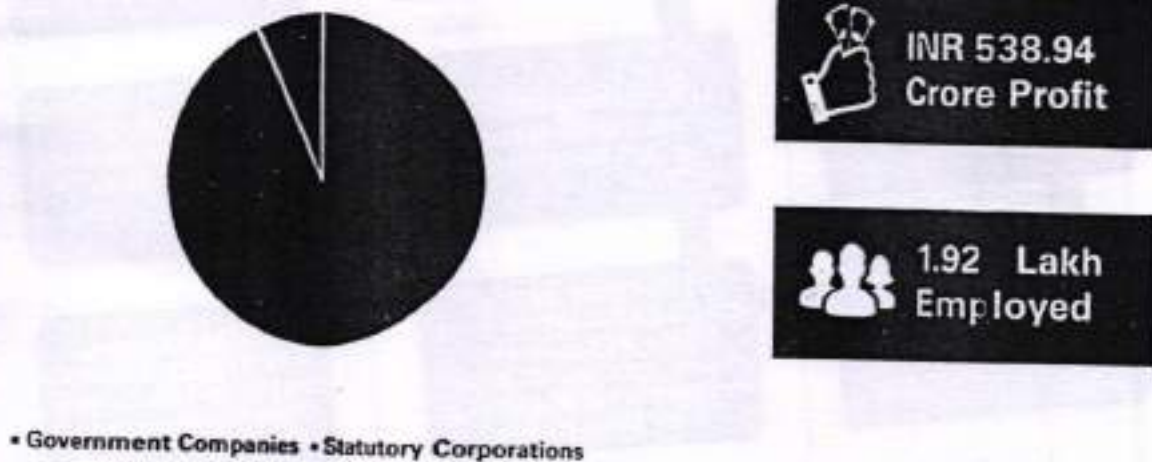


Figure 3: Working PSEs

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, March 2015

The appointment of executives and directors of the board is done by the government and administrative departments on behalf of state government who exercises control over the

Matters of these PSEs. Financial stake of state government in PSEs include share capital, loans, guarantees and special financial supports such as grants and subsidies.

The total investment in 93 PSEs, which include capital and long term loans amounted to INR 83,282.11 crore (as on 31st March 2015)¹. Growth of investment accounted for 43.25 percent increase between 2010-11 and 2014-15.

Type of PSEs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long term loans	Total	Capital	Long term loans	Total	
Working PSEs	49,092.90	28,800.71	77,893.61	1,942.06	2,863.92	4,805.98	82,699.59
Nonworking PSEs	160.21	422.31	582.52	-	-	-	582.52
Total	49,253.11	29,223.02	78,476.13	1,942.06	2,863.92	4,805.98	83,282.11

Table 1: Total Investment in PSEs for the year 2014-15

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, March 2015

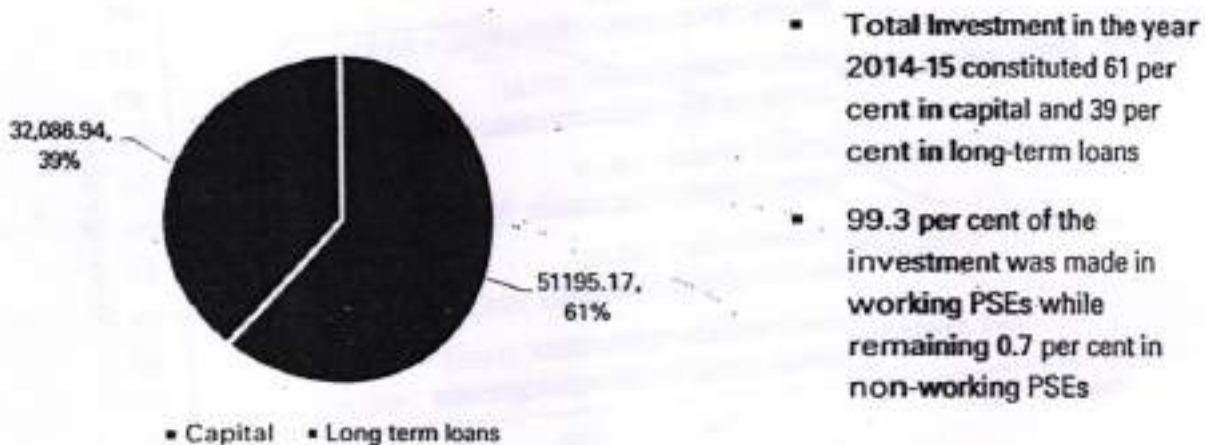


Figure 4: Investments types in PSEs

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, March 2015

¹ Report of the Comptroller and Auditor General of India on Public Sector Undertakings, March 2015

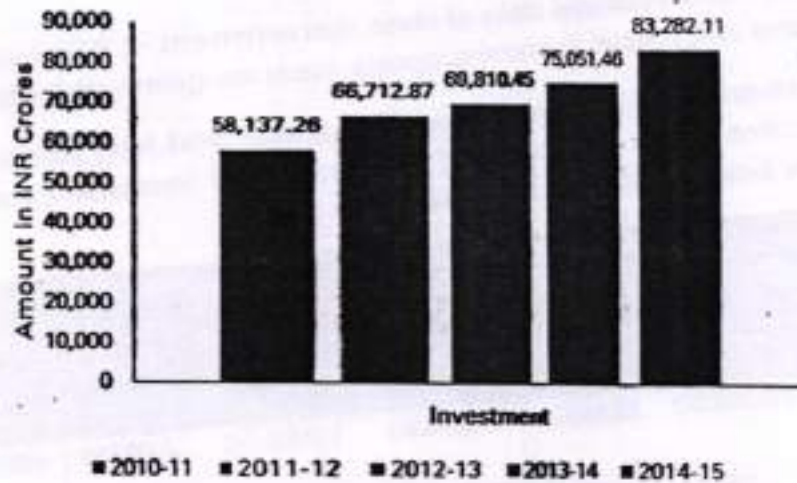


Figure 5: Year wise total investment in PSEs

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, March 2015

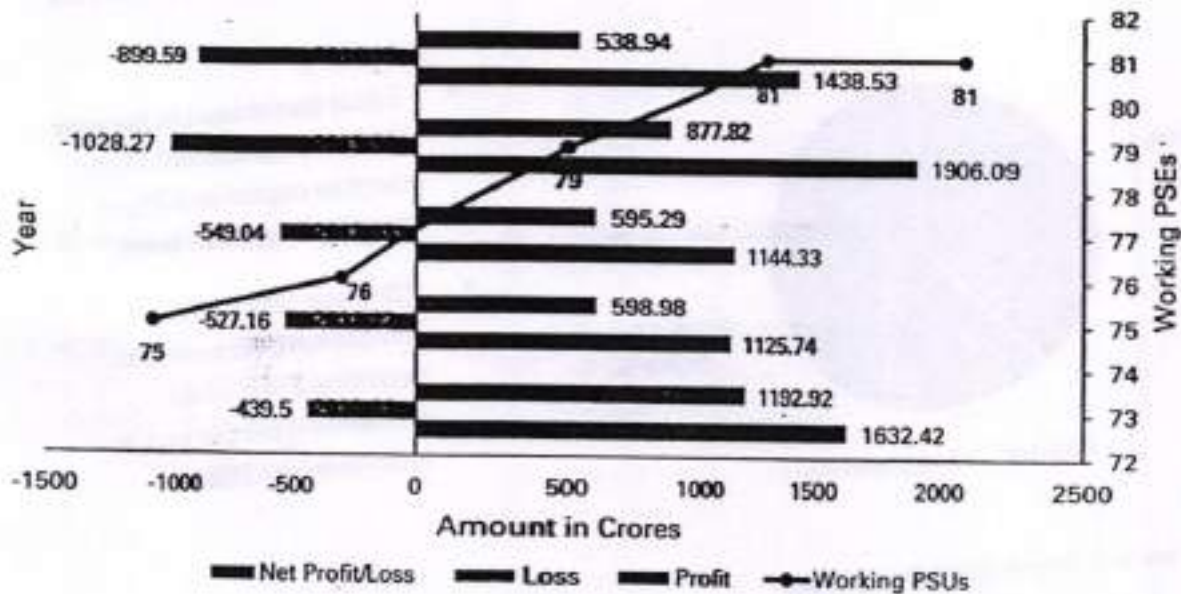


Figure 6: Profit Loss Statistics of PSEs

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, March 2015

As on 30th September 2015, the working PSEs accounted a profit of INR 1438.53 Crores and loss incurred amounted to INR 899.59 crores.

2.2 PSE Sector-wise Classification

Agriculture and Allied



Financing



Infrastructure



Manufacturing



Power



Service



■ Working ■ Non Working

Figure 7: Sector wise classification of PSEs



Figure 8: Sector-wise listing of PSEs

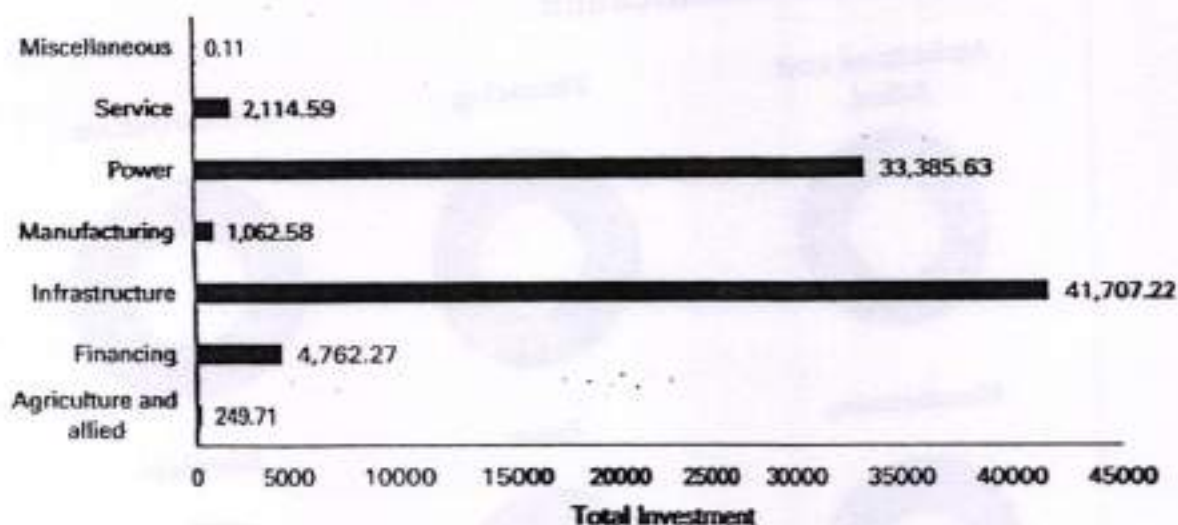


Figure 9: Sector-wise Investment (in Crores) as on 31 March 2015

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, March 2015

Major investments in PSEs were in infrastructure and power sector, which accounts for 90.01 percent of total investment in 2014-2015.²

2.3 Key role of PSEs in economic development of state

Economic development being the prime concern of the state, PSEs act as an instrument in implementing industrial policies to achieve development strategy goals. The twelfth five year plan ideate PSEs to be competitive, function on their own mobilizing finance from capital markets, attain growth through technology improvements, partnership, mergers and acquisitions. The objective of economic development with social obligation such as self-reliance, social justice and mitigation of poverty were to be attained amidst current political framework and in an economy in which both public and private sector co-occur. PSEs faces major challenge in undergoing continuous transition with respect to changing scenarios.

Figure 10 below depicts PSEs year on year contribution to State Gross Domestic Product (SGDP). Even though the turnover has increased to 17.5 percent over a span of five years, the percentage contribution to SGDP has shrunk from 10.10 percent in 2010-11 to 7.12 percent in 2014-15.

² Report of the Comptroller and Auditor General of India on Public Sector Undertakings, March 2015

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

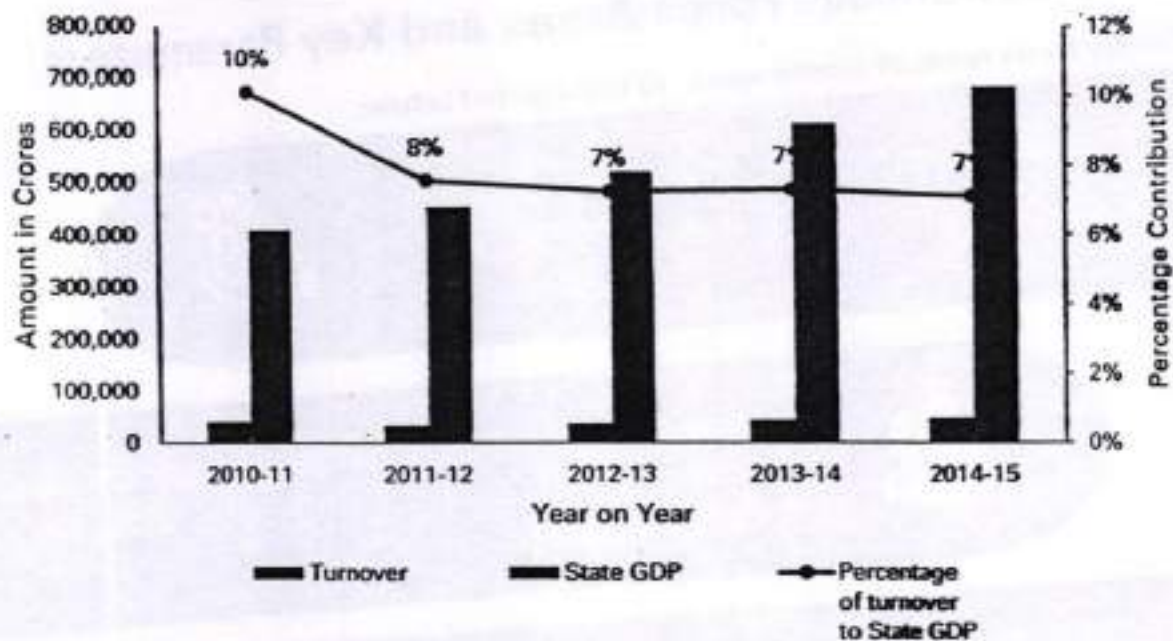


Figure 10: PSE Turnover vs SGDP

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, March 2015

The financials of the state greatly depend on the performance of PSEs. Shortcomings in planning, investment and other activities in the management of PSEs need to be revisited so as to reduce losses or to enhance profits. There is a necessity for greater compliance and accountability in the working of PSEs.

As the contribution of non-working PSEs to the state economy is nil and doesn't meet the objectives pursued, measures for closure or revival of PSEs is likely to be considered. Benchmarking exercises with performing PSEs is likely to be adopted by other aspiring PSEs in order to improve performance and reduce burden on the state government.

Complexities have risen due to changes in business environment and exposure to world markets thus forcing PSEs to function on commercial lines with obligation towards society. Liberalisation of country's economy invited competition from global firms as a result pressure on PSEs to perform and deliver returns is escalating. Smarter reforms are required to address such challenges.

3. Questionnaire Focus Areas and Key Parameters

The key focus areas of questionnaire are highlighted below:

Financial position of the firm, inventory details, subsidies & grants, expenditure, exports and imports.



Composition of employees, sanctioned strength, vacancies, training and skill development opportunities.

Joint ventures, strategic partnerships, tie-ups, collaborations and other strategic information



Adoption of information technology and automation

Planning, budgeting, production, capacity utilization and turnover.



Corporate governance mechanism, transparency, accountability and CSR activities.

To understand the key functions of the PSEs, a survey was conducted. The questionnaire was prepared with both close-ended and open-ended questions for identifying existing administrative, financial, human resources, operations and corporate governance practices of all PSEs and their performance levels. The survey questionnaire captures the below key aspects.

- Financial information provides understanding of PSEs financial health. Evaluation of information available in the form of statements (balance sheet or profit and loss) across five-year time period is collected in order to measure the performance of PSEs and for understanding the trends in assets and debts, liabilities, equities, etc.
- Employment level, growth in opportunities, vacancies and composition that enforce equality and social justice are major indications of developing economy. To improve the productivity and competitiveness of the economy proper training in skill set and knowledge is required
- Strategic information that reflects multimodal economic restructuring activities. Joint ventures, collaborations, tie-ups and partnerships involves combined efforts to improve efficiency and to minimize uncertainty by combining complementary abilities. Constant changes in technology and global market have driven PSEs to form alliances to have competitive edge.
- Adoption of information technology and automation is essential for optimizing the way in which an organization conducts business. Automation enables smarter management through better decision-making and long term strategic planning. With better flexibility and functionality of Information technology solutions results in better efficiency gains, improved productivity and cost savings.
- To improve management of expenditure performance focused initiatives, stronger ties between policymaking, planning, budgeting, and other government systems and enhanced accounting and financial management tools are required. Budget outcomes are influenced by fiscal discipline, effective allocation of resources based on priorities.
- Corporate governance mechanism in PSE will ensure that they are lead and controlled to accomplish their initial objectives with efficient utilisation of all available resources. Greater accountability and transparency deliver improved performance and service to the involved parties.

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4. Summary of Survey Findings

4.1 Sector-wise performance review

The sector-wise performance review of PSEs were undertaken to understand the success factors and key challenges faced by PSEs in a specific sector. The analysis was carried for key parameters related to their financial, operational, administration, people and policy matters.

