# UNIT 16 GOVERNMENT IN BUSINESS

**Structure**



## 16.0 OBJECTIVES

After studying this unit, you should be able to:

- state the reasons why government controls the business activities of private enterprises
- explain various forms of government control
- define a public enterprises
- explain rationale for government participation in business through public enterprises
- state the objectives and features of public enterprises
- describe the performance, problems and limitations of public enterprises in India.

## 16.1 INTRODUCTION

Traditionally, business activities were left to individuals and private organisations. It was assumed that in a competitive market, the profit motive of businessmen and the forces of demand and supply should ensure efficient production and distribution of goods and services in the general interest of all. But it led to unchecked growth of monopolies and concentration of wealth in the hands of a few business houses. Private entrepreneurs, as they work mainly with profit motive, do not show interest in such industries where the profit margin is less, gestation period is long, investment is huge, etc. Industries are also concentrated in a few places where there are certain natural advantages such as availability of raw-materials, technical skills, infrastructural facilities, nearness to market, etc. Lack of such natural advantages in some regions has led to regional imbalances. This necessitated the government to take some measure to check the growth of monopolies and concentration of wealth, and to ensure balanced regional development, Hence, government started regulating the business activities of the private enterprises alongwith direct participation in business.

In this unit we shall discuss the reasons underlying government control over private business, the various forms of such control, rationale behind the government participation in business, the objectives and features of public enterprises as well as the contributions and limitations of these enterprises.

## 16.2 REASONS UNDERLYING GOVERNMENT CONTROL OVER PRIVATE BUSINESS

Let us discuss in detail about the causes which have led to the government regulation and control of private business activities. The main reasons are as follows:

1) Evils of free enterprise and private ownership: The following evils are associated with free enterprise and private ownership:
   i) Freedom of enterprise often gave rise to monopoly of large business firms. Monopoly power was generally used to restrict production and increase prices so as to earn higher profits.
   ii) Private ownership of business has led to concentration of wealth in the hands of a few business houses. This caused wide disparities of income and wealth among the people.
   iii) The growth of large companies prevented the entry of new firms in the market.
   iv) For the sake of profits, private enterprises started indulging in wasteful advertisement and unfair competition.
   v) Business conditions were subject to booms and depressions at periodical intervals. Depression brought about widespread unemployment and human misery. On the other hand, speculalive activities during booms led to business failures and economic crisis.
2) Establishment of welfare state: There was increasing public pressure on Government to ensure social welfare and protect the interest of the general public by controlling monopolies, establishing fair trade practices and ensuring equitable distribution of income and wealth.
3) Planned economic development: Government intervention is necessary for rapid development of certain key industries which require large investments or which yield low returns. Besides, to take the economy in planned direction, it is also necessary to give priorities to the growth of certain industries. But, for a private entrepreneur profitability is the main consideration rather than priorities of development. Moreover, private enterprises are likely to be concentrated in certain areas where facilities are easily available. Thus backward regions in the country would be deprived of the benefit of industrial development. Therefore, for rapid economic development of the nation, government is required to regulate private business and channelise private investment in the planned direction. It is also necessary for government to directly participate in industrial and commercial activities to hasten the process of development.
4) Other reasons: There are several other reasons which necessitate the government to regulate the private business as follows:
   i) To prevent the misuse of scarce natural resources like minerals, forests, etc., by private business firms for profit.
   ii) Ensuring the proper use of scarce resources keeping in view the future needs.
   iii) Encouraging and protecting small-scale industries.
   iv) Protection of the economy from the dominance of foreign investors.

## 16.3 INSTRUMENTS OF GOVERNMENT CONTROL

You have studied the reasons underlying govemment regulation of private business. Now we will discuss about the actual measures adopted by the govemment to regulate private enterprises.

