



POLICY FRAMEWORK

Guidelines on matters regarding **Chief Executive Officer** of Public Sector Companies and Autonomous Bodies in Khyber Pakhtunkhwa



GOVERNMENT OF KHYBER PAKHTUNKHWA
FINANCE DEPARTMENT

<http://www.finance.gkp.pk>

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NOTIFICATION

The Provincial Government is pleased to approve the following policy framework to be followed by Public Sector Companies and Autonomous Bodies for matters relevant to the Chief Executive Officer (DG/ MD/ any other designation for the executive head).

Activity	Scope	Responsibility
i. Setting profile of the CEO	<ul style="list-style-type: none"> • Board responsible for profile setting of the CEO • Core competencies relevant to the entity’s strategic goals • Skill and attributes relevant to the CEO • Roles and responsibilities • Performance appraisal framework • Salary and compensation 	Board
ii. Recruitment process	<ul style="list-style-type: none"> • Board shall develop & approve candidate evaluation criterion • Advertisement: <ol style="list-style-type: none"> i. Initiate at least 3 months before the expiry of term of incumbent CEO ii. Advertise in two leading newspapers: English & Urdu each iii. Upload on entity’s website • Application submission (option for online submission; transparency in receipt of applications) • Candidates shortlisting by the Board HR Committee: <ol style="list-style-type: none"> i. Prepare a long list of candidates based on eligibility criteria ii. Shortlist candidates based on evaluation criteria iii. Evaluate based on “fit & proper” criteria iv. Carry out due diligence & pre-appointment scrutiny of shortlisted candidates through concerned agencies including SECP, FBR, NADRA, SBP etc. as deemed appropriate. • Interview to be conducted by the Board: <ol style="list-style-type: none"> i. Evaluate candidate’s skill set including technical expertise, sector knowledge, leadership, strategic vision & communication skills ii. Merit-based interview and evaluation against a set criterion iii. Explore any potential conflict of interest iv. Inform the shortlisted candidate at least 7 days in advance of the interview via email and telephone 	Board
iii. Terms and conditions of appointment including	<ul style="list-style-type: none"> • Board to determine remuneration and Terms & conditions • CEO to submit self-evaluation to the Board against agreed targets within one month after the end of the fiscal year 	Board

Performance Contract	<ul style="list-style-type: none"> • The Board shall discuss performance with the CEO and highlight areas of improvement and set objective targets for next year • The Board shall finalize performance evaluation of the CEO and approve/reject bonus linked to her/his performance, if any 	
iv. Appointment of the CEO	<ul style="list-style-type: none"> • Board to prepare list of at least 3 candidates in order of preference based on evaluation results • List of candidates along with Board minutes of the meeting to be shared with the competent authority (Government or as the case may be) • Competent authority to make the final decision on appointment • In case the competent authority does not concur to appoint any of the proposed candidates, it shall highlight the reasons for non-concurrence and refer the matter back to the Board; Board shall either re-evaluate from the existing pool or re-initiate the process • Upon concurrence of the competent authority, the Board shall appoint the CEO & issue a contract letter signed by the Chairman • Appointment for 3 years with the possibility of re-appointment for another 3-year term • Board to ensure the appointment of the new CEO is finalized at least 30 days before the expiry of term of the incumbent 	Competent authority (Government or as the case may be)
v. CEO on deputation	<ul style="list-style-type: none"> • The organization shall not hire Chief Executive Officer (DG/ MD/ any other designation for the executive head) on deputation except in cases where individual competes against an advertised position and is selected on merit/criteria. • The CEO hired on deputation shall be for a term not less than three years, extendable for a further period of 2 years, subject to approval from competent authority. • A CEO hired on deputation shall meet the job requirements in terms of education, experience, and competency for the CEO position (subject to NOC and other formalities from respective department). • A CEO hired on deputation cannot stay in the same organization on any position for a period exceeding five years from the date of joining the organization. • The terms & conditions of the CEO hired on deputation will be determined by the Board of Directors/Governors, or whatever the case may be. 	Government on Board recommendation
vi. Removal of the CEO	<ul style="list-style-type: none"> • Board may recommend the removal of the CEO to the competent authority by a resolution passed by not less than three-fourths of the total directors at that time 	Government on Board recommendation