4.1.1 Finance and Operations

Sales turnover comparison

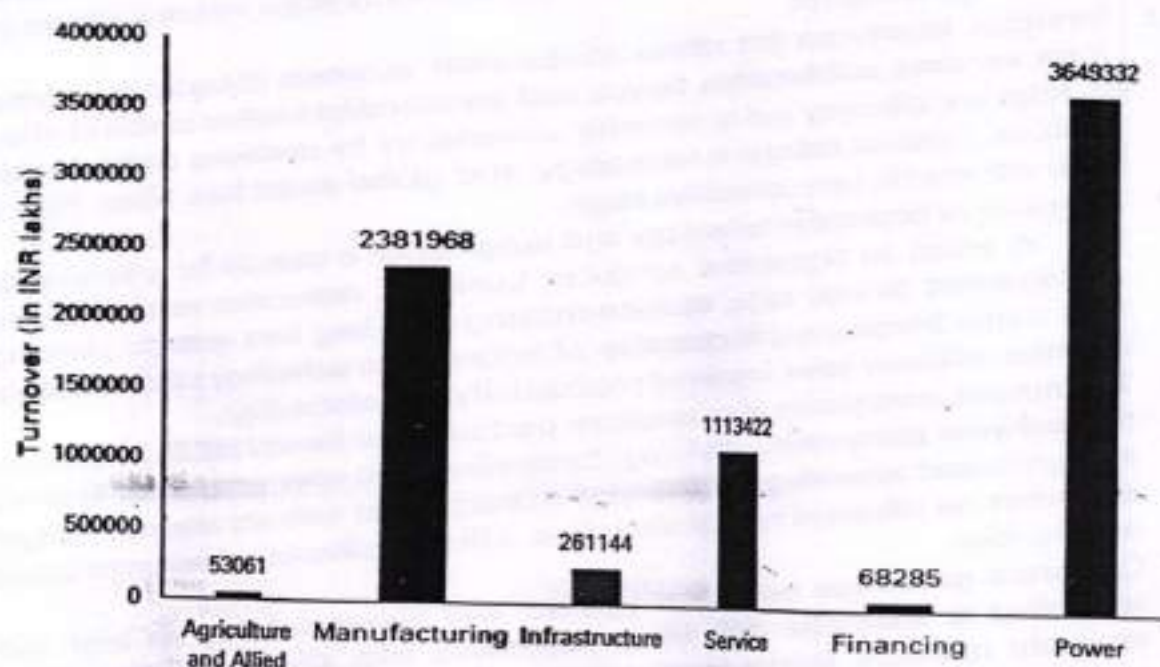


Figure 11: Sector wise sales turnover comparison

Source: KPMG in India Analysis 2016 basis primary survey

Power sector accounts for 48 percent of total turnover³ with other sectors trailing behind. Manufacturing, Services and Infrastructure sector follows with 32 percent, 15 percent and 3 percent share respectively.

³ Average of sales turnover for financial years 2013-14, 2014-15, 2015-16 are considered for analysis



Profit after tax comparison

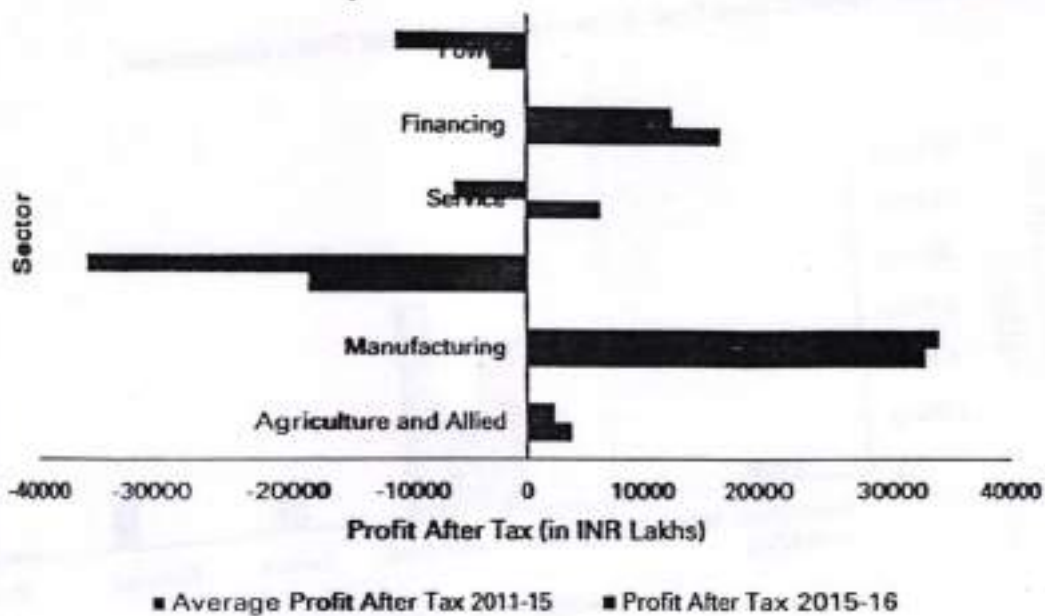


Figure 12: Comparison of Profit after Tax

Source: KPMG in India Analysis 2016 basis primary survey

Increase in profit after tax for agriculture, service and finance sectors when compared to last five-year average gives a positive note to the investors whereas manufacturing sector registered a three percent decrease in profit after tax in 2015-2016 compared to last five-year average. Power sector and infrastructure sector has performed better for 2015-16 as losses have reduced significantly compared to last five-year⁴ average.

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⁴ Average of profit after tax for last 5 financial year 2011-15 are considered for analysis

Subsidies and Grants from Central Government and State Government



Figure 13: Subsidies and Grants from Central Government

Source: KPMG in India Analysis 2016 basis primary survey

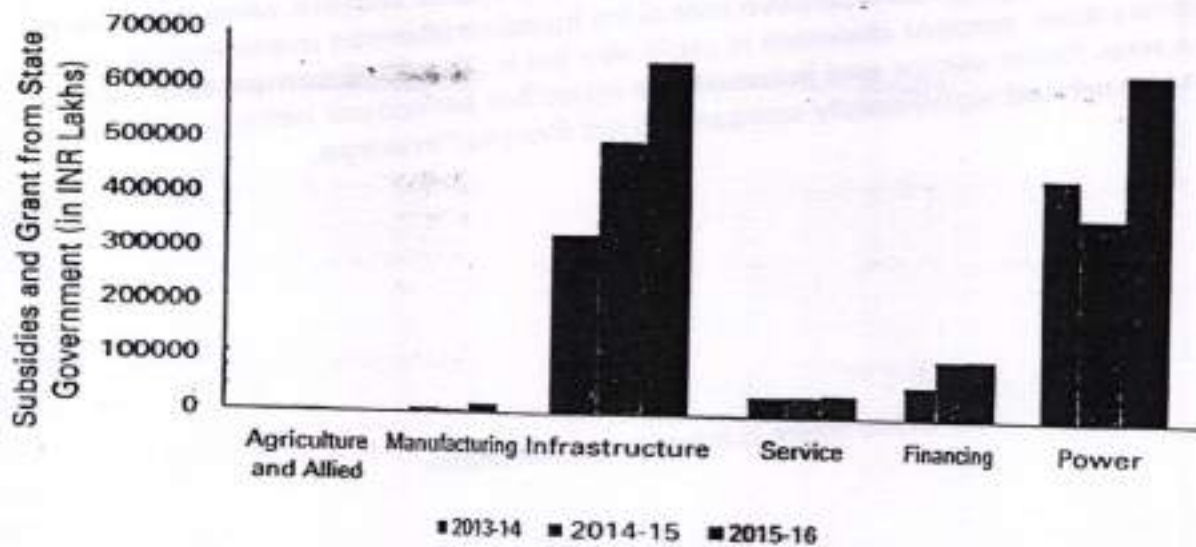


Figure 14: Subsidies and Grants from State Government

Source: KPMG in India Analysis 2016 basis primary survey

For the last three financial years the subsidies and grants from Central and State Governments for infrastructure and power sector accounted for 83 percent and 87 percent of the total subsidies and grants provided.

Net profit margin

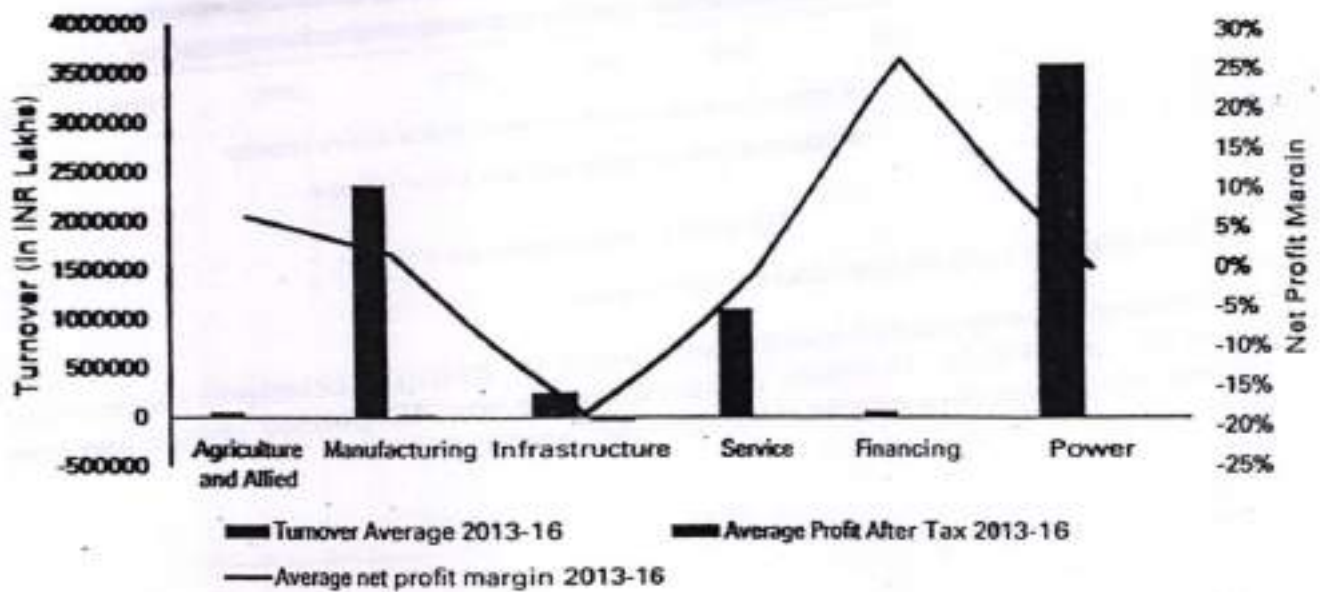


Figure 15: Net Profit Margin

Source: KPMG in India Analysis 2016 basis primary survey

Finance sector accounted for highest profit margin of 26 percent with infrastructure sector recording least profit margin of -19 percent.⁵

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⁵ Average of turnover, profit after tax and net profit margin for the financial years 2013-14, 2014-15 and 2015-16 are considered for analysis

Inventory Management

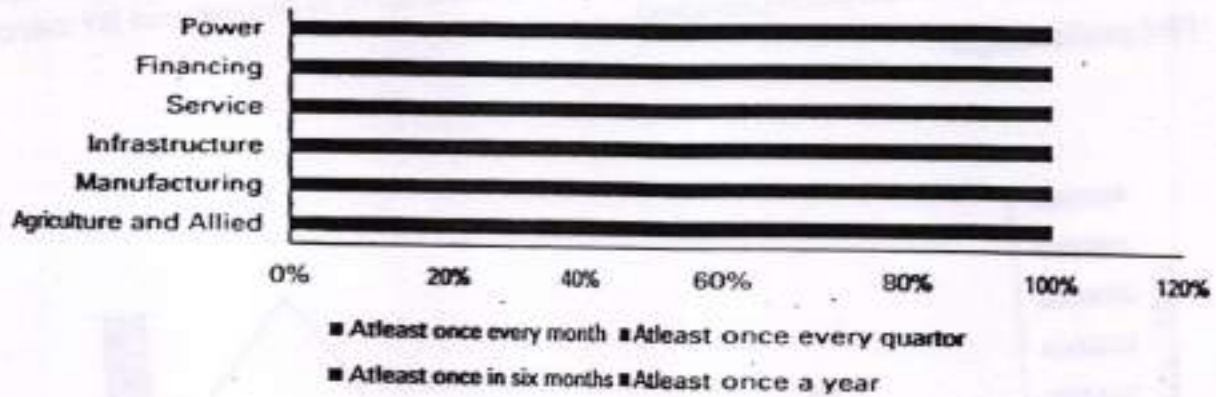


Figure 16: Frequency of Inventory Check

Source: KPMG in India Analysis 2016 basis primary survey

According to responses received¹ inventory levels are being checked primarily once a year by the state PSE's. However, in manufacturing sector 42 percent of PSEs have been conducting inventory checks at least once every month.

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¹ 39 per cent of the total survey responses received responded to this question

4.1.2 Human Resource

Employment scenario

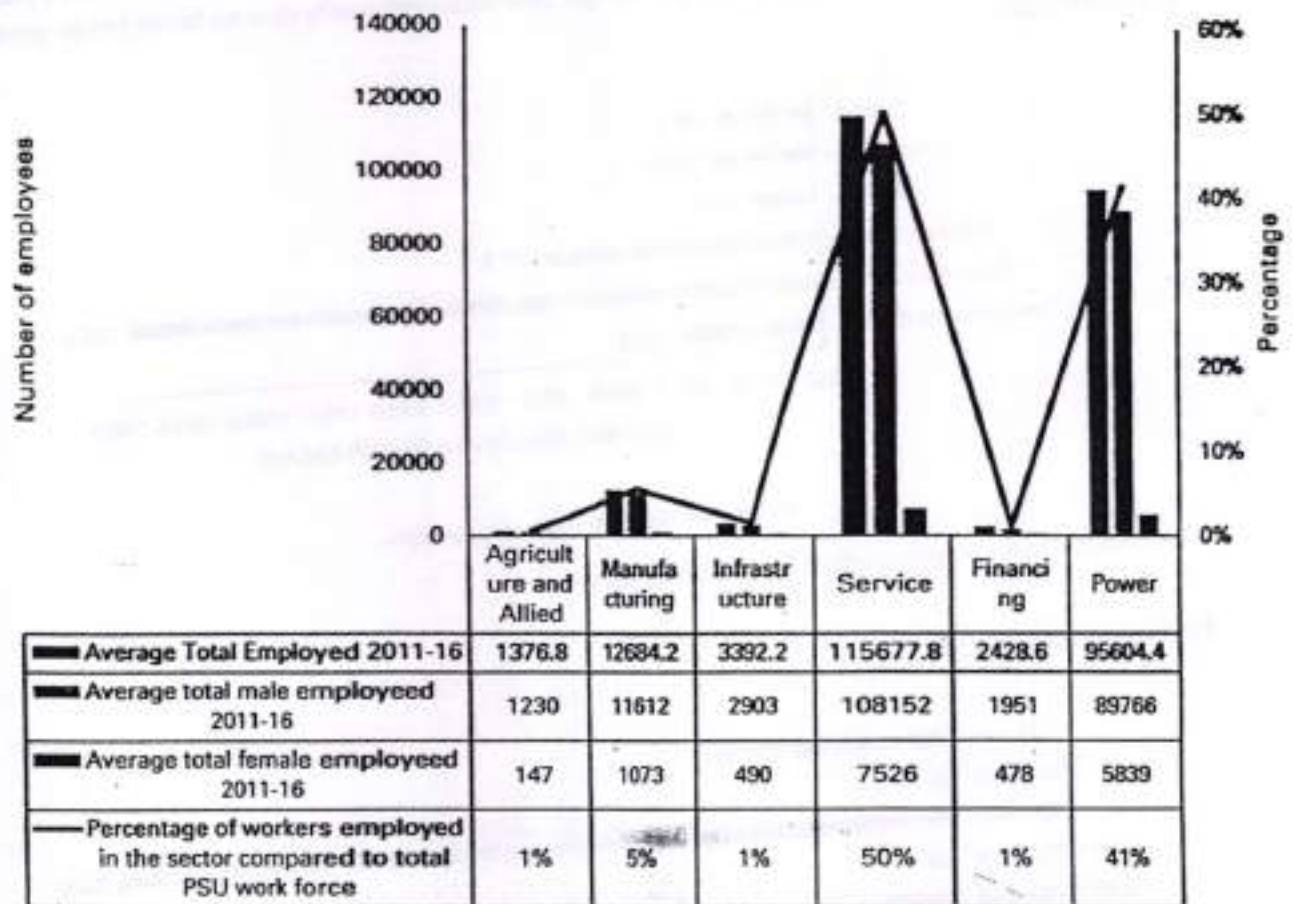


Figure 17: Sector-wise Employment

Source: KPMG in India Analysis 2016 basis primary survey

The five-year average employee count was calculated for the above sectors. Over the years, service sector and power sector has grown rapidly that it now employs 50 percent and 41 percent of total work force in the state respectively. Agriculture sector accounts for least number of employees followed by financing sector. Manufacturing sector accounts for 7 percent of total number of employees. Even though policy reforms have come up in the past for equal employment opportunities, total men employed in PSEs stands at 93 percent undermining gender diversity. Strong leadership, accountability, innovation, efficiency and a motivated work culture will help enhance gender diversity.

Sales-per-employee ratio⁷

Manufacturing sector accounts for the highest sales per employee ratio indicating higher productivity and efficiency in its operations with 195.6 lakhs INR/employee. Service sector on the contrary holds the least sales per employee ratio primarily due to large employability in this sector.

