Chapter 3

Private, Public and Global Enterprises

Multiple Choice Questions

Q. 1 A government company is any company in which the paid-up capital held by the government is not less than

A. 49 percent

B. 51 percent

C. 50 percent

D. 25 percent

Answer:

According to Section 2(45) of the Companies Act 2013, a government company is a company in which the paid-up capital held by the government is not less than 51%. This paid-up capital is held by the Central Government or by any State government or partly by both of them.

Q. 2 Centralized control in MNC's implies control exercised by

A. Branches

B. Subsidiaries

C. Headquarters

D. Parliament

Answer:

Centralized control in MNC's implies control exercised by headquarters. The headquarter has control over its branches and subsidiaries across all the countries in which the MNC operates. The control is mostly related to the policy framework and not the day to day workings of the firm.

Q. 3 PSE’s are organizations owned by

A. Joint Hindu family

B. Government

C. Foreign Companies

D. Private entrepreneurs

Answer:

PSE’s are organizations owned by the government. PSE refers to the Public Sector Enterprise and is owned by the central government of the country or one or more than one state governments or even both of them.

Q. 4 Reconstruction of sick public sector units is taken up by

A. MOFA

B. MoU

C. BIFR

D. NRF

Answer:

Reconstruction of sick public sector units is taken up by BIFR-Board for Industrial and Financial Reconstruction. It was established in January 1987 and began to function from 15th May 1987. BIFR decides whether the sick PSU's should be shut down or revived.

Q. 5 Disinvestments of PSE’s implies

A. Sale of equity shares to private sector/public

B. Closing down operations

C. Investing in new areas

D. Buying shares PSE’s

Answer:

Disinvestments of PSE's implies the sale of equity shares to the private sector/public. Its aim is to the raise resources and encourages the participation of the public and workers in the ownership of these enterprises.

Q. 6 The equity-based joint venture does not include

A. Cooperative development

B. Company

C. Partnership

D. Limited liability partnership

Answer:

The equity-based joint venture does not include the Cooperative development.

Short Answer

Q. 1 Explain the concept of the public sector and the private sector.

Answer:

India is a mixed economy. It is the type of economy which has both the public sector and the private sector.

The private sector consists of those business enterprises which are owned by a single individual or a group of individuals. For example, sole proprietorship, partnership, Joint Hindu Family Business, cooperative and a company.

The public sector consists of those business enterprises which are owned and managed by the government. It can be either wholly owned by the government or wholly-owned by one or more State Governments, or partially by both the governments. It must be having a paid-up capital of at least 51%. For example, departmental undertakings, statutory corporations.

Q. 2 State the various types of organizations in the private sector.

Answer:

The private sector consists of those business enterprises which are owned by a single individual or a group of individuals. The various types of organizations in the private sector are:

a. Sole proprietorship: A form of business organization which is owned, managed and controlled by one individual. He is the sole recipient of all the profits and has the complete liability of all the risks.

b. Partnership: A form of business organization in which two or more people who have agreed to share the profit earned in the business. The liability is also shared among them on the basis of the extent of the capital contributed.

c. Joint Hindu Family Business: A form of business organization which exists only in India It is governed by the rules of the Hindu law. The eldest member of the family called the, owns, manages and controls the business. He is the sole recipient of all the risks in the business. Other members of the family also help in carrying on the business. In case the Karta dies, the next eldest members take up his position and the business continues.

d. Cooperative: A cooperative is a form of a business organization in which a group of people come together and work together for their own interest. For example, a housing cooperative society, a farming cooperative society, etc.

e. Company: A company is an artificial person, perpetual succession, has a separate legal entity, a common seal. It has both public and private sector.

Q. 3 What are the different kinds of organizations that come under the public sector?

Answer:

The public sector consists of those business enterprises which are owned and managed by the government. It can be either wholly owned by the government or wholly-owned by one or more State Governments, or partially by both the governments. It must be having a paid-up capital of at least 51%. The different kinds of organizations that come under the public sector are:

a. Departmental Undertaking: The departmental undertaking is the oldest form of public Enterprise. They are set up as departments of the ministry and an extension of the ministry as well. They are controlled by the minister of the concerned department and is managed by the government official. For example, the railway department, telegraph department.

b. Statutory corporation: It is a public enterprise which is brought into existence by a special act of the Parliament. It is a financial independent body with his own legal existence. It has specific control over a specified area or a type of commercial act.

c. Government company: According to Section 2(45) of the Companies Act 2013, a government company is a company in which the paid-up capital held by the government is not less than 51%. This paid-up capital is held by the Central Government or by any State government or partly by both of them.

