

CHAPTER I  
INTRODUCTION

'Public Enterprise' as is known popularly may also be referred to as 'State Enterprise' since the involvement of the public as such is not significant and for all practical purposes it is the State which establishes, controls and makes it accountable to itself. Another view is that in India the appropriate nomenclature for the Central Government's Undertakings and State Government's Undertakings could be 'national enterprise' and 'State enterprise' respectively. Yet another view is that of naming all such enterprises as 'social enterprises' mainly because of the social objectives attributed to all Government enterprises. Though, in a sense, this may appear to be a question of only a name,<sup>1</sup> it involves, in a subtle way, different perceptions about the objectives as well as accountability.

Accountability means to account for one's action and to report on the achievement or failure of the prescribed objectives. However, lack of a clear cut definition of accountability in terms of 'to whom', 'for what' and 'how' - has left the problem unsolved. Besides, there is the delicate issue of making the PSEs accountable without affecting their autonomy and day-to-day administration.

PSEs are creations of the Government and are placed in hands of their Chief Executives, Boards of Directors for implemen-

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1. The issues about nomenclature are based on the response to the Q.No.I of the two Questionnaires issued (Please see p. 6). Throughout this study, however, the more popular name 'Public Sector Enterprise' (PSE) is used.

tation of the developmental and industrial tasks envisaged by the Government. The Government being the only or the most important shareholder, must ensure accountability from the management in order to satisfy itself that the public investments are safe and productive and that the objectives for which the enterprises have been set up are being realised, so that it can, in turn, discharge its accountability to the legislature. No one can therefore question the need for or relevance of accountability, since it is very essence of public investment. However, this accountability aspect gives rise to the element of 'control' in a wider sense, in the relationship between PSEs and the Government. Accountability is therefore an oft discussed and stress creating problem with reference to their relationship, since control is sometimes looked upon as negation of autonomy. The balancing of the needs of autonomy with reference to the fulfilment of accountability is thus of great importance. But in a democratic set up, the varied interests of the controlling groups on the functioning of the enterprises, hamper the autonomy and accountability system. This often results in the interference in the day-to-day affairs and lead to progressive reduction in the autonomy granted to the enterprises and which may, in turn, affect its efficiency and ultimately defeat the very objectives for which the enterprises were created. Hence, a balance is sought to be struck between the needs of accountability and the freedom from close controls necessary for functional autonomy and achievement of results by the enterprises.

Accountability for results naturally presupposes the existence of certain well defined objectives. This is an area where, despite more than three decades of experiments with PSEs, there has not been adequate clarity. The controlling authorities of PSEs tend to measure the performance of enterprises against their own conception (which often changes) of what achievement of PSEs ought to be, and the enterprises may be totally unaware of such conceptions.

#### Nature of the Problem

There appears to be a better appreciation at all levels about the need for accountability. Even if the idea as such is acceptable, perceptions about what constitutes accountability may differ between the different claimants to accountability. It is in this context, a better understanding of the concept of accountability is envisaged. Next, the instruments and institutions established to ensure accountability and their effectiveness have to be appropriate to the changing perceptions about accountability. Added to the above, a balance is to be struck between the needs of accountability and autonomy taking into account the realities in the political, economic and social set-up.

#### Importance of the Study

The most remarkable development in the Indian Economic Administration since Independence has been the phenomenal growth of investment in PSEs. **Yet** surprisingly, the administration

of these enterprises has become a subject of considerable interest to academicians and the Government. As a result of this profound interest, considerable literature has emerged on the different facets of the organisational **dynamics** of PSEs. One could find case studies as well as comparative studies, empirical as well as normative analysis on this subject matter. A characteristic feature of the administrative studies on PSEs so far is an almost exclusive focus on the operation of the Central Government Undertakings, resulting in the neglect of the analysis of the performance of enterprises owned by State Governments. Thus the one sided focus has evidently created a gap in the literature on the Indian public sector.

