Plus One Business Studies Notes Chapter 3

Private, Public and Global Enterprises

Contents

The economy may be classified into two sectors viz., private sector and public sector:

1. Private Sector:
The private sector consists of business owned by individuals or a group of individuals. The various forms of organisation are sole proprietorship, partnership, joint Hindu family, cooperative and company.

2. Public Sector:
The business units owned, managed and controlled by the central, state or local government are termed as public sector enterprises or public enterprises. These are also known as public sector undertakings.

Characteristics of Public Sector Enterprises:

1.The public enterprises are owned and managed by the central or state government, or by the local authority.

2.The public enterprises get their capital from Government Funds

3.The main objective of public sector enterprises is providing the service or commodity at reasonable prices.

4.Public sector enterprises concentrate on providing public utility services like transport, electricity, telecommunication etc.

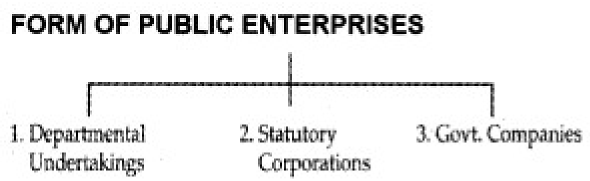
5.Public enterprises are are accountable to the public through the Parliament.

Forms of organizing Public sector Enterprises

1.Departmental Undertaking

2.Statutory Corporation (public corporation)

3.Government Company



Departmental Undertaking:

This is the oldest and most common form of organization. These are established as departments of the ministry and are financed, managed and controlled by either central govt, or state govt.. They are managed by government employees and work under the control of a minister. eg: Railways, Post & Telegraph, All India Radio, Doordarshan, Defense undertakings etc.

Features

1.The enterprise is financed by annual appropriation from the budget of the Government and all revenue is paid to the treasury.

2.The enterprise is subject to accounting and audit control.

3.It is subject to the direct control of the ministry.

4.Its employees are govt, employees and are recruited and appointed as per govt, rules.

5.They are accountable to the concerned ministry.

Merits:

1.These undertakings facilitate the Parliament to exercise effective control over their operations.

2.These ensure a high degree of public accountability.

3.The revenue earned by the enterprise goes directly to the treasury and hence is a source of income for the Government.

4.Where national security is concerned, this form is most suitable since it is under the direct control and supervision of the concerned Ministry.

Limitations:

1.Departmental undertakings lack flexibility because its policies cannot be changed instantly.

2.The employees are not allowed to take independent decisions, without the approval of the ministry concerned. This leads to delay in decision making.

3.These enterprises are unable to take advantage of business opportunities.

4.There is red tapism in day-to-day operations.

5.There is a lot of political interference through the ministry.

6.These organisations are usually insensitive to consumer needs and do not provide adequate services to them.

Statutory Corporations (Public Corporation):

Statutory corporations are 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. eg: LIC, IFCI, RBI, SBI, ONGC, UTI, Air India etc.

Features:

1.Statutory corporations are set up under an Act of Parliament and are governed by the provisions of the Act.

2.It is wholly owned by the state.

3.It has a separate legal entity, i.e it can sue and be sued, enter into contract and acquire property in its own name.

4.It is usually independently financed.

5.It is not subject to budget, accounting, and audit laws.

6.The employees of these enterprises are not government or civil servants.

Merits:

•They enjoy independence in their functioning and a high degree of operational flexibility

•It enjoys administrative and financial autonomy

•Since they are autonomous organizations, they can frame their own policies and procedures

•A statutory corporation is a valuable instrument for economic development

Limitations:

•A statutory corporation does not enjoy as much operational flexibility

•Government and political interference has always been there in major decisions

•Where there is dealing with public, rampant corruption exists

•Commercial principles are ignored in the operation of public corporations which leads to inefficiency.

Government Company:

A Government Company is established under the Indian Companies Act, 1956. According to the Indian . Companies Act 1956, a government company means any company in which not less than 51 percent of the paid up capital is held by the central Private, Public and Global Enterprises government, or by any state government or partly by central government and partly by one or more state governments.
Features:

1.It is registered under the Companies Act, 1956.

2.It has a separate legal entity. It can sue and be sued and can acquire property in its own name.

3.The management of the company is regulated by the provisions of the Companies Act.

4.Employees are recruited and appointed as per the rules and regulations contained in Memorandum and Articles of association.

5.These companies are exempted from the accounting and audit rules and procedures.

6.The government company obtains its funds from government shareholdings and other private shareholders.

Merits:

1.It has a separate legal entity, apart from the Govt.

2.It enjoys flexibility and autonomy in all management decisions

3.These companies by providing goods and services at reasonable prices are able to control the market.

4.The formation of a Government company is easy as compared to other forms of Government enterprises.

5.It can appoint professional managers on high salaries.

Limitations:

1.It evades constitutional responsibility as it is not directly answerable to parliament.

2.They are autonomous only in name. Company is operated by the controlling ministry.

3.The law relating to the companies, in general is meaningless for the government companies, as it requires fulfillment of various formalities.