Q. 4 List the names of some enterprises under the public sector and classify them.

Answer:

Some enterprises under the public sector are:

a. Departmental undertaking- Railways, Post, and Telegraph.

b. Statutory corporation: Reserve Bank of India, Life Insurance Corporation of India, Food Corporation of India.

c. Government company: Bharat Heavy Electricals Limited BHEL, and Steel Authority of India Limited SAIL.

Q. 5 Why is the government company form of organization preferred to other types in the public sector?

Answer:

The government company form of organization preferred to other types in the public sector are:

a. Government company can easily be established as compared to other types in the public sector. The guidelines mentioned in the Companies Act need to be followed. There is no need to pass a separate bill in the parliament.

b. The government company is independent in terms of financial and administration terms. It has a Board of Directors which are extremely professional and work on the principle of Business Ethics.

c. The annual report of every government company is presented before both the houses of the Parliament. This is the efficiency and accountability of the company.

d. It creates healthy competition for the private sector to provide goods and services at a reasonable price and excellent quality.

Q. 6 How does the government maintain a regional balance in the country?

Answer:

The government maintains a regional balance in the country through the following:

a. The government has given special attention to the regions that are backward and the public sector industries are intentionally set up in such areas.

b. Four major Steel plants were set up in such backward areas. It has led to an increase in economic development, employment opportunities, and the development of ancillary industries.

For example, the Bhilai Steel Plant in Madhya Pradesh.

c. The private sector is not very keen to set up any establishment in such backward areas due to the lack of good infrastructure and skilled workers.

d. So it is the duty of the public sector to undertake development in these areas.

Q. 7 State the meaning of public-private partnership.

Answer:

Public-private partnership is a type of enterprise in which a project is operated through a partnership of the government and a private enterprise. Its features are mentioned below:

a. Facilitates a healthy partnership between both the sectors.

b. These projects are considered of the highest priority.

c. This type of partnership is suitable for projects which are capital intensive and belong to the heavy industries.

d. The revenue is shared between both the sectors on the basis of a pre-decided ratio.

e. For example, the Delhi Metro Railway Corporation.

Long Answer

Q. 1 Describe the Industrial Policy 1991, towards the public sector.

Answer:

The Industrial Policy 1991 towards the public sector is explained below:

a. The Industrial Policy Resolution was introduced in 1956 in which 17 industries were reserved for the public sector. In 1991, only 8 industries were reserved for the public sector. These were defense, atomic energy, railways, mining, arms, and ammunition. The private sector could enter any areas except these above-mentioned ones.

b. Disinvestments of PSE’s was undertaken in 1991. It means the sale of equity shares to the private sector/public. Its aim was to raise resources and encourages the participation of the public and workers in the ownership of these enterprises.

c. The reconstruction of sick public sector units is taken up by BIFR- Board for Industrial and Financial Reconstruction. It was established in January 1987 and began to function from 15th May 1987. BIFR decided whether the sick PSU's should be shut down or revived.

d. A memorandum of understanding or MOU was signed between the particular public sector unit and their administration. The PSUs were given clear cut targets and operational autonomy to achieve those targets.

Q. 2 What was the role of the public sector before 1991?

Answer:

The role of the public sector before 1991 is explained below:

a. The public sector has to take serious and dedicated efforts to improve the rate of economic development in the country.

b. The public sector also has to provide infrastructure facilities such as roads, hospitals, education, etc.

c. They also had to provide a good strong industrial base. The private sector was not very keen to do so because of the lack of capital investment requirement and the long gestation period.

d. They generated a large surplus which could be used as an investment in other sectors.

e. They created more employment opportunities, to reduce the poverty level and improving the standard of living.

f. It developed the backward regions. The private sector was not interested in this field as it was working with the aim of earning a high profit.

g. It played an important role to serve the public interests. It provided law and order, defense, police and Administrative Services.