Government regulation of private business does not necessarily mean only restriction of private activities. As a matter of fact government measures of control may have inducive as well as restraining effects on business. Measures may have inducive effects if the objective is to stimulate, encourage, facilitate or induce a particular type of trade or industrial activity through technical and financial assistance, tax concessions, subsidy, bank credit, supply of foreign exchange for imports of raw materials or machinery, protection against foreign competition, etc. On the other hand, certain measures may have restraining effects if they are aimed at limiting or restricting private trade and industry by means of legal enactment and administrative orders. These may include licensing requirements for starting or expanding industries, control over capital issues, fixation of maximum price, etc. However, some of the measures may have both the effects. For example, industries which require imported raw materials may be adversely affected if imports of such raw materials are restricted or stopped. At the same time, due to such restriction on imports, the producers of competing goods may have a positive effect and earn more profit. There is another way of distinguishing between the instruments of control. Thus, controls may be classified into two categories depending on whether the measures are directly applicable or indirectly applicable. Accordingly, the two broad types of control measures may be: 1) direct controls and 2) indirect controls. Let us now discuss briefly about these two categories.

**Direct Controls:** Direct controls are the measures which are applied at the discretion of government authorities. Such a control may be used to promote. restrict or limit the activities of private organisations or categories thereof. Examples of these controls are:

1) Licensing of new enterprises or expansion of existing large enterprises.
2) Control over issue of shares, debentures, etc., by companies for raising capital (control of capital issues).
3) Import and export control through direct prohibition or quota restriction.
4) Fixing maximum or minimum prices for particular commodities.
5) Control over distribution of commodities through rationing.
6) Grant of subsidies for industrial growth.
7) Incentives for export promotion like grant of subsidy, credit facilities, etc.

These controls are also knows as **discretionary controls** because they involve discretions to be made by concerned government officials.

**Indirect Controls:** These indirect controls affect private business firms in an indirect manner. The following are some common examples of indirect controls:

1) **Changes of tax rates:** Tax rates may be lowered to encourage the business or raised to discourage the business.

2) **Changes in import and export duties:** Import duties may be raised so as to increase the prices of certain goods. This may be aimed at discouraging imports of those goods or to protect domestic industries from foreign competition. Import duties may be lowered to allow large imports of certain products. Similarly, export duties may be raised or lowered so as to influence the domestic demand and supply. For instance, if the export duty is raised, exports may be discouraged and domestic supply may increase to meet higher domestic demand. If it is lowered, exports may rise.

3) **Changes in interest rates on bank loans:** Government can change its monetary policy to control the prices. For instance, interest rates on bank loans and credit may be raised so as to prevent excessive borrowing and expenditure by business enterprises and to reduce new investment by business firms. On the other hand, interest rates on bank loans may be reduced to induce business firms to borrow and expand their business activities,

Indirect controls are also known as **non-discretionary controls.** Government authorities do not have any discretionary power to apply the measures to particular firms and not to others in the same category.

**Economic Planning**

Many developing countries today have recognised the importance of planning for economic development and adopted broad economic policies for industrial growth. In India this is done through Five Year Plans. The First Five Year Plan was launched in 1951. Since then, six successive plans have been completed and the Seventh Five Year Plan is running its last year. The main objectives laid down in the plans have been:

i) To achieve a target growth of national income so as to improve the standard of living of people.

ii) To bring about industrial growth according to certain priorities and with particular emphasis on basic and heavy industries like steel, fuel and power, chemicals, fertilisers, engineering goods, etc., and provision of transport and communicatio' facilities.

iii) To generate more employment opportunities to absorb the increasing labour force.

iv) To increase agricultural production and achieve self sufficiency in foodgrains.

v) To reduce regional inequalities and achieve balanced regional development.

vi) For the utilisation of limited resources to the best possible advantage.

Economic planning gives a general indication of the priorities of development of various industries and accordingly guides the development process. Besides, it indicates th'e extent to which private organisations will be allotted scarce resources like fuel, power, finance and other facilities for growth. The economic and social activities which the government will undertake on its own are also laid down in the five year plans.