Another justification for this study is that almost all the studies on this issue have provided an institutional approach i.e., they have reviewed the different institutions that exist to ensure accountability. In other words their prime concern is to examine the usefulness of the legislature, with its debates, questions, committees etc., along with the role of auditors as instruments to ensure accountability. What has been missed in the process is that these studies have not considered the questions as to the scope and dimensions of the **concept** of accountability itself.

The present work is a maiden effort with the primary aim of fulfilling a heuristic purpose and examining certain salient problem areas of Government Undertakings of a State, particularly with reference to 'accountability of the Public Sector Enterprises

owned by State Government of Tamil Nadu - a State where the first ever public enterprise came into being in India.<sup>1</sup>

#### Objectives of the Study

The main objective of the study is to provide a comprehensive analysis of the working of the accountability system of the PSEs owned by the Government of Tamil Nadu. This is done by:

- 1) examining the concept of accountability with a view to bring out the multi-dimensional implications of the concept;
- 2) applying the concept of accountability of the PSEs in terms of (i) Efficiency of the enterprise, (ii) Accountability as 'model employer', (iii) Accountability to Consumers and (iv) Accountability to the General Public; and
- 3) reviewing the traditional or conventional instruments vis-a-vis institutions that exist to ensure accountability and ascertaining as to how far the tools, techniques and institutions help in ensuring accountability.

#### Sources of Information and Methodology

Apart from published data on the public sector, ranging over the periodical reports and accounts of the PSEs, parliamentary debates and other official publications, the reports of the Estimates Committee, the Public Accounts Committee and Committee

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 1. It was the Madras Presidency Government which as early as 1898, started industries, under State Control and management, A.D. Agarwala, 'State Enterprises in India', Chaitanya Publishing House, Allahabad, 1961, p. 29.

on Public Undertakings of both the Parliament and Tamil Nadu's Legislative Assembly and the audit reports by the Comptroller and Auditor General, data received from the PSEs in response to questionnaires issued have been analysed for the purpose of the study. Further, elaborate discussions were held with the Board Members, Managing Directors and Senior Executive Officers of many PSEs, Senior Officers of Government Departments, Senior Officers of Comptroller and Auditor General Office in Tamil Nadu, members of various legislative committees and other experts connected directly or indirectly with PSEs for the purpose of expert opinion on the issue 'Accountability of PSEs in Tamil Nadu'.

Two separate questionnaires<sup>1</sup> were prepared - the first was issued to the Managing Directors of the PSEs in Tamil Nadu and the second to experts connected with PSEs. Out of the 55 Corporations and Boards which were functioning as on May 1980, questionnaires were issued to 50 of them for which 30 units responded.

The second questionnaire was issued exclusively to experts directly or indirectly connected with the PSEs. These experts include former Managing Directors and Officers of the Corporations, present secretaries in various departments which control PSEs both at the centre and state level, academicians from different Universities and Institutes, Officials of Institutions where

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 1. Wherever the information obtained through the replies to these Questionnaires is used in the study, reference is made as Questionnaire I and Questionnaire II as the case may be. These two Questionnaires are given in Appendix I and II.

some sort of study is carried on PSEs like, Standing Conference of Public Sector Enterprises (SCOPE), Institute of Public Enterprises, Public Enterprise Centre for continuing Education, Officials of Accountant General Office and finally members of various Legislative Committees, especially past and present members of the Committee on Public Undertakings of Tamil Nadu. Out of the 150 questionnaires issued to these experts 120 responded.

#### Limitations of the Study

Though the response from the PSEs in furnishing the data required for the study has on the whole been good there are a few gaps caused by the non-availability of adequate information. Thus the generalisations based on the data examined are bound to be representative of the public sector as a whole though there may be exceptional PSEs. These exceptions however, do not, as they need not, affect the validity of the broad conclusion.