Comparative Features of the various forms of Public Enterprises:

Basis of comparison	Departmental organization	Public corporation	Government company
Formation	By order of the ministry	By a Special Act of Parliament or State Legislature	By registration under the Companies Act.
Legal status Ownership	No separate legal entity Wholly owned with Government	Separate legal entity Wholly owned with Government	Separate legal entity At least 51% of the share capital owned by the Govt.
Management	Managed by Government officials	Board of Directors	Board of Directors
Staff	Civil servant - Govt. service	Not Government servants – Contract of service	Not Government servants – Contract of service
Autonomy	No autonomy	Sufficient autonomy	Some autonomy from Government High
Public Accountability Flexibility Financing	Highest No flexibility Funds appropriated from budget	Higher Considerable Provided wholly by Govt.	Moderate Separate financing

Role and importance of Public Sector:

1. Development of infrastructure:

It is the responsibility of the Government to provide infrastructural facilities to the core sector which requires huge capital investment, complex and upgraded technology etc.

2. Regional balance:

The government is responsible for developing all regions and states in a balanced way and removing regional disparities.

3. Economies of scale:

Public sector enterprises are large in size and are, able to avail the advantages of large scale operations.

4. Check over concentration of economic power:

The development of public enterprises prevents concentration of economic power and wealth in the hands of private sector.

5. Employment opportunities:

Public sector enterprises helps to generate a large number of employment opportunities.

6. Import substitution:

It is also necessary for the economic progress of the country that industries which can decrease imports and increase exports are only promoted. Public enterprises also ensure promotion of such industries.

Public Sector Reforms:

In the industrial policy 1991, the govt, of India introduced four major reforms in public sector.

They are:

1. Reduction in number of industries reserved for public sector:

The number of industries reseved for public sector is reduced from 17 to 8 in 1991. But in 2001 it is again reduced to 3 industries. These three industries are atomic energy, arms and rail transport.

2. Memorandum of Understanding (MOU):

Under this govt, lays down performance targets for the management and gives greater autonomy to hold the management accountable for the results.

3. Disinvestment:

Disinvestment involves the sale of equity shares to the private sector and public. The objective was to raise resources and encourage wider participation of the general public in the ownership of these enterprises.

4. Restructure and Revival:

All public sector sick units were referred to Board of Industrial and financial Reconstruction (BIFR). Units which were potentially viable were restructured and which could not be revived were closed down by the board.

Objectives of privatizing public sector enterprises:

1.Releasing the large amount of public resources locked up in nonstrategic Public Sector Enterprises (PSEs), so that they may be utilized on other social priority areas such as basic health, family welfare and primary education.

2.Reducing the huge amount of public debt and interest burden;

3.Transferring the commercial risk to the private sector so that the funds are invested in able projects;

4.Freeing these enterprises from government control and introduction of corporate governance; and

5.In many areas where the public sector had a monopoly, for example, telecom sector the consumers have benefitted by more choices, lower prices and better quality of products and services.

Global enterprises (Multi National Companies):

Global enterprises are huge industrial organisations which extend their industrial and marketing operations through a network of their branches in several countries. Their branches are also called Majority Owned Foreign Affiliates (MOFA).

They are characterised by their huge size, large number of products, advanced technology, marketing strategies and network of operations all over the world. Eg. Pepsi, Coca Cola, Cadbury, Sony, Susuki etc.
Features of MNCs:
1. Huge capital resources:
Multinational companies have the ability to raise huge funds from different sources such as equity shares, debentures, bonds etc. They can also borrow from financial institutions and international banks

2. Foreign collaboration:
Global enterprises usually enter into agreements relating to the sale of technology, production of goods, use of brand name etc. with local firms in the host countries.

3. Advanced technology:
Multinational companies can possess latest and advanced technology so that they can provide quality products.

4. Product innovation:
Multinational companies are able to conduct sophisticated research so that they can develop new products.

5. Marketing strategies:
They use aggressive marketing strategies in order to increase their sales in a short period. Their advertising and sales promotion techniques are normally very effective.

6. International Market:
They operate through a network of subsidiaries, branches and affiliates in host countries. Due to their giant size, they occupy a dominant position in the market.

7. Centralised control:
They have their headquarters in their home country and exercise control over all branches and subsidiaries.

Joint Ventures:

When two or more independent firms together establish a new enterprise by pooling their capital, technology and expertise, it is known as a joint venture. The risks and rewards of the business are also shared.

The aim of joint venture is business expansion, development of new products or moving into new markets, particularly in another country. Benefits

1. Increased resources and capacity:
Since two or more firms join together to form a joint venture, there is availability of increased capital and other resources, able to face market challenges and take advantage of new opportunities.

2. Access to new markets and distribution networks:
A foreign company gain access to the vast Indian market by entering into a joint venture with Indian Company. They can also take advantage of the established distribution channels.

3. Access to technology:
It provides access to advanced techniques of production which increases efficiency and then helps in reduction in cost and improvement in quality of product.

4. Innovation:
Foreign partners can come up with innovative products because of new ideas and technology.

5. Low cost of production:
Low cost of raw materials, technically qualified workforce, management professionals, excellent manpower etc. helps to reduce cost of production and it results increased productivity.

6. Established brand name:
When one party has well established brands and goodwill, the other party gets its benefits.