3 Private, Public and Global Enterprises

CHAPTER AT A GLANCE

Classification of Different Forms of Enterprises		
Forms of organising Private Sector Enterprises	**Forms of organising Public Sector Enterprises**	**Forms of organising Global Enterprises**
• Sole Proprietorship • Partnership • Hindu Undivided Family • Cooperative Society • Joint Stock Company	• Departmental Undertaking • Statutory Corporation • Government Company	• Multinational Corporations

I. DIFFERENCE BETWEEN PRIVATE SECTOR AND PUBLIC SECTOR

S.No	Basis	Private Sector	Public Sector
1.	Meaning	The private sector consists of those business organisations which are owned by individuals or a group of individuals.	The public sector consists of those business organisations which are owned and managed by the government. These organisations may either be partly or wholly owned by the central or state government.
2.	Objective	Profit maximisation	Profit and social welfare
3.	Accountability	To the owners	To the general public
4.	Types	The various forms of organisations are Sole Proprietorship, Partnership, Joint Hindu Family, Cooperative Society and joint Stock Company.	The various forms of organisations are Departmental Undertakings, Statutory Corporation and Government Company.
5.	Sources of capital	Issuing shares and debentures or by taking loan from banks, financial institutions.	Public Revenue like tax, duty, penalty, etc.

II. FORMS OF ORGANISING PUBLIC SECTOR ENTERPRISES

1. Departmental Undertakings

Definition: Departmental Undertakings is the oldest and most traditional form of organising public enterprises and are established as departments of the ministry and are considered part or an extension of the ministry itself.

Features:

- The funds are dispersed to these enterprises directly from the Government Treasury on the basis of allocations made in the budget and revenues are also paid into Government Treasury.
- Like all other government departments these enterprises are subject to statutory accounting and audit procedures.
- These enterprises are headed by Indian Administrative Service (IAS) officers and civil servants who may be transferred from one ministry to another from time to time.
- Since the employees of the enterprise are deemed to be government servants their staffing process is regulated by the government.
- These enterprises function as departments of the ministry and are considered part or an extension of the ministry itself. They do not possesses any separate legal entity.
- These enterprises are accountable to the concerned ministry under which they have been promoted.

Merits:

- Their working is administered effectively through Parliamentary control.
- Considering the fact that these enterprises have been set up to promote public welfare their accountability towards public is very high.
- They serve as a source of income for the Government as the revenues earned by these enterprise goes directly into the treasury.
- Departmental undertaking is considered to be the most suitable form to promote any organisation which is related with national security. This is due to the fact that it operates under the direct control and supervision of the concerned ministry.

Limitations:

- As these enterprises do not function as an autonomous unit their working may not be smooth due to lack of flexibility.
- The decision making process in these enterprises is very slow considering the fact that the authorisation from the ministry concerned is must in every matter.
- The ultimate responsibility for the management lies in the hands of the bureaucrats who tend to follow a very conservative approach. As a result, these enterprises are not able to encash profitable business opportunities.
- The tedious and time consuming procedures propagate red tapism in the working of these enterprises.
- The concerned ministry interferes excessively in the working of these enterprises.
- These enterprises generally tend to adopt an indifferent attitude towards the consumers. As a result, they are not considered to be very proficient in providing services.

2. Statutory corporations

Definition: Statutory corporations are the public enterprises brought into existence by a Special Act of the Parliament. The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments.

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Features:

- Statutory corporations are established under an Act of Parliament and are governed by the provisions of the Act which defines its objects, powers and privileges.
- The ultimate financial responsibility of these enterprises rests with the government which has a right over its profits or may have to bear its losses, if any.
- These enterprises have a separate legal entity. They can sue and be sued, enter into contract and acquire property in its own name.
- Although the capital for these enterprises is contributed by the government they can also raise funds by borrowings from the public.
- Unlike government departments a statutory corporation is neither subject to the accounting and audit procedures nor is concerned with the central budget of the Government.
- The conditions of service of the employees of these enterprises are governed by the provisions of the Act itself. They are not government or civil servants and are not governed by government rules and regulations but some of the officers of these enterprises are taken from government departments, on deputation, to head these organisations.