	<ul style="list-style-type: none"> The CEO shall be given an opportunity to present her/his views in front of the Board and these views shall be forwarded to the competent authority when deciding on CEO termination 	
vii. Stop-gap arrangement of the CEO	<ul style="list-style-type: none"> Board to appoint an individual from the existing senior executives of the entity for a period not exceeding 3 months within 14 days of the office of the CEO falling vacant. This period shall serve as a stop-gap arrangement and shall not be extendable. It will be ensured by the Board that a full time Chief Executive is appointed within the aforesaid 3 months. 	Board

2. The Provincial Cabinet is further pleased to approve:

- The activities mentioned above shall be applicable with prospective effect
- The currently serving CEOs shall not be affected by the guidelines presented in this policy framework for their current tenure. However, the process of re-appointment shall be followed as per the guidelines of the policy framework provided
- Detailed guidelines on matters regarding Chief Executive Officer can be downloaded from <https://www.finance.gkp.pk/articles/about/wings/corporate-governance-unit-cgu>
- In order to operationalize the policy framework, the Finance department may issue guidelines within the broad scope of this policy framework from time to time
- As far as practicable, and prospectively, the administrative departments shall align the provisions of respective legislation of autonomous bodies in-line with principles laid out in these policy frameworks.

3. The Cabinet further directed that all the administrative departments shall take a review of their respective public sector companies / autonomous bodies on these policy framework parameters and shall submit a compliance report to the Chief Secretary office within 60 days from the date of notification of these policy frameworks.

4. It is therefore requested that necessary action may kindly be taken accordingly.

1. Background

Public Sector Companies (PSCs) and Autonomous Bodies (ABs) have been established to increase efficiency, reduce costs and improve effectiveness of public service delivery across various sectors in Khyber Pakhtunkhwa. There are 168 PSCs and ABs under the ownership and control of the Government of Khyber Pakhtunkhwa (GoKP). These entities have been set-up under different modes such as not for profit companies under section 42 of Companies Ordinance, 1984 (superseded by Companies Act, 2017), as well as statutory bodies under special enactments. The performance, effectiveness and operational efficiency of entities is lacking, with significant scope for improvements in the management of entities. PSCs/ABs have low levels of own source revenue and they are significantly reliant on funding from the GoKP. The aggregate costs of funding PSCs and ABs to GoKP is likely to be rising substantially. In the absence of a functioning mechanism to track performance and costs of PSCs/ABs, the Finance Department has initiated an exercise to determine the cost of PSCs/ABs by collecting data from entities across departments.

As a first step to improve the performance of PSCs/ABs, the Finance Department is developing policy guidelines for PSCs/ABs to adopt corporate governance best practices in aspects relating to boards, Chief Executive Officers (CEOs), human resources management, financial management, accounting, Government oversight and performance management. The guidelines are being developed by reviewing relevant legislation, sub-legislation in Pakistan, Corporate Governance Assessments of PSCs in Khyber Pakhtunkhwa conducted by the Finance Department, and international practice, including from Organization for Economic Co-operation and Development (OECD) countries and Non- OECD countries.

2. Rationale

The Chief Executive Officer (CEO) is responsible for leading the development and execution of long-term strategies with the objective of increasing value for the shareholders. The CEO is responsible for making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

The CEO being the leader and a driving force for the organization's turnaround and growth, its appointment, terms and conditions of appointment including salary and incentives, and termination needs to be well defined and transparent.

This framework provides broad guidelines covering appointment, termination, terms and conditions of appointment, performance evaluation of the CEOs of PSCs and ABs in the province.

3. General

The purpose of these guidelines is to ensure the effective recruitment of the Chief Executive Officer. Some PSCs/ABs, however, have legal provisions already in place specifically designed to deal with said recruitment. For all PSCs/ABs where this is the case, these guidelines will be applicable as long as there is no explicit contradiction of the aforesaid legal provisions.

