

ACCOUNTABILITY OF PUBLIC ENTERPRISES OF BANGLADESH : A CASE STUDY OF HAFIZ JUTE MILLS LTD.

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INTRODUCTION :

Public Enterprise (PE) sector can be created through the setting up of enterprises by the government, joint ownership of management of privately set up enterprises and through nationalisation programme. It is to be noted that nationalisation in capitalist countries restricts only the individual private owners' in the disposability of capital and creates favourable pre-requisites for an effective collaborations of economic branches and sectors through the central regulating mechanism of the state.¹ On the other hand socialist nationalisation is the revolutionary expropriation of the property of the exploiting classes by the state and its conversion into state socialist property.

The expansion of government activities in the field of public enterprises has brought up problems of accountability due to the fact that many of the decision process involving this public organisations take place outside the traditional branches of government. Further, the need for accountability arises because the investment in public enterprises are from public funds. D. Amarchand in his article "Public Accountability" lists as many as ten grounds for which accountability of public undertaking is needed² : (i) Public enterprises are established with public money (ii) in case of expansion public

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money may be used further (iii) in case of loss the public is to bear it (iv) they may be engaged in production of essential goods and services (v) they may enjoy autonomy, which needs to be evaluated (vi) they are controlled and managed by persons who have no financial stake at enterprises (vii) ministry remains in overall control which may lead to misuse of political power (viii) market powers are not used against public interest (ix) in some cases the enterprise should enjoy a hidden subsidizing which needs to be accounted and (x) the public need to know it, if the enterprise likes to raise part of the capital from the public.

In general there are three hierarchical levels in the control-supervision structure involving PEs. At the bottom is enterprise level control involving internal management matters. On the next tier there is corporation level control involving internal management matters. On the third tier or at the top there is the ministerial control or bureaucratic nature involving evaluation, co-ordinating among ministries and non-delegated policy matters. Besides these three tiers or levels of direct control supervision structure, there has political control exercised by the minister and the cabinet involving major policy issues : there exists an implicit to the parliament of elected representatives.³

The main purpose of this study is to test the hypothesis.

"The enterprise accountability tends to be ineffective due to lack of adequate performance evaluation system"

The hypothesis has been tested with empirical data of Hafiz Jute Mills Ltd. (HJML). To conduct this study, data are collected on the basis "Participant Observation" and "Interview". Important data are also collated from the MIS department.

The paper is divided into three sections. The section covers mainly the following aspects (a) definitional issues (b) accountability procedure of enterprise (c) mechanism of accountability enterprise (d) evaluation of enterprise accountability (e) problems of accountability and (f) suggestions and recommendations.

Section I

We define the following two terms.

- Public Enterprise.
- Accountability

Public Enterprise

Public Enterprise as the term indicate has two broad dimensions "Public" dimension and "Enterprise" dimension. Public dimension connotes public purpose, public ownership and public control, whereas 'enterprise' dimension indicates activities of a business character, investment and returns, and also marketing of outputs.⁴

According to UN, PEs are identified as publicly "Owned and controlled enterprises which are (i) incorporated public corporations or (ii) large union corporated units (government units enterprise) that sell most of the goods they produce to the public."⁵ In Jones work, PEs is defined "as a productive entity which is owned and/or controlled by public authorities and whose output is marketed."⁶

Accountability

The more power is concentrated at any point in society, the greater is the need for safeguarding against its abuse ... the question of accountability to the citizen of democratic control by the citizen as vote and consumer, becomes a central one ... every delegation of power to an agent must be accompanied by corresponding degree of accountability.⁷

Section II

The accountability.procedure of enterprise under study are discussed as follows :

- Accountability Procedure of Enterprise Head.
- Accountability to Enterprise Management Board.
- Accountability to the Chairman of the Enterprise.
- Accountability to Corporation Board.
- Accountability to the Chairman of the Corporation.
- Accountability to the Functional Directors.

Accountability procedure of Enterprise Head

Before examining the accountability procedure of the enterprise head, it is imperative to see first what his functions and responsibilities are for which he can be held accountable. It is natural that the functions of the enterprise head will embrace all the activities concerning overall management of the enterprise. However, an attempt was made to know specifically from the enterprise Head about his functions and responsibilities. The findings are shown below :

- Planning for production, finance, sales, overhaul, BMRE etc.
- Implementation of policy and directives of corporations and enterprise board
- Supervision, co-ordination and control of the activities of the enterprise and running the enterprise efficiently
- Better maintenance of labour-management relations
- Timely procurement of raw materials and achievement of target production and sale
- Submission of Management Information Services (MIS) and accounts reports, approved vouchers and estimates and ensure timely audit
- maintenance of plant, review target achievement and reduction of wastage
- Watch the liquidity position of the enterprise
- Signing contract on behalf of the enterprise.

