BUSINESS STUDIES

Class-11

Chapter - 03

PRIVATE, PUBLIC AND GLOBAL ENTERPRISES

PUBLIC SECTOR ENTERPRISES: DEPARTMENTAL UNDERTAKINGS

INTRODUCTION

Immediately after Independence, Government of India nationalised many enterprises and also established many new undertakings. The industrial policy resolutions of 1948 and 1956 assigned dominant role to public sector enterprises.

INTRODUCTION

Many areas of business were reserved for public sector. The entry of private sector was restricted in the form of licensing limits on expansion etc. In spite of restricted role the private sector continued to grow and contribute in economic development of the country.

INTRODUCTION

That is why in 1991 the Government of India adopted the policy of Liberalisation, Privatisation and Globalisation. Under this policy the private sector was assigned an important role. Many entry barriers on private sector were removed.

INTRODUCTION

The industrial licensing was abolished except in areas related to security and strategic concern. The areas reserved for public sector were reduced. The limit of expansion was raised by amending MRTP (Monopolistic and Restrictive Trade Practices Act).

INTRODUCTION

Due to these changes there is tremendous improvement in the economic development of our country. The business environment between private sector and public sector.

FORMS OF PUBLIC SECTOR ENTERPRISES

Public sector organisation are formed in three different forms:

- **Departmental undertakings**
- **Public corporations / Statutory corporations**
- **Government company**

DEPARTMENTAL UNDERTAKINGS

- **The departmental undertaking is considered as one of the departments of government. It has no separate existence than government. It functions under the overall control of one ministry or department of government.**
- **For example, Railways, Defence, post and Telegraph, Broadcasting, Telephone services etc.**

FEATURES OF DEPARTMENT UNDERTAKINGS

The main characteristics of departmental undertakings are:

1. **They operate under the overall control of one of the ministries of central or state government.**
2. **They are a part of government only, there is no separate entity.**
3. **They are financed from the annual budgets of the government.**

FEATURES OF DEPARTMENT UNDERTAKINGS

4. The revenues departmental undertakings are deposited in the treasury of government.

5. The staff of departmental undertakings are civil servants and are recruited and compensated as per the rules of civil servants.

6. They are under the direct control of departmental head, who is accountable to the concerned minister.

MERITS OF DEPARTMENTAL UNDERTAKINGS

A departmental undertakings has following advantages:

1. Easy Formation

It is very easy to form a departmental undertaking as no registration is compulsory.

MERITS OF DEPARTMENTAL UNDERTAKINGS

2. Effective Control

The control on departmental undertaking is very effective as it is direct and centralised.

MERITS OF DEPARTMENTAL UNDERTAKINGS

3. Optimum Utilisation of Funds

There is proper utilisation of funds as financial matters are subjects to ministerial sanction, budget, accounting and audit control.

MERITS OF DEPARTMENTAL UNDERTAKINGS

4. Accountability

There is direct parliamentary control. The performance of departmental undertakings can be discussed in parliament. So there is public accountability.

MERITS OF DEPARTMENTAL UNDERTAKINGS

5. **Secrecy**

   The activities, performance of the departmental undertakings can be highly secret, as government can avoid disclosure on the plea of public interest. Due to secrecy only the most sensitive area i.e. defence is operating as a departmental undertaking.

DEMERITS OF DEPARTMENTAL UNDERTAKINGS

The main drawbacks of departmental undertaking are:

1. **Inflexibility**

   The departmental undertaking works under strict parliamentary control. There is too much interference of ministers and top officials. It is treated as one of the government offices. This reduces the flexibility and efficiency of the undertaking.

DEMERITS OF DEPARTMENTAL UNDERTAKINGS

2. Lack of Motivation

- The department undertakings have no power to utilise their revenue as these are deposited in the treasury. There is no incentive to maximise profit. There is no direct relation between the efforts and rewards.
- Generally promotions are on the basis of seniority and not on the basis of efforts. So employees are not motivated to perform to their best ability.