For the purpose of this policy framework, the term Chief Executive Officer implies the head of the organization by whatever name called by that respective organization.

4. Legal framework for CEO appointment

4.1 Public Sector Companies (PSCs):

1. Relevant sections of the Companies Act 2017.
2. Public Sector Companies (Corporate Governance) Rules, 2013 issued by the Securities and Exchange Commission of Pakistan and amended from time to time
3. Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015 issued by the Securities and Exchange Commission of Pakistan and amended from time to time.

4.2 Autonomous Bodies (ABs):

The relevant laws for appointment and removal of the Chief Executive Officer.

5. CEO Appointment Process

5.1 Setting Profile of the CEO (Qualification, Experience, Training etc.)

The Board of the PSC/AB will be responsible for setting up a profile of the CEO. This profile should have the following detailed specifications before the recruitment process of the CEO is initiated:

- a. Core competencies that are critical to the PSC/AB's strategic objectives over the next 3 – 5 years;

- b. Skills and attributes mandated by the CEO role;
- c. Roles and responsibilities in line with the entity’s strategic objectives;
- d. Setting a scorecard and performance appraisal framework;
- e. Salary and compensation in line with performance-based indicators.

5.2 Candidate evaluation criteria

To ensure the transparency and effective implementation, detailed candidate evaluation criteria should be developed and approved by the Board. These criteria should include all the variables relevant for the PSCs/ABs and which can be objectively measured.

5.3 Advertisement for the position

In order to get a large enough pool of suitable candidates, the Board ought to follow the following guidelines for the advertisement¹:

- i. Initiate the appointment process at least three months before the term of the incumbent chief executive is going to expire;
- ii. advertise the position in at least two leading newspapers (one Urdu and one English);
- iii. upload the advertisement and TORs of the position on company website, administrative department and finance department websites respectively, social media and recruitment pages such as LinkedIn etc.

5.4 Application submission

The Board is encouraged to make necessary arrangements for online submission of applications and sorting against defined criteria for shortlisting candidates. It must also be ensured that the process for receipt of applications is transparent, so the best possible pool of candidates is aggregated.

5.5 Candidates shortlisting

After applications are received, the Human Resource (HR) committee will be responsible for the preparation of a long list of candidates based on the eligibility criteria. The committee will then develop a shortlist of candidates based on the evaluation criteria. As a

primary step following shortlisting, the Human Resource Committee of the Board will evaluate the shortlisted candidates based on “*Fit and Proper*”² Criteria annexed as “Annexure-A”. All candidates who do not satisfy said criteria will be dropped from the shortlist.

For the final shortlisted candidates, the Board shall carry out necessary due diligence and pre-appointment scrutiny of the shortlisted candidates through the concerned departments/agencies, including SECP, FBR, NADRA, SBP, HEC, concerned sectoral regulator/professional body or association and others, as deemed appropriate.

5.6 Interview

The Board shall conduct interview of the candidates giving due consideration to the following:

- i. The Chief Executive has the primary responsibility for management of organization’s affairs, its performance and implementation of corporate strategy.
- ii. The interview shall focus on the candidate’s strategic vision for running the affairs and turning around performance of the organization.
- iii. The Board shall evaluate the candidate’s skill set including her/his technical expertise, sector knowledge, leadership, strategic vision, and communication skills.
- iv. The interview shall be conducted on merit basis and against the set-out criteria and profile.
- v. The Board shall ensure that the candidate demonstrates commitment to, and an understanding of the value and importance of the principles of public service.
- vi. The Board shall explore any potential conflicts of interest declared by the candidates and shall ensure that no conflicts of interest exist.
- vii. The board shall ensure that the candidates shortlisted for interview are informed at least 07 (seven) days in advance both telephonically as well as through email.