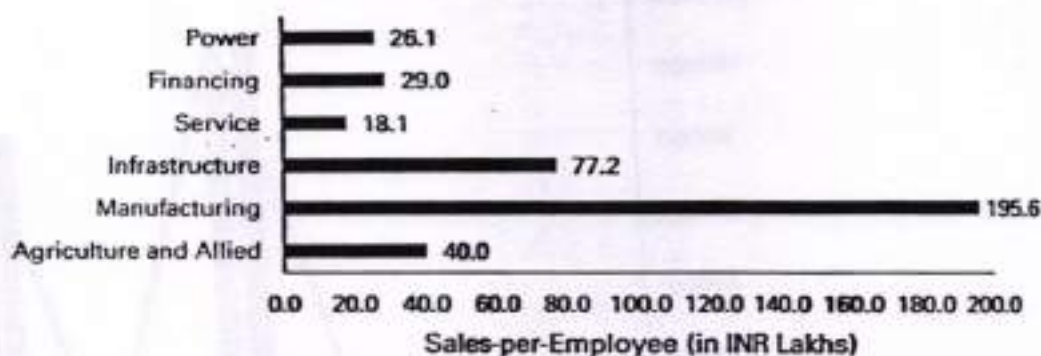


Figure 18: Sales-per-employee ratio

Source: KPMG in India Analysis 2016 basis primary survey

Employee age group

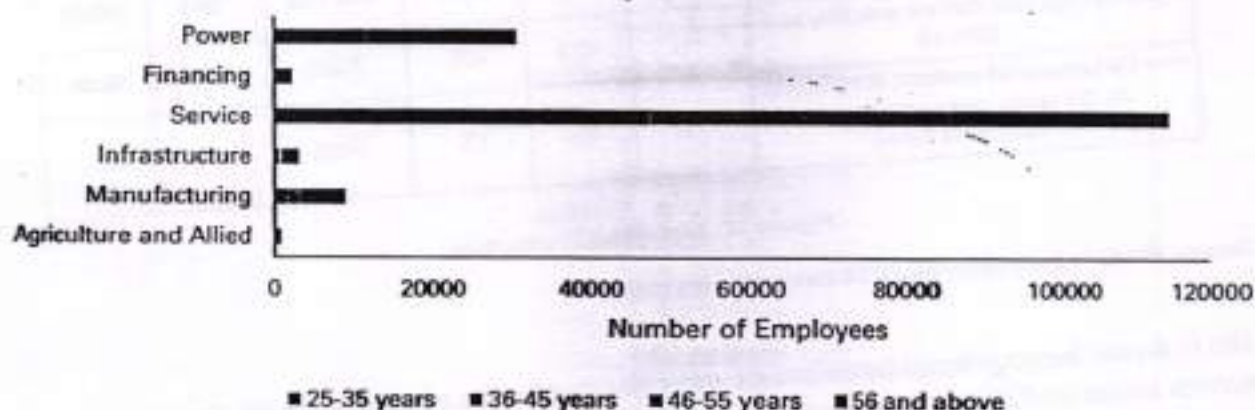


Figure 19: Employee Age group Analysis

Source: KPMG in India Analysis 2016 basis primary survey

⁷ Sales-per-Employee ratio is calculated by dividing sector revenue by current total workforce in that sector. Analyzing revenue earned per employee in a particular sector is useful in comparing it with other sector.

Currently more than 69 percent of the employees fall in the 25-45 years age group and 10 percent of the work force aged above 56 years will be retiring in the near future.

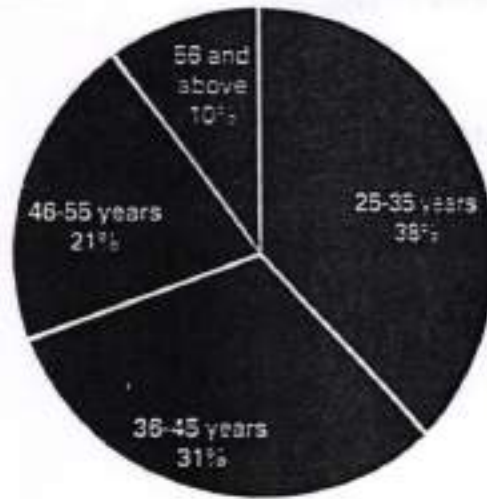


Figure 20: Percentage share in total employed

Source: KPMG in India Analysis 2016 basis primary survey

Skill profile

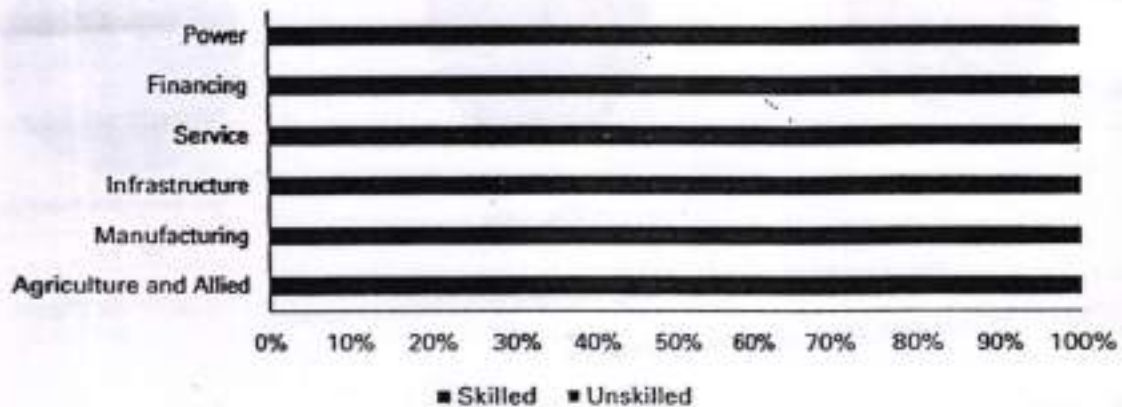


Figure 21: Skilled vs Unskilled Labour employed

Source: KPMG in India Analysis 2016 basis primary survey

More than 91 percent of the labours employed in PSEs are skilled⁸ with service sector employing 72 percent of them. Share of service sector in value-addition has risen sharply over the past as a result of growth in skill-intensive services. Growth in educated labour who have completed graduation, size of skill intensive services and share of service sector paved way for the marketability of skilled labours.

Training and development

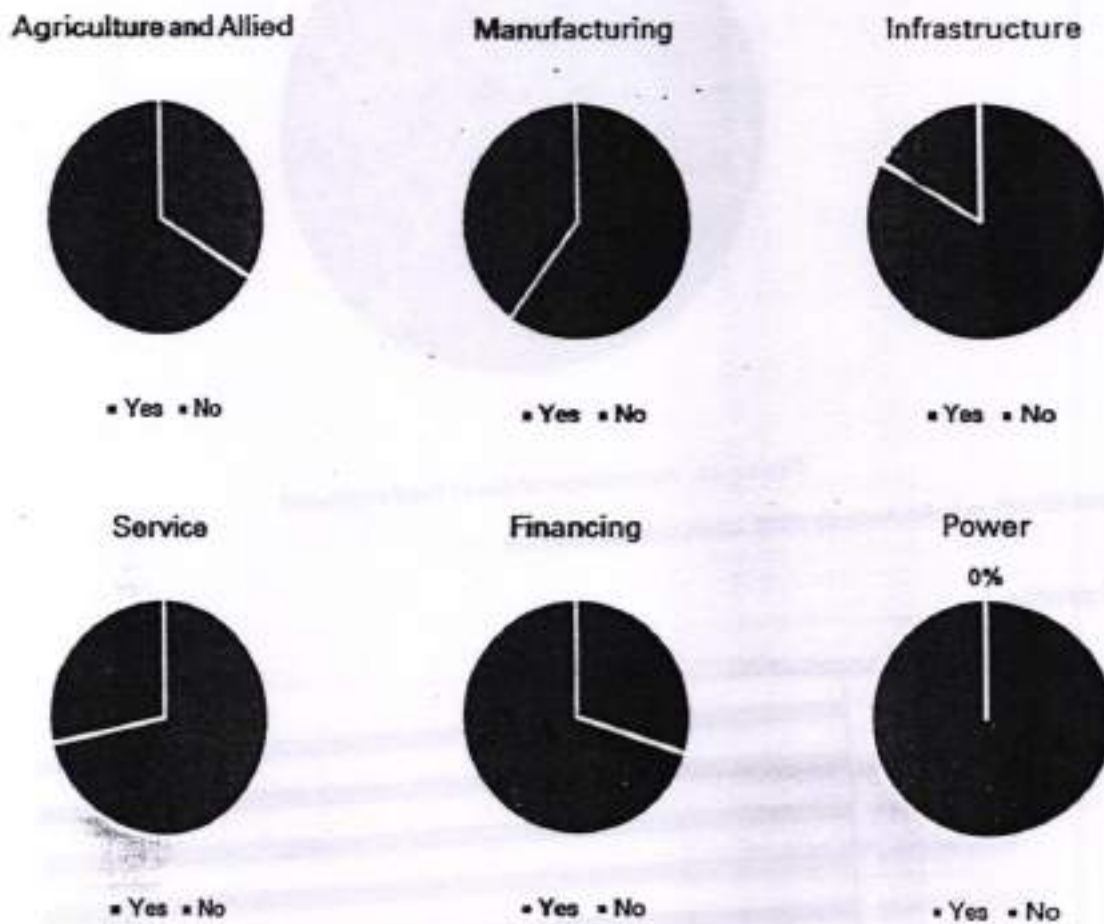


Figure 22: Sector wise training facilities provided to employees

Source: KPMG in India Analysis 2016 basis primary survey

Training and skill development result in improved job performance, planning and coordination, problem solving capabilities and improving soft skills. It imparts an ability to employees to better understand the practical applicability of their knowledge and skills.

⁸ Skilled workers are those who possess skill, knowledge and special ability in carrying out their job. They may also have undergone various training and completed technical education.

Service, finance and power sector provide better training to improve skills and to build competency of employees compared to other sectors.

Trainings were primarily conducted by the PSEs in areas to improve operational/technical skill and knowledge, good governance, others were on enhancing sector knowledge such as workshops on infrastructure development etc. Programs were also focused on capability building, effective interpersonal skills, quality control, management development, financial management, personality development, soft skill development programs, public relations, legal awareness to achieve competitiveness and excellence etc. To benefit out of such programs a definitive all year round training plan is to be developed in tune of current skill requirements and needs of the technology era.



Figure 23: Frequency of training

Source: KPMG in India Analysis 2016 basis primary survey

Basis the survey response 42 percent of the PSEs have conducted training for outsiders and 74 percent of the respondents claim that they lack the capacity to provide training facilities for outsiders. To make training and skill development programs extremely effective it should be well planned, evaluated periodically and handled by a competent team.

4.1.3 Information Technology

Automation in Operations/HR/Finance/Admin

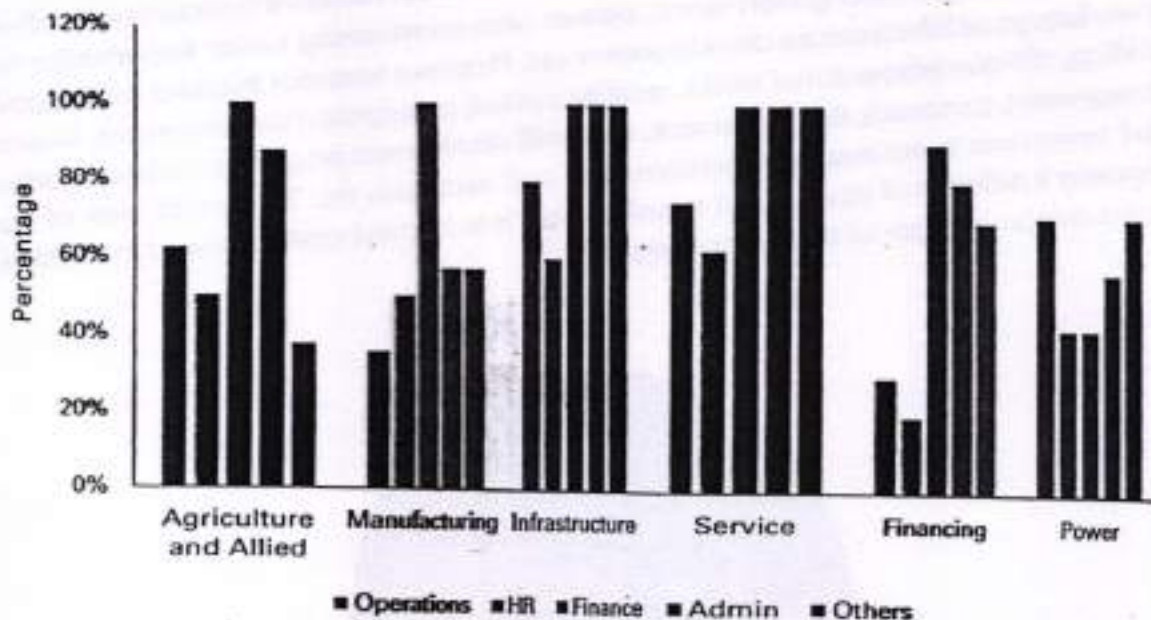


Figure 24: Automation in departments

Source: KPMG in India Analysis 2016 basis primary survey

Automation in workflow is largely employed in finance and administration areas followed by operations and human resources. Further initiatives to automate human resources and operations can help the PSEs streamline their process there by improving efficiencies, productivity and most importantly reduction in cost.

ERP systems

PSEs have identified the need for automation for accurate and timely information for better decision making and strategic planning leading to implementation of ERP solutions. Majority of the survey respondents have claimed that various functions of the departments such as online trade, operation and maintenance, personnel records, attendance, recruitment, payroll, accounting, salary processing, transfer of funds, other transactions, email, internet and websites were automated using various software solutions available. ERP solutions implemented include SAP, Oracle, SCADA, Tally, COBOL and DATA mine etc.

4.1.4 Policy and Administration

Corporate governance compliance

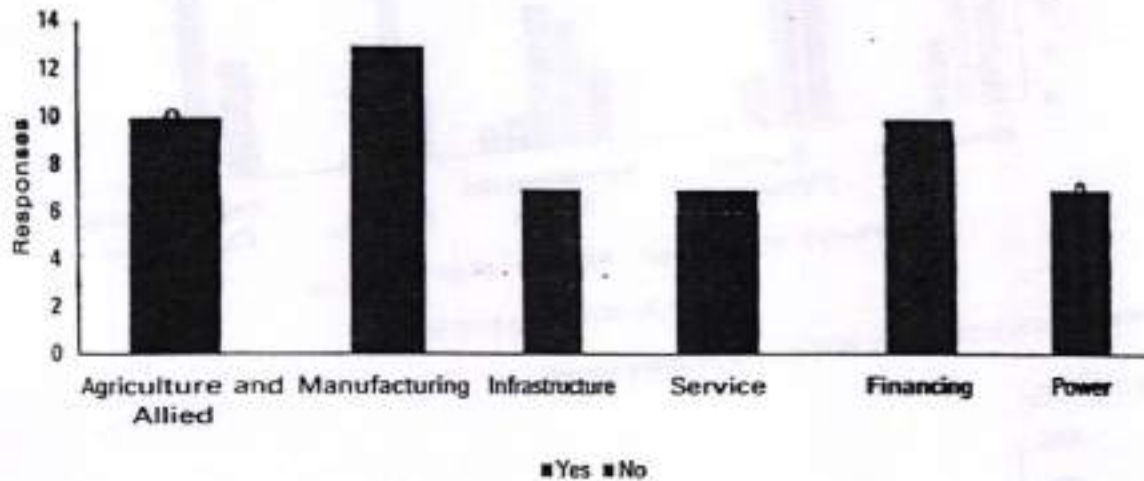


Figure 25: Corporate Governance norms compliance

Source: KPMG in India Analysis 2016 basis primary survey

Poor governance results in weak outcomes and it affects service and deliverability. Dilution in accountability and decision-making is to be minimized. More than 80 percent of the survey respondents followed corporate governance norms, which is a good practice to be followed across PSEs.

Autonomy in PSEs

Autonomy assists PSEs to invest and grow, resulting in better performance. Autonomy and investment are closely linked therefore it must be ensured that PSEs are run professionally. Moreover, in recent times the need for bringing autonomy in functions of state-run PSEs are being argued largely.

Over and excessive interference in business functioning is disadvantageous to PSEs and delays in functioning can affect their outcomes. Reforms are required for enabling autonomy in recruitment, staffing and policy preparation.

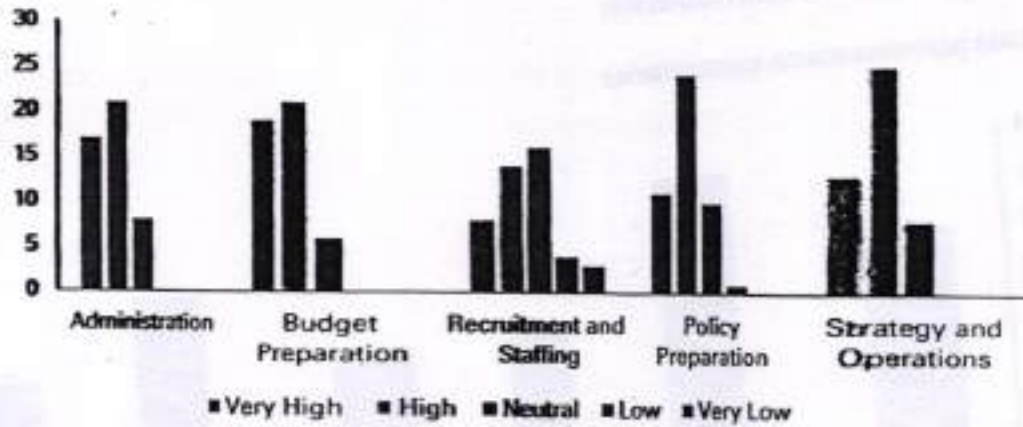


Figure 26: Autonomy in PSEs

Source: KPMG in India Analysis 2016 basis primary survey

Board profile

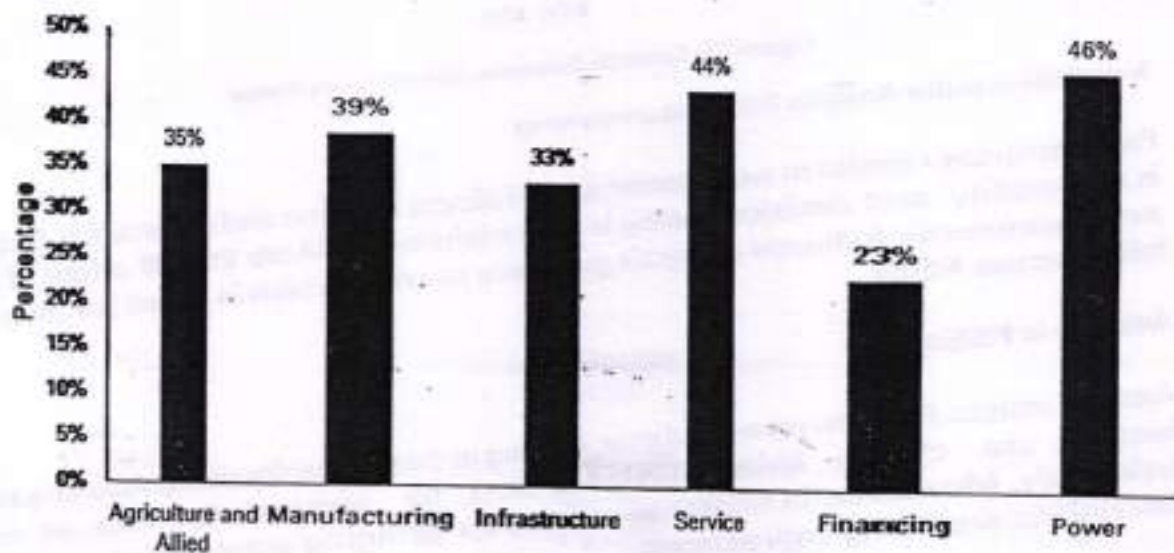


Figure 27: Directors (official/non official) vs sanctioned strength

Source: KPMG in India Analysis 2016 basis primary survey

In the current state of operations, vacant director posts raises concerns on corporate governance mechanism and effective decision-making. There have been several challenges in filling up these vacancies; 44 percent and 46 percent of sanctioned strength of directors in service and power sector remain vacant respectively.