DEMERITS OF DEPARTMENTAL UNDERTAKINGS

3. Lack of Financial Autonomy

The departmental undertaking cannot plan long – term investment projects. As they are subject to budgetary control of government, they are not allowed to use their own revenue freely as these have to be deposited in the treasury. It has no independence or freedom of utilising funds in its own way.

DEMERITS OF DEPARTMENTAL UNDERTAKINGS

4. Inefficient Management

The departmental undertakings are managed by the government officials. These officials are overburdened with the paper work. They spend maximum time to answer the queries from parliament or ministry. They can be transferred any time. As a result, they have less sense of responsibility and efficiency.

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PUBLIC SECTOR ENTERPRISES: STATUTORY CORPORATIONS

INTRODUCTION OF STATUTORY CORPORATION

A statutory corporation is a body corporate formed by a special Act of Parliament or by the central or state legislature. It is financed by the government and it can arrange it own fund also.

For example, Indian Airlines, Air India, State Bank of India, Life Insurance Corporation of India, Food Corporation of India, Oil and Natural Gas Corporation, etc.

FEATURES OF STATUTORY CORPORATION

The main characteristics of public corporation are:

1. **It is created by an Act of Parliament or central or state legislature.**
2. **The powers, objectives and limitations of public corporation are defined in the Act only.**

FEATURES OF STATUTORY CORPORATION

3. It operates under total control of central or state government.
4. It is a separate legal entity. It gets incorporated automatically when Act is passed in the parliament.
5. It is managed by the Board of Directors who are nominated by the government.

MERITS OF PUBLIC CORPORATION

The main advantage of public corporation are :

1. **Administrative Autonomy : A public corporation is able to manage its affairs with independence and flexibility.**

2. **Quick Decision : A public corporation is relatively free from red tapism, as there is less file work and less formalities to be completed before taking decision.**

PUBLIC CORPORATION / STATUTORY CORPORATION

3. **Service Motive :** The activities of public corporation are discussed in parliament. This ensures protection of public interest.

4. **Efficient Staff :** The public corporations can have their own rules and regulations regarding remuneration and recruitment of employees. It can provide better facilities and attractive terms of services to staff to secure efficient working from its staff.

PUBLIC CORPORATION / STATUTORY CORPORATION

5. **Professional Management :** Its board of Directors consists of business experts and also the representatives of various groups such as labour, consumers nominated by the government.

DEMERITS OF STATUTORY CORPORATION

1. **Autonomy on Paper Only : The autonomy and flexibility of public corporation is only for name's sake. Practically ministers, government officials and political parties often interfere with the working of these corporations.**

DEMERITS OF STATUTORY CORPORATION

2. **Lack of Initiative :** **Public corporations do not have to face any competition and are not guided by profit motive. So the employees do not take initiative to increase the profit and reduce loss. The losses of public corporation are made good by the government.**

DEMERITS OF STATUTORY CORPORATION

3. **Rigid Structure :** The objects and powers of public corporations are defined by the Act and these can be amended only by amending the statute or the Act. Amending the Act is a time-consuming and complicated task.

DEMERITS OF STATUTORY CORPORATION

4. Unfair Practices : The governing board of a public corporation may indulge in unfair practices. It may charger unduly high price to cover up inefficiency.

SUITABILITY OF STATUTORY CORPORATION

The public corporation is suitable:

1. **Where undertakings require monopoly powers.**
2. **Where undertakings require special powers, defined by the Act or statute.**
3. **Where undertakings require regular grants from the government.**
4. **Where the undertakings require appropriate combination of public accountability and operational autonomy.**

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PUBLIC SECTOR ENTERPRISES: GOVERNMENT COMPANIES

GOVERNMENT COMPANIES

Government company means any company in which at least 51 per cent of the paid – up share capital is held by the central or state government or partly by central or state government. The government companies are governed and ruled by the provisions of Companies Act, 2013 like any other registered companies.

For example, Steel Authority of India, State Trading Corporation, Hindustan Machine Tools.