5.7 CEO on deputation

- i. The organization shall not hire Chief Executive Officer (DG/ MD/ any other designation for the executive head) on deputation except in cases where individual competes against an advertised position and is selected on merit/criteria.
- ii. The CEO hired on deputation shall be for a term not less than three years, extendable for a further period of 2 years, subject to approval from competent authority.
- iii. A CEO hired on deputation shall meet the job requirements in terms of education, experience, and competency for the CEO position (subject to NOC and other formalities from respective department).
- iv. A CEO hired on deputation cannot stay in the same organization on any position for a period exceeding five years from the date of joining the organization.
- v. The terms & conditions of the CEO hired on deputation will be determined by the Board of Directors/Governors, or whatever the case may be.

5.8 Recommendation from the Board

After the interview process is complete, the Board will prepare a list of at least three candidates, in the order of preference based on the results of evaluation. This list, along with the approved minutes of the Board meeting wherein said list was finalized, will then be sent to the Competent Authority (Government/Chief Minister, as the case may be) for final selection and appointment of the Chief Executive³.

5.8.1 Non-concurrence of Competent Authority

In the event that the competent authority does not concur to appoint any of the proposed candidates, it shall highlight the reasons for non-concurrence and refer the matter back to the PSC/AB for reconsideration with the direction to identify additional/alternative candidates.

The Board shall thereafter either re-evaluate the candidates from the pool of available applicants or reinstate the appointment process if none of the shortlisted candidates, other than the previously finalized three candidates, are deemed viable.

5.9 Appointment of Chief Executive

Upon concurrence of the Competent Authority, the Board shall appoint the Chief Executive and issue her/him a contract letter signed by the Chairman of the Board or a person authorized by the Board, with the requisite terms and conditions of appointment. It ought

to be ensured that the appointment of chief executive is finalized at least thirty days before the date of expiry of the term of the incumbent chief executive⁴.

6. Remuneration, duration, terms, and conditions of Chief Executive

The Chief Executive shall be appointed for a period of three years. Upon expiry of her/his term, she/he may be re-appointed by the Board of Directors for another term of three years on such terms and conditions as may be determined by the Board. It will be the responsibility of the Board to determine the remuneration and Terms and Conditions of the Chief Executive.

7. Termination of appointment

The Board may recommend to the Competent Authority for removal of chief executive even before the expiration of her/his term of office, by a resolution passed by not less than three-fourths of the total number of directors at that time. Before such a resolution is passed, the CEO shall be given an opportunity for representation before the Board of Directors and the resolution along with the representation of the CEO shall be sent to the competent authority for its decision on termination of the CEO.

8. Performance evaluation of CEO

The CEO shall submit her/his self-evaluation to the Board against agreed objectives/targets within one month after the end of the fiscal year. The Board shall discuss performance of the CEO with the CEO and highlight areas of improvement and set objectives/targets for the next year. The Board shall finalize performance evaluation of the CEO and approve/reject bonus linked to her/his performance.

9. Temporary Appointment of CEO

The Board shall appoint an individual from the existing senior executives of the respective AB/PSC for a period not exceeding 3 months, within 14 days of the office of the Chief Executive falling vacant. This period shall serve as a stop-gap arrangement and shall not be extendable. It will be ensured by the Board that a full-time Chief Executive is appointed within the aforesaid 3 months.

10. Effective date and scope of policy

- a. This Policy framework on the subject of Chief Executive Officers of Public Sector Companies / Autonomous Bodies of the Government of Khyber Pakhtunkhwa is effective from 01.02.2022 and PSCs/ABs shall comply with this policy framework for any appointment and removal of the chief executive officer on or after effective date of this policy framework

- b. This policy is applicable to Public Sector Companies / Autonomous Bodies owned by the Government of Khyber Pakhtunkhwa and notified by the Finance Department from time to time.