It needs mentioning that at the outset of nationalisation these functions of enterprise head was not written and in most of the cases he had no job description. But it is reported that now all the enterprise heads have written job descriptions either incorporated in the enterprise rules prepared by the corporation or involved through the decisions of the enterprise board. Such a written job description is essential to ensure better accountability.

The Chief Executive of the enterprise is appointed by the corporation. He is the Principal Accounting Officer of the enterprise for its activities and performance. The performance of the enterprise and its head is entrusted by different controlling authorities. The following chart will show the picture clearly :

Locus And Focus of Accountability of Enterprise Head

LOCUS	FOCUS
1. Enterprise Management Board	Review periodic performance and suggesting policy measures to overcome difficulties or to improve further
2. Chairman, Enterprise Management Board	Performance measurement of enterprise head.
3. Corporation Board	Review of periodic performance with reference to budgeted target.
4. Corporation Chairman	Overall position of the Enterprise and performance of enterprise head.
5. Functional Directors	Supervision over respective functional areas.

The above chart shows that the enterprise head is accountable for performance to different authorities. This violates the principles of single accountability which require, that each person be accountable to only one superior.

Accountability to Enterprise Management Board

At each PE there is an enterprise management board to review the performance of the enterprise with a view to ensuring that the performance is in line with the budgeted one and suggesting it for further improvement. It was reported that board meeting is held regularly after three months. It was also reported by the project head that in some cases it is not regular due to the pre-occupation of the Chairman of the Board who is one of the functional directors of the corporation. In the meeting monthly performance reports and accounts reports were studied. The meeting after review of performance, sometimes suggested measures to be implemented by the enterprise head to overcome difficulties encountered in the past or likely to be encountered in the future.

Accountability to the Chairman of the Enterprise

The enterprise head is accountable to the Chairman of the enterprise board, which is the highest management body of the enterprise. The Chairman writes Annual Confidential Report (ACR) of the enterprise head. Enterprise head of HJML acknowledged that the ACR as a tool of proper evaluation and accountability are mostly absent in the present practice.

Accountability to Corporation Board

The general direction and administration of the affairs of a corporation shall be vested in a Board of Directors. Among its various functions periodic performance evaluation is one. Each enterprise is required to submit to the corporation performance reports, balance sheets, profit and loss accounts and revenue accounts at the time fixed by the corporation. Such reports were submitted monthly by each enterprise which were revised by the corporation board of directors in their board meetings with reference to the budgeted target in order to see whether production, sales and other operations were in accordance with the set targets. After evaluation of performance of the enterprise, the board has a right to issue necessary guidance or take action as the board deems eligible. In fact, the real accountability of an enterprise lies with this board which is the supreme body for delegated policy matters for control and supervision of the enterprises under the corporation.

Accountability to the Chairman of the Corporation

The Chairman of the Corporation (BMC) is the Principal Accounting Officer for all departments and enterprises under the corporation. The Chairman visits some of the enterprises from time to time to have an on-the-spot idea about the enterprises functions and problems. The Chairman also receive some copies of the performance and accounts reports. He has an implied power to judge for himself the performance of an enterprise and its head. Moreover, any action against any enterprise chief needs to be carried out with the approval of the corporation board of which he is also the Chairman. It may reported that no visits were made by the Chairman of the corporation to the enterprise under study in the last year (1996)

Accountability to the Functional Directors

The government appoints directors of the corporation in functional areas such as Finance Director, Planning Director, Production Director etc. A Director supervise matters related to his functional areas at both the corporation and the enterprise level. In this way enterprise head come under the jurisdiction of the different functional Directors. These Directors all receive consolidated progress reports of enterprise functioning through the Management Information System (MIS) department of the corporation. Sometimes the directors may also receive reports from enterprise directly regarding their respective areas. They review through these reports and take action accordingly. But for any major policy decision and action against any enterprise head they are to go through the corporation board for decision or approval which is the supreme authority for management and control of an enterprise. It is to be noted that for jute mills there is another evaluation authority, i. e. Zonal Office where quarterly evaluation of the performance of the enterprises under the Zone is made.

The above findings reveal that an enterprise head was accountable to multiple authorities and in some cases to different authorities for the same matters. In view of this situation Deputy General Manager of the HML pointed out that the multiplicity of controlling authority adversely affected their performance as they had to eagerly wait to know the result of evaluation from different authorities. According to him, a single effective body could have properly evaluated the performance and solved the problems more efficiently and timely.