Merits:

- Being incorporated as a separate legal entity, it can sue or be sued in its own name or acquire property or enter into contracts independently with the third party.
- Considering the fact that funds are not allocated to these enterprise through annual appropriations from the budget, limited financial controls are exercised by the government.
- They enjoy autonomy in their operations within the framework of the Act under which they have been incorporated.
- They foster economic development of the country as they function on the dual benefits, i.e., powers of the government and efficiency of private sector.

Limitations:

- In the real scenario the functioning of these enterprises is marked by excessive interference both by the government and political parties due to the magnanimity of the funds invested by government.
- The extent of freedom in operations granted to these enterprises is restricted.
- These enterprises are prone to corrupt business practises.
- The policy of the government to appoint advisors to the Corporation Board restricts the freedom of the members of the corporation. Sometimes the decisions get delayed due to disagreements between them and government intervention is required to resolve the matter.

3. Government company

Definition: A Government company is established under the Indian Companies Act, 1956 and is registered and governed by the provisions of the Indian Companies Act.

Features:

- A government company comes into existence through registration under The Companies Act.
- Atleast 51 percent of the paid up capital is held by the central government, or by any state government or partly by central government and partly by one or more state governments. The shares of the company are purchased in the name of the President of India.
- It enjoys a separate legal entity and can sue or be sued in its own name or acquire property or enter into contracts independently with the third party.
- The company is governed by the Board of Directors as per the provisions of The Companies Act.

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- The recruitment of its employees is done as per the provisions of the Memorandum of Association. The internal management of the company is regulated through the Articles of Association.
- These organisations are not subject to strict government audit and accounting procedures instead an auditor is appointed by the Central Government and Annual Report of the working of the company is presented to the parliament or the state legislature.
- Although government is the major shareholder and the rest of the capital may be raised privately or from capital market if they so desire.

Merits:

- No separate Act has to be passed in the parliament to form a government company.
- They do not function as a part of ministry instead enjoy a separate legal entity.
- They enjoy autonomy in their operations within the framework of The Companies Act.
- They enjoy a good public image as they endeavour to provide varied goods and services to fulfil needs of people efficiently and also help to curb undesirable trade practices.

Limitations:

- Considering the fact that government is the major shareholder in most of these enterprises the provisions of the Companies Act may not be complied with as the regulations of the government may take precedence over it.
- In case of the companies where government is the only shareholder the very purpose of creating a government company is nullified.
- In principle an organisation funded by government should be accountable to the parliament directly which is not true for these enterprises.

III. CHANGING ROLE OF PUBLIC SECTOR

On the eve of independence the public sector was assigned the following important role:

- **Development of infrastructure** is a prerequisite for industrialisation in any country. In order to develop basic infrastructure, at the time of Independence, the pubic sector was given the prime responsibility to invest in key areas as the private sector was reluctant to invest in the projects which required heavy investments and involved long gestation periods. Therefore, the government had to mobilise huge capital, coordinate industrial construction and train technicians and workforce. The investments were to be made to:
  - Give infrastructure to the core sector, which requires huge capital investment, complex and upgraded technology, big and effective organisation structures like steel plants, power generation plants, civil aviation, railways, petroleum, state trading, coal, etc.
  - Give a lead in investment to the core sector where private sector enterprises did not show much interest like fertilizers, pharmaceuticals, petro-chemicals, newsprint, medium and heavy engineering;
  - Give direction to future investments like hotels, project management, consultancies, textiles, automobiles, etc.
- **Regional balance** is important to ensure development of all regions and states in a balanced way and removal of regional disparities. In the pre-Independence period, the industrial progress was primarily restricted to a few areas like the port towns. Therefore, post independence the government took initiatives to set up new enterprises in backward areas and also checked the growth of private sector units in already advanced areas.
- **Economies of scale** can be achieved only through encouraging production on large scale. Therefore, the electric power plants, natural gas and petroleum, etc. were set up as up large scale units in the public sector.

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- **Check over concentration of economic power** in the hands of private sector can be maintained by public sector by setting up large industries and sharing the income and benefits that accrue with a large of number of employees and workers. Whereas, a private sector encourages monopolistic practices.
- **Import substitution** was important in order to make the country self-reliant. During the second and third Five Year Plan period, it was difficult to import heavy machinery required for building a strong industrial base due to the lack of foreign exchange. Therefore, to resolve the problem the heavy engineering which would help in import substitution were established in the public sector.