### Industrial Policy

The industrial development of our country is guided, regulated, controlled and promoted according to the industrial policy. After Independence, a number of policy statements have been issued by the Government of India which define the respective roles of government, private, cooperative and joint sector organisations in industrial development. Policies also indicate the relative importance of large, medium and small-scale industrial units. In April 1948, the govemment adopted the first Industrial Policy Resolution, which emphasised a . progressively active role of the state in industrial development. At the same time, the policy also laid down that private organisations should play a complementary role within the framework of the policy.

In 1956 the government adopted a new industrial policy resolution with the following objectives.

i) To increase the rate of economic growth.
ii) To speed up industrial development.
iii) To enhance the scope of government participation in industrial growth.
iv) To prevent private monopoly and concentration of economic power.
v) To define the role of small, village and cottage industries.
vi) To bring about a balanced regional development.

Under the resolution, industries were divided into three categories.

I) Industries listed in Schedule A of the Resolution which would be developed as state monopolies. The development of these industries would be the exclusive responsibility of the state. These include atomic energy, arms and ammunition, heavy machinery, railways, air transport, etc.

2) Industries listed in Schedule B which would be progressively state-owned and the state would generally take the initiative in establishing new units. At the same time, private enterprises would also have the opportunity to develop in the field either on its own or with state participation. The industries in this category include aluminium, drugs, machine tools, fertilisers, road and sea-traosport, etc.

3) Remaining industries are those in which private organisations would take the initiative in establishing new units and expanding the existing industries.

In course of time the government modified some aspects of the policy adopted in 1956. But the basic policies remained more or less the same.

### Industrial Licensing

As an instrument of government control and regulation, the system of industrial licensing was introduced to implement the Industrial Policy Resolution. Provision was made for that purpose in the Industries (Development and Regulation) Act, 1951. The Act has provided that no new industrial unit could be established or substantial expansion of existing plants made without a licence from the Central Government, Further, while granting licence for any new undertaking, govemment may lay down conditions regarding location, minimum size, etc.

The industrial licensing system was expected to achieve the following objectives:

1) Regulation of industrial development and guiding investment in industries according to the planned priorities and targets of growth.
2) To control monopoly and concentration of wealth.

3) Protection of small-scale industries against undue competition from large units.
4) Prevention of concentration of industries in few locations and secure regional decentralisation of industries.
5) Best possible use of scarce foreign exchange resources.

Check Your **Progress A**

1) Which of the following statements are True and which are False?
   i) The main reason for government intervention in business operations was to bring all economic activities under government ownership and management.
   ii) Planning for economic development has been the only factor which required regulation and control of industries.
   iii) Raising or lowering the rates of import duty tariff is a measure of direct control.
   iv) Indirect control includes changing the interest rates for bank lending.
   v) Small-scale industries are protected through industrial licensing.

2) Fill in the blanks
   i) Direct controls may have ........ or ....... effect.
   ii) Restricting imports by quota system is a type of .......... control.
   iii) Grant of cash subsidy for exports is a type of ...... control.
   iv) Economic planning ........ the process of industrial development.
   v) The Industrial Policy Resolution of 1956 classified industries into ........... categories.
   vi) The system of industrial licensing was introduced to implement ............

## 16.4 WHY DOES THE GOVERNMENT PARTICIPATE IN BUSINESS?

We have learnt that the government control the private enterprises on the one hand and directly participate in the business on the other. We have already discussed about the need and forms of government control of private business. Let us now study the rationale of government participation in business.

Government today is engaged in various types of business undertakings. There are several types of services which are provided by government organisations such as electricity, water, postal, telecommunications, transport services, etc. Besides these organisations, there are many manufacturing industries owned and managed by government. They produce steel, locomotives, machine tools, watches, railway coaches. telephone equipment, and so on. Government undertakings are also involved in the supply of consumer goods like milk (through government milk schemes), bread (Modem Bakeries), cloth (National Textile Corporation), etc. Now you may ask: why does the government participate directly in business? The reasons for the direct participation of government in business and industry may be divided into three categories: 1) basic reasons, 2) ideological reasons, and 3) specific reasons. Let us discuss about these reasons in detail.