Section III

An analysis of accountability mechanism shows that authorities evaluated the performances of the enterprise through MIS reports. As such the instruments used to measure and evaluate, performance and accountability can be identified as :

- Budget

- Performance Report
- Accounting Report
- Audit
- Annual Confidential Report (ACR)

Budget

The guidelines issued by the Government provides that the relationship between corporation and enterprise shall be governed through the normal annual budgetary means. Such budget was found to be the main instrument of accountability. But later an analysis of the perceptions of the sample enterprise head reveals that budget is not used as an effective instrument of accountability, Project head of HJML considered the technique to some extent effective. Thus it can be said that the 70% of the respondents considered the budget not attainable or effective and therefore not an efficient instrument of accountability.

Performance Report

Performance report is prepared by the enterprise as part of MIS that exists as a sub-section styled annual report and financial statement, under general accounts section. In performance report information is furnished against many items. In one performance report it was counted that information was furnished against forty six items. It is to be reported that some of the, reports are sent daily and some weekly (viz. production reports and sales reports) and others are furnished monthly.

Performance report of sample unit for the year 1996-97 (till November, 1996) given in Table 1.

Table 1 Performance Report of HJML [in Lakh Taka]

Sl. No.	Description	1996-97 upto November, 1996	
		Budget	Actual
1.	Loan budget/operation		
	Hessian	509	448
	Sacking	267	265
2.	Weaving production		
	Hessian	2734	1935,80
	Sacking	2983	2643,76
	Others		213,43
3.	Weaving efficiency [In %]		
	Hessian	49,88%	45,23%
	Sacking	59,97%	57,82%
4.	Wastage jute		
	Hessian	0,50%	1,81%
	Sacking	0,50%	2,22%
	S-yams		0,71%
5.	Production cost		
	Hessian	52,165	63,994
	Sacking	29,927	31,049
	Full brite		47,049
	S-yams	27,317	29,543
6.	Total expenses including selling expenses and stock adjustment		
	Hessian	40,379	42,587
	Sacking	29,179	27,991
	Full brite		47,815
	S-yams	27,602	30,414
7.	Sales price		
	Hessian	37,073	32,428
	Sacking	37,075	32,418
	Sacking	26,931	25,413
	Full brite		38,499
	S-yams	32,012	31,672
8.	Manpower		
	Officer	120	104
	Staff	350	104
	Workers : Permanent	3090	2913
	Badli		960
9.	Profit and loss	-306.18	

The respondents on the average did not consider the performance reports as an efficient instrument to ensure proper evaluation and accountability.

Accounting Report

The accounting system of an organisation is designed with many objectives. The most important are :

- Identifying the information needed by the management to measure and control performance in accordance with the plant,
- Installing the controls necessary to ensure the efficient use of assets.

Enterprises under the sector corporations in Bangladesh follow the Integrated Accounting System (IAS). The system was introduced with a view to bring about integration in financial and costing records, uniformity in recording and reporting practices among various units as well as between different years and the like.⁸

The IAS calls at least 14 types of monthly reports for preparation and submission to the corporation. It may be mentioned that the companies Act of 1994 requires the preparation of annual balance sheet and profit and loss accounts. But the corporation rules and IAS in addition require the preparation of monthly profit and loss accounts and balance sheet for their submission to the corporation. The balance sheet is a report of the management stewardship. Profit and loss account is a means of reporting performance of the enterprise as business enterprises. Balance sheet, profit and loss accounts relating to the previous period constitute the principal accountability documents. Moreover, the present accounting and reporting practice can not serve as a control and accountability device for those who do not involve responsibility accounting which is needed for establishing accountability. The same respondents also did not consider the accounting reports as an effective tool of ensuring accountability,

Audit

Besides government audit conducted by comptroller and Auditor General (C&AG), public enterprises are audited by the corporation internal audit department and statutory audit by Chartered Accountants

Internal Audit Internal Audit is essentially an appraisal activity within an organisation for the review of accounting, financial and other operations as a

basis for service to the management. Through measuring and evaluating the effectiveness of organisational controls, internal auditing itself can act as an important managerial control device. The audit team generally visit the enterprise twice a year and conduct half yearly audits. As to the query regarding the types of irregularities generally found in the public enterprises and also in the enterprise under study and regarding the result of their audit reports the Deputy General Manager (A&F) pointed out that : (i) Shortage of inventory (ii) improper store keeping system (iii) wastage, pilferage, defalcation (iv) irregularities as to recovery of advances (v) irregular purchase of office materials, vehicles, stationery etc. (vi) carriage loss, unnecessary expenses for the office and quarters of the staff and (vii) executives bad debts etc. were the main irregularities detected in the past. An analysis of the internal audit report reveals that in general internal audit is carried out at year end and report is submitted to the authorities promptly. Table 2 shows the picture clearly :

