
Question 6. Give the meaning of Government Company. Explain three merits and three limitations of Government Company.
Answer. A Government Company is a company in which not less than 51% of the paid up share capital is held by the central government; or state government or jointly by both. Hindustan Insecticides Ltd., State Trading Corporation of India, Hindustan Cables Ltd.etc are some of the examples.
Features

- It is registered or incorporated under Companies Act.
- It has a separate legal entity.
- Management is regulated by the provision of Companies Act.
- Employees are recruited and appointed as per the rules and regulations contained in Memorandum and Articles of Association.
- The Government Company obtains its funds from government shareholdings and other private shareholdings. It can also raise funds from capital market.

Merits

- It can be easily formed as per the provision of Companies Act. Only an executive decision of government is required.
- It enjoys autonomy in management decisions and flexibility in day to day working.
- It can appoint professional managers on high salaries.

Limitations

- It suffers from interference from government officials, ministers and politicians.
- It evades constitutional responsibility, which a company financed by the government should have, as it is not directly answerable to Parliament.
- The board usually consists of the politicians and civil servants who are interested more in pleasing their political bosses than in efficient operation of the company.

IV. Higher Order Thinking Skills (HOTS)

Question 1. “The basic rationale of public sector has changed significantly.” In the light of this statement explain any four initiatives taken by the government.
Answer: In the industrial policy 1991, the Government of India introduced four major reforms in public sector.

1. Reduction in number of industries reserved for public sector: This number is reduced from 17 to 8 and to 3 industries only in 2001. 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: Equity shares of public sector enterprises were sold to private sector and the public. It was expected that this would lead to improved managerial performance and better

financial discipline.
4. Restructure and revival: All public sectors, 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.

Question 2. "Global enterprises are giant both in size and operations." Substantiate this statement.
Answer: The statement is absolutely correct that global enterprises are giant both in size and operations.

1. It has huge capital resources.
2. It involves foreign collaboration.
3. It uses advanced technology.
4. It leads to product innovation.
5. It makes use of marketing strategies.
6. It leads to expansion of market territory.
7. It makes use of centralized control.

Question 3. "MNC's are in a position to exercise massive control on an economy." Substantiate.
Answer: MNC's are in a position to exercise massive control on an economy because of the following reasons:

- MNC's are characterised by possessing huge financial resources. These huge financial resources give them economic power in the economy. They can afford to survive even during losses as well.
- MNCs possess technological superiorities and are capable of conform to international standards and quality specifications.
- They make use of aggressive marketing strategies for their products.
- They have an established brand image in the market.

V. Value Based Questions
Question 1. Multinational Companies have done more harm than good. Explain.
Answer: Yes, I agree that Multinational Companies have done more harm than good. It is clear from the following disadvantages which it is creating for the economy.

1. It disregards national priorities.
2. It leads to creation of monopoly.
3. It leads to depletion of natural resources.
4. It leads to technology obsolete .
5. It creates threat to national sovereignty.

Question 2. "Public sector has changed its role since 1991 a great deal". Do you agree? Justify your answer.
Answer: The role and importance of public sector changed with passage of time.

1. Development of infrastructure: At the time of independence, India suffered from an acute shortage of heavy industries such as engineering, iron and steel, oil refineries, heavy machineries, etc. Because of huge investment requirement and long gestation period, private sector was not willing to enter these areas. The duty of development of basic infrastructure was assigned to public sector which it discharged quite efficiently.
2. Regional balance: Earlier, most of the development was limited to a few areas like port towns. For providing employment to the people and for accelerating the economic development of backward areas many industries were set up by public sector in those areas.
3. Economics of scale: In certain industries (like electric power

plants, natural gas, petroleum, etc) huge capital and large base are required to function economically. Such areas were taken up by public sector.

4. Control of monopoly and restrictive trade practices: These enterprises were also established to provide completion to private sector and to check their monopolies and restrictive trade practices.
5. Import substitution: Public enterprises were also engaged in production of capital equipments which were earlier imported from other countries. At the same time public sector companies like STC and MMTC have played an important role in expanding exports of the country. Very important role was assigned to public sector but its performance was far from satisfactory which forced government to do rethinking on public enterprises.

*********** END **********