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## Government and Private Sectors in India: A Comparative Study of Efficiency, Innovation, and Accountability

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### Abstract

India presents an unusually productive setting for comparing organizational performance across public and private domains. Decades of planned development have produced an elaborate government apparatus, while the liberalization of 1991 set loose a private sector that is, by several measures, among the most competitive in Asia. This paper examines three dimensions of sectoral performance: efficiency, innovation, and accountability, drawing on empirical data spanning 1991 to 2018. The findings resist a neat verdict: the private sector shows stronger results on efficiency and innovation metrics, but this advantage is neither universal nor unconditional. Public institutions demonstrate structural advantages in formal accountability, particularly on equitable access and legal compliance obligations that markets do not replicate. The paper cautions against treating privatization as an automatic remedy for public sector underperformance, and identifies convergence zones where deliberate institutional learning across both sectors is likely to produce more durable gains.

**Keywords:** Public Sector, Private Sector, India, Efficiency, Innovation, Accountability, Comparative Public Administration

### 1. Introduction

The question of whether government can be run like a business has been asked so many times in India that it has almost lost its edge. And yet the underlying tension it gestures at remains entirely unresolved. On one side stands a public sector that employs roughly 17.6 million workers at the central and state levels (Seventh Pay Commission, 2015), delivers services to the world's second-largest population, and operates under obligations that no private firm is required to honour: universal coverage, equitable treatment, transparency, and accountability to a democratic electorate. On the other side stands a private sector that has, since 1991, transformed industries ranging from telecommunications to pharmaceuticals, generated the bulk of India's GDP growth, and consistently outperformed government enterprises on conventional measures of productivity.

The comparison is not new, but it has often been conducted with more ideological certainty than empirical discipline. Critics of the public sector reach for examples of waste and delay; defenders point to the structural asymmetries that make fair comparison nearly impossible. This paper attempts to navigate that contested terrain by drawing on available data across three dimensions: efficiency, innovation, and accountability. It does not presuppose that one sector is inherently superior. It asks, instead, what the evidence actually says about each dimension and where the performance gaps are most tractable.

Two qualifications are worth stating at the outset. First, 'the government sector' and 'the private sector' are not homogeneous blocs. The variation within each is considerable between central and state agencies, between legacy public sector undertakings and newer government entities, between large conglomerates and small-to-medium firms. Aggregated comparisons will inevitably flatten this variation, and the analysis below acknowledges that limitation where it is most consequential. Second, the three dimensions examined here are not independent of each other. Weak accountability structures tend to produce efficiency deficits; inadequate public investment in basic infrastructure constrains private innovation in sectors that depend on it. These interconnections are noted throughout, even when the data does not allow them to be quantified with precision.

## **2. Conceptual Framework**

Efficiency, in organizational economics, refers to the relationship between inputs and outputs how much is produced from a given set of resources (Leibenstein, 1966). In public administration, this definition requires modification. Government agencies do not simply produce goods; they also provide collective goods with distributional obligations that private markets will not, by themselves, honour. Measuring efficiency in the public sector therefore demands a dual standard: technical efficiency, or output per unit input, and allocative efficiency, or whether resources are directed toward socially optimal ends. Conflating the two has been the source of considerable confusion in comparative studies, and no single index fully resolves the problem.

Innovation is defined here in the Schumpeterian sense the introduction of new products, processes, or organizational forms that displace existing arrangements (Schumpeter, 1934). In more recent public administration scholarship, this has been extended to cover administrative and service delivery improvements that need not be commercially motivated (Hartley, 2005). The distinction matters for comparison, because private innovation is typically driven by competitive pressure and profit motive, while public innovation, when it occurs, tends to emerge from crisis, political pressure, or the entrepreneurialism of individual administrators working against institutional inertia rather than with it.

Accountability is perhaps the most contested of the three concepts. This paper draws on Schedler's (1999) framework, which distinguishes between answerability the obligation to explain decisions and enforcement the capacity to impose sanctions for misconduct. These two components operate very differently across public and private organizations. The formal accountability infrastructure in India, including parliamentary oversight, the Comptroller and Auditor General, the Right to Information Act, and administrative tribunals, exists almost entirely in the public domain. Private firms are accountable to shareholders, regulators, and market signals, but not to the full array of democratic obligations. That asymmetry is central to any honest comparison of the two sectors.