However, the Government of India had introduced four major reforms in the public sector in its new industrial policy in the year 1991. The main elements of the Government policy are as follows:

- Reduction in the number of industries reserved for the public sector from 17 to 8 (and then to 3, i.e., atomic energy, arms and rail transport).
- Disinvestment of shares of a select set of public sector enterprises by the sale of the equity shares to the private sector and the public.
- Policy regarding sick units to be the same as that for the private sector and were referred to the Board of Industrial and Financial Reconstruction to decide whether a sick unit was to be restructured or closed down.
- Memorandum of Understanding were signed between the particular public sector unit and their administrative ministries for improvement of performance by granting greater autonomy but making accountable for specified results.

IV. GLOBAL ENTERPRISES

Definition: Global Enterprises are huge industrial organisations which extend their industrial and marketing operations through a network of their branches in several countries.

Features:

- **Huge capital resources** are available to these enterprises as they enjoy credibility in the capital market and are able to raise funds easily from various sources like equity shares, debentures or bonds, loans from financial institutions and international banks, etc.
- **Foreign collaboration** are made by Indian companies both in the public and private sector in order to diversify and expand through patents, resources, foreign exchange, sale of technology, production of goods, use of brand names for the final products, etc.
- **Advanced technology** adopted by such corporations fosters industrial development of the country in which they operate since they are able to optimally exploit local resources and also perform efficiently to meet the international standards and quality specifications.
- **Product innovations** are facilitated by the MNCs by developing new and superior products owing to the fact that these enterprises invest heavily in the field of sophisticated research and development.
- **Marketing strategies** like advertising and sales promotion techniques are effectively used by the MNCs. They have an access to up-to-date market information system. This enables them to increase their sales in short term as their brands are well-known.
- **Expansion of market territory** beyond the physical boundaries of their own countries is achieved by the MNCs as they operate through a network of subsidiaries, branches and affiliates in host countries which also helps them to strengthen their public image.
- **Centralised control** is maintained by the MNCs as they have their headquarters in their home country and exercise control over all subsidiaries, branches and affiliates in order to ensure compliance to the policies.

V. JOINT VENTURES

Definition: A joint venture is the pooling of resources and expertise by two or more businesses, to achieve a particular goal wherein the risks and rewards of the business are also shared.

Features:

- A joint venture is based on an **agreement** between two or more parties (individuals or companies).
- It involves **pooling of resources** and expertise by the parties involved to achieve a particular objective.
- The **venture comes to an end** on the completion of the project for which it was initiated.
- The **profits or losses are shared** by the co-ventures in an agreed ratio.
- Joint venture is a **special partnership** without a firm name.
- The **accounting** of a joint venture is not based on the 'going concern' concept.

Benefits:

- **Increased resources and capacity** of the new business as the financial and human resources of the different businesses are pooled. It enables the joint venture company to grow and expand more quickly and efficiently by dealing with market challenges and taking advantage of new opportunities.
- **Access to new markets and distribution networks** as a joint venture with foreign companies opens up a vast growing market world wide.
- **Access to technology** of advanced nature is readily provided by the business partner which saves a lot of time, energy and investment of the collaborating businesses as they do not need to develop their own technology. Advanced techniques of production lead to superior quality products at lower costs.
- **Innovation** are made as the joint ventures allow business to come up with something new and creative for the same market because of new ideas and technology.
- **Low cost of production** as the joint ventures help to reap advantages of low cost of raw materials and labour, technically qualified workforce; management professionals, excellent manpower in different cadres like lawyers, chartered accountants, engineers, scientists at a much lower cost than what is prevailing in their home country.
- **Established brand name** of a business partner benefits the joint venture as there is a ready market waiting for the product to be launched and a lot of investment in developing a brand name for the product or even a distribution system is saved in the process.

Ways of forming a joint venture		
1. Two parties (individuals or companies) incorporate a company in India. Business of one party is transferred to a new company. For consideration of such transfer, shares are issued by the new company and subscribed by the above party. The other subscribes for the shares in cash.	2. Two parties (individuals or companies), incorporate a company in India by subscribing to the shares of the joint venture company in agreed proportion, in cash.	3. Promoter shareholder of an existing Indian company and another party which may be either an individual or a company may collaborate to jointly carry on the business of that company. The other party may be non-resident or resident and may take up shares of the company through payment in cash.