FEATURES OF GOVERNMENT COMPANY

1. **Registration:** The government company gets incorporated under the Companies Act, 2013. All the provisions of Companies Act are applicable on a government company, Government can exempt it from some provisions by passing a special resolution.

FEATURES OF GOVERNMENT COMPANY

2. Ownership : The government company is wholly or partly owned by the government. The share capital of these companies is owned by the government of the India in the name of the president.

FEATURES OF GOVERNMENT COMPANY

3. Management : **The government company is managed by the board of Directors, who are nominated by the government and other shareholders. The government has the authority to appoint majority of the directors.**

FEATURES OF GOVERNMENT COMPANY

4. **Ministerial Control :** A government company is subject to ministerial control. The concerned ministry makes appointments of directors. The ministry may issue directors and can assume the overall supervision of the undertakings.

FEATURES OF GOVERNMENT COMPANY

5. **Financial Autonomy :** The government company enjoys borrowing powers It can raise capital by issue of various securities. It is free to use its revenue for the growth and expansion of the company.

FEATURES OF GOVERNMENT COMPANY

6. **Efficient Staff :** The recruitment and remuneration of employees of government company is independently decided by the government company itself. They are not governed by civil services rules.

FEATURES OF GOVERNMENT COMPANY

7. **Accountability :** The government companies are accountable to the ministry or the department concerned. Its annual report is presented and discussed in the parliament or state assembly.

MERITS OF GOVERNMENT COMPANY

1. **Administrative Autonomy** : **The government company is relatively free from government and political interference. It can function freely and smoothly under the general vigilance of the government. Suitable changes can be introduced whenever needed within the provisions of Companies Act.**

MERITS OF GOVERNMENT COMPANY

2. **Greater Flexibility :** The government company is managed, Financed and audited just as any other private sector company. It can therefore secure greater flexibility, freedom of operation and quickness of action in running the enterprise.

MERITS OF GOVERNMENT COMPANY

3. **Efficient Staff :** The government companies can have their own rules and regulations regarding the recruitment and remuneration of employee. They can appoint professional and specialised people by offering better services and salary.

MERITS OF GOVERNMENT COMPANY

4. **Collaboration :** The government companies can avail and accommodate managerial skill, technical know-how or expertise of the private enterprise by conveniently collaborating with it.

DEMERITS OF GOVERNMENT COMPANY

1. **Autonomy on Paper Only:** **The freedom and flexibility offered to government company is true theoretically only. In actual Practice the government, being the ,major shareholder, dictates the terms and get the things done in its own way.**

DEMERITS OF GOVERNMENT COMPANY

2. **Political Interference :** The government companies are treated as the personal property of ministers. The interference of ministers is frequent. The operational policies of the government companies are formed according to the whims and fancies of the ministers.

DEMERITS OF GOVERNMENT COMPANY

3. **Board Packed with Government Representatives :** The Board of Directors in Government companies is appointed by the government. Sao these directors always try to please the Government rather than improving efficiency of the government company.

SUITABILITY OF GOVERNMENT COMPANIES

The government company is a suitable form of organisation:

(i) Where government wants to control a company in the private sector, without nationalisation.

(ii) Where government wants to go for a collaboration with private enterprise.

(iii) Where the projects require government planning and funds.

COMPARISON BETWEEN DIFFERENT FORMS OF PUBLIC SECTOR ENTERPRISES

Comparison between Different Forms of Public Sector Enterprises				
Basis		Departmental Undertaking	Public Corporation	Government Company
1.	Formation	It is formed by the ministry as a department of government.	It is formed by passing a special Act in the parliament of state legislature.	It is formed by getting registered under Companies Act,2013.
2.	Legal Status	No separate legal entity	It is a separate legal entity	It is also a separate legal entity.
3.	Finance	Totally financed by the government in budgetary allocations.	It gets funds from government but can borrow independently also.	Separate financing, government provides funds by taking major shareholding. Can borrow and private participation is also possible.