Table 2 Position of Internal Audit of HJML

Accounting period	Start of audit work	Completion of audit work	Submission of audit report
1994-95	December 7, 1995	December 21, 1995	December 30, 1995
1995-96	December 9, 1996	December 23, 1996	December 29, 1996

Internal audit in addition to financial audit to some extent evaluates management performance. However, as to the query regarding the action on audit reports by top executives, it was found that timely and adequate action are seldom followed, the enterprise also did not send timely reply to audit objection and in many cases, satisfactory replies were not given. These observations found substantiation from those made in the report of public undertakings committee (30.1.1981) of the Parliament in which it was reported that there were ample examples of ignoring reply to internal audit objections.⁹ This inadequate action on audit reports seriously handicaps the efficiency of internal audit as a tool of accountability.

Statutory Audit The guidelines (1976) on the relationships between government and autonomous bodies/ corporation and relationship between corporation and enterprises under them provides that in addition to statutory government audit, the accounts of each enterprises shall be audited by not fewer than two auditors, who will be appointed with the approval of the corporation on such terms and conditions as the corporation may fix. In fact, this power was exercised by the corporation themselves unless it was delegated to the enterprise board. BMC enterprise board regulations, 1977 empowers the enterprise board to appoint external auditors after prior consultation with the corporation.¹⁰

The primary function of public accounting profession is to render independent expert opinion on the fairness of presentation of stewardship reports. The professional auditors, as is well known, do not certify as to whether the business of a company is being conducted prudently or imprudently, profitably or unprofitably. They have no responsibility to report on the efficiency or otherwise of an enterprise. Statutory audits serve as proprietary audit to fulfil the legal requirements for reporting as to whether the books of accounts present a fair view of the affairs of the enterprise. The sample enterprise board appointed M/S. Zoha, Zaman, Kalam, Rashid & Co. as statutory auditor for the financial year 1995- 96.

The audit report for the year 1995-96 is yet to be approved by the enterprise management board. Besides, an opportunity has also found for the study of audit report of the enterprise under study. It was observed that in the scope paragraph of these reports it was stated that, "in the course of an audit we have applied the general accepted auditing Principle and accordingly we have applied such test and examinations as we have considered in order to satisfy and to fulfil the terms of reference."

In the above circumstances, statutory audit seems not to be an effective instrument to evaluate performance properly and act as an instrument of accountability. This was also perceived by the sample enterprise head and other related personnels interviewd.

Annual Confidential Report (ACR)

The purpose of the ACR is to facilitate performance appraisal and merit rating of incumbents. The ACR is written annually.¹¹ The ACR is Found to be used in each enterprise and corporation to evaluate managerial personnel. The government has developed the ACR form containing the check list of points to be considered which the sector corporations were asked to adopt with necessary modification. It is alleged that the evaluation practice in ACR suffers from subjective judgement. In some cases ACR writer were found liberal in grading. The case of personality conflict were also found to affect the rating. It is to be mentioned that in 1980 when Peter. F. Drucker introduced Management by Objectives (MBO) the rating of traits of the Officer's used in the present ACR was discarded.¹² Some respondents (40%) confessed that the controlling authorities are not always objective in writing ACR and as such they did not recognise it as an effective instrument in assessing accountability. According to them ACR writing is normally treated as a routine work

Section IV

The findings of this study are briefly discussed under the following headings

- Evaluation of Enterprise Accountability
- Problems of Accountability
- Suggestions and Recommendations

Evaluation of Enterprise Accountability

Public enterprise are the production units assigned with the responsibility of achieving target production sales and profit. The targets are mainly dictated by the corporation, although the budget preparation involves both enterprise and corporation. Enterprise have less flexibility to go beyond the corporation idea and decision. The performance of the enterprise are mainly judged on the basis of actual achievement compared to the budgeted one.

The enterprise head who is the Chief Executive of an enterprise, entrusted with the efficient and economic running of an enterprise within the board

policy framework set by the corporation and government, is found accountable for the enterprise performance with reference to the production, sales, profit and implementation of corporation rules and regulations.

The enterprise head is found to be accountable for performance to multiple authorities viz, Enterprise Management Board, Corporation Management board, Corporation Chairman, Functional Directors and so on. Multiple accountability is not considered ideal. Instead, single accountability system is an efficient accountability system.¹³

Instruments of accountability are also found inefficient either due to the indifference of the supervisory authority or for their limitations in design and application like budgets, accounts reports and ACR. Moreover, when the PEs are intended to be judged on commercial consideration the problems became more acute owing to the inadequate and low autonomy in matters of policy and operation.