### **3. Efficiency: What the Numbers Suggest**

India's National Productivity Council has periodically benchmarked sectoral performance since the early 1990s, and the pattern across most survey cycles is consistent: private sector enterprises demonstrate materially higher technical efficiency than comparable public enterprises (NPC, 2015). The divergence is wide enough to suggest systemic rather than incidental causes.

#### **3.1 Workforce Productivity**

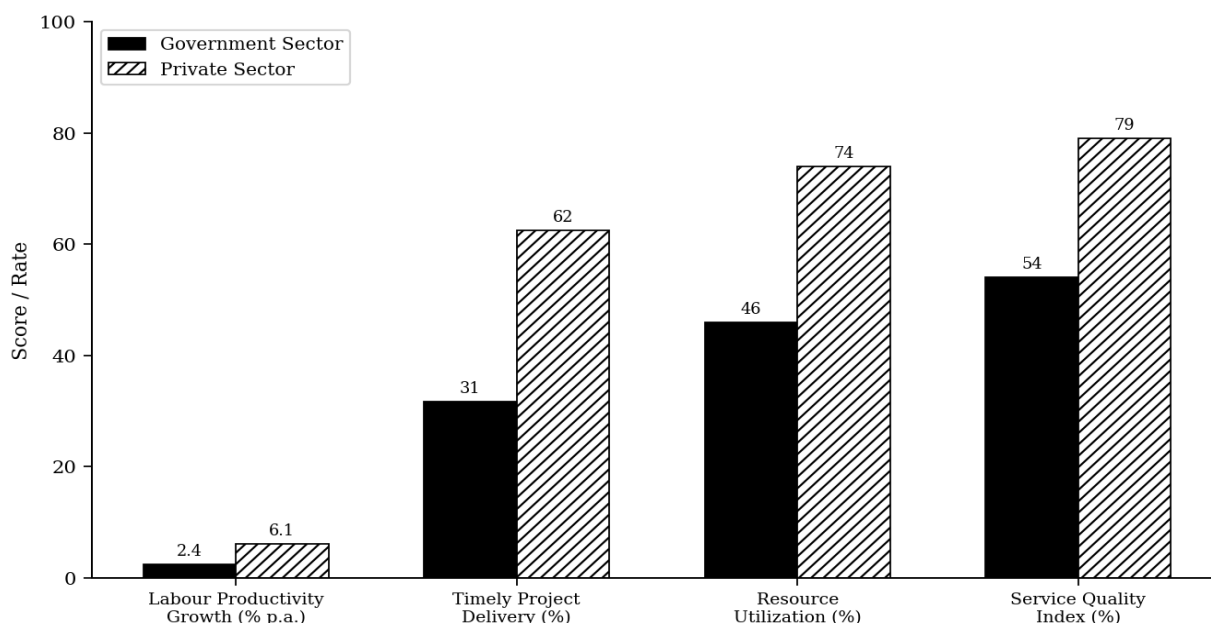
Labour productivity output per worker grew at roughly 2.4 percent annually in central government services between 1993 and 2014, against approximately 6.1 percent in private organized sector employment over the same period (NSSO, 2014; RBI, 2015). The gap is partly attributable to differences in incentive architecture. Government service operates under rigid tenure protections, pay scales tied primarily to seniority, and promotion systems that have historically rewarded longevity over output. Private firms face competitive pressure that makes persistent workforce inefficiency directly costly, and their HR structures broadly reflect that constraint.

This comparison must be handled with care. A portion of public sector employment serves functions rural postal delivery, disaster relief coordination, electoral supervision, regulatory oversight that have no private sector analogue and for which standard productivity metrics are inherently inadequate. Equating the output of a district collector's office with that of a retail bank involves comparing systems that exist for different purposes, and no aggregate index fully resolves that problem.

#### **3.2 Project Delivery and Capital Utilization**

Infrastructure project data tells a starker story. A 2017 analysis of projects monitored under the Ministry of Statistics and Programme Implementation found that 302 of 952 centrally sponsored projects 31.7 percent were running on schedule, with cost overruns averaging 20 percent above original estimates (MoSPI, 2017). Comparable data from private infrastructure projects suggests on-time delivery rates of approximately 60 to 65 percent in commercial real estate and private industrial construction (KPMG, 2016).