COMPARISON BETWEEN DIFFERENT FORMS OF PUBLIC SECTOR ENTERPRISES

4.	Management and control	Managed and controlled by the government official form the concerned industry.	Managed by the Board of Directors nominated by the government Parliamentary control.	Managed by Board of Directors who are nominated by government but private individuals can also be the directors.
5.	Suitability	Defence, post and Telecom, Broadcasting.	Industrial can commercial enterprises of national priority.	Industrial and commercial enterprises requiring participation of domestic and foreign private capital.
6.	Flexibility of operation	None or very little.	Considerable flexibility .	Moderate flexibility.

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GLOBAL ENTERPRISES

PRIVATE, PUBLIC AND GLOBAL ENTERPRISES

Meaning Of Multinational Companies / Global Enterprises :

- **Multinational consists of two different words 'multi' and national. Multi means many and national means countries or nations. So multinational means a company which operates in many countries. Such a company has branches, factories, work shops in different countries.**

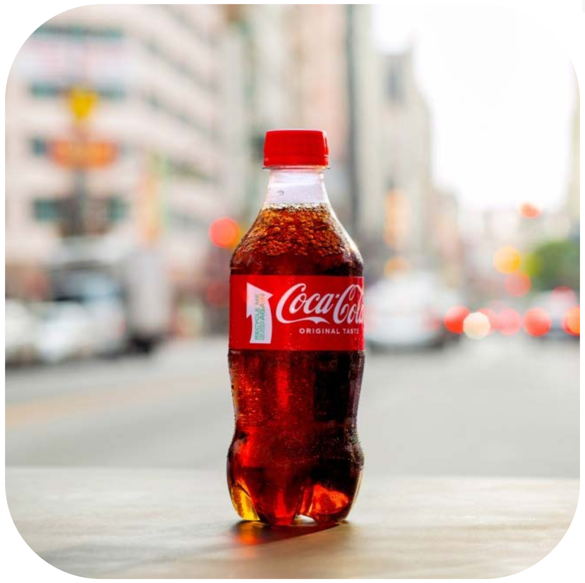
- **A multinational corporation is also known as a transnational corporation, global enterprise or international enterprise.**

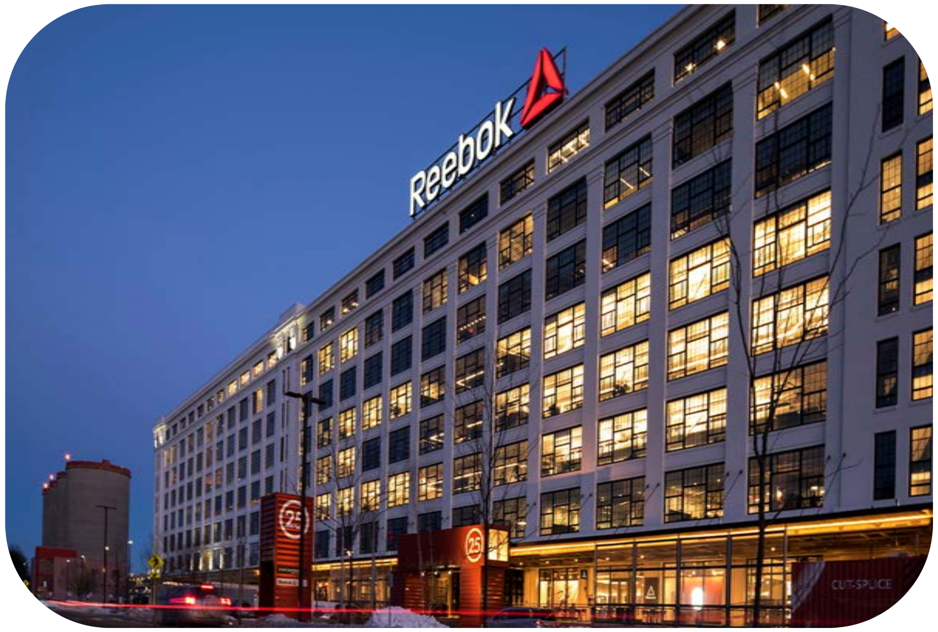
PRIVATE, PUBLIC AND GLOBAL ENTERPRISES

- The headquarters of multinational companies are located in one country (Home country) and it carries business in other countries (Host countries). The multinational companies get incorporated in Home country.