Performance based budgeting

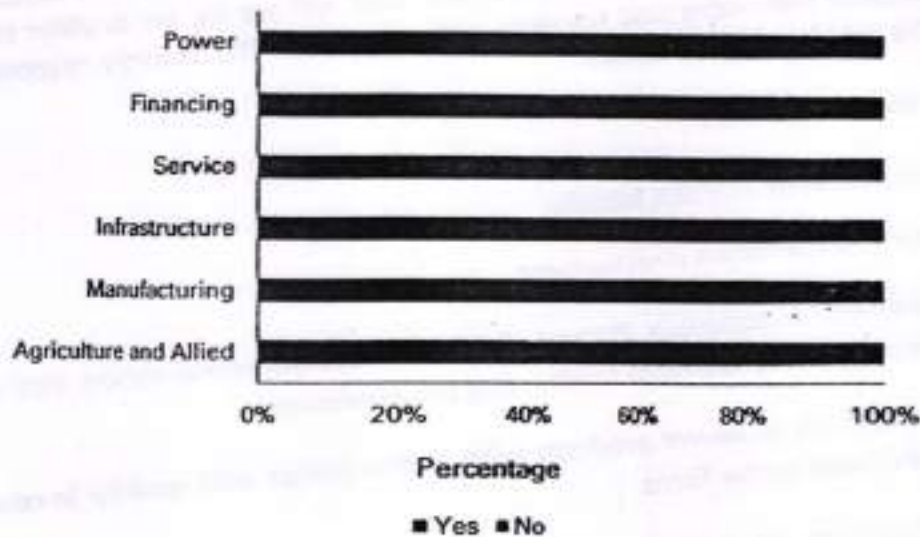


Figure 28: Implementation status of performance budgeting

Source: KPMG in India Analysis 2016 basis primary survey

Many public sector undertakings across the globe are insisting upon inclusion of performance statistics in the budgeting process, which helps them increase transparency in operations and improve efficiency in management. More than 80 percent of the respondents from infrastructure and manufacturing sector responded that they have implemented performance based budgeting.

Planning

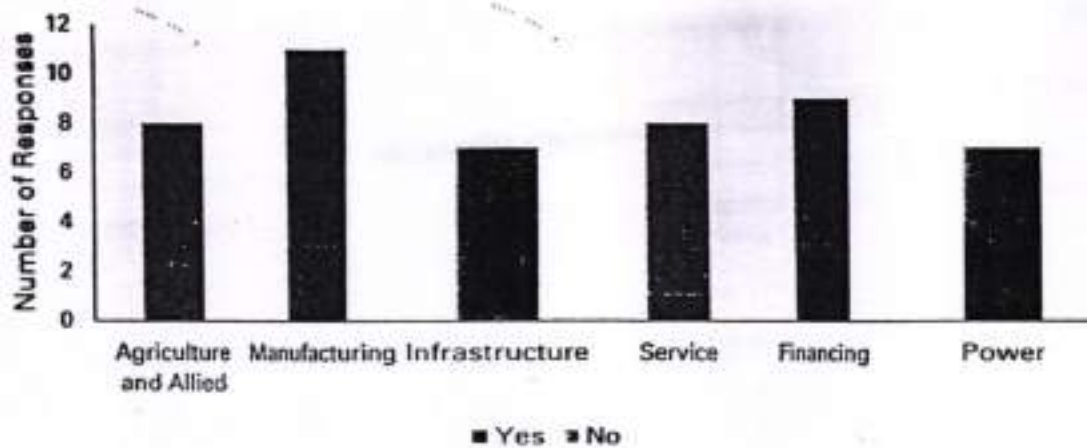


Figure 29: Planning committee constituted every year for the planning exercise

Source: KPMG in India Analysis 2016 basis primary survey

Effective planning exercises in PSEs help to establish goals and objectives and to communicate them to various stakeholders. This will act as an enabler to focus upon performance of resources and measure progress. Basis the survey responses very few PSEs carry out planning exercises.

Various reform initiatives⁹

Key reform initiatives of PSEs include

- Rapid infrastructure development
- End-to-end automation through ERP software implementation that will enable transparent and seamless functioning of departments
- Development of newer products with better design and quality to compete with other private sector firms
- Up-gradation of manufacturing process to promote environmental friendly approach
- Joining hands with consulting firms for business process re-engineering activities and better financial planning

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⁹ KPMG in India Analysis 2016 basis survey responses

4.1.5 Summary – Sector-wise performance review

Sector	Key takeaways
Agriculture and Allied	<ul style="list-style-type: none"> • Profit after tax have shown significant improvement in the year 2015-16 compared to last five-year average • Share of central government subsidies and grants is much higher than that of state government • Net profit margin of the sector is 6 percent • 50 percent of the establishments have their inventory level checked once in six months • Sector constitutes of 1 percent of the total work force employed in PSEs • Sales per employee ratio is INR 40 Lakhs • More than 76 percent of employees in this sector are of the age 46 years and above • Only 33 percent of the establishments in this sector provide skill training for employees • More than 85 percent automation in finance and administration functionalities • Lacks autonomy in recruitment and staffing functions • Implementation status of performance based budgeting is as low as 40 percent
Manufacturing	<ul style="list-style-type: none"> • Subsidies and grants compared to other sectors are very low • Net profit margin for the sector is 2 percent • More than 75 percent of the establishments have their inventory checked multiple times every year • 5 percent of the total workers employed in PSEs are from this sector • Sales per employee ratio is INR 195.6 Lakhs • More than 65 percent of the labourers employed are skilled • 60 percent of the establishments in this sector provide skill training for the employees which is the highest among other sectors • Lacks automation in all department functionalities except for finance

Sector	Key takeaways
Infrastructure	<ul style="list-style-type: none"> • Implementation status of performance based budgeting is above 80 percent • Profit after tax has shown improvement in the year 2015-16 compared to last five-year average. • Subsidies and grants from central and state governments compared to other sector is very high • Financial health of the sector is a concern. Net profit margin is -22 percent • Sales per employee ratio is INR 77.2 Lakhs. • 1 percent of the total workers employed in PSEs are from this sector • More than 69 percent of employees in this sector are of the age 46 years and above • 80 percent of the labour employed are skilled • More than 80 percent of the establishment in this sector provide skill training for employees • Autonomy in recruitment and staffing is low • Sector has high rate of corporate governance norms compliance
Service	<ul style="list-style-type: none"> • Sector accounts for 15 percent of total turnover • Showcased significant improvement in profit after tax compared to previous 5 year average • More than 50 percent of the respondents claimed that their inventory gets checked every month • Employs 50 percent of total work force • Sales per employee ratio is INR 18.1 Lakhs which lowest among other sectors • 75 percent of the employees employed in this sector are under the age of 45 years • Sector employs 79 percent of total skilled labours employed in state PSEs • 71 percent of the respondents provide training for employees • Complete automation of finance and administration functions

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Sector	Key takeaways
Financing	<ul style="list-style-type: none"> • Implementation status of performance based budgeting is below 50 percent • Net profit after tax for the sector is 26 percent which is highest among all sectors. • Improvement in profit after tax compared to previous 5 year average • All respondents claimed that they have their inventory checked once every year • Employs 1 percent of total employee employed • Sales per employee ratio is INR 29 Lakhs • More than 80 percent of the workers employed are skilled • Only 30 percent of the respondents claimed that they provide training for employees • Automation in human resources and operations functionalities is below 40 percent
Power	<ul style="list-style-type: none"> • Accounts for 48 percent of total turnover • Profit after tax improved compared to last 5 year average • Subsidies and grants from central government and state government amounted to 31 percent and 43 percent respectively of average total subsidies and grants for last 3 years • 50 percent of the respondents claimed that they have their inventory checked once in every quarter • Employs 41 percent of total employees employed • Sales per employee ratio is INR 26.1 INR Lakhs • 69 percent of the workers employed are skilled • All establishments provide training for employees • Implementation status of performance based budgeting is 66 percent

Table 2: Sector-wise summary of survey findings

Source: KPMG in India Analysis 2016 basis primary survey

4.2 Function-wise performance review

4.2.1 Finance and Operations

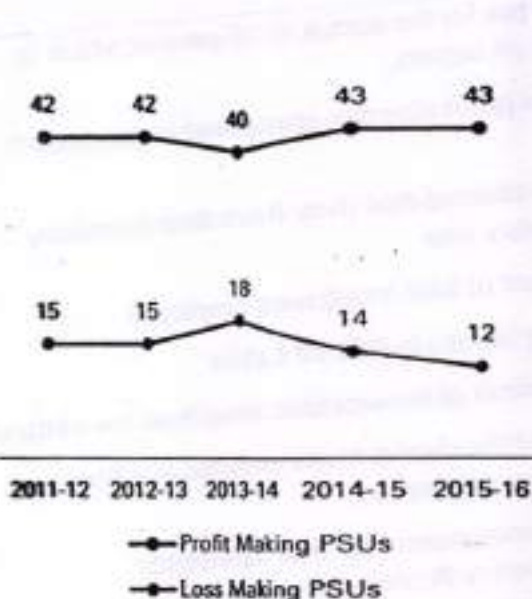


Figure 32: Overview of Profit/Loss-making PSEs¹

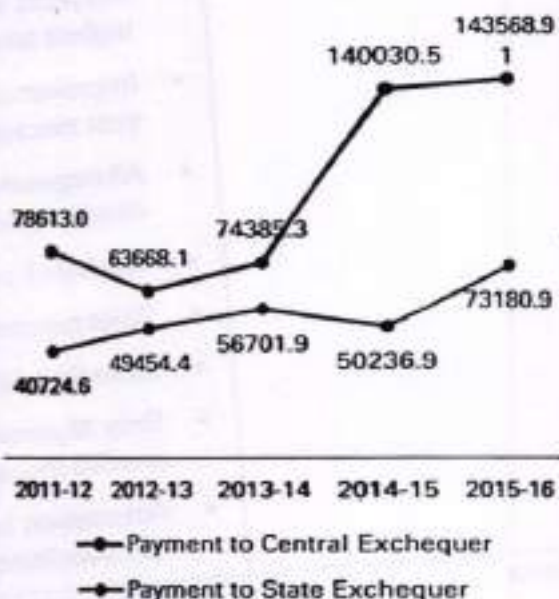


Figure 30: Overview of payments to central/state Exchequer (in INR lakhs)

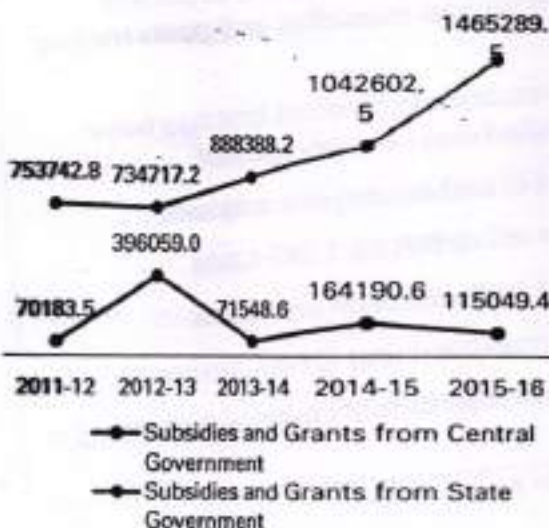


Figure 31: Subsidies and Grants from Central/State Government (in INR lakhs)

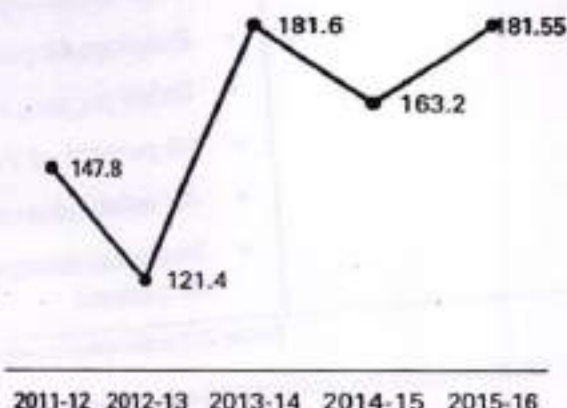


Figure 33: Expenditure on R&D (in INR lakhs)

Source: KPMG in India Analysis 2016 basis primary survey

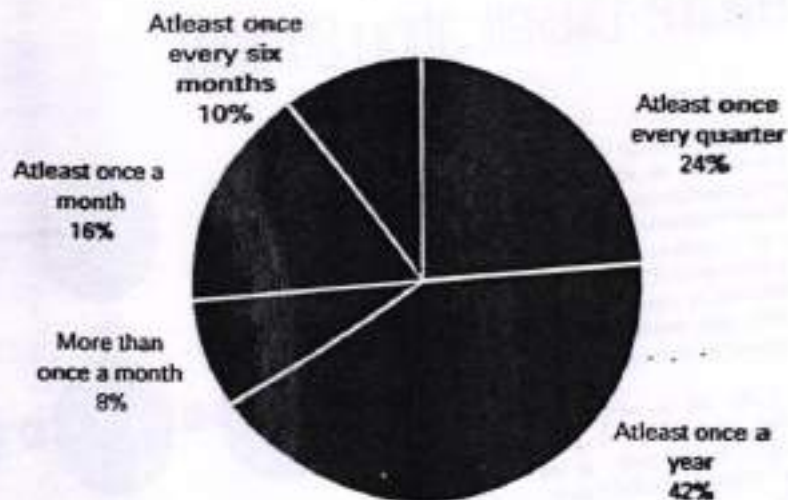


Figure 34: Frequency of inventory checks

Source: KPMG in India Analysis 2016 basis primary survey

There has been a significant increase in grants and subsidies from central and state government. This in effect may increase risk of over capitalization due to inefficient financial planning, lack of effective financial control due to easy availability of money from the government. As evident from the survey responses, due to ineffective inventory control, risks of underutilization of capacity arises. Improper methods of demand forecasting leads to over production and stagnation of inventory. It is necessary for PSEs to align their products and services to the new changing business environment.

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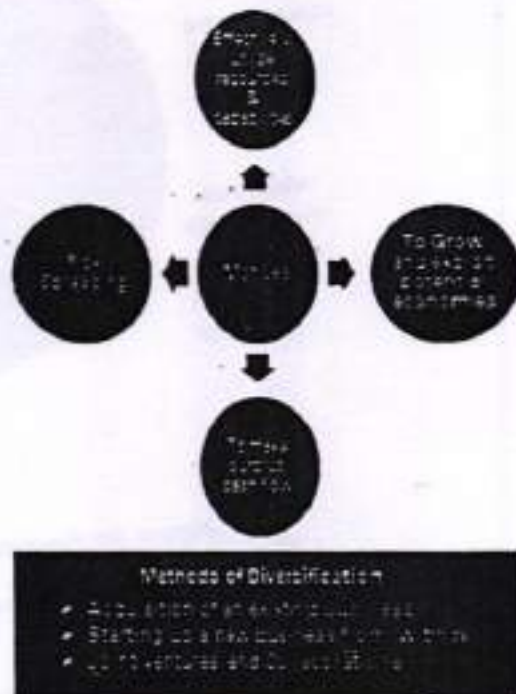
Best Practice - Diversification Strategy

Diversification strategy is considered as a valuable tool in reducing risk and improving business performance
 Aim of diversification is to create value or wealth in excess of what firms would earn without diversification
 Diversification is found to be positively associated with financial performance, regardless of business size.

Larger firms are found to be more diversified compared to mid-sized companies. Firms tend to produce stronger financial performance when they offer

- > wide range of products and services
- > have multiple large customers
- > expand their geographic horizons.

Businesses of all sizes would thus be well-advised to consider whether they are sufficiently diversified. However broadening a business's horizons typically takes time and financial resources



Few examples from the State....

Karnataka Soaps and Detergents Limited

- Constantly improving business by launching new products and diversifying into different category of soaps to compensate shortage of raw materials

Karnataka Silk Industries Corporation

- Rise in demand for Mysore silk sarees have encouraged opening more modernized showrooms/outlets across boundaries.
- Improving product range for growing customer base across the globe

Challenges...