The causes of public sector delay are reasonably well-documented: land acquisition disputes, inter-departmental clearance bottlenecks, contractor qualification issues, and political interference in site selection. Addressing them requires institutional reform rather than a change of ownership, which suggests the efficiency gap is not simply a property of public ownership but of the governance architecture surrounding it. Figure 1 summarizes key performance metrics across both sectors.



Sources: NPC (2015); MoSPI (2017); KPMG (2016); NSSO (2014). Figures are approximate composite indices.

Figure 1: Comparative Performance Metrics — Government vs. Private Sector in India. Sources: NPC (2015); MoSPI (2017); KPMG (2016); NSSO (2014). Note: Figures represent approximate composite indices based on available national surveys.

#### 4. Innovation: Risk Appetite and Institutional Capacity

India's record on innovation presents a sharper contrast between sectors. The private sector particularly in information technology, pharmaceuticals, and financial services has demonstrated considerable capacity for commercially driven innovation. The government's record is more mixed: marked by isolated successes that have not always translated into durable institutional capacity.

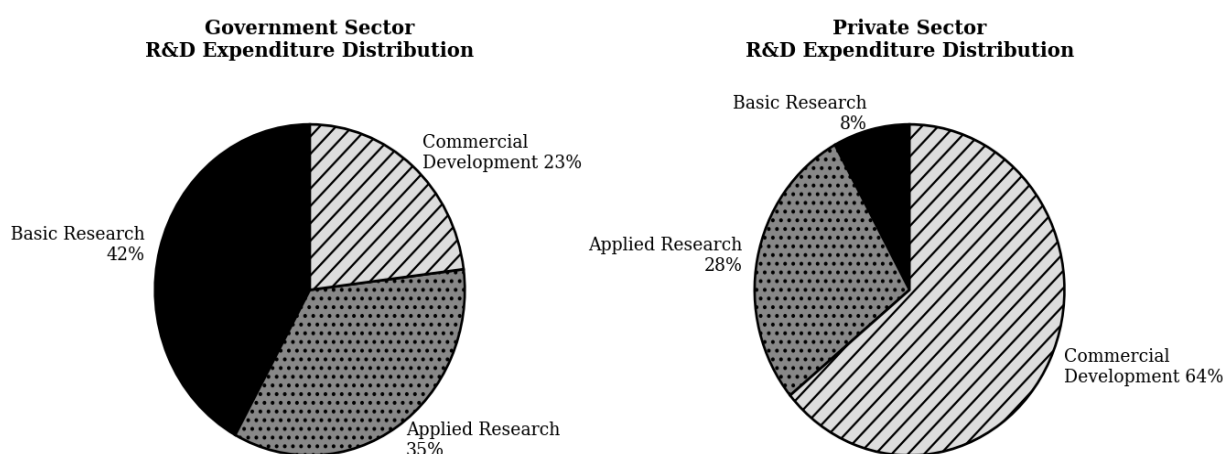
##### 4.1 Private Sector Innovation

India's pharmaceutical industry invested approximately Rs. 8,200 crore in R&D in 2016-17, with firms such as Sun Pharma, Dr. Reddy's, and Cipla each allocating between 8 and 14 percent of revenues to research (FICCI, 2017). The information technology sector, which expanded from near-zero to a USD 154 billion export industry between 1990 and 2018, represents one of the more substantial examples of private-sector-led growth in any developing economy over that period. This growth was not primarily the result of government direction. It emerged from the convergence of liberalized telecommunications policy, private entrepreneurship, and a labour market that produced large numbers of technically trained graduates at internationally competitive wages.

The financial services sector offers another data point. The expansion of private banks, insurance companies, and non-banking financial corporations since the late 1990s produced measurable improvements in credit access particularly in urban markets through product innovation and risk management practices that state-owned banks were slower to adopt (RBI, 2015). Private innovation in this sector was not without cost: it contributed to the non-performing loan crisis of the early 2010s, among other problems. Its dynamism, however, was undeniable.