Q. 3 Can the public sector companies compete with the private sector in terms of profits and efficiency? Give reasons for your answer.

Answer:

The public sector company cannot easily compete with the private sector in terms of profit and efficiency due to the following reasons:

a. The main aim of a public sector is to work for the Welfare of its citizens. On the other hand, the main aim of a private-sector enterprise is to earn maximum profit.

b. The public sector provides many facilities free of cost or at a very low cost to the weaker section of the society. A government school does not generate enough profit as compared to a private school. Private Enterprise cannot provide these facilities free of cost to the citizens.

c. The public sector invests in those industries which require a huge capital investment and a long gestation period. The private sector is not very keen on this area.

d. In terms of efficiency, the public sector has to follow a specified protocol. This leads to delay in decision making. The private sector supersedes in efficiency in this matter.

e. The workers of the public sector are involved in red-tapism and bureaucracy.

Q. 4 Why are global enterprises considered superior to other business organizations?

Answer:

Global Enterprises are those industrial organizations which has their operations in different countries through the network of branches. These are multinational companies or MNC such as Philips, Sony, Samsung, etc.

These enterprises are considered superior to business organizations due to the following reasons:

a. These large enterprises have large financial resources and also the ability to raise more funds from different sources due to their high credibility in the market.

b. They are able to face any dynamic change in the business atmosphere due to their high financial strength.

c. They have access to Superior technology in terms of the methods of production. They are able to produce goods and services with International standards and quality specifications.

d. They have better resources to exploit the local raw material.

e. An MNC can collaborate with the companies in the public and private sector and can diversify and expand its production.

f. It can also gain by collaboration in terms of patents and foreign exchange.

g. It has a highly specialized integrated Research and Development Department which is continuously developing new products and better designs of existing products.

h. They have adequate knowledge about how to promote their good in the global market. They have excellent marketing strategy and effective sales promotion techniques which can increase their sales even in a short. of time.

i. The collaborations of MNCs also diversifies the risk and reduces the loss. The loss in one country is compensated by the profit in another country.

Q. 5 What are the benefits of entering into joint ventures and public-private partnership?

Answer:

A joint venture referred to the joining of two businesses for a common purpose and a mutual gain. The benefits of entering into a joint venture are:

a. Joint venture reduces the competition among the different companies. The company's aim at improving the strength of the organization and not wasting the resources in competition.

b. When two firms come together, the joint venture can expand quickly and efficiently.

c. When the foreign company engages in a joint venture with the company in the host country, they get access in the market of the host country. They can also get the advantage of the already established distribution channel including wholesale and retail outlets in the different local market. Otherwise, it would have been very costly for them.

d. The products have to be continuously innovated and designed according to the needs of the consumer. Joint venture invests its time and money in innovating new products as it has better access ability to improved technology.

e. It is often not possible for a company to invest in better technology in terms of the methods of production. If it decides to be a part of a joint venture, it might become possible and economically feasible to get access to advanced technology. It leads to an increase in efficiency, reducing cost and better quality goods.

f. When two different business firm enters into a joint venture, one of them gains benefit from the already established goodwill and reputation of the other firm in the market.

g. The joint ventures are also able to gain benefit from the low cost of raw material and workers.

h. The two companies contribute to capital, the problem of arranging large amounts of capital is resolved.

i. The joint venture operates on a large scale and receives the benefit of economies of scale. The cost of production and marketing reduces.

Projects/Assignments

Q. 1 Make a list of Indian companies entering into joint ventures with foreign companies. Find out the apparent benefits derived out of such ventures.

Answer:

A joint venture referred to the joining of two businesses for a common purpose and a mutual gain.

The following Indian Companies have entered into a joint venture with foreign companies.

a. Hindustan Aeronautics Limited

b. Tata Global Beverages

c. BrahMos Aerospace

d. Bharti AXA General Insurance

e. Mahindra Renault

f. ApoKos Rehab limited

g. Network 19 Media and investments

h. AirAsia Limited

i. Max Life Insurance Company limited

j. Aviva India Life Insurance

k. HDFC Ergo General Insurance Company limited

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