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## UNIT 5 CONCEPT AND POLICY OF ACCOUNTABILITY AND AUTONOMY

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### Objectives

After going through this unit you should be able to:

- Explain the concept of accountability of PEs;
- Understand the methods of securing accountability;
- Understand the elements of autonomy;
- Discuss the objectives of accountability.

### Structure

- 5.1 Introduction
- 5.2 Concept of Accountability
- 5.3 Methods of Securing Accountability
- 5.4 Elements of Autonomy
- 5.5 Objectives of Accountability
- 5.6 Summary
- 5.7 Self Assessment Questions
- 5.8 References and Further Readings

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## 5.1 INTRODUCTION

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Accountability means to account for one's actions and to report on the achievements (and failures, together with necessary explanations) of the prescribed objectives. In case of Public Enterprises, the problem of accountability is high. The reason being that Public Enterprises are regulated by a supreme authority, the Government. In the private Sector the market forces keep a check but this is not the case with the public sector.

Since liberalization, the public sector has grown in terms of investments made. The industrial policy statement of 1948 and 1956 clearly states the role of PEs in the development of the nation. Taking this into account, the government has since encouraged the PEs but then also the problem of accountability has been a debatable issue. In this unit we are going to discuss the major issues pertaining to accountability.

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## 5.2 CONCEPT OF ACCOUNTABILITY

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The concept of accountability has a wide social significance in the present context. Accountability in short means the governments' obligation to reveal, explain and justify its policies and action to the legislature, which represents the profit (Bhatia and Batra, 1996). In accountability, the legislature should be able to perceive and scrutinize the activities of the PEs so that the programmes of PEs are implemented efficiently so as to fulfill the needs and aspirations of the masses.

Three main issues in any discussion of accountability are: Accountability for what, to whom, and how, that is, methods of procedures of securing accountability.

### **Accountability for What?**

This apparently simple question is difficult and complex in view of the multiple and sometimes conflicting objectives of PEs. PE managers often find themselves torn between conflicting claims of “Commercial Profitability” and “Social Profitability”. The former is easier to judge in terms of percentage return on the capital invested or by some other accepted method of measurement. But it is not so with “social profitability”. Thus, clear, consistent, and well-defined goals are often not available for holding PEs accountable.

A PE should be judged with reference to its total contribution, only a part of which is financial. Public policy often demands emphasis on various broader aspects, which are very likely to conflict with commercial returns. Considerations like employments of backward communities, development of backward areas, import substitution and model employer often make an undefinable dent into the profit criterion.

If the accountability is made more definite with reference to cost control, quality standards, capacity utilisation, and securing other physical standards of performance, it would be easier to measure it. However, the criteria of measurement of performance continue to remain vague and varying, making PE accountability difficult and confused. Further, the various interests would like PEs to be accountable on many different counts as viewed by them and PEs may emphasise different aspects of their performance.

### **Accountability to Whom?**

The public at large is too diverse and heterogeneous a group of holding PEs accountable to itself. The accountability has perforce to be to the elected representative of the public in the legislature. But the public in general does express its concern over various matters by invoking the help of the press, through public meetings, demonstration, seminars and conferences by interested parties, pressure groups, and in other ways. However, the accountability supposed to be secured in these ways is mostly informal or based on traditions and conventions. On the other hand, the responsibility to the legislature is well defined and formal.

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## **5.3 METHODS OF SECURING ACCOUNTABILITY**

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Formal channels of accountability are specified in parliamentary procedures and in documents of incorporation of PEs. These generally cover, among others, audit by a public body and preparation of the annual report, both of which are submitted to the legislature. Accountability is also secured when PEs on their own answer public criticism in the press, and keep the public informed through speeches, publications, and other publicity material. Accountability to the Government is also a part of public accountability because the Government is responsible to the legislature for performance of PEs.

### **The Problem of Balancing Accountability and Autonomy**

In the use of their productive resources, PEs are expected to operate with the efficiency of private enterprise, but with the higher accountability for results. The legislature and the audit at times want to concern themselves not only with the overall performance but also with individual decisions. This runs counter to the type of accountability obtained in private enterprise.

One side of the problem is that individual business decisions should not be scrutinized and the corporate personality should be respected. The other side is that PE involves public money, which is a sacred trust with those who handle it.