For example:-

Coca-Cola, Hyundai, Nike, Reebok, L'Oreal, Sony, LG, Samsung etc





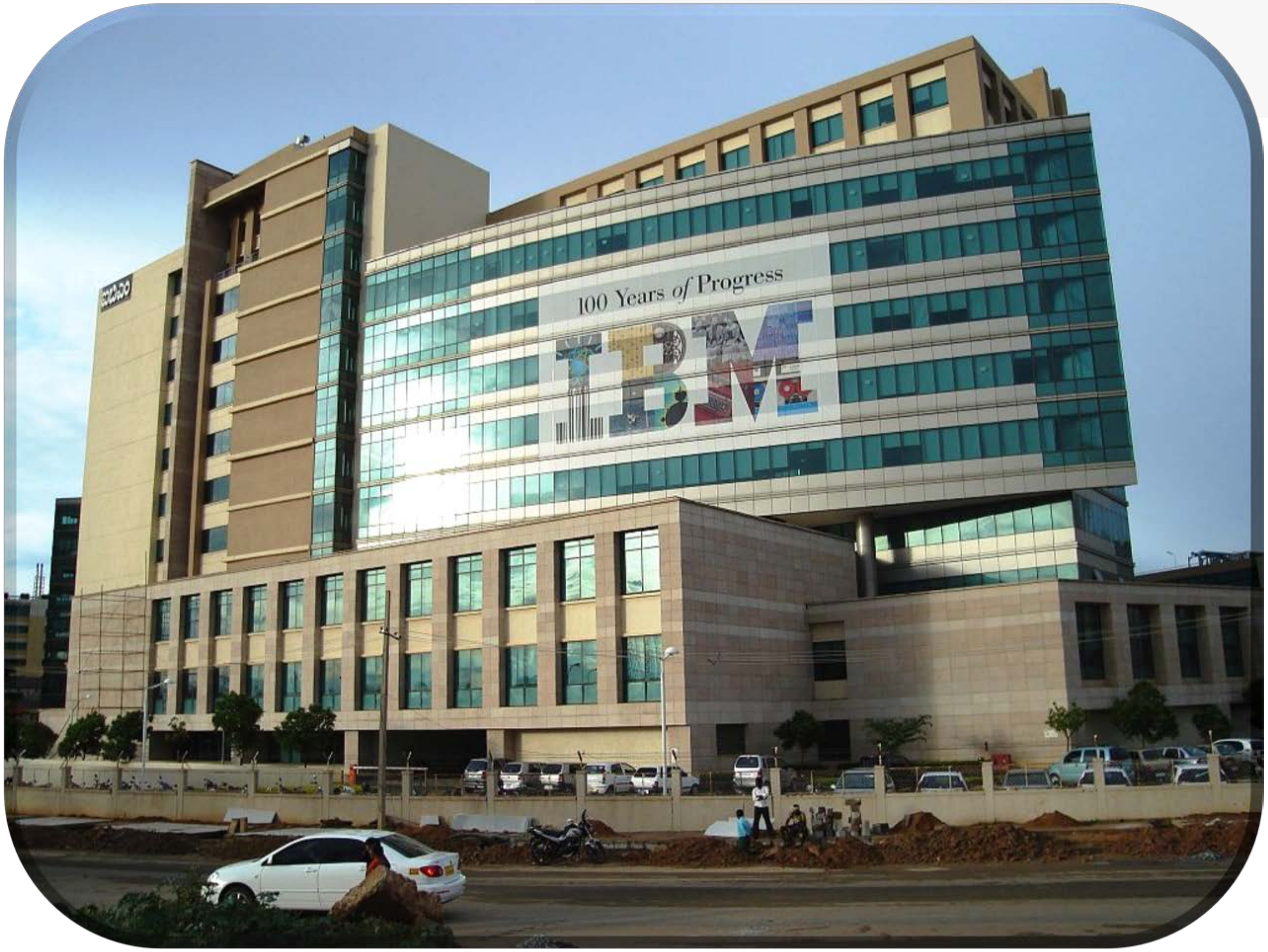
Features Of Multinational Companies:

The main features of multinational companies are :

1. **Giant Size and Huge Capital resource.** The assets and sales of multinational companies are quite large. These companies operate on large scale. Their operations are so huge that sometimes their sales turnover exceeds the Gross National Product of a developing country

PRIVATE, PUBLIC AND GLOBAL ENTERPRISES

- **For example:**
  - **The physical assets of IBM (International Business Machines) exceed 8 billion dollars.**



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2. **Centralised Control:** "The branches of multinational companies spread in different Countries are controlled and managed from the headquarters located in Home country. All the branches operate within the policy framework formed by headquarters.

3. **Advanced Technology.** Multinational companies make use of latest technology to supply world class products. They employ capital-intensive technology and innovative techniques of production.

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4. **Oligopolistic Powers.** Oligopoly means power in the hands of few companies only. Due to their giant size the multinational companies occupy a dominating position in the market. They also take over other firms to acquire huge power. For example, Hindustan Lever Limited acquired Tata Oil Mills, Ponds India etc. to improve its market share.

5. **Product innovation :** These enterprises have highly sophisticated research and development department, engaged in task of developing new products and superior designs of existing products.

6. **Marketing Strategies:** They spend huge amount on marketing. They use aggressive marketing strategies in order to increase their sales in short period. Their advertising and sales promotion techniques are normally very effective.

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JOINT VENTURE

PRIVATE, PUBLIC AND GLOBAL ENTERPRISES

Meaning of Joint Venture:

- **Joint venture is a partnership between two firms. Firms of same country as well as firms of two different countries can join together to form joint venture.**

Example :-

Tungabhadra Industries Ltd. of India and Yamaha Motor Company Ltd. of Japan joined together to form Birla Yamaha Ltd.

Features of Joint Venture:

1. **Increase Resource and Capacity:** In Joint venture, companies get larger resources financial as well as human resources, enabling the company to grow and expand more quickly and efficiently.

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2. **Access to new Market and Distribution Networks:** When a business enter into joint venture, it can access new markets for example when foreign companies form Joint Venture in India, they get access to vast Indian market. They can also take advantage of retail outlets in different local markets.

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3. **Access to Technology:** Advance techniques of production leads to superior quality of products and reduced cost of production. It saves lot of time, energy and investment because they do not have to develop their own technology. For example, by joining hands with a company of developed nation. Indian companies can get benefits of advanced technology.

4. Innovation: **Joint Ventures help business to come up with new and innovative products for the market because of new ideas and technology of foreign partners.**

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5. Low Cost of Production: When International Companies merge with an Indian company they get immense benefit due to lower cost of production because of low cost of raw material labour, management professionals, chartered accountants, engineers, scientists, etc.

Types of Joint Ventures

(i) Contractual Joint Venture (CJV): In a contractual joint venture, a new jointly-owned entity is not created. There is only an agreement to work together. The parties do not share ownership of the business but exercise some elements of control in the joint venture. A typical example of a contractual joint venture is a franchisee relationship. In such a relationship the key elements are:

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(a) Two or more parties have a common intention – of running a business venture;

(b) Each party brings some inputs;

(c) Both parties exercise some control on the business venture; and

(d) The relationship is not a transaction-to-transaction relationship but has a character of relatively longer duration.

(ii) Equity-based Joint Venture (EJV): An equity joint venture agreement is one in which a separate business entity, jointly owned by two or more parties, is formed in accordance with the agreement of the parties. The key operative factor in such case is joint ownership by two or more parties. The form of business entity may vary — company, partnership firm, trusts, limited liability partnership firms, venture capital funds, etc.

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(a) There is an agreement to either create a new entity or for one of the parties to join into ownership of an existing entity;

(b) Shared ownership by the parties involved;

(c) Shared management of the jointly owned entity;

(d) Shared responsibilities regarding capital investment and other financing arrangements; and

(e) Shared profits and losses according to the agreement.