### 16.4.1 Basic Reasons

The government of India was rightly convinced that political independence without economic independence would not have much meaning. It was, therefore, decided to industrialise the country in a big way as early as possible. The government felt that if the private sector was to take the initiative. it would take an unduly long time to achieve this objective of rapid industrialisation. It was so because the private enterprises lacked adequate entrepreneurship and resources to start large scale ventures. The government, therefore, made a two-pronged attack on the problem. The government encouraged private enterprises to set up new industries, but also, went into industry in a big way.

It was decided to establish steel plants. fertiliser factories and other units necessary for industrial and agricultural growth. The following is a list of some major enterprises and power projects set up by the government within a decade of Independence.

1) Steel Plants at Rourkela, Bhilai and Durgapur
2) Chittaranjan Locomotive Works
3) Hindustan Machine Tools
4) Sindri Fertiliser Factory

5) Hindustan Shipyard
6) Hindustan Antibiotics
7) Hindustan Cables
8) Integral Coach Factory
9) Indian Telephone Industries
10) Power and Irrigation Projects — Tungabhadra, Bhakra Nangal, Hirakud, Damodar Valley, Chambal, etc.
11) Industrial Finance Corporation of India for providing finance to private enterprises.
12) National Industrial Development Corporation to support industrialisation in the private sector.

The intention of the government was to have economic self-reliance in as many areas and as early as possible. We have achieved this objective in a good measure.

Most of the projects set up by the government involved heavy investment, i) long period of construction (for example, a steel plant may require five to six years), and ii) low returns on investment. In many cases, however, there was a heavy element of risk which private enterprises, by and large, were not willing to take. The government, therefore, has played an important entrepreneurial role in industrialising the country. A large number of industries set up by the government would never have been established if we had waited for the private sector to come forward and make the necessary investment and take the risk.

### 16.4.2 Ideological Reasons

There is another side of the picture as usual. Apart from the economic and social consideration, the government had strong ideological commitment to the philosophy of public ownership of the means of production. This is the Congress Party's approach which ruled this country so far except during the brief period of 1977-79 when there was the Janata Party Government. It is important to note that even before Independence the Congress party committed itself to socialism through ownership of the means of production. It may be noted that the Industrial Policy Resolution of 1956 which is valid till now, has greatly and clearly emphasised the need for the government in business and this--explains the importance of the govemment owned enterprises in Indian Economy.

### 16.4.3 Some Specific Reasons

There are many other reasons for the govemment to participate in business. These are specific to a particular decision. Some of these are listed below.

Air **Transport Business:** Till 1953, there were many private air companies in the country. Most of these were financially unsound and had no money to invest in modem and costly aeroplanes, The air transport is of strategic importance to the country. The government, therefore, nationalised nine air companies and created Indian Airlines Corporation and Air India International Corporation in 1953.

**Insurance Business:** Today, the whole of insurance business is with the government. The life insurance business is operated through the Life Insurance Corporation of India and other types of insurance business through the General Insurance Corporation of India and its four subsidiary companies.

The government went into the life insurance business in 1956 nationalising scores of private companies which were not fulfilling the main objective of the life insurance business, namely, i) effective mobilisation of the people's savings, ii) spreading the message of insurance as far and as wide as possible, and iii) using the insurance funds for economic development.