- > Poor understanding of diversification activities and aligning with existing
- > Cultural differences
- > Managing diversified business is more complex
- > Deciding on when and how to diversify and the extend of diversification

Best Practice - Improving value-chain through M&As

- > Mergers and acquisitions (M&A) are being increasingly used as a strategy for increasing the size and attaining faster market share growth and to enhance competitive edge
- > Different circumstances and reasons leads to M&A and varies with the approach, management and execution. However, the level of integration between two companies determines the success of mergers
- > Extraneous factors such as leadership, business culture and administration influences M&A deals. Risk of a deal is determined by various factors such as profits, intellectual property, customer base etc. Many firms still prefer to grow through M&A's despite challenging conditions

Drivers of Mergers and Acquisition

Right to entry
Opportunity for Indian companies to gain access to developed markets and create value

Technology transfer
Considered as one of the key driver that urge companies to get into M&A deals. Firms get access to advanced technologies and a string of services.

New Product Mix
An alliance with another company provide the right to sell and purchase their product range

Hedging Risk
Merger and Acquisition tends to lower the risk there by reducing potential losses.

Indian scenario....

- > Competitive global market has prompted many Indian companies to go for M&A's. Indian firms acquiring foreign businesses have been the latest trend in the Indian corporate sector personifying their confidence level in expanding their operations successfully
- > There are different key factors which lead to this robust growth of mergers and acquisitions like liberalization, favorable government policies, economic reforms, dynamic attitude of Indian entrepreneurs, additional liquidity
- > Indian sectors that have resorted to mergers and acquisitions in recent times include IT & ITES, telecom, finance, FMCG, construction materials, automobile industry and steel industry. It has been spreading far and wide through various verticals on all business platforms
- > Recently, government is exploring options for M&As across central public sector undertakings as well in order to improve the value chain as there are multiple entities doing similar or related work
- > Even though M&A's are common in private sector, it has been very limited in public sector

Key Challenges...

- Ambiguity relating to M&A laws and regulations
- Overpayment for M&A's expecting more profit
- Integration issues
- Faulty strategic planning and unskilled execution
- Difference in culture
- Loss of customers

Best Practice - Inventory Management

Inventory being a major component of working capital the success or failure of a business greatly depends upon its inventory management performance to a large extent. Inventory management consists of the following functions:

- > Determining the size of inventory
- > Establishing procedures of effective inventory handling
- > Reducing cost of inventory

Effective inventory management practices can be implemented in public sector to optimize performance. Legacy practices of buy and hold strategy are still followed in certain organisations, where material is purchased in large quantities and held until needed largely ignoring carrying costs.

Where as prominent and performing businesses have abandoned this strategy long ago when they recognized the considerable cost of carrying inventory, including the costs of obsolescence, damage, shrinkage, taxes, and so forth. In order to reduce tied up inventory cost a comprehensive inventory management system should be implemented. Manual mishandling of inventory opens up operations to data entry errors, shipping mistakes, and lack of knowledge of what is in or not in stock.

Key features of inventory management system

Inventory Visibility

Inventory Maintenance

Inventory Accuracy

Warehouse Optimization

Key parameters to consider

- > Selection and management of inventory review systems – Continuous or periodic review systems based on historical inventory flow levels
- > Counting strategy - Deciding strategies for building a tight cycle count system in line with appropriate counting frequencies based on effects of cycling counting on manufacturing, receiving and delivery processes. This will help determine whether counting needs to be done based on location, category, value or product-wise.
- > Managing inventory depending on type and size of business – Lower stock levels leads to lower costs of operation
- > Implementing quality control – Procedures to help employees understand what needs to be checked while receiving the manufactured goods such as signs of damage, product colors, sizes, prices, etc.
- > Adequate optimization strategy – An appropriate inventory management system can help optimize stock levels to boost efficiency and meet changing customer demands
- > Elimination of manual data tracking practices – An effective, easy-to-use system virtually eliminates human error that manual data tracking causes

Challenges...

- > Prolonged manufacturing cycle due to poor coordination and inordinate delays
- > The procedure for purchasing materials are time consuming
- > Uncertainty in raw material availability in case of foreign collaboration
- > PSUs in general lack exposure to financial management as the funds for the purchase of inventory are included in annual budgets

5.2.2 Human Resources

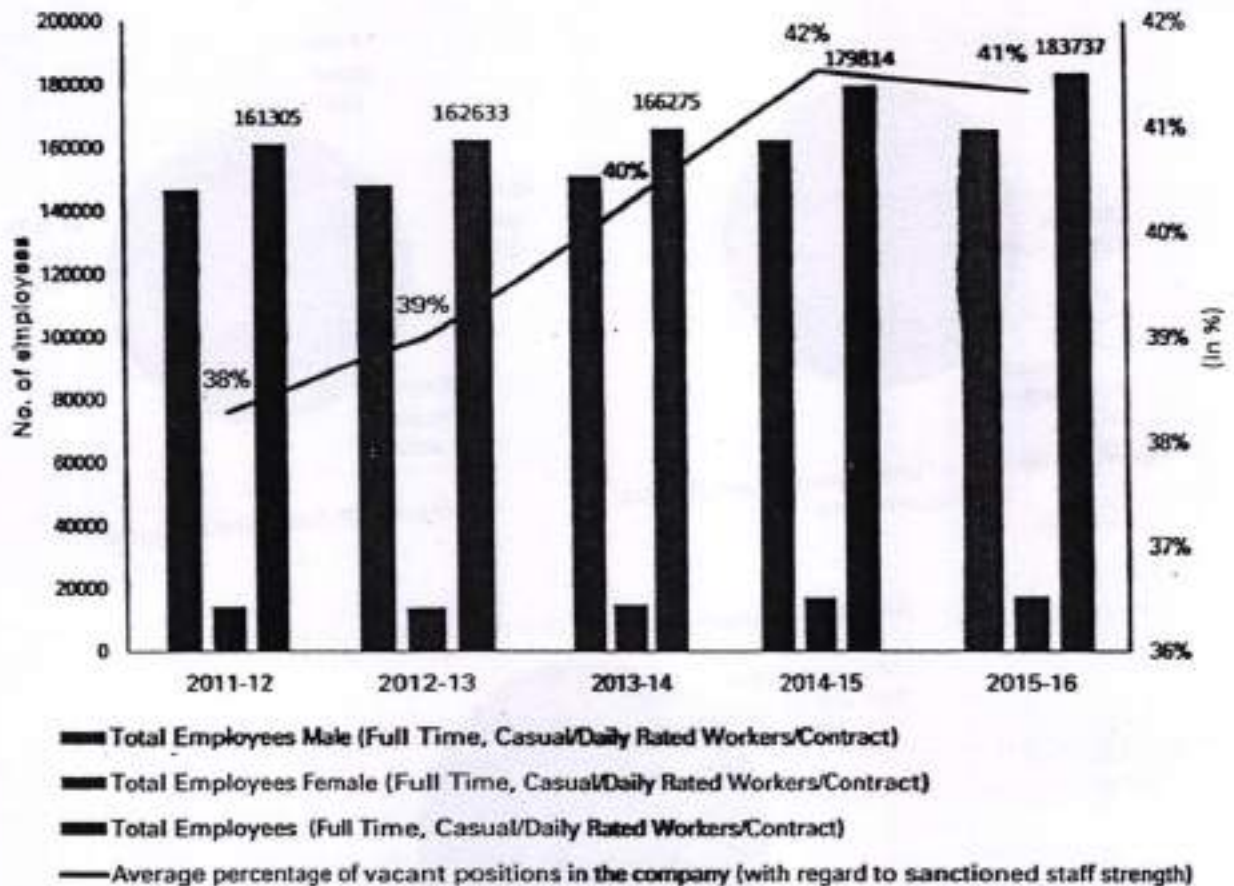


Figure 35: Employee Information

Source: KPMG in India Analysis 2016 basis primary survey

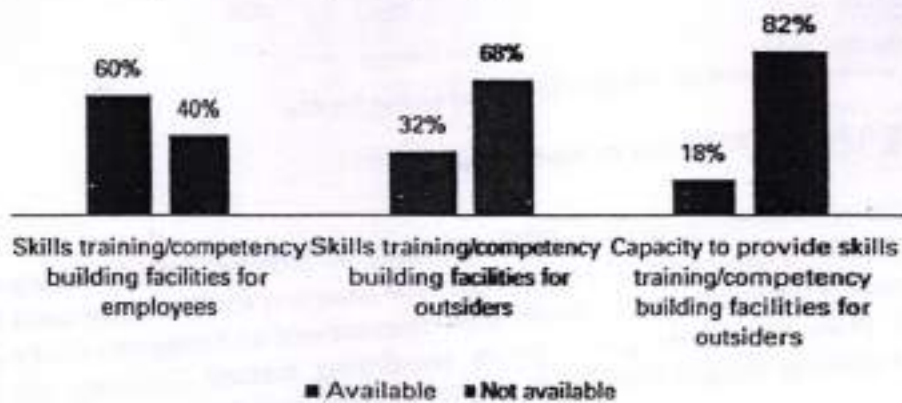


Figure 36: Skill Building

Source: KPMG in India Analysis 2016 basis primary survey

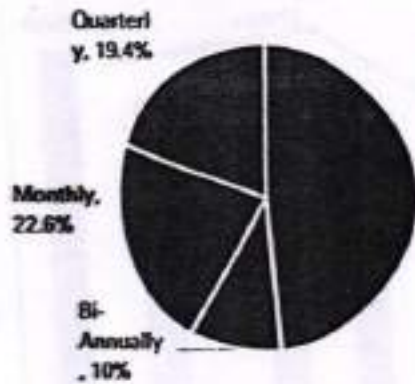


Figure 37: Frequency of skills training/competency building programs

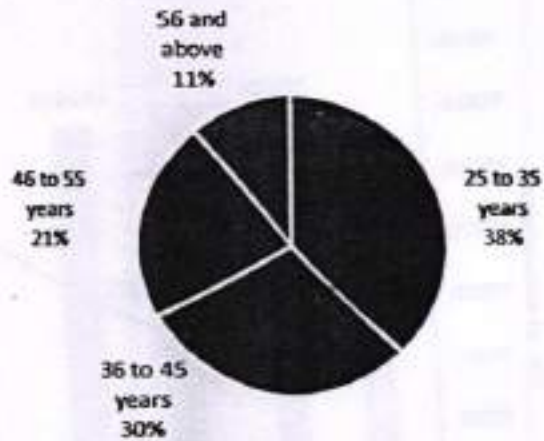


Figure 38: Employee Age groups

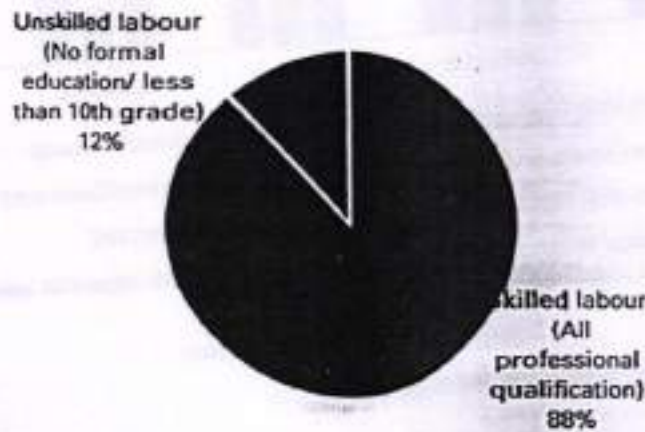


Figure 39: Skilled/Un-skilled Labour Profile

Source: KPMG in India Analysis 2016 basis primary survey

There is a need for staff optimisation in PSEs as nearly 41 percent is the average of vacant positions over sanctioned strength of employees. The reasons for the same could probably be due to recruitments not being done basis need assessment and projection of manpower. Challenges arise from key managerial posts remaining vacant for long durations as strategic decision making and performance might get compromised in this regard.

Best Practice - Reinventing HR

- > HR management is critical to sustain the level of performance for business which involves addressing the complexity of workforce, legal obligation and coordination of goals of the organization and employees. HR provide services to both managers and employees and are the owners of processes and procedures of the company.
- > As the environment is getting more competitive continuous learning and development will play a critical role in keeping up the competitive edge. Continuous investment is required for providing exposure and skill development for raising the performance bar for PSUs.
- > HR should evolve to complement business requirement and create a successful sustainable ecosystem. Organizations need to develop agile learning mentality across all functions and roles. Major challenge would be striking the right balance between strategy and technology.
- > Growth in global market, advancement of technologies and increased demand for production are transforming global business environment and HR will play a major role in aligning PSUs with the business needs.
- > Talent pool has grown more diverse making it necessary for HR to adapt approaches to recruitment, retention and engagement



Challenges...

- Quantifying HR programs in financial terms
- Identifying and developing future leaders
- Promoting a self-learning culture
- Promoting highly engaged workforce
- Motivating high performance culture
- Fair allocation of compensation
- Retention and capacity building
- Driving innovation and collaboration
- Driving career development
- Promoting health and wellness
- Generating workforce metrics and analytics
- Selection and recruiting of right talent
- Defining roles by skill set
- Rapid and effective onboarding

Way forward....

- > Investment in training and capacity building which are considered to be long term investment for the next level of leaders in the organization.
- > Focus on gender diversity: Attracting and retaining female talent and building a level playing field.
- > Sustainable performance through industry relations and social dialogue
- > Developing structured governance and advanced workforce planning capabilities
- > Creating a boosting workforce environment through frequent employee engagement programs

5.2.3 Administration

Automation in Administration



CSR Initiatives

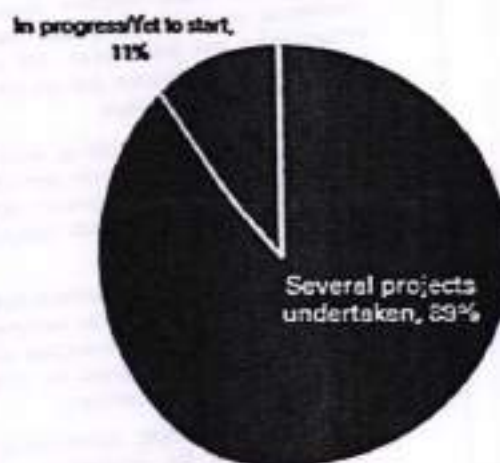


Figure 40: Automation in Administration¹⁰ and CSR¹¹ portfolio

Source: KPMG in India Analysis 2016 basis primary survey

Non-conventional energy usage



Level of autonomy

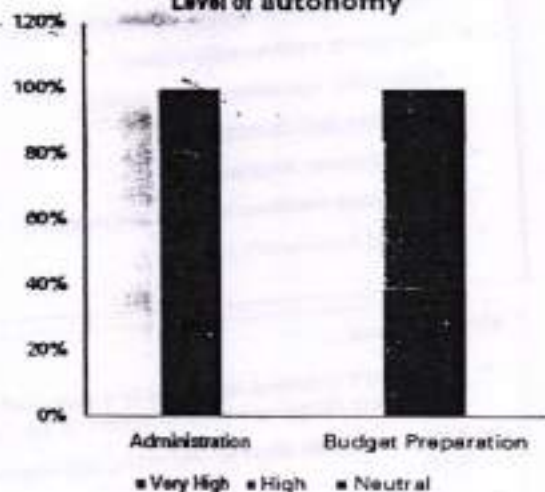


Figure 41: Level of autonomy in administration and status of non-conventional energy use

Source: KPMG in India Analysis 2016 basis primary survey

¹⁰ Analysis basis data from 60% respondents

¹¹ Analysis basis data from 29% respondents

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

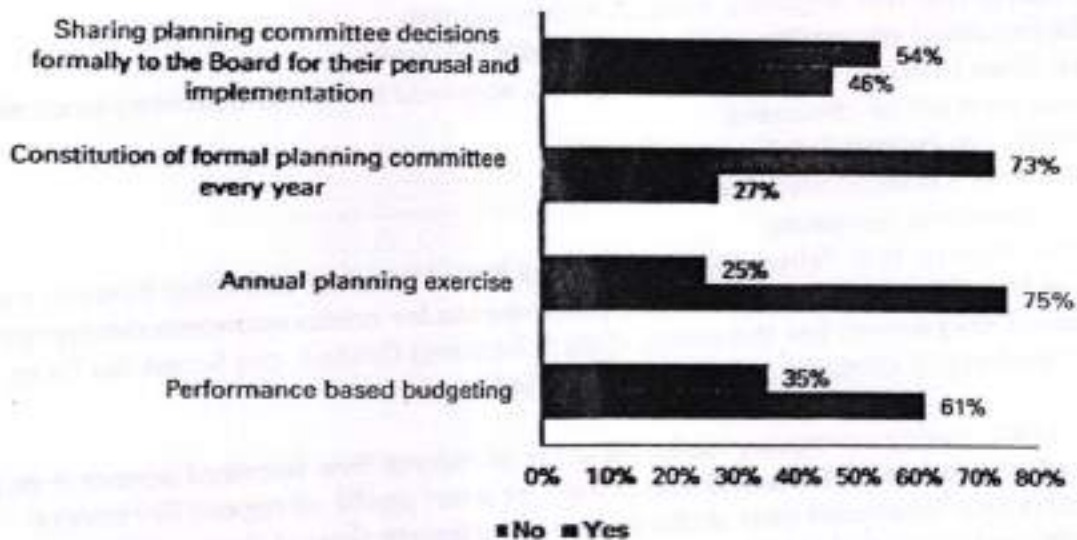


Figure 42: Status of Planning and Budgeting in PSEs

Source: KPMG in India Analysis 2016 basis primary survey

Automation in administration was primarily achieved with the implementation of email, internet and website. More advanced automation installations such as SAP, e-file management systems etc. were implemented in very few PSEs. Thus in many PSEs there is high dependency between departments and effective coordination between departments in terms of finance, materials management, production forecasting and research etc. poses risks. Other initiatives that have been undertaken by PSEs include

- 18 percent of PSEs have taken several measures to reduce their carbon footprint such as LED lighting, efficient engineering designs for building infrastructure, car-pooling, Timer-installed street lighting, periodic emission checks etc.
- 23 percent have implemented solid and liquid waste management reforms in their work premises.

