

## Chapter 3

### *Private, Public and Global Enterprises*

#### VERY SHORT ANSWER TYPE QUESTIONS :

##### 1. Explain the concept of private sector and public sector?

###### **Solution:**

**Private Sector:** The private sector comprises businesses that are owned by one or a group of individuals. The sole purpose of a private sector enterprise is to earn profit. There are many types of organisations in the private sector, and they are:

1. Sole proprietorship
2. Partnership
3. Joint Hindu Family
4. Cooperative societies
5. Company (LLP, LLC)

**Public Sector:** The public sector comprises organisations that are partly or wholly owned by the government. The government may have a 51% controlling stake in the organisation. These types of organisations might have come into existence by some special act of the Parliament. Through involvement with the public sector, the government participates in the economic activities of the country.

##### 2. State the various types of organisations in the private sector?

###### **Solution:**

The sole purpose of a private sector enterprise is to earn profit. There are many types of organisations in the private sector, and they are:

1. Sole proprietorship
2. Partnership
3. Joint Hindu Family

4. Cooperative societies
5. Company (LLP, LLC)

### **3. What are the different kinds of organisations that come under the public sector?**

#### **Solution:**

The public sector consists of organisations that are either wholly or partially under government control. The following are the various forms of public sector organisations.

1. Public corporations or statutory corporations
2. Departmental undertakings
3. Government company

### **4. List the name of some enterprises under the public sector and classify them?**

#### **Solution:**

1. Departmental Undertaking: Indian Post and Telegraph
2. Government Company: Steel Authority of India Limited (SAIL)
3. Statutory Corporation: Life Insurance Corporation (LIC) of India

### **5. Why is the government company form of organisation preferred to other types in public sector?**

#### **Solution:**

The government company form of organisation is preferred because of the following benefits it offers:

1. A government company can be formed easily as there is no requirement to pass a bill in Parliament. It is created by following the procedure mentioned in the Companies Act, 1956.
2. There is maximum autonomy in the way all the decision making is done in a government company

3. There is more efficiency in managing the business as the government company is more accountable than other public enterprise forms, and the annual report gets presented in both houses of parliament.
4. Provides good competition to the private sector businesses and thereby ensuring that goods are available at reasonable prices.

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

### **Solution:**

The government maintains regional balance in the following ways:

1. The Indian Government established major steel plants in rural areas with the vision of developing the backward areas and making the people living there earn a source of employment.
2. Similar to steel plants, many other industries are set up which provide employment opportunities
3. The development of industries also led to the development of other associated sectors, which helped in bringing prosperity to the country.
4. The direct impact of setting up industries was the development of the region which resulted in better roads, infrastructure development, bridges and rail connectivity, thereby connecting all parts of India.

## **7. State the meaning of public private partnership ?**

### **Solution:**

It refers to an arrangement where partnership forms between public sector and private sector. In such a partnership the obligations, responsibility, tasks and risks are allocated between public and private sector. The public partner includes government departments, organisations and the private partner may include local business houses or foreign organisations.

## LONG ANSWER TYPE QUESTIONS :

### 1. Describe the Industrial Policy 1991, towards the public sector ?

#### Solution:

The following reforms were introduced in the Industrial Policy, 1991 for the public sector.

1. Dereservation: In 1991, only 8 industries were reserved for the public sector, which included arms and ammunition, defence, atomic energy, mining and railways. All other sectors were opened for the private sector to participate in.
2. Disinvestment of Public Sector Enterprises: This process involved selling a portion of equity or controlling stock to the general public and private sector. The motive behind such a decision was to encourage the participation of private enterprises and the general public in the ownership of public enterprises.
3. Policy to deal with Sick units: This policy dealt mainly with restructuring or closing of the sick public sector units. For determining which units should be restructured and which one to close down, they were referred to the Board of Industrial and Financial Reconstruction (BIFR), and a National Renewal Fund (NRF) was created by the government to help retrain or deploy a workforce that is retrenched from a sick unit and also to provide compensation to employees seeking voluntary retirement.
4. Memorandum of Understanding: This process helped grant more autonomy to the public sector units and also made them accountable for the results produced. The MoU was signed between the public sector unit and the related ministries. The public sector units were given clearly defined targets and full operational autonomy to achieve those targets.

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

#### Solution:

The following were the roles of the public sector before 1991:

1. Developing Heavy Industries and Infrastructure: The infrastructure of the country had not developed before 1991. There were fewer industries and also a lack of heavy industries. The government, in the form of public sector industries, took the initiative to start such projects.
2. Maintaining Regional Balance: After setting up the planning commission, the government started concentrating on the development of rural and backward areas, and as a result, four steel plants were set up in rural areas to encourage economic growth of the region and provide employment to the population.

3. Maintaining economies of scale: The cost of production will be low when it is produced in bulk, but bulk production requires a huge amount of capital. Electricity, natural gas and petroleum were the industries chosen by the government for mass production. It helped balance the economies of scale.

4. Economic Power: After independence, few industries existed and starting a new venture required huge capital. In this stage, if public sector units were not established, then the wealth would have become concentrated in a few hands. The public sector ensured that benefits should be enjoyed by a large number of people.

5. Self-Reliance: Heavy machinery was required for a strong industrial base. The government selected enterprises like STC to help in efforts of expansion and creation of heavy machinery and metal industries domestically. It drastically reduced imports and created self-reliance for goods.

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

#### **Solution:**

The public sector and private sector operate differently, and hence it will be difficult for the public sector to match up in profit and efficiency due to the following reasons:

1. The public sector operates for social welfare, whereas the private sector operates for profit maximisation. Hence it will be tough to compete.
2. As the ownership rests with the government, many of the decisions will be taken based on political considerations instead of getting more profit.
3. Employees are less efficient in the public sector as it involves many rules and regulations, while the private sector is more performance-oriented.
4. Public sector is slower to embrace new technologies, while the private sector is a fast mover.

**4. Why are global enterprises considered superior to other business organisations ?**

#### **Solution:**

Global enterprises enjoy an upper hand on all other business organisations due to these reasons:

1. Wide market: As the operations of global enterprises expand among continents, they have access to a large geographical area and resources.

2. **Diversifying risk:** By operating in different countries and forging joint ventures with organisations of that country, the multinationals can reduce risk, as loss made in one country can be compensated with profit from another country.
3. **Funds:** As these enterprises have good financial resources, they raise funds from many sources and borrow funds from banks having an international presence.
4. **Research and Development:** They have a more organised R& D network that is well funded, making developing new products quicker than others.
5. **Marketing:** Global companies have a more aggressive style of marketing that drives sales, and they come up with innovative marketing techniques that result in high sale volume.

### **5. What are the benefits of entering into a joint venture and public private partnership?**

#### **Solution:**

A joint venture is a type of business agreement where two organisations associate together to obtain mutual benefits and profits. The organisations share the risks and profits of the business apart from resources and finance. Here are some of the benefits of joint venture:

1. The available resources and the corresponding operating activities of the business are pooled when a joint venture is formed. It helps in the growth of the business.
2. This association helps in the expansion of business by expanding the geographical reach, which helps reach new markets.
3. By forming a joint venture, companies get access to the latest technologies with minimum investment.
4. In a joint venture, the technical knowhow is shared between companies, which leads to innovation in product
5. The cost of production is reduced as raw materials are available in plenty.

A public-private partnership is where all the risks of the business are evenly distributed. In such a partnership, the investor risk is less. Here are some benefits of PPP:

1. Risk sharing is reduced as it gets shared with the public
2. By sharing tasks and responsibilities, the project gets finished faster.