Before nationalisation of life insurance business in 1955, there were only 47.8 lakh policies with a total sum assured of Rs. 1,220 crores. By the end of March 1987 there were 298.8 lakh policies with a total sum assured of Rs. 60,795 crores. Moreover, funds with the Life Insurance Corporation (LIC) are invested for national development. For Example, out of the total investment of Rs. 14,000 crores by the end of March 1987, Rs. 1,300 crores was given as loan to the State Electricity Boards and Rs. 561 crores for water supply and sewage schemes in the country. Over 50% of the investments are in government securities. Thus, savings of the nation are now being channelised for nationally important objectives,. which was not so before nationalisation, The high figures of number of policies and the sum assured also show that the message of insurance is spreading far and wide.

Similarly, the general insurance business which is now wholly run by the government companies after its nationalisation in 1971, has been given the necessary social orientation. This would not have been possible had the over 100 private companies continued to run the general insurance business.

Commercial Banks: The government today is in the banking business in a big way. Over 90% of commercial banking is in the hands of the government. What was the objective of the government in going into banking business? The government rightly wanted the banking system to serve the developmental needs of the economy in conformity with national policy and objectives. It also wanted the banks to have new criteria for advancing loans in order to benefit the weaker sections of the society. The private sector banks were not prepared to help the government to achieve these objectives and hence 14 major banks were nationalised in 1969 and six more banks in 1980. Earlier in 1955 the government had nationalised the Imperial Bank of India and had converted it into State Bank of India. This was done because the government's desire to open adequate number of branches in rural areas was not fulfilled by the Imperial Bank of India.

By the end of September 1987, we have 30,463 rural branches (56%) out of 54,163 branches of commercial banks as compared to 22% rural branches in 1969. Further at the end of June 1986, we find that the total advances of the nationalised banks for various agricultural activities were Rs. 9,231 crores for as many as 166 lakh accounts opened for this purpose. Similarly, loans to small scale industries were Rs. 7, 836 crores in 18 lakh bank accounts.

Coal Industry: The coking coal mines were nationalised in 1971. It was done because coking coal which is essential for production of iron and steel has very limited reserves in the country. The private sector was mining this fast depleting and scarce natural resources in a very wasteful manner. Other coal mines were also nationalised in 1973. The reasons for this were: i) the private sector owners did not have the necessary funds required for increasing the coal production, ii) the coal which is a scarce natural resource was being mined in a very unscientific way, and iii) the private coal miners were greatly exploiting the labour employed in the mines.

Oil Industry: In the 1970's the foreign oil companies Burmah Shell, Caltex and Esso were nationalised. Here the objective was that the government should have control over a critical and strategically important resource like oil. Today, the govemment has full control over the production and distribution of oil. And this has paid us rich dividends in terms of self-reliance and generation of resources.

Various Other Types of Business: There is yet another important reason for the government going into business of various types. Over one hundred cotton textile mills and dozens of engineering and other enterprises have been taken over by the government since Independence. This is done because the govemment cannot afford to lose production capacity which exists in the units which become sick and which the private sector wants to close down. Further, if a sick unit is closed, hundreds and thousands of employees may be out of job, which is undesirable both socially and politically.

We have listed above various nationalisation measures which show the failure of private enterprises to meet the challenge of the situation. This forced the government to step into the picture. By and large, the conclusion so far is that the government in India went into business due to economic and social compulsions.

From the above discussion we can conclude the reasons for government participation in business as follows:

1) The government's role in business in India is greatly justified by economic and social reasons.
2) Had the govemment not initiated a large number of industrial activities, the Indian economy would never have got the sound base and self-reliance which it has today.
3) A large number of enterprises have been forced on the government when they became sick and they could not be allowed to be closed down due to social and economic reasons.
4) There is an element of ideology in the role which the government has in business today. Had the ideology not been there, the government would have disengaged itself from at least some of its business activities after completing its role as path finder or initiator.

5) The government continues .to be in business in a big way because of ideological as well as economic and social considerations.