The problem of accountability of PSEs is partly an economic problem and partly a socio-political problem. Hence it is qualified by elements of subjectivity at all stages in visualising the purpose of accountability, in formulating the means, in assessing their efficiency and suggesting improvements. It is therefore, difficult to expect unanimity on details in these matters on the part of persons belonging to different groups, such as legislature, Government departments, PSEs, and independent

experts. However, this study is presented as a dispassionate discussion of all aspects of the problem as viewed from the angles of the controlling agencies, accountable enterprises and the public interest in whose interest the problem of accountability arises.

The theoretical foundations for the study are largely drawn from the experience of the nationalised industries in the U.K. and the undertakings of the Central Government of India. This has become unavoidable because, practically, there is no study available on undertakings owned by a State Government. As a result, observations based on the experience elsewhere have been used throughout the study to establish certain principles and also to comment on certain practices. However, these have been done after a careful consideration of the comparable situations.

The study has set no rigid limits about the period for which the data are to be collected. As far as theoretical issues are concerned, this limit is not necessary and on specific issues like on measuring efficiency in PSEs, data have been collected for the period 1976-77 to 1978-79.

The need for making different approaches to study, the problems concerning the different forms of PSEs is more or less ignored and a unified, comprehensive approach has been made due to two reasons. The first reason is that the Government has no Departmental Undertakings and all the commercial and industrial undertakings are companies. The second reason is the distinction between different forms has been practically wiped out by the

Government in course of time. A reference about this issue is made in Chapter VII.

#### How the Study Proceeds

This study presents both theoretical and factual information. The theoretical part is drawn from the experience of other countries as well as the PSEs at the All-India level, while the factual part is based on the published reports and data provided by the PSEs themselves. Besides, there are expert opinions gathered through the questionnaires and personal interviews.

The discussion based on all the above aspects is presented in the thesis in eight chapters, including the present one which has provided the background, described the purpose and explained the methodology of the study.

In Chapter II an attempt is made to provide, in a nutshell, the conventional approaches to the study of the problem of accountability. Since it appears certain that almost all previous studies examine <sup>only</sup> the instruments or the institutions that are established to ensure the accountability system and no serious attempt has been made to examine the scope of the accountability concept itself. Hence this need is fulfilled and an attempt is made to bring out the many facets of the concept of accountability itself. Following the logic of private business enterprises, the PSEs, it is suggested, too have many claimants to accountability.

An enterprise, created as a legal person, should be made accountable to itself, in first instance, in terms of its efficient functioning and fulfilling the objectives for which it has been established. Hence Chapter III entitled 'Efficiency Accountability' deals with the problems and dilemmas in the context of establishing norms as well as measuring efficiency of PSEs. With some suitable models, sample studies are made to assess this part of the accountability.

The next claimant to accountability is the employees of the enterprise. Since the PSEs themselves claim to be 'Model Employers', their policies and practices as model employers - from recruitment to providing welfare benefits - are examined in the Chapter IV.

The consumers come next to claim accountability. Though they are not an organised group, recognition of their importance and honouring their rights form the basis of modern business philosophy and hence the ways and means by these aspects are dealt with under the PSE system are examined in Chapter V entitled 'Accountability to Consumers'.

The PSEs are established with the public money and as such it would be only fair if they are also treated on par with others or at least as one of the claimants to accountability. Hence, Chapter VI titled as 'Accountability to the Public' examines the possibilities and problems involved in making the PSEs directly or indirectly accountable to the public at large or the society as such. This needs the careful consideration of the problem

as to how far the PSE manager can use some one else's (tax payers) money on some others (the beneficiaries). Only a few such activities appear to be less controversial and <sup>as</sup> such they are examined.

In Chapter VII, picking up the threads left in Chapter II, the instruments available and the institutions established to ensure accountability are examined with a view to find out how far these instruments and institutions serve the need and take into account the many facets of the concept of accountability of PSEs. A logical outcome expected out of such an analysis would be to consider the possibility of assessing and reshaping them into specialised institutions adaptable to consider the different aspects of accountability of PSEs which are basically commercial and industrial undertakings.

The last chapter, of course, provides a summary of the findings made in the earlier chapters and also attempts to make a few suggestions to reform the accountability system.

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