Activity	Responsible Party: Government	Responsible Party: Board of Directors	Recommended Option
i. Setting profile of the CEO	The Government and PSCs/ABs have distinct roles. The Setting profile of CEO by the Government may weaken the Board of Directors who are primarily responsible for the achievement of Organization's objectives.	The Board of Directors are primarily responsible for achievement of Organization's objectives and are aware of the requirements and in a better position to set profile of the CEO.	Board
ii. Recruitment process	The Government has a diverse portfolio of activities to oversee and the basic reason to constitute PSCs/ABs is to liberalize the Government from day to day operations of the Organization.	The objective for constitution of PSCs/ABs having Board of Directors is to efficiently and effectively manage the Organizations. The Board responsible for operation and management of the organization are in a better position to undertake the recruitment process.	Board
iii. Terms and conditions of appointment including Performance Contract	The Government sets the organization objectives and Board of Directors are responsible for their achievement. The CEO is responsible to the Board of Directors and Board of Directors are responsible to the Government.	The CEO is responsible to the Board of Directors and the Board being responsible for the Organization objectives are in a better position to set the terms and conditions of appointment of the CEO including Performance	Board

		Contract to ensure achievement of the Organization objectives.	
iv. Appointment of the CEO	The Government's supremacy mandates that the final appointment be done by the Government.		Government
v. Removal of the CEO	The CEO is responsible to the Board of Directors and the Government being not involved in the performance evaluation of the CEO; removal of CEO may be made only on recommendation of the Board of Directors.	The CEO being responsible to the Board, the Board may initiate the process for removal of CEO.	Competent Authority on recommendation of the Board
vi. Stop-gap arrangement of the CEO		The CEO is critical for achievement of the Organization's objectives and temporary appointment of CEO may be made by the Board of Directors so that operations of the organization are not affected.	Board

References

1. *Companies Act 2017.*
2. *Public Sector Companies (Corporate Governance) Rules, 2013 issued by the Securities and Exchange Commission of Pakistan and amended from time to time.*
3. *Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015 issued by the Securities and Exchange Commission of Pakistan and amended from time to time.*
4. *World Bank Toolkit on Corporate Governance of State-owned Enterprises*

Annexure - A

FIT AND PROPER CRITERIA FOR CHIEF EXECUTIVE APPOINTMENT

In order to determine whether a candidate proposed to be appointed as a chief executive of the organization is fit and proper for the position, the following factors shall be taken into consideration:

Competence and capability – The candidate must have the necessary skills, experience, ability and commitment to carry out the role efficiently and effectively.

Probity, personal integrity and reputation – The Candidate must possess personal qualities such as honesty, integrity, diligence, independence of mind and fairness, and has the ability to represent a cohesive vision and strategy to all.

Financial integrity – The candidate must be capable to manage his debts or financial affairs prudently.

The Board shall also ensure that the person is not ineligible for appointment as Chief Executive of the Organization, because the person;

- a) is a minor;
- b) is of unsound mind;
- c) has applied to be adjudicated as an insolvent and his application is pending;
- d) is an undischarged insolvent;
- e) has been convicted by a court of law for an offence involving moral turpitude;
- f) has been debarred from holding such office under any provision of this Act;
- g) has been declared by a court of competent jurisdiction as defaulter in repayment of loan to a financial institution;

The assessment of the above criteria shall have regard to the considerations set out below:

1. Competence and Capability:

- (a) Competence and capability are demonstrated by a person who possesses the relevant competence, experience and ability to understand the technical requirements of the business, the inherent risks and the management process required to perform his role effectively as a chief executive.
- (b) In assessing a person's competence and capability, the appointing authority shall consider matters including, but not limited to the following:
- i. whether the person has the appropriate qualification, training, skills, practical experience and commitment to effectively fulfill the role and responsibilities of the position; and
 - ii. whether the person has satisfactory past performance or expertise in the nature of the business being conducted.
- (c) To undertake the aforesaid assessment effectively, the following parameters are prescribed for consideration:
- i. The person must
 - I. Possess a graduate degree from a well-reputed institute or such other professional qualification relating to the principle line of business of the public sector company, including manufacturing, mining, science, technology, agriculture, social science, or any other field commensurate to the job, or
 - II. Be a member of a recognized body of professional accountants, or
 - III. Be a recognized businessman or professional with a postgraduate degree in business administration or public administration or finance or commerce or marketing or equivalent; and
 - ii. He must possess demonstrated experience of not less than ten years:

- I. in governance or business administration or public administration or finance or commerce or marketing or any other field commensurate to the job in significant organizations with a commercial orientation, or
- II. as chief executive or at a senior management level in similar organizations that have commercial attributes, or
- III. at senior positions in relevant professional areas including, inter-alia, science, technology, finance, law, business, agriculture, social sciences, etc., or
- IV. in community or professional organizations; or
- V. at the level of member of governing body of a professional institute or as a head of department.