According to the survey responses, CSR activities are undertaken by 89%¹² of the PSEs. However, 63% of the PSEs have mentioned activities undertaken in pursuance of normal course of business as CSR activities. As per Companies Act 2013, "CSR Policy" relates to the activities to be undertaken by the company as specified in Schedule VII to the Act and the expenditure thereon, excluding activities undertaken during normal course of business of a company. Only 37.5% of the respondents are undertaking CSR activities in accordance with the activities mentioned in Schedule VII of the Act, not limited to the following activities:

¹² Analysis basis data from 30% respondents

- Eradicating extreme hunger and poverty
- Promotion of education
- Promoting gender equality and empowering women
- Reducing child mortality and improving maternal health
- Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases
- Ensuring environmental sustainability
- Employment enhancing vocational skills
- Social business projects
- Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women

As per the Act, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee and undertake CSR activities. However, out of the total 56% eligible PSEs only 14.7% have mentioned about the CSR activities during the survey.

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Best Practice - Management Control System

Management Control system aid managers in achieving organization's objective by effective and efficient usage of resources. Control systems tend to bring common objectives and coordinate processes within organizations.

Provides an executive framework which assists management in decision making which are inline with organizational goals. Sharing of goals and coordinating process within organization is key to improve competitiveness, profitability and stakeholder satisfaction

Key Elements of Management Control System

Budgeting

Considered the backbone of a control system which serves the purpose of quantifying and fine-tuning strategic plans, coordinating business activities, assigning responsibility to executives, forming the basis for evaluation, bringing accountability visibility to company's performance.

Performance Measurement

A quantitative measure which indicates progress of an organization in achieving its desired objectives. It involves collection and analysis of data. Helps in determining gap between actual and target performance goals and assess effectiveness and efficiency of organization.

Activity Based Costing

Assigning cost to products, services, project, tasks etc based on the activity performed and resources utilized for it. Provides more accurate cost to support pricing policy and eliminate unnecessary costs. Brings about improvement in margins and profitability.

Strategic Planning

Starts right from the development of corporate vision, mission and objectives. Understanding various aspects such as strength, weakness, opportunities, risks. Preparation of business plan, diversification strategy, performance monitoring and updating strategies.

Enterprise Resource Planning

Key organizational innovation to enhance planning and control process. Enable seamless integration between different functionalities across value chain and automate back office functionalities. System helps in organizing, defining and standardizing business process.

Benchmarking

A process where an organization evaluates business processes and performance with industry best practices allowing them to develop plan and to improve certain aspects of their performance. Often considered as a continuous process of improvement

Key Benefits....

- > Control systems facilitate the monitoring or regulating of the behavior of directors, managers and other supervisory personnel in an organization
- > A strong management control system decreases vulnerability of PSUs to fraud risks
- > Lead business to competitive advantage and superior performance
- > Effective and efficient implementation of the pre-determined plans

5.2.4 Corporate Governance

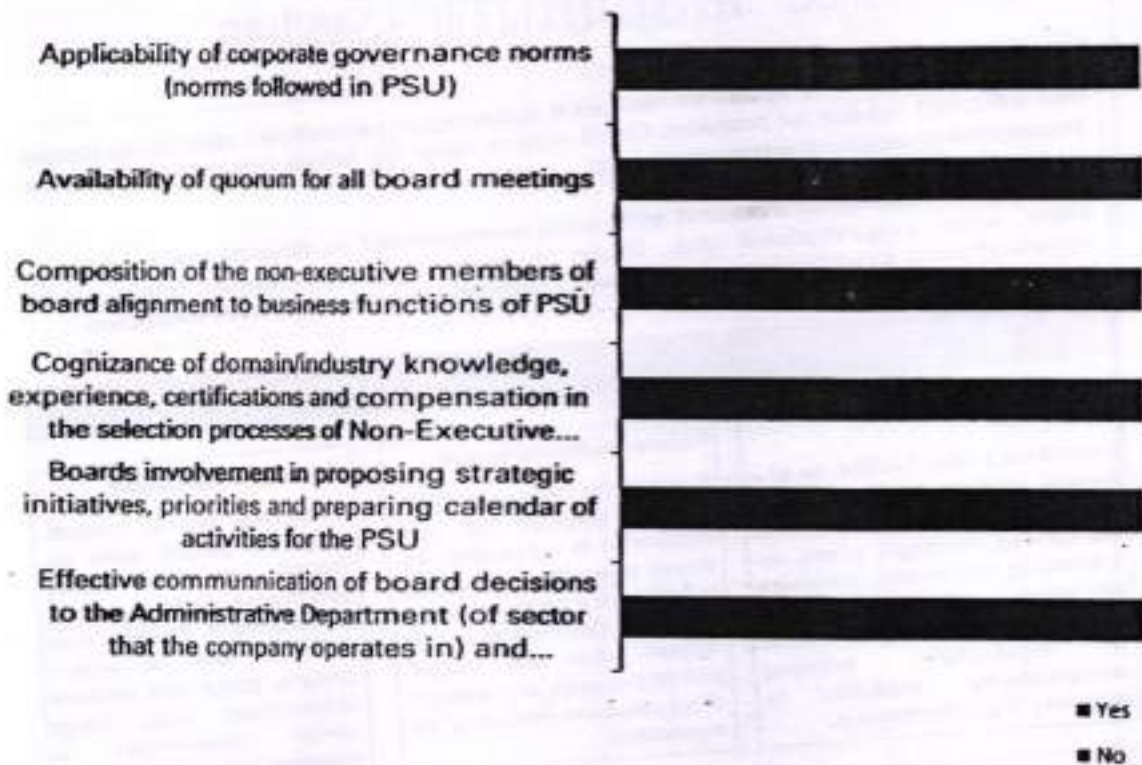


Figure 44: Corporate governance - Status check

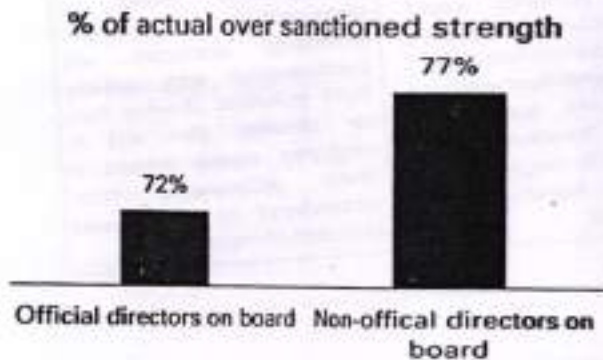


Figure 45: Percentage of actual over sanctioned strength of directors



Figure 43: Occurrence of board meetings

Source: KPMG in India Analysis 2016 basis primary survey

Measures taken for increased transparency and accountability

- Consumer grievances redressal forums
- Ensuring availability of annual finance statements and audited accounts in public domain
- Publishing information required under RTI Act in the website and replying to all petitions under RTI
- Regular consultation meetings
- Transparency in public procurement processes
- Adoption of software and related technologies in the field of trading and operations for increased transparency and accountability
- Extensive use of Karnataka e-procurement portal
- Implementation of SAP
- Details of PIOs, APIOs and respective appellate authorities have been notified and updated in website of the company as required under RTI act
- Complete transparency in staff recruitment process
- Implementation of leave management system to eliminate human intervention and promoting transparency in leave granting mechanism

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Best Practice - Corporate Governance

Concept

Corporate governance is an organizations' firm commitment and adoption of moral practices across its entire value chain and in all of its dealings with a wide group of stakeholders encompassing employees, customers, vendors, regulators and shareholders (including the minority shareholders), in both good and bad times.

Objectives

- Define roles and responsibilities of board and committees
- Improve financial health and reporting
- Facilitate business objectives of PSU
- Enhance a sense of good governance among board members
- Complying with statutory and regulator requirements
- Enabling transparency and taking business oriented decisions making
- Improve stakeholder confidence and willingness to engage with PSUs

Enablers

- Forming efficient and effective Board
- Performance linked incentives
- Sustainable business model to improve performance
- Performance evaluation of Board
- Corporate Governance audits
- Risk management and oversight processes
- Strengthening minority shareholder rights
- Improving financial disclosure and analysis

Key issues from Indian Scenario.....

- **Autonomy in PSUs**
 - Delays in filling up vacancies in non-executive director positions
 - Unwanted consultation with administrative ministers for matters concerned with day to day management
 - Recruiting right talent and over staffing at lower levels
- **Functioning of the PSU boards**
 - Size and composition of board, setting priorities and focus areas
 - Presence of government nominees
 - Absence of a mechanism to evaluate functioning of board
- Failure on the part of PSUs to comply with Corporate Governance norms
- Setting of governance standards prevalent in state PSUs.
- Protection for minority stakeholders

Key Benefits....

- High level transparency and the principles of disclosure
- Firms tends to act in the best interest of the firm and its stakeholders
- Company's gain the trust of the investors, the customers and the community at large
- Helps firms attain more efficiency and reduce wastage
- Reduce the amount of risks in their business as well as any attempts of corruption and mismanagement by following the practices of good governance

5. Inter-PSE Benchmarking Study

5.1 Overall Categorisation Criteria

Category	Criteria
Low Performing	PSEs which have made loss in minimum two years out of the last three years
Performing	PSEs which have made profits in 2 years out of the last 3 years
High Performing	<p>PSEs which meet the criteria of the Performing category as well as:</p> <ul style="list-style-type: none"> • Minimum average annual turnover of INR 50 Cr during the last 3 years • Minimum average annual net profit after tax during the last 3 years of INR 10 Cr
Very High Performing	<p>PSEs which meet the criteria of the High Performing category as well as:</p> <ul style="list-style-type: none"> • Minimum average annual turnover of INR 500 Cr during the last three years • Minimum average annual net profit after tax during the last 3 years of INR 50 Cr • No subsidies and grants from Government

Table 3: Overall Categorization Criteria for PSEs

Source: KPMG in India Analysis 2016 basis Government for grant of Maharatna, Navratna and Miniratna status

5.2 Overall Categorisation of PSEs

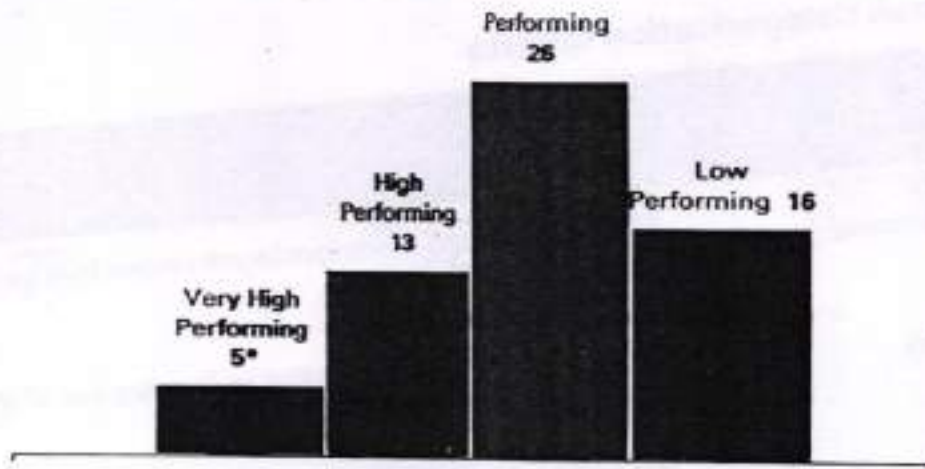


Figure 46: Categorization of PSEs

* 2 out of 5 high performing PSEs receive grants from central/state government

Source: KPMG in India Analysis 2017 basis market research and primary survey

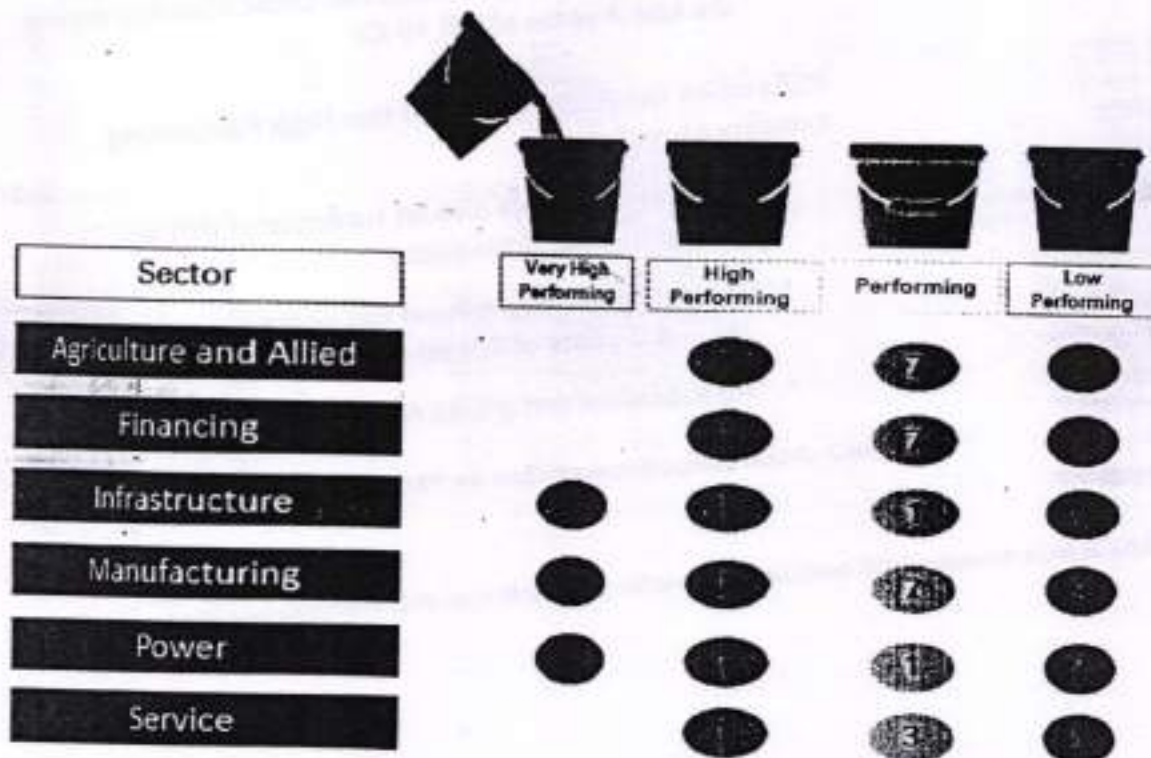


Figure 47: Sector-wise categorization of PSEs

Source: KPMG in India Analysis 2017 basis market research and primary survey

5.2 Industry-wise Categorisation of PSEs

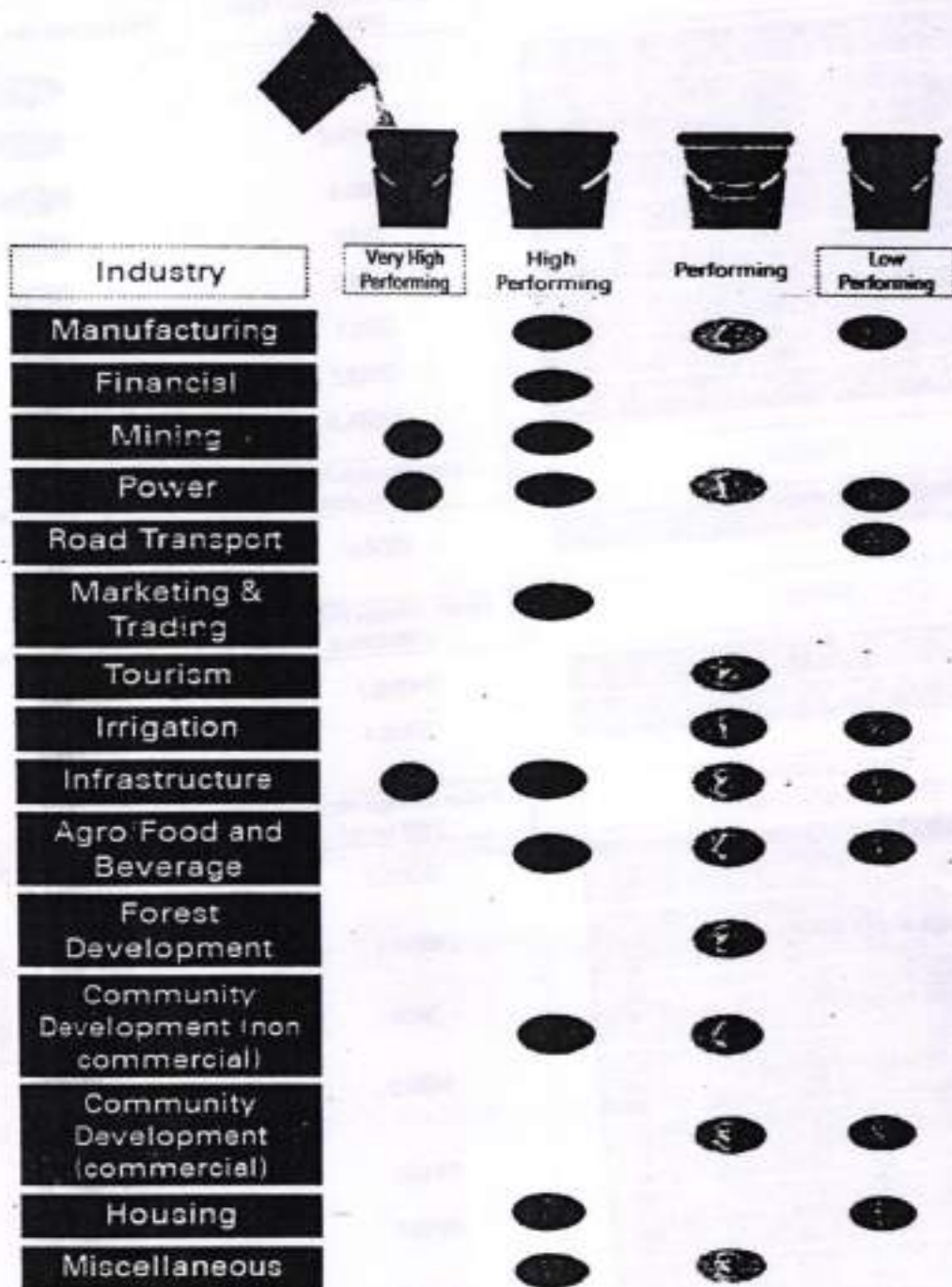


Figure 48: Industry-wise categorization of PSEs

Source: KPMG in India Analysis 2017 basis market research and primary survey

Manufacturing	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Karnataka Soaps & Detergents Limited	4170.9	1
Karnataka Silk Industries Corporation	2140.8	2
The Mysore Electrical Industries Limited	806.0	3
Mysore Paints & Varnish Limited	716.0	4
Karnataka Viduth Karkhane Limited	576.7	5
VJEE (Hubli) Limited	-379.1	6
The Mysore Paper Mills Limited	-986.7	7
The Mysore Sugar Company Limited	-4756.6	8