A joint venture must be based on a memorandum of understanding signed by both the parties, highlighting the basis of a joint venture agreement. The terms should be thoroughly discussed and negotiated to avoid any legal complications at a later stage. Negotiations and terms must take into account the cultural and legal background of the parties. The joint venture agreement must also state that all necessary governmental approvals and licences will be obtained within a specified period.

Benefits

Business can achieve unexpected gains through joint ventures with a partner. Joint ventures can prove to be extremely beneficial for both parties involved. One party may have strong potential for growth and innovative ideas, but is still likely to benefit from entering into a joint venture because it enhances its capacity, resources and technical expertise. The major benefits of joint ventures are as follows:

(i) Increased resources and capacity:

- **Joining hands with another or teaming up adds to existing resources and capacity enabling the joint venture company to grow and expand more quickly and efficiently. The new business pools in financial and human resources and is able to face market challenges and take advantage of new opportunities.**

(ii) Access to new markets and distribution networks: When a business enters into a joint venture with a partner from another country, it opens up a vast growing market. For example, when foreign companies form joint venture companies in India they gain access to the vast Indian market. Their products which have reached saturation point in their home markets can be easily sold in new markets. They can also take advantage of the established distribution channels i.e., the retail outlets in different local markets. Otherwise, establishing their own retail outlets may prove to be very expensive.

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(iii) Access to technology: Technology is a major factor for most businesses to enter into joint ventures. Advanced techniques of production leading to superior quality products saves a lot of time, energy and investment as they do not have to develop their own technology. Technology also adds to efficiency and effectiveness, thus leading to reduction in costs.

(iv) Innovation: The markets are increasingly becoming more demanding in terms of new and innovative products. Joint ventures allow business to come up with something new and creative for the same market. Specially foreign partners can come up with innovative products because of new ideas and technology

(v) Low cost of production: When international corporations invest in India, they benefit immensely due to the lower cost of production. They are able to get quality products for their global requirements. India is becoming an important global source and extremely competitive in many products.

There are many reasons for this, low cost of raw materials and labour, technically qualified workforce; management professionals, excellent manpower in different cadres, like lawyers, chartered accountants, engineers, scientists. The international partner thus, gets the products of required quality and specifications at a much lower cost than what is prevailing in the home country.

(vi) Established brand name: When two businesses enter into a joint venture, one of the parties benefits from the other's goodwill which has already been established in the market. If the joint venture is in India and with an Indian company, the Indian company does not have to spend time or money in developing a brand name for the product or even a distribution system. There is a ready market waiting for the product to be launched. A lot of investment is saved in the process.

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PUBLIC, PRIVATE PARTNERSHIP(PPP)

Meaning Of Public Private Partnership

- **Public Private partnership describes a government service or private business venture, which is funded and operated through a partnership of government and one or more private sector companies.**

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- **For Example,** **a hospital building financed and constructed by a private developer and then leased to hospital authority. The private company acts as the landlord and provides housekeeping services and other non-medical services whereas hospital services are provided by the hospital authority (i.e. Government).**

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Features Of Public Private Partnership(PPP)

1. **Contract between Public Sector and Private Party:** **PPP is a contract between public sector authority and private party, in which the private party provides a public service and bears financial, technical and operational risk.**

2. **Cost of Using Service:** In some types of PPP the cost of using service is borne by users of services and not by taxpayers and in some the cost of providing services is borne wholly or partly by the government.

3. **Provision of Capital Subsidy:** Projects that aim at creating public goods in infrastructure sector, the government may provide a capital subsidy in the form of a one-time grant to make it more attractive to the private sector. In some cases, government may provide revenue subsidy including tax breaks or by providing guaranteed annual revenue.

4. **Pertaining to High Priority Projects and Public Welfare:** PPP is suitable for high priority projects such as Infrastructure sector. PPP is used in the government projects targeted at Public Welfare e.g. Delhi Metro Rail Corporation.

5. Sharing of Revenue: The Revenue of PPP is shared between government and private enterprises in agreed ratio.