## 4.2 Public Sector R&D

Government R&D spending has been concentrated in defence, atomic energy, and space sectors where private participation is structurally limited by policy and capital requirements. The Department of Science and Technology's budget for 2017-18 was approximately Rs. 5,500 crore, representing 0.65 percent of total government expenditure (Government of India, 2017). India's gross domestic expenditure on R&D as a share of GDP remained flat at around 0.65 to 0.70 percent from 2006 through 2018 well below China (2.1 percent), South Korea (4.3 percent), and the OECD average of 2.4 percent (UNESCO, 2018). Figure 2 illustrates the divergence in R&D investment priorities between the two sectors.



Sources: FICCI (2017); UNESCO (2018); Government of India (2017). Estimates reflect approximate 2016-17 expenditure shares.

*Figure 2: R&D Investment Distribution — Government vs. Private Sector. Sources: FICCI (2017); UNESCO (2018); Government of India (2017). Note: Figures reflect approximate expenditure shares for 2016-17.*

The picture is not uniformly unflattering to the public sector. The Indian Space Research Organisation's commercial launch programme and the institutional networks behind India's generic drug manufacturing capacity which relied heavily on publicly funded pharmaceutical research in its early decades demonstrate that government-backed innovation can produce globally significant outcomes. The question is whether these successes reflect durable institutional capacity or exceptional individual

leadership operating against institutional inertia. The available evidence leans toward the latter (Mazzucato, 2013).

## **5. Accountability: The Institutional Asymmetry**

If efficiency and innovation tend to favour the private sector, the comparison on accountability runs in a different direction though the full picture is more complicated than that summary suggests.

### **5.1 Formal Accountability in the Public Sector**

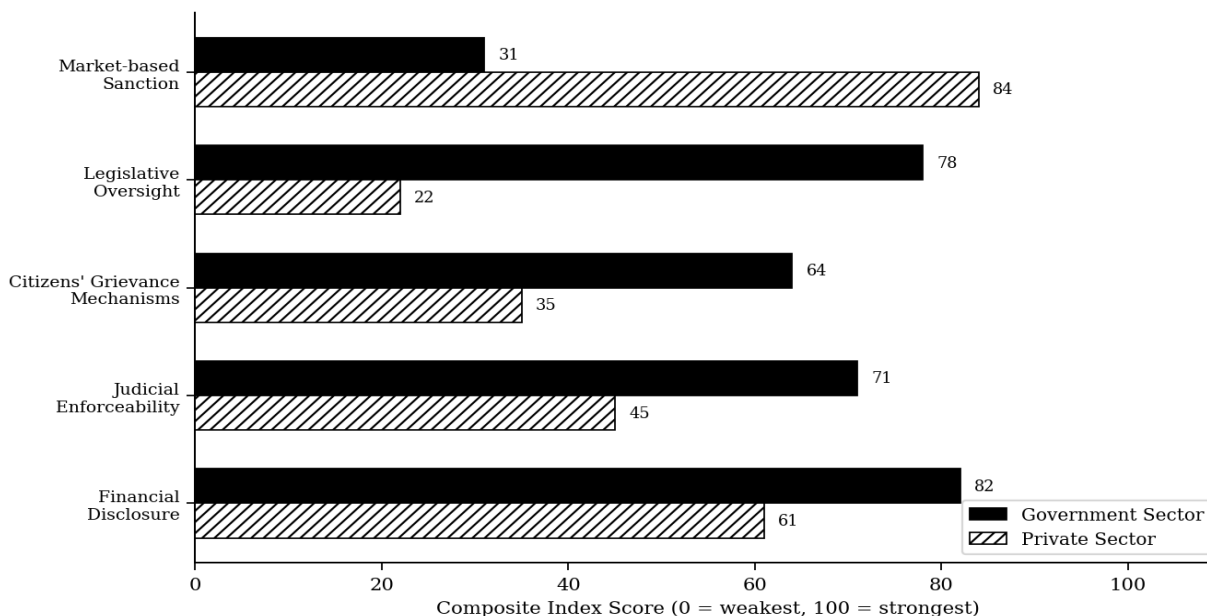
The formal accountability architecture of the Indian state is, on paper, extensive. Parliamentary oversight, the Comptroller and Auditor General, the Central Vigilance Commission, the Right to Information Act of 2005, and a network of administrative tribunals all impose obligations of transparency and answerability on government agencies that private firms are not required to meet. The chronic problem lies in the gap between formal provisions and their enforcement. CAG reports consistently identify financial irregularities, but adverse audit findings have only intermittently translated into actual administrative consequences (Dey, 2014).