Difference between Types of joint ventures

S. No	Basis	Contractual Joint Venture (CJV)	Equity Based Joint Ventures (EJV)
1.	Meaning	Contractual joint ventures are established through a purpose agreement in which two or more parties come together for a particular business project and sign a contract outlining the terms under which they will work together.	Equity based joint ventures are the older and more rigid form of contracts that are established between two or more parties set up a separate legal entity to act as the instrument for carrying out the project.
2.	Separate entity	The parties do not set up a new jointly owned separate legal entity for the project.	The parties have to either set up a new jointly owned separate legal entity or one of the parties may agree to join into ownership of an for carrying out the project.
3.	Forms of business	Contractual joint ventures are like a franchisee relationship.	Equity Joint Ventures may operate in the form of a Limited Liability partnership firm, Company, partnership firm, trust etc.

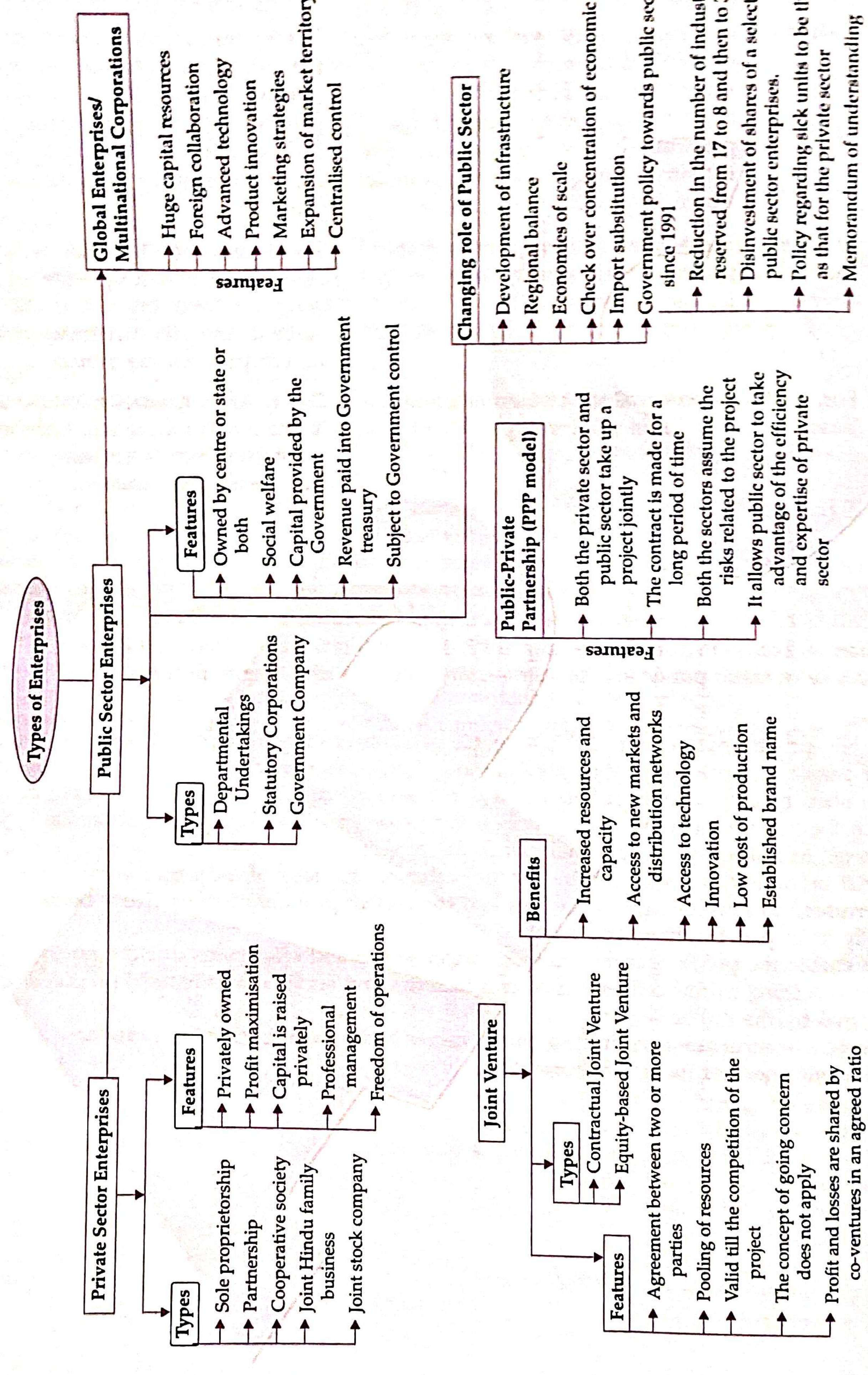
VI. PUBLIC–PRIVATE PARTNERSHIP

Definition: A Public–Private Partnership (PPP, 3P or P3) is a cooperative arrangement between one or more public and private sectors, typically of a long-term nature.

