Nominee Directors and Performance Evidence From Indian State-Owned Enterprises

Archana Goel
Chitkara Business School, Chitkara University, Punjab, India

Kiran Mehta
Chitkara Business School, Chitkara University, Punjab, India

Renuka Sharma
https://orcid.org/0000-0002-6514-3411
Chitkara Business School, Chitkara University, Punjab, India

EXECUTIVE SUMMARY

The effectiveness of board characteristics on the financial organization's performance has been examined in several studies. Studies that looked into the characteristics of the boards of state-owned enterprises (SOEs) are scarce. Therefore, this chapter aims to scrutinize how nominee directors and Indian SOEs' perform. The findings consider that nominee directors raise the performance of the SOEs utilizing a variety of performance parameters and control variables. The research backs up agency theory. The conclusions have specific ramifications that the government and decision makers must address.

INTRODUCTION

The directors play a major part in resolving the agency issues between investors and managers. While the existing literature has examined the influence of board features that uphold the shareholders' interests by endorsing corporate strategies and optimising shareholders' value (Dalton et al.,1999); most of these researchers have primarily focused on the listed financial companies. Only a few studies have investigated the board characteristics in SOEs. This study concentrates on the board characteristics of Indian SOEs, especially the role of outside directors, including representatives of government, lenders, and investors, known as nominee directors. More specifically, this study has attempted to explore the interface between nominee directors and Indian SOE performance.

The study of SOEs in India is motivated by several factors. Few studies examined how SOEs and nominee directors perform (Nachane et al., 2005; Jayadev M., 2016). According to numerous research, SOEs struggle with a lack of competitiveness and conflicting goals. Additionally, ministries and bureaucrats intervene politically with SOEs by focusing on their immediate political objectives (Thompson et al., 2019), which lowers profitability and creates slack (Peng et al., 2016). Government subsidies and significant borrowing backed by the government have been used to repair this drop in profitability (Srivastava & Kathuria, 2020). As a result, a country's financial burden is ultimately caused by SOEs' poor performance.

SOEs Gross Domestic Product (GDP) provide about fifty per cent of the world's GDP. As per the Public Enterprises Survey 2022, 248 State-Owned Enterprises (SOEs) were operational during the fiscal year of 2021-22, with only 188 reporting profitability. The cumulative revenue generated by these profitable SOEs amounted to Rs. 2,64,000 crores. With a 38% increase, the aggregate debt of SOEs rose from Rs 11,73,000 crore in 2020-21 to Rs 1897,000 crore in 2021-22. The huge financial support these SOEs get from the government will reduce in the upcoming year. This makes it essential to look at these SOEs in the context of India and highlight measures that can enhance their operational efficiency.

Numerous earlier studies have emphasized the Board's prominent role in improving the outcome of SOEs Many prior studies have highlighted the prominent role of the Board in upgrading the performance of Indian SOEs (Mbo & Adjasi, 2017; Madaan et al., 2022). The public interest must be considered when the SOE boards carry out their responsibilities, ensure transparency, and protect the stakeholders (Peng et al., 2016). However, political meddling limits their ability to make decisions. This study focused on the function of nominee directors on Indian SOEs' boards. The government, the lender, or the staff may choose nominee directors. Instead of being involved in the business's daily operations, they actively participate in the board meetings. They ensure that the laws and regulations are in force within the