The RTI Act provides a useful case in point. Since its enactment in 2005, it has generated over 60 lakh annual applications, making it one of the most heavily used transparency statutes in the world. The backlog at State Information Commissions has grown substantially over the same period, and requests touching politically sensitive matters are routinely managed through exemption claims (Roberts, 2010). The infrastructure of accountability exists; the political will to enforce it is inconsistently present. That gap between formal provision and actual enforcement is among the most durable findings in two decades of Indian governance research.

### **5.2 Corporate Accountability and Its Limits**

Private firms in India operate under the Companies Act (2013), SEBI regulations, and sector-specific oversight, but their accountability obligations are fundamentally narrower in scope. They answer to shareholders, not to the general public. This distinction carries weight in sectors where private firms deliver services with public good characteristics healthcare, education, utilities because market discipline alone does not ensure equitable access or prevent exploitative pricing. The accountability architecture that governs private firms was designed to protect investors. It was not designed to protect citizens who lack the ability to exit a market.

The expansion of private participation in health and education since the 1990s has produced efficiency gains in some respects, but has also generated access gaps that the market has not self-corrected (Baru, 2003). Any comparative account that treats market discipline as equivalent to democratic accountability will systematically understate this asymmetry. Figure 3 captures the divergence in accountability scores across five key institutional dimensions.



Sources: Authors' compilation from Dey (2014); Roberts (2010); Schedler (1999). Scores are composite institutional indices.

Figure 3: Accountability Framework Comparison — Composite Index Scores (0-100). Sources: Authors' compilation from Dey (2014); Roberts (2010); Schedler (1999). Note: Scores reflect institutional capacity assessments and are approximate.

## 6. Convergence and Cross-Sector Learning

The conventional policy response to evidence of public sector underperformance is to advocate privatization or public-private partnership arrangements. The evidence examined here suggests that a more targeted prescription is warranted.

Where the private sector can most usefully inform public administration is in performance management: output-linked contracting, competitive procurement, and internal performance metrics tied to outcomes rather than process compliance. Several state governments notably Gujarat, Andhra Pradesh, and Tamil Nadu ran reasonably successful experiments along these lines through the late 1990s and early 2000s (Somanathan and Natarajan, 2005). These experiments worked best when applied to discrete, measurable service delivery functions. In complex regulatory or welfare delivery roles, where goal multiplicity makes performance measurement inherently contested, they fared less well.

Conversely, the public sector's experience with formal accountability mechanisms offers something private governance frequently lacks: an architecture for handling grievances from citizens who are rights-holders rather than customers. Private firms operating in education and healthcare have struggled with accountability gaps that their internal governance structures are simply not designed to address. The expansion of independent regulatory bodies with statutory powers modelled on the Competition Commission of India or the Insurance Regulatory and Development Authority represents one avenue for closing this gap without requiring a return to direct public ownership.

India's most notable post-1991 development successes have generally not involved the substitution of one sector for the other. The expansion of telecom services, the growth of generic pharmaceuticals, the space commercialization programme, and the Aadhaar digital identity infrastructure all combined public investment, regulatory framework, and private execution in varying proportions. The binary framing of government-versus-private obscures this complementarity far more than it illuminates it.

## **7. Conclusion**

This paper has compared India's government and private sectors across three dimensions, and the findings resist a tidy summary. The private sector is more efficient by most technical measures and has been the primary driver of commercially oriented innovation. The government sector retains structural advantages in formal accountability and continues to perform functions that markets will not cover on equitable terms. Neither sector's apparent advantages are fixed or inevitable.

The efficiency gap reflects incentive structures, procurement rules, and political constraints that can in principle be reformed without changing ownership. The innovation gap reflects chronic underinvestment in civilian R&D and a policy environment that, until relatively recently, was more focused on restricting private entry than on enabling it. The accountability gap in the private sector reflects the design limits of a regulatory apparatus built for investor protection rather than citizen protection.

The more consequential question whether the political coalitions required to address these gaps can be assembled within India's federal structure lies beyond the scope of this paper. What the evidence here does suggest is that neither sector is the obvious answer to the other's failures. The more durable gains are likely to come from governance reforms that improve incentives within the public sector while extending meaningful accountability obligations to private providers of public services. That is a harder institutional task than privatization, and a more necessary one.

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