It is to be noted that parliament acts as a great means to ensure public sector accountability through various techniques viz, questions, short questions, debate, committees/commissions. It is crucial for the parliament to **oversee the single enterprise performances, rather it evaluate the performances collectively** i.e. corporation level. The respondents told that since the inception of the sample unit no techniques of accountability were applied by the parliament regarding the sample under study. Thus the accountability of enterprise is found to suffer from various limitations.

In this context, the hypothesis of this study that the enterprise accountability tends to be ineffective due to lack of adequate authority and autonomy of enterprise head and inappropriate performance evaluation systems prevails.

Problems of Accountability

The nature of the problems of accountability of the public enterprise in Bangladesh has been elaborately stated in earlier discussion. Some important problems are enumerated here :

(i) The enterprise head has been found to be accountable for performance to multiple authorities viz, enterprise-management board, corporation management board, corporation-chairman, functional directors and so on. Multiple accountability is not considered ideal. Such kind of accountability might degenerate the motivation and initiative of the enterprise chief

(ii) Performances of the enterprise are evaluated twice by two different authorities. Enterprise Management Board evaluates the performances firstly and then these reports were revised by the corporation management board of directors in their board meetings with reference to the budgeted target in order to see whether prohibition, sales and other operations were in accordance with the set targets. But the irony was that the board comprises the chairman and functional directors who in their capacity as chairman of enterprise board have reviewed or will review the same performance reports at enterprise board meetings. This one member evaluates the performance of an enterprise twice in two different capacities.

(i) ACR of enterprise heads are written by the chairman of the Enterprise Management Board and concerned Minister and Secretary writes the ACR of the corporation chairman and functional directors respectively. For this reason they always try to uphold a close contact with them. This is why it is critical to make them really accountable.

(iv) ACR as an instrument of accountability suffers from subjective judgement and proper evaluation.

(v) In Bangladesh, enterprise units are subjected to maximum control by supervisor authorities and enjoy minimum autonomy. The enterprise generally have few policy options as they operate within approved budgets, plans, policies, and norms. Absence or inability to delegate greater operational responsibility with authority to the units has led to frustration

(vi) Performance reports acts as an important tool to evaluate the enterprise activity make them accountable. These reports are sent to the corporation on the corporation table without further analysis or interpretation. They are used only for the compilation of same statistical reports of the corporation.

(vii) Appropriate performance monitoring to evaluation system for which public enterprises were found unsatisfactory, also engender the problem of accountability.¹⁴

(viii) External pressure create by the political parties, pressure groups also hinder in the way of effective use of accountability mechanisms.

Suggestions and Recommendations

To overcome the aforesaid problems the tentative suggestions may be laid down :

(i) Multiple accountability project head creates enormous problems. It is not considered ideal. Indeed, a single accountability can ensure an efficient accountability system.

(ii) Performance evaluation of an enterprise twice by one member in two different capacities diminishes the advantages of double evaluation by two different bodies. This irony could have been avoided if the board of the corporation had been an external board.

(iii) To ensure the accountability of the chairman and directors of the corporation government should come forward with a commission/committee appointed by the parliament instead of present system. It is to be assured that they will be governed effectively.¹⁵

(iv) The purpose of the **ACR** is to facilitate performance appraisal to evaluate merit rating of the employees. Corporation/enterprise may use **ACR** in case of promotion, transfer and training of the concerned personnel. To make fruitful use of the **ACR** it should be properly evaluated.

(v) In Bangladesh, public enterprise units are subject to control by the supervising authorities and enjoy minimum autonomy. For proper and effective handling of an enterprise there should be balance between autonomy and control. Excessive control diminishes enterprise dynamism.

(vi) Performance reports should be carefully prepared and preserved. To

ensure better accountability, performance reports may be given prime importance.

(vii) Appropriate performance monitoring and evaluation system may be evolved for the satisfactory performance of public enterprise.

Conclusion

Accountability procedure touches an extensive area and virtually functional area or general management is free from this accountability. Accountability system of our sample enterprise is found to suffer from various limitations we multiple accountability of project head, improper use of instruments of accountability resulting in difficulties to ensure the proper accountability of public enterprises in Bangladesh.¹⁶

Certain problems of accountability and two tentative suggestions have been laid down to overcome the problems. It is government desire to solve the problems of accountability and to handle the enterprise more efficiently and effectively to achieve their objectives.

FOOTNOTES

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