Financial	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Karnataka State Financial Corporation	2934.0	1

Mining	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Mysore Minerals Limited	24108.7	1
The Hutti Gold Mines Company Limited	5409.4	2

Power Generation (Transmission/Distribution)	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Karnataka Power Corporation Limited	18285.3	1
Bangalore Electricity Supply Company Limited	9918.3	2
Karnataka Power Transmission Corporation	9529	3
Chamundeshwari Electricity Supply Corporation Limited	1086.2	4
Mangalore Electricity Supply Company Limited	841.39	5
Gulbarga Electricity Supply Company Limited	-6859.7	6
Hubli Electricity Supply Company Limited	-30624	7

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Road Transport	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Karnataka State Road Transport Corporation	-2270	1
North-Eastern Karnataka Road Transport Corporation	-2558.7	2
North-Western Karnataka Road Transport Corporation	-5282.7	3
Bangalore Metropolitan Transport Corporation	-6625.5	4

Marketing and Trading	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Mysore Sales International Limited	3420.2	1
Karnataka State Beverages Corporation Limited	3006.5	2
Marketing Communication & Advertising Limited	1069.7	3

Tourism	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Jungle Lodges & Resorts Limited	615.4	1
Karnataka State Tourism Development Corporation Limited	77	2

Irrigation	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Krishna Bhagya Jala Nigam Limited	-85.3	1
Sauvery Neeravari Nigama Limited	-214.8	2
Karnataka Neeravari Nigam Limited	-53431	3

Forest Development	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Karnataka State Forest Industries Corporation Limited	411.4	1
Karnataka Forest Development Corporation Limited	48.7	2

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Infrastructure Development	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Karnataka Rural Infrastructure Development Limited	1014	1
Karnataka State Industrial & Infrastructure Development Corporation Limited	4546.6	2
Karnataka State Small Industries Development Corporation Limited	1463	3
Karnataka State Textile Infrastructure Development Corporation Limited	68.1	4
Karnataka Road Development Corporation Limited	-599	5
Agro/Food and Beverages	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Karnataka Food and Civil Supplies Corporation Limited	3366.5	1
Karnataka State Seeds Corporation Limited	199.9	2
Karnataka cashew Development Corporation Limited	176.9	3
Karnataka State Agro Processing & Export Corporation Limited	174.5	4
Karnataka Compost Development Corporation Limited	-39.2	5
Karnataka Togari Abhivrudhi Mandal Limited	-483.8	6
Community Development (Non-commercial)	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
D. Devraj Urs Backward Classes Development Corporation Limited	5145.12	1
Dr.B.R. Ambedkar Development Corporation Limited	2818.69	2
Karnataka Maharshi Valmiki Scheduled Tribes Development Corporation Limited	1824.54	3
Karnataka Minorities Development Corporation	1165.64	4

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Community Development (Commercial)	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Karnataka State Handicrafts Development Corporation Limited	458.4	1
Karnataka Fisheries Development Corporation Limited	153.9	2
Dr. Babu Jagjeevan Ram Leather Industries Development Corporation Limited	151.9	3
Karnataka State Coir Development Corporation Limited	134.2	4
Karnataka Sheep and Wool Development Corporation	-13.6	5
Karnataka Handloom Development Corporation Limited	-1028.7	6
Housing	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Karnataka State Police Housing & Infrastructure Development Corporation Limited	2867	1
Rajiv Gandhi Rural Housing Corporation Limited	429.8	2
Miscellaneous	3-year average PAT/Loss (INR Lakhs)	Performance Ranking
Karnataka State Warehousing Corporation	2625.9	1
D. Devraj Urs Truck Terminals Limited	288.2	2
Shree Kanteerava Studio's Limited	26.9	3
Karnataka State Electronics Development Corporation	5.7	4

Source: KPMG in India Analysis 2017 basis DPE Handbook "Karnataka Public Sector Enterprises at a Glance and primary survey responses

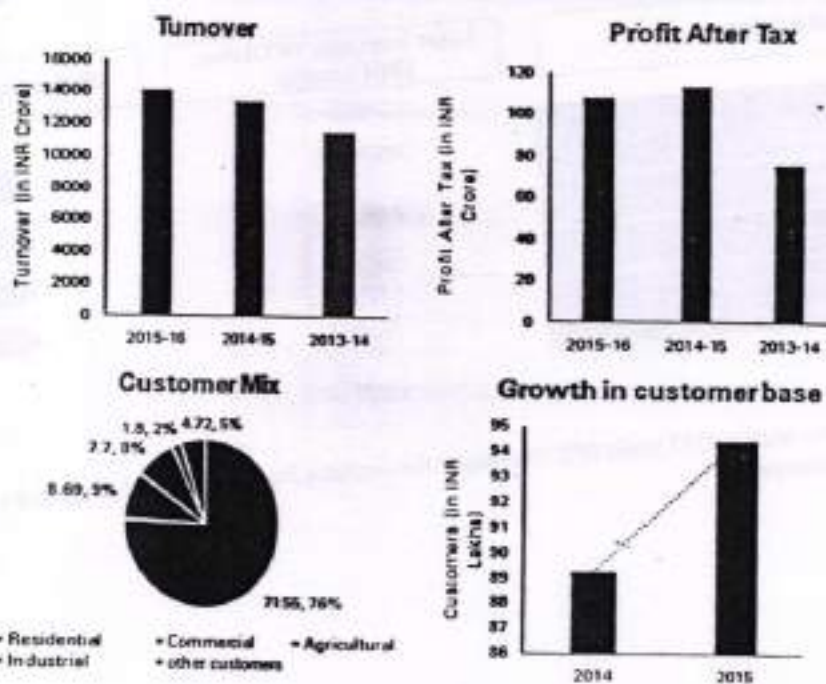
6. Case Studies – Insights from select best performing state PSEs

BESCOM



- Bangalore Electricity Supply Company was constituted in the year 2002 as part of the reform process. Entrusted with distribution of power in eight districts of the state covering an area of 41,092 sq. km with a population of over 297 lakh
- Major operating zones – Bangalore Metropolitan Area Zone (BMAZ), Bangalore Rural Area Zone (BRAZ) and Chitradurga Zone (CTAZ) which are further divided into eight Circles, 27 divisions, 115 sub-divisions and 444 section offices, with the lowest two levels having the maximum interaction with the consumers.
- Current working strength is 13432 employees
- Total assets of the company amounts to INR 14645.71 crores

Distribution of Electricity



BESCOM - Key reforms

Demand Side Management (DSM)

- **Implementation of solar rooftop system:** The program was introduced to encourage installation of rooftop solar and also power generation plant for self-consumption as well as supply sale of electricity to the grid.
- **Agriculture Demand Side Management:** inefficient irrigation pump sets were replaced with high energy efficient pump sets.
- **Implementation of mandatory use of solar water heaters:** To promote installation use of non-conventional energy to reduce carbon footprint.
- **Installing timer switches for street lights and smart energy saver units**

Network

Bangalore Distribution Upgradation (DAS) Project: BESCOM has taken the initiative to automate Bangalore city distribution network for monitoring, control and operation of the 11 kV network with the aid of suitable control and protection equipment. Project started first of its kind in the entire country.

Transmission

- The distribution networks strengthened every to cater to the growing demand.
- During 2014-15 financial year, HT lines (1124.47 Km), LT lines (161106.00 Km) and distribution transformer (1332 no.) were added to the network.

Customer Experience

- To enhance customer experience, Government of Karnataka has launched Mobile Governance Project (M-Govt). One of the departments was directed to use this as a single window platform for implementing Mobile Governance initiatives.

Strategy

In order to augment the IT expertise available at BESCOM and to expedite the processes towards achieving objectives of providing IT enabled services e-governance initiatives to the customers, IT consultancy services are available.

Empowering People

Training programs are conducted to educate employees regarding KERC guidelines, duty of licensee, procedures and legal knowledge and skill sets required for day-to-day work.

Public Grievance Redressal

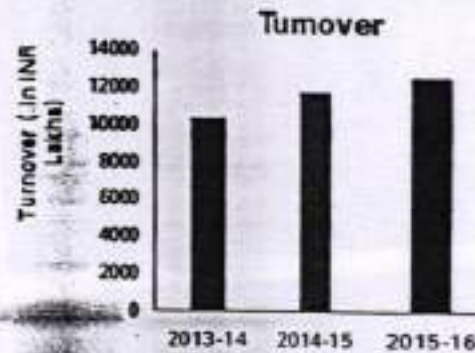
- Integrated 24 X 7 Helpline and Public Grievance Redressal System
- Electrical Safety and Energy Savings Awareness Program
- Simplification of forms and procedures for BESCOM services
- Customer Interaction Meeting

Karnataka Silk Industries Corporation



- The Maharaja of Mysore established the silk-weaving factory in 1912. Later in the year 1960 the factory was taken over by KSIC
- Poor decision making, decreased production, surplus staff, older designs, poor quality and lack of streamlining saw KSIC sink into debt
- The turnaround of KSIC to a profit making enterprise could be a lesson for all state PSUs. Through numerous restructuring process KSIC were able to register good performance year after year
- Profit after tax doubled in the financial year 2015-16 compared to previous year
- Today around 900 employees are employed at KSIC

Producing raw silk yarn from cocoons, Mysore silk sarees, Crape silk materials



- Products are sold through 10 exclusive outlets and online portal
- Rise in demand for Mysore silk sarees have encouraged opening more outlets
- Modernized showrooms for growing customer base across the globe
- ISO and GI certification to strengthen its "Mysore Silk" brand
- Promotional activities such as fashion shows, discount sales etc. are undertaken

- Tie-up with online retailers such as Amazon F.kart to cater to growing demand for silk
- Partnership with National Institute of Fashion Technology to develop new designs for readymade garments
- To improve product range, partnered with Karnataka Handloom Development Corporation (KHDC) and Karnataka Khadi and Village Industries Corporation (KVIC).
- Tie-up with Air India

Restructuring

Shutting down sick units, trimming of work force to reduce the accumulated losses followed by streamlining of processes and training for workers to refine quality and to achieve ISO and GI certification.

Karnataka Soaps and Detergents Limited



- The company was established as The Government Soap factory by Maharaja in Bangalore. Mysore Sandal Soap Brand introduced in the market in 1918. The Factory was converted into a PSU in the year 1980 and renamed as Karnataka Soaps and Detergent Limited.
- Over the years the company had to face stiff competitions from MNCs and had to face the hurdle of reduced sandalwood cultivation. Diversification and modernization strategies have helped to establish themselves as one of the few profit making PSUs with high demand for products in west Asian countries
- Company recorded a Turnover for the financial year 2015-16 was INR 411.86 Crores.

Manufacturing of Soaps, Detergents, Cosmetics and Agarbaties



Product Diversification

- Company is growing business by launching new products
- Diversification into different soap categories due to shortage of raw materials
- Geographical Indication (GI) tag to enhance the product value

Raw Material Sourcing

- MoU signed with farmers to promote growing of sandalwood by providing seedlings at subsidized rates

Export Strategy

- Products exported to different countries like Singapore, Malaysia, Taiwan, China, Australia and several countries in the West.
- Direct mode the list with largest buyers of soap

Process Improvement

- Modernization of existing plant and new marketing strategies to keep up the steady growth
- Setting up new manufacturing plant to increase production to cater the growing market
- E-commerce platform to tap global market

7. Case Studies – Insights from international best-practices

Brazil - Integrated planning and budgeting information system

Need for reform

To strengthen social participation in local planning and budgeting process

Problem

Difficulty in influencing the public agencies by certain set of population especially that of indigenous, economically disadvantaged on issues of concerns on sectoral policies, concerns for minorities
No consensus with respect to a common national agenda – Various social institutions and movements began demanding issuance of specific institutional channels to bring the voice of people in planning and budgeting process

Solution

Participatory methodologies and channels that could influence national planning were established
Inter-council Forums (IFs) and national conferences for preparatory discussions were held, which involved various civil society organizations, the general public and public officials
About 700 participants attended IF held across 3 days through Video conferencing set-up

Result

More than 800 recommendations were received and synthesized into 600 proposals
Major transformation of the relationship between government and citizens of Brazil both with respect to participatory process and its results

Key learnings for State PSUs

- Replicating similar model for engaging all-level employees in planning and budgeting process
- Inter-PSU forums and conferences to impart best-practice knowledge and challenges and creating an enabling environment for betterment of functioning of PSUs
- Developing a state-wide PSU development agenda

Singapore - Attracting and retaining the best talent

Need for reform

To attract and retain good talent through reforms in human resource function

Problem

- Globalization and competition for talent with changing employee attitudes and demographics
- Legacy system of promotion based on seniority
- Challenge of coordinating, integrating and managing an increasing number of agencies

Solution

- Launched a movement to encourage officials to embrace change in self, work and platform for supporting organizational change in the government
- The HR agency developed a meritocratic framework to appoint and develop officers who are collaborative, service-oriented and strong performers
- Scholarships for school students to possess higher education and in return for which they must work for the government for several years after graduation
- Existing officers could apply for sponsorship for postgraduate study as part of their career development
- A dedicated training college offers more than 150 courses
- To ensure that the public sector retains a fair share of the country's talent, service pay is also at the market rate with salaries comparable to those of private-sector employees with similar abilities and responsibilities
- Pay linked to performance with bonuses to reward high achievement
- The system is adjusted often so that pay progression is based not on fixed annual increments but on potential and performance assessments
- Periodic salary reviews are held to maintain market competitiveness with the private sector

Key learnings for State PSUs

- **Restructuring of recruitment model**
- **Performance linked pay**
- **Continuous feedback and Performance Improvement Plans**

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Kenya - Professionalisation, motivation and morale improvement

Need for reform

To professionalising and improving motivation and ultimately morale among public sector organisation officers

Problem

While acknowledging that attempts at professionalising and motivating the service still remain largely implicit in the overall mandate of the PSC, the PSC and other state actors still required to focus to better target, implement and measure interventions.

Solution

Introduction of a service excellence award scheme
Review of policies
Improvements in terms of service
Training and development
Flexible career progression

Result

This reform led to collective contribution of officers to significant and meaningful transformation as they are first motivated in a way that enhances their overall morale in the work place.

Key learnings for State PSUs

Employee awards and recognition schemes
Provision for providing flexible career options for aspiring employees
Continuous learning programs to keep employees adept with current market mapped skills and capabilities

8. Way Forward

8.1 Guiding Principles and Goals

The recommendations are suggested keeping in view of the current state scenario in which PSEs are functioning and in-line with performance-driven goals to achieve sustainable growth of the PSE sector in Karnataka. The action-plan lays down key challenges and possible suggested interventions in areas such as Corporate Governance, Human Resources, Finance, Administration, Research & Development, Operations and Strategy. The degree of priority is assigned against each of these areas basis views and major concerns that emerged from participants during workshops conducted during the study period. The major challenges faced by PSEs in the current scenario and related performance improvement goals are listed subsequently.

Current State Scenario

1. Ineffective governance
2. Lack of Financial Autonomy
3. Legacy systems affecting performance
4. Lack of transparency in operation
5. Political interference
6. Bureaucracy
7. Lack of right talent
8. Lack of continuous learning

Performance-driven goals to achieve sustainable growth

- 1 **Integrated planning and operational approach**
- 2 **Inclusive and sustainable growth**
- 3 **Expanding capabilities to undertake reforms**
- 4 **Sound governance environment**
- 5 **Creating a data-driven culture**

Empowered employees and empowering PGEs
Effective corporate governance practices
Sustainable PPP model
Strong Learning and Development (L&D) Strategy
Financial Independence

The detailed action-plan for improvement of performance of PSEs is discussed in detail in the subsequent section.

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8.2 Action-Plan

Most of the state PSEs are performing with respect to their financials and operations and are on the path to create differentiation. However, there are many PSEs which are still facing several challenges such as ineffective governance, financial autonomy, bureaucracy, political interference, inability to get the right talent etc.