They should be above all suspicions and ready to face any reasonable scrutiny. The public also feels a sense of ownership over PEs and insists on seeking the most efficacious use of its money. Even for private enterprises, greater oneness, and a higher degree to public control and scrutiny by external agencies are being insisted upon and accepted all over the world, including India.

As the public seeks to secure an unusually high level of accountability from PEs, the problem is of balancing it with the need for autonomy necessary to operate a business enterprise. Various measures have been suggested to effect a proper balance between autonomy and accountability, but nothing near a final or satisfactory solution has been obtained. One serious difficulty in striking the proper balance is that as the ministers are responsible to Parliament for the performance of their PEs, the concerned ministers often get too much and too easily involved in the working of their PEs, resulting in serious dilution of autonomy.

The L.K. Jha commission has rightly observed that it is sometimes assumed that there is a conflict between autonomy and accountability. That is not so. Indeed, the two go together and what conflicts with both is control. The more detailed and extensive a system of control over actions and decisions of management, the less accountable the management becomes. If all the major decisions and even the minor ones are taken by a PE with the approval or advice or guidance or concurrence of the government, the management cannot be held accountable for the results but only for having complied with the wishes of the government.

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## 5.4 ELEMENTS OF AUTONOMY

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Researches all over believe that PEs should have adequate autonomy and should be free from the influence of government and parliament. Citing the second five years plan, “the general policy, therefore is to confer upon their managements, the large measure of financial and administrative autonomy consistent with the overall responsibility of government and accountability to parliament”.

Elements of Autonomy for Public Enterprises (*Shrivastava, 1992*):

- i) Freedom from annual appropriation process, atleast for operating expenses;
- ii) Freedom to receive and retain operating revenues;
- iii) Freedom to apply operating revenue to operating expenses;
- iv) Freedom from general government restrictions particularly in the field of expenditure;
- v) Freedom from normal government appropriated accounting;
- vi) Freedom from normal government audit of operation; and
- vii) Other related freedoms like freedom to borrow money, to hire and fire, the pay salaries at the discretion of the enterprise and to control its long-term planning;

India has two kinds of autonomous PEs viz a viz:

- a) statutory or public corporation
- b) Government companies

In practice, both the forms are similar as Government of India has not laid down a well defined set of criteria to differentiate between the two.

Autonomy is important but the judgment of its importance is based on the contribution it makes to good and efficient management. In PEs the concept of autonomy is different from those of its private counterparts. Here, the funds come from the pool

of national financial resources, hence the public is the owner of such enterprises. To assess autonomy, it is important to differentiate between accountability to legislature and involvement of the government in the operational decisions in the enterprise. In PEs, autonomy is effective if the management is highly effective and if not, it is a disaster. Therefore, it becomes important that more emphasis should be laid on developing management talent than looking for 'statutory autonomy' in PEs. There are certain factors, which hamper the autonomy of PEs. They are as follows:

- i) Continuous dependence of PEs on government for finances;
- ii) National Policy;
- iii) Dominance of government on the board of directors;
- iv) Craze for evolving uniform procedures.

If these factors are minimized, autonomy can be more effective.

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## **5.5 OBJECTIVES OF ACCOUNTABILITY**

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Accountability is very important for any government irrespective of its form or mode of articulation. Accountability can be formed as the basis for measurement of the top management and it should be demonstrable otherwise it will be of no use. The extent of ministerial responsibility for a public enterprise differs from its form and the degree of control also varies from organisation to organisation.

The main objectives of accountability can be stated as follows:

- i) Promoting efficiency;
- ii) Achieving specific ends;
- iii) Ensuring financial accountability;
- iv) Establishment of co-ordination among various programmes;
- v) Fulfillment of generative ends and national importance;
- vi) Minimizing concentration of powers;
- vii) Ensuring ministerial accountability to parliament.

### **Activity**

What are the main issues in securing Accountability to PEs?

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## 5.6 SUMMARY

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The public sector, post liberalization has occupied a dominant position in Indian economy and PEs like ONGC are performing at the global level as well. When we discuss the concept of accountability, it directly relates to the concept of responsibility, defining the relationship between various authorities. It is necessary to ensure accountability so that the policies formulated by government are implemented consistently in order to conduct the operations with maximum efficiency.

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## 5.7 SELF ASSESSMENT QUESTIONS

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1. What is the basic problem of striking the right balance between autonomy and accountability?
2. Discuss the objectives of accountability.

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## 5.8 REFERENCES AND FURTHER READINGS

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