Features:

- A public–private partnership (PPP, 3P or P3) is a cooperative arrangement between two or more public and private sectors, normally of a long-term nature.
- PPPs often involve a contract between a public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project.
- Capital investment is made by the private sector on the basis of a contract with government to provide agreed services and the cost of providing the service is borne wholly or in part by the government.
- PPPs enable the public sector to harness the expertise and efficiencies that the private sector can bring to the delivery of certain facilities and services traditionally procured and delivered by the public sector.
- PPPs may be structured so that the public sector body seeking to make a capital investment does not incur any borrowing.

MIND MAP


Types of Enterprises
Private Sector Enterprises
Types
Sole proprietorship
Partnership
Cooperative society
Joint Hindu family business
Joint stock company
Features
Privately owned
Profit maximisation
Capital is raised privately
Professional management
Freedom of operations
Public Sector Enterprises
Types
Departmental Undertakings
Statutory Corporations
Government Company
Features
Owned by centre or state or both
Social welfare
Capital provided by the Government
Revenue paid into Government treasury
Subject to Government control
Global Enterprises/ Multinational Corporations
Features
Huge capital resources
Foreign collaboration
Advanced technology
Product innovation
Marketing strategies
Expansion of market territory
Centralised control
Changing role of Public Sector
Development of infrastructure
Regional balance
Economies of scale
Check over concentration of economic power
Import substitution
Government policy towards public sector since 1991
Reduction in the number of industries reserved from 17 to 8 and then to 3
Disinvestment of shares of a select set of public sector enterprises.
Policy regarding sick units to be the same as that for the private sector
Memorandum of understanding
Public-Private Partnership (PPP model)
Features
Both the private sector and public sector take up a project jointly
The contract is made for a long period of time
Both the sectors assume the risks related to the project
It allows public sector to take advantage of the efficiency and expertise of private sector
Joint Venture
Types
Contractual Joint Venture
Equity-based Joint Venture
Features
Agreement between two or more parties
Pooling of resources
Valid till the competition of the project
The concept of going concern does not apply
Profit and losses are shared by co-ventures in an agreed ratio
Benefits
Increased resources and capacity
Access to new markets and distribution networks
Access to technology
Innovation
Low cost of production
Established brand name

Forms of Public Sector Enterprises

Departmental Undertakings

Features

- Established as extention of a ministry or department of ministry
- Funding from Government treasury and profits are paid there in
- Accounting and audit controls of government
- Employees are government servants
- Direct control of ministry
- Accountable to the concerned ministry

Merits

- Effective control of parliament
- Revenue is a source of income for the government
- Most suitable form when national security is the main concern

Limitations

- Lack flexibility
- Delay in decision making
- Red tapism/bureaucratic controls
- Political interference
- Sometimes insensitive to consumer needs

Statutory Corporations

Features

- Established under the Act of parliament
- Act defines to the objects, powers and privileges
- Wholly owned by the state
- Government is responsible for funding and earn profits/bear loss
- Separate legal entity
- Generally independently financed
- Is subject to accounting & audit procedures like a government department
- Employees are not government or civil servants

Merits

- High degree of flexibility
- Independent operations
- Autonomous organisation
- Promotes economic development of the country

Limitations

- High government and political interference
- Subject to many rules & regulations
- Rampant corruption
- Freedom is curtailed by appointment of government advisors

Government Company

Features

- Created by The Companies Act
- Separate legal entity
- Atleast 51% of the shares are held by central or state government separately or jointly
- Shares are purchased in the name of President of India.
- Management is under provisions of the Companies Act
- Employees are not government servants
- Exempted from the accounting & audit rules and procedures of the government
- Can raise funds through capital market