2. Probity, Personal Integrity and Reputation:

- (b) Probity, personal integrity and reputation are values that are demonstrated over time. These attributes demand a disciplined and on-going commitment to high ethical standards.
- (c) In assessing a person's level of probity, integrity and reputation to hold a position of a chief executive, the appointing authority shall consider matters including, but not limited to the following:
 - i. whether the person is or has been subject to any adverse findings or any settlement in civil/criminal proceedings particularly with regard to investments, formation or management of a company or body corporate, or the commission of financial business misconduct, fraud, financial crime, default in payment of taxes or statutory dues, etc.;
 - ii. whether the person is or has been removed/dismissed in the capacity of an employee, director/chairman or from a position of trust, fiduciary appointment or similar position because of issues arising on account of his misconduct;
 - iii. whether the person is or has, directly or indirectly, i.e. through his spouse or minor children, been engaged in any business which is of the same nature as and

- directly competes with the business carried on by the company of which he is the chief executive or by a subsidiary of such company;
- iv. whether the person has contravened any of the requirements and standards of a regulatory body, professional body, government or its agencies;
 - v. whether the person, or any business in which he has a controlling interest or exercises significant influence, has been disciplined, suspended or reprimanded by a regulatory or professional body, a court or tribunal, whether publicly or privately;
 - vi. whether the person has been engaged in any business practices which are deceitful, oppressive or otherwise improper (whether unlawful or not), or which otherwise reflect discredit on his professional conduct;
 - vii. whether the person has been associated as a partner or director with a company, partnership or other business association that has been refused registration, authorization, membership or a license to conduct any trade, business or profession, or has had that registration, authorization, membership or license revoked, withdrawn or terminated;
 - viii. whether the person has been a director, partner or chief executive of any company, partnership or other business association which is being or has been wound up by a court or other authority competent to do so within or outside Pakistan, or of any licensed institution, the license of which has been revoked under any law;
 - ix. whether the person is free from any business or other relationship which could materially pose a conflict of interest or interfere with the exercise of his judgment when acting in the capacity of a director or chief executive or member of a governing body which would be disadvantageous to the interest of the public sector company; and
 - x. whether the person is a Pakistani citizen or a foreign national or both.

3. Financial Integrity:

- (a) Financial integrity is demonstrated by a person who manages his own financial affairs properly and prudently.
- (b) In assessing a person's financial integrity, the appointing authority shall consider all relevant factors, including but not limited to the following:

- i. whether such person's financial statements or record including wealth statements or income tax returns or assessment orders are available;
- ii. whether the latest Credit Information Bureau report of the person shows no overdue payments or default to a financial institution;

Provided that such a person will be treated as a defaulter if he has failed to repay his loan exceeding one million rupees to a financial institution or is a defaulter of a stock exchange.

- iii. whether the person has been and will be able to fulfil his financial obligations, whether in Pakistan or elsewhere, as and when they fall due; and
 - iv. whether the person has been the subject of a judgment debt which is unsatisfied, either in whole or in part, whether in Pakistan or elsewhere.
- (c) The fact that a person may be of limited financial means does not in itself, affect the person's ability to satisfy the financial integrity criteria.

4. While making appointment of chief executive to a public sector company, the appointing authority shall conform to a merit-based selection procedure and shall also give due consideration to the following:

- (a) Sectoral expertise
- (b) Organizational awareness;
- (c) An understanding of the role of the government as a shareholder;
- (d) Financial literacy and business acumen, irrespective of the professional background;

- (e) A knowledge of the statutory responsibilities of a chief executive;
- (f) The capability for a wide perspective on issues; and
- (g) Leadership qualities.