Most of their concerns revolve around resolving specific issues which they encounter on a daily basis. The study recommendations are focussed on tackling major roadblocks and aim to empower PSEs in the following categories:

Key areas where PSEs face challenges	Major Challenges	Suggested Interventions	Degree of priority
<p>Corporate Governance Practices</p> <ul style="list-style-type: none"> • Lack of proper governance structure which often inhibits transparency and free functioning. • Delay in filling up non-executive director positions leads to difficulty in exercising autonomy. • Government nominees and non-executive directors pursuing different agendas. 	<p><i>Short-term</i></p> <ul style="list-style-type: none"> • Ensuring strict adherence to SOPs • PSEs need to ensure compliance with Secretarial SS1 & SS2 standards and comply with norms furnished in the act • Government involvement to be minimized to policy and matters of state interest alone and not in daily matters regarding functioning of PSEs. • To ensure effective functioning of PSE boards' strategic and commercial considerations should take utmost precedence over any other orders. • Contribution of non-executive and executive directors should be directed towards analysis of current performance and implementing solutions to improve performance of the PSE • DPE is to lay guidelines for PSEs to monitor the applicability of CSR Policy and CSR committee as per the Companies Act guidelines. Activities under CSR policy can be directed towards Non-commercial community development PSEs <p><i>Medium-term</i></p>	<p>Very High</p>	

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Key areas where PSEs face challenges	Major Challenges	Suggested Interventions	Degree of priority
		<ul style="list-style-type: none"> • Managing Directors to furnish quarterly performance reports with clear indication of factors leading to the level of performance indicated • Result oriented mechanism to be implemented to evaluate the overall functioning of the board – Periodic self-assessment to be done facilitated by external specialists, • Functional directors on the larger, profitable and better performing PSEs should be allowed to assume non-executive director roles in the smaller and not so profitable PSEs so as to promote better sharing of good practices. • Building a strong PSE audit committee – In line with voluntary guidelines on corporate governance, PSEs should consider adopting a risk-based approach to internal audits and supplementing in-house internal audit functions with external service providers in areas requiring specialist skills. <p>Long-term</p> <ul style="list-style-type: none"> • Implementation of two-tier board structure consisting of supervisory board comprising of non-executives and a management board comprising of executives. • Supervisory board can focus on strategic issues, risk oversight and understanding the inter-linkages between the decisions made by the various standing committees of the board. • Channels for continuous dialogue between executives and non-executives to be 	

Key areas where PSEs face challenges	Major Challenges	Suggested Interventions	Degree of priority
Human Resource	<ul style="list-style-type: none"> Ineffective manpower planning Recruitment not done on need assessment and projection of manpower/labour requirement. Key managerial posts remain unfilled for long durations 	<p>established for effective functioning of two tier boards.</p> <p>Short-term</p> <ul style="list-style-type: none"> Recruitment of right talent. PSEs to effectively implement autonomy in recruitment and staffing Dedicated HR officer to be assigned for every department to look into HR matters affecting performance and efficiency Undertake review of sanctioned strength of employees and propose requisite recommendations or amendments in line with stated Cadre & Recruitment Rules Resource allocations/recruitment to constitute fair distribution amongst government deployed resources and direct-employees Monetary incentive schemes to be implemented to acknowledge performance of employees Continuous training programme for employees on a regular basis to keep them equipped with the right skills at all times. Refresher training programmes to be followed <p>Medium-term</p> <ul style="list-style-type: none"> Provision for resource mobilization to help employees choose their career progression. Effective grievances redressal mechanism to ensure harmonious labour relations Build an in-house training infrastructure routed through a training department in every PSE that caters to all the requirements of its employees across functions and cadres 	High

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Key areas where PSEs face challenges	Major Challenges	Suggested Interventions	Degree of priority
		<ul style="list-style-type: none"> • Training calendar to constitute international training programs as well. Every year 2-3 employees to be nominated for international programmes based on performance selection criteria • Skill mapping - Matching the skills and job responsibilities <p>Long-term</p> <ul style="list-style-type: none"> • Create a common resource pool for general administration and finance departments. The resource shall be allocated to categories depending on age-group and qualification. An integrated cadre will be formed for administration and functional roles • Create a common skill labour pool for similar industries • Upgrading workplace facilities to keep all employees motivated 	
Operations	<ul style="list-style-type: none"> • Huge scope for improvement in projects and operations management. • Ineffective inventory control • Improper methods of demand forecasting leading to over production and stagnation of inventory. 	<p>Short-term</p> <ul style="list-style-type: none"> • Fast-track approval system from Government to be sought in order to complete projects in appropriate time-frame and to withstand as-is market conditions and opportunities • Government to ensure timely reimbursements of concessions/subsidies to the PSEs • Deploying workflow management systems to help evaluate performance with respect to targets to be achieved <p>Medium-term</p>	High

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Key areas where PSEs face challenges	Major Challenges	Suggested Interventions	Degree of priority
<p>Research & Development (R&D)</p>	<ul style="list-style-type: none"> Lack of focused R&D department in PSE 	<ul style="list-style-type: none"> Integrating IT by deploying MIS, ERP systems to automate processes and increases efficiency of operations Establishing procedures for effective inventory handling – inventory review systems, counting strategy, managing inventory levels, quality control, elimination of manual data tracking practices Continuous benchmarking of offerings and capabilities with leading players to adopt best practises. 	High
		<p>Short-term</p> <ul style="list-style-type: none"> To setup a R&D department and constantly upgrade infrastructure of R&D A separate budget to be introduced for carrying out R&D activities for which a certain percentage of company turnover should be kept aside for the smooth functioning of the department <p>Medium-term</p> <ul style="list-style-type: none"> R&D activities expenditure details and activities to be recorded in annual report of the PSE R&D activities to be focussed upon driving innovation in: <ul style="list-style-type: none"> Improvisation of existing products New product development planning Market study to determine new technologies and trends 	

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Key areas where PSEs face challenges	Major Challenges	Suggested Interventions	Degree of priority
<p>Administration</p>	<ul style="list-style-type: none"> Lack of effective coordination between undertakings in terms of finance, materials management, production forecasting, research etc. Centralization of authority and bureaucracy hampering flexibility and innovation. Interference by administrative ministries into the day to day functioning of PSEs results in PSE CEOs/MDs consulting the ministries on matters that generally not require such consultation. 	<p>Short-term</p> <ul style="list-style-type: none"> Constituting a planning committee in each PSE to replace adhoc planning processes. Planning committee is responsible for preparing and monitoring performance of half-yearly and yearly plans of PSE against targets set. PSEs Mandating Standard operating procedures (SOPs) for all functions and mapping duties and responsibilities of all employees Fortnightly coordination meetings to be conducted mandatorily comprising of all section heads in order to share information and identifying solutions to major roadblocks leading to smooth functioning of PSEs Continuous monitoring of CSR activities undertaken as per the CSR committee recommendations is to be undertaken under the supervision of admin department in consultation with the finance department <p>Medium-term</p> <ul style="list-style-type: none"> Building a data-driven evidence based decision making process – Developing a data-driven culture by embedding IT set-ups to integrate daily administration functions along with inter department dependencies <p>Long-term</p> <ul style="list-style-type: none"> Implementation of an effective management control system to undertake effective budgeting, performance management, strategic planning, enterprise resource 	<p>Medium</p>

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Key areas where PSEs face challenges	Major Challenges	Suggested Interventions	Degree of priority
Finance	<ul style="list-style-type: none"> Lack of financial independence which lead to delays in decision making leading to delays in fund raising, seeking approvals for new projects etc. Inefficient financial planning due to lack of effective financial control and easy availability of money from the Government 	<p>planning systems to organise, define and standardise business processes</p> <ul style="list-style-type: none"> Control systems can facilitate monitoring or regulating the behaviour of directors, managers, and other supervisory personnel in an organization 	Medium
		<p>Short-term</p> <ul style="list-style-type: none"> Fast track approval processes by adopting standard operating procedures into workflow management systems Implementation of Performance/outcome based budgeting and subsequent auditing systems to be in place to monitor continuous performance Utilization of central/state exchequer payments to create a state PSE fund and use the same for development of PSEs and allocating the same for other activities within PSEs Ensuring implementation of uniform policies across all PSEs and rates to be updated on a bi-monthly or half yearly basis depending on market trends <p>Medium-term</p> <ul style="list-style-type: none"> Linking payments to state/central exchequers to profitability of PSEs. Profitable PSEs can avoid these payments and use the amount instead to implement growth strategies. Government can instead curtail/reduce subsidies/grants to these PSEs and navigate the same to community development 	

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Key areas where PSEs face challenges	Major Challenges	Suggested Interventions	Degree of priority
Strategy	<ul style="list-style-type: none"> • Lack of consistency in strategic priorities • Lack of effectiveness of intersect of strategy, HR and technology • Challenges in implementing successful public-private partnerships 	<p>enterprises or other loss-making/performing PSEs</p> <ul style="list-style-type: none"> • Financial closure to be implemented before commencement of project activities to be mandated to ensure successful completion of projects with the assigned budget <p>Short-term</p> <ul style="list-style-type: none"> • All strategic planning exercises to be backed by thorough market analysis • Conduct brainstorming workshops with current Managing Directors and Managing Directors who have served in the PSE previously to form think tanks and collectively provide innovative approaches to modernize functioning of PSEs and earmark a new growth trajectory for PSEs • Enabling public-private partnerships or outsourcing of non-core operations can lead to improvement in performance <p>Medium-term</p> <ul style="list-style-type: none"> • Launch a digital campaign under which DPE shall initiate various IT initiatives to digitise PSEs. Few of the initiatives shall be: <ul style="list-style-type: none"> • A central document management and storage system to reduce carbon footprint of PSEs by reducing physical copy circulation • Develop an online common marketplace for all PSEs where PSEs can procure and sell products. This can help create a collaborative ecosystem for PSEs to empower each other and help build better 	High

Strategic Evaluation of PSEs & Roadmap for the optimization of Operational Efficiency

Key areas where PSEs face challenge.	Major Challenges.	Suggested Intervention.	Degree of priority
		<p>transparency and efficiency in public procurement, DPE to drive creation of the online platform as part of digitising PSEs</p> <ul style="list-style-type: none"> MoU (Memorandum of Understanding) Portal - DPE is to form a MoU approval portal under which PSEs shall register details of all MoUs that are enforced till date and in future all MoUs shall be enforced only upon review and approval of DPE Central Video Conferencing facility which can be availed by any PSE to undertake board and other official meetings. This can be a step towards increasing transparency in operations of PSEs Focus to be given on marketing and promotion by deploying a dedicated team in product and service oriented PSEs to ensure wider reach in the market Mergers & Acquisitions (M&A) across state PSEs targeting entities doing similar nature of work <p>Long-term</p> <ul style="list-style-type: none"> Building a robust ecosystem to encourage more private participation 	

Table 4: Recommendations & Action-Plan

*Short-term - Within 3-6 months, Medium-term – Within 1-2 years, Long-term – Within 2-4 year

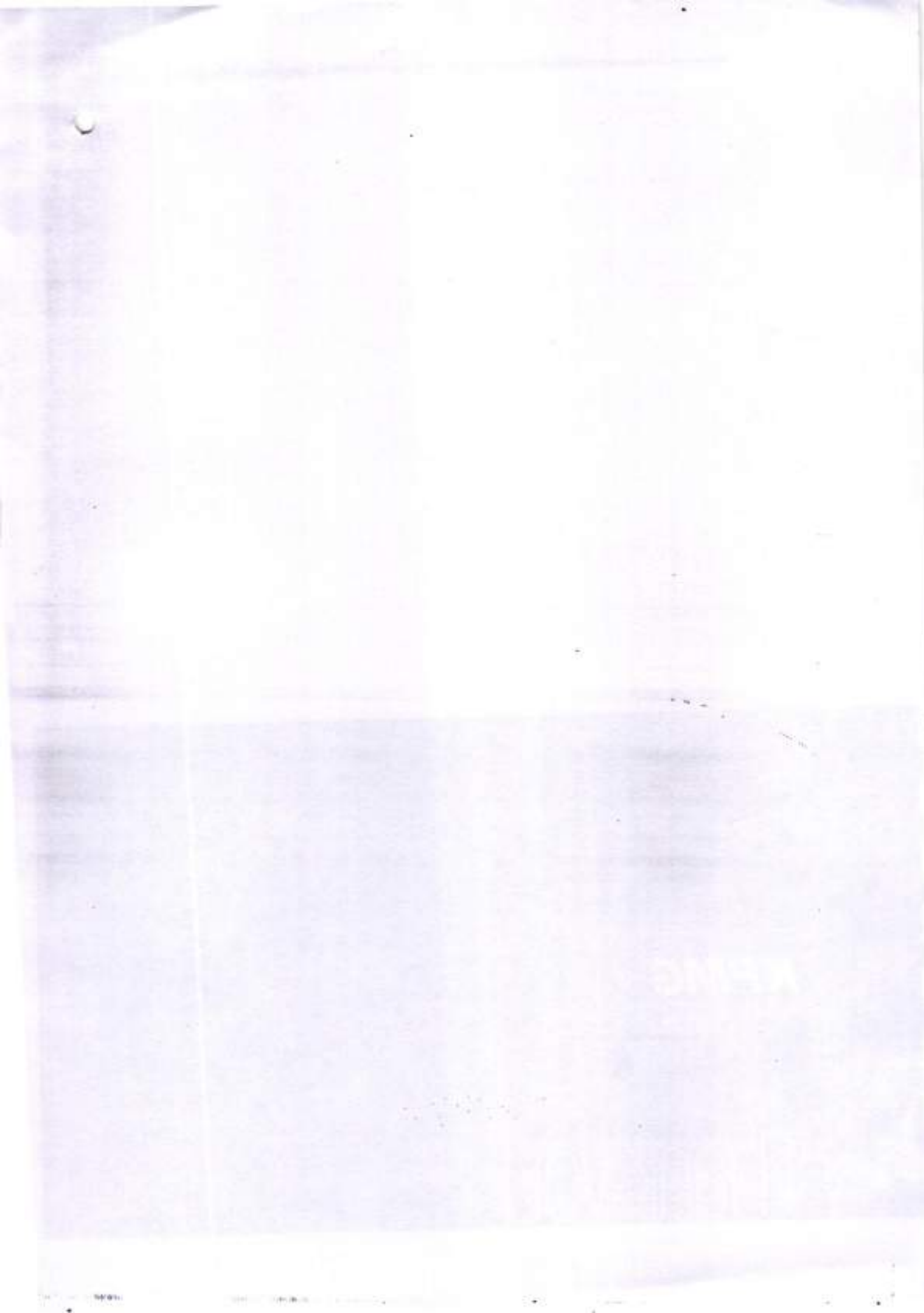
Annexure

Listing of PSEs based on overall categorisation criteria basis financial data from DPE book "Karnataka Public Sector Enterprises at a Glance" 2017 and survey responses

Type of sector/industry	Name of undertaking	Category
Manufacturing Enterprises	Karnataka Silk Industries Corporation Limited	High Performing
	Karnataka Soaps & Detergents Limited	High Performing
	Karnataka Vidyuth Karkhane Limited	Performing
	The Mysore Electrical Industries Limited	Performing
	Mysore Paints & Varnish Limited	Performing
	The Mysore Paper Mills Limited	Low Performing
	The Mysore Sugar Company Limited	Performing
	NGEF (Hubli) Limited	Low Performing
Financial Enterprises	Karnataka State Financial Corporation	High Performing
Mining Enterprises	The Hutti Gold Mines Company Limited	High Performing
	Mysore Minerals Limited	Very High Performing
Power Generation (Transmission/Distribution Enterprises)	Karnataka Power Corporation Limited	Very High Performing
	Karnataka Power Transmission Corporation	Very High Performing
	Bangalore Electricity Supply Company Limited	Very High Performing
	Chamundeshwari Electricity Supply Corporation Limited	High Performing
	Mangalore Electricity Supply Company Limited	Performing
	Hubli Electricity Supply Company Limited	Low Performing
	Gulbarga Electricity Supply Company Limited	Low Performing
Road Transport Enterprises	Bangalore Metropolitan Transport Corporation	Low Performing
	Karnataka State Road Transport Corporation	Low Performing
	North Eastern Karnataka Road Transport Corporation	Low Performing
	North Western Karnataka Road Transport Corporation	Low Performing
	Mysore Sales International Limited	High Performing

Type of sector/industry	Name of undertaking	Category
Marketing & Trading Enterprises	Marketing Communication & Advertising Limited	High Performing
	Karnataka State Beverages Corporation Limited	High Performing
Tourism Enterprises	Karnataka State Tourism Development Corporation Limited	Performing
	Jungle Lodges & Resorts Limited	Performing
Irrigation Enterprises	Cauvery Neeravari Nigama Limited	Performing
	Karnataka Neeravari Nigam Limited	Low Performing
	Krishna Bhagya Jala Nigam Limited	Low Performing
Infrastructure Development Enterprises	Karnataka Road Development Corporation Limited	Low Performing
	Karnataka State Industrial & Infrastructure Development Corporation Limited	Performing
	Karnataka State Small Industries Development Corporation Limited	High Performing
	Karnataka State Textile Infrastructure Development Corporation Limited	Performing
	Karnataka Rural Infrastructure Development Limited	Very High Performing
Agro/Food & Beverages Based Enterprises	Karnataka State Seeds Corporation Limited	Performing
	Karnataka Food and Civil Supplies Corporation Limited	High Performing
	Karnataka State Agro Processing & Export Corporation Limited	Performing
	Karnataka Cashew Development Corporation Limited	Performing
	Karnataka Togari Abhivrudhi Mandali Limited	Performing
	Karnataka Compost Development Corporation Limited	Low Performing
Forest Development Enterprises	Karnataka Forest Development Corporation Limited	Performing
	Karnataka State Forest Industries Corporation Limited	Performing

Type of sector/industry	Name of undertaking	Category
Community Development (Non-Commercial) Enterprises	Dr. B.R. Ambedkar Development Corporation Limited	High Performing
	D. Devraj Urs Backward Classes Development Corporation Limited	Performing
	Karnataka Minorities Development Corporation	Performing
	Karnataka Maharshi Valmiki Scheduled Tribes Development Corporation Limited	Performing
	Karnataka State Women's Development Corporation	Performing
Community Development (Commercial) Enterprises	Dr. Babu Jagjeevan Ram Leather Industries Development Corporation Limited	Performing
	Karnataka Fisheries Development Corporation Limited	Performing
	Karnataka Handloom Development Corporation Limited	Low Performing
	Karnataka State Coir Development Corporation Limited	Low Performing
	Karnataka State Handicrafts Development Corporation Limited	Performing
	Karnataka Sheep and Wool Development Corporation	Low Performing
Housing Enterprises	Karnataka State Police Housing & Infrastructure Development Corporation Limited	High Performing
	Rajiv Gandhi Rural Housing Corporation Limited	Low Performing
Miscellaneous Enterprises	D. Devraj Urs Truck Terminals Limited	Performing
	Karnataka State Warehousing Corporation	High Performing
	Shree Kanteerava Studio's Limited	Performing
	Karnataka State Electronics Development Corporation	Performing





Thank you