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The general assessment is that while the executive directors push up the performance of bank, independent directors may be a hindrance. This is often corroborated in private conversations. Let us see how the directors function.

The bank board usually has the CMD and two executive directors, who work full-time for the bank. They are the seniormost persons in the bank's hierarchy. They vet the proposals placed before the board. They present all the subjects and offer rationale for Board decisions. They also come up with strategy; a comparative picture on what other banks may be doing and lead the Board in terms of completing agenda—both in business and compliance terms.

The nominees of the RBI are more interested in compliance than performance of the bank. The Ministry of Finance's nominee thinks how the banks can enhance some of the government's programmes and the image of the Finance Minister. He may also contribute where capital raising is involved, as the Government of India itself may have to subscribe. These two nominees however are often useful for the CMD to ward off unreasonable demands of independent directors.

The nominees of Officers and Workmen's Union would like to maintain good relations with their senior executives, and usually do not interfere in credit or other business matters. They usually step in regarding human resources management, like recruitment, pay and allowances, working conditions, disciplinary matters, appeals against punishment, etc.

The most problematic lot often turns out to be the independent directors. Whenever they are professionals of repute like ex-bankers, economists, professors of distinguished schools, etc, they are a worthy lot and add substantially to the bank's strategic matters. There are however many who are appointed presumably due to their profession (example: representing agriculture or MSME) or qualifications like Lawyers or Chartered Accountants.

In Defence of the PSU Bank CMD

The CMD position should be split only after PSU banks attain a level playing field with private banks: full autonomy in hiring and firing, having own vigilance set-up divorced from CVC probes, and reducing government control to less than 50 per cent.

Recent news reports suggest that the Ministry of Finance is planning to split the position of PSU banks' Chairman and Managing Director (CMD) into two. They would like to appoint a non-executive Chairman and a full-time Managing Director.

The separation is because of US corporate governance issues often thrust on Indian companies. The recent arrest of the CMD of Syndicate Bank has the Ministry wanting to revamp the recruitment of bank top posts in some way. However, the results of separation may be disastrous if implemented now. As the P.J. Nayak committee has recommended, the positions of CMDs have to be split after creating a level playing field between PSU and private banks.

One needs to visualise the functioning of PSU banks to know why separation will not work. The Bank board consists of five types of directors - full-time bank executives (two or three in number), one nominee each of RBI and Finance Ministry, one representative each of Officers and Workmen unions, and some independent directors.

They are usually closely associated with the Ministers or their business interests. There are examples of CA directors, who are auditors or tax consultants for the Minister's business firms. They are often interested in pushing for sanction of certain loans, giving concessions, rescheduling bad debts, or the bank leasing out some premises. Some use their position to fix appointments with the CMD and advise other clients. The CMD of the bank needs support to ward off the untenable demands of these directors.

It is clear from the above that the CMD does not enjoy absolute powers at all. He has no say in appointment of any of his Executive Directors. The Ministry posts them and the other juniors have come up through the ranks.

Unlike the CEO of a private bank, the CMD of a PSU bank cannot terminate a GM or an Executive Director. The CMD cannot even dismiss a junior clerk unless he follows elaborate government procedures that can take years. The CMD has to face two directors from the workers and officers unions and explain all such actions.

The CMD sometimes has to function with obnoxious and egoistic Executive Directors. In any organisation, the relation between the number one and number two is always an issue. The number two ED tries to score few points in the Board meeting with the help of other directors. The CEO of a private bank has no such problems and he has absolute control over subordinates.

It is thus clear that the CMD of PSU bank does not wield much power and is just one amongst the directors, though an important one. If the position is split, the CMD is weakened even more.

The part time Chairman can influence an ED or other directors and make decision making very difficult. The bank will suffer with delayed decisions. If the Chairman is a political appointee, he can collude with independent directors and can make suspect loans. The district cooperative banks who have a political appointee as President, often report loan recovery rate in single digits!

The A.S. Ganguly committee recommended that the CMD posts in banks be split. The private sector banks implemented this in 2007. The Ministry of Finance, in respect of PSU banks, considered this issue and decided against it. It was reported that,

“The Finance Ministry said this in response to the Reserve Bank of India’s contention that CMDs of public sector banks enjoy absolute power along with boards. The central bank, according to sources, had also said CMDs often dominate the board during their tenure and therefore it also recommended that the post of CMDs be separated to empower the board. However, the Finance Ministry said the board is a collective decision making organ through which major decisions of the organization are implemented and to say that CMD enjoys absolute power and disregards the decision of the board of the bank is not factual.”

However, the Ministry is now planning to divide the position of CMD into two. The episode of the Syndicate Bank CMD is an isolated one and one cannot rule out corruption by dividing the post into two. The right way to prevent corruption is to punish the offenders within six months and not prolong such cases for decades, as is the case now.

The P.J. Nayak committee recommended splitting of CMD position only after the PSU banks attain level playing field with the private banks. The level playing field meant full autonomy in hiring and firing (including compensation matters), having own vigilance set-up like private banks (divorced from CVC probes), and reducing government control to less than 50 per cent.

Until this happens and the PSU banks are on a level playing field with private banks, the Ministry is better off to keep the position of CMD at least untouched, even if they cannot enhance the powers of CMD.

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