## 16.5 WHAT IS A PUBLIC ENTERPRISE?

We have already mentioned that the govemment owned enterprises are also called Public Enterprises (PEs). Strictly speaking the term public enterprise, as a business entity, refers to any industrial or commercial undertaking which is owned and managed by the central, state or local govemrnent and of which the output is marketed i.e. not supplied free. Thus public enterprises include manufacturing, trading as well as service organisations which are essentially business undertakings.

Public enterprises consist of nationalised private organisations as well as new enterprises promoted under government ownership and control. Life Insurance Corporation, Indian Airlines Corporation, Coal India Ltd., etc., are examples of public enterprises established by nationalising private organisations. Hindustan Machine Tools, Hindustan Antibiotics Ltd., Chittaranjan Locomotive Works, etc., are examples of public enterprises promoted by govemment.

Difference **Between** a Public Enterprise **and** a Private Enterprise

Private enterprises, on the other hand, refer to industrial and commercial organisations which are set up under individual or group ownership within the general framework of regulatory laws and rules of the government. These include manufacturing and commercial companies, medium and small firms organised as proprietory and partnership concerns.

Private enterprises are primarily motivated by private profit. Public enterprises are governed by public policies framed by government and aimed at maximising social welfare and upholding public interest. The objectives of public enterprises in India are laid down in conformity with the objectives of the development plans. They are accountable to the government and the parliament or state legislatures regarding the fulfilment of their objectives. Private enterprises are free to set their objectives and to undertake any business activity except those which are illegal. However, private enterprises are also regulated by government controls of different kinds.

## 16.6 FEATURES AND OBJECTIVES OF PUBLIC ENTERPRISES'

Features

The main features of public enterprises as distinguished from private enterprises are as follows:

1) Public enterprises are owned and managed by the government or agencies set up by the government.
2) The whole or major part of the capital required for the public enterprises is provided by government.
3) A public enterprise can be organised as a departmental undertaking or as a statutory corporation or as a government company.
4) These are governed by public policies laid down by the government in the public interest and are not entirely guided by profit motive.
5) Their objectives are laid down in conformity with the development plans. They are accountable to the Parliament or state legislature for their performance and fulfilment of objectives.

Objectives

It should be clear from the reasons which prompted the growth of public enterprises, that the principal objectives of these undertakings are many. The objectives are outlined below:

I) To achieve rapid economic development through industrial growth in accordance with the development plans.
2) To channelise resources in the best possible manner for economic growth.
3) To secure public welfare and to reduce inequalities' in the distribution of income and wealth.

4) To ensure balanced regional development of industry and trade.
5) To prevent the growth of monopoly and concentration of economic power in a few private hands.
6) To control the prices of essential consumer goods in the market to prevent public hardship.
7) To mobilise public savings through financial institutions to meet the demands of public and private enterprises in accordance with planned priorities.
8) To provide satisfactory employment conditions to the personnel as model employers.

**Check Your Progress B**

1) What is a public enterprise?

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2) State whether each of the following statements is True or False?

   i) Public enterprises operate mainly with profit objective.
   ii) Life Insurance business in India was nationalised in 1956.
   iii) Indian Airlines Corporation is an example of government in business.
   iv) All public enterprises must be wholly owned by the Central government.
   v) One of the objectives of public enterprises is to achieve rapid economic development.

3) Fill in the blanks.

   i) Public enterprises are essentially ....... undertakings.
   ii) Government role in business in India is justified by .......... and .......... reasons.
   iii) Objectives of public enterprises are laid down in conformity with ........... plans.
   iv) The general insurance business is operated by government through .................

## 16.7 PERFORMANCE OF PUBLIC ENTERPRISES

You have studied the meaning, features and objectives of public enterprises. Now the question is, how is the performance of public enterprises?

It is not easy to answer this question because there is no unanimity about the fact as to what constitutes government's business activity. For instance, some consider port trusts, railways and post office as business activities. But others do not agree with this. Further, a number of important business activities of the government operate in 25 states and eight union territories, for which information is not easily available. Many commercial activities are also undertaken by municipal corporations for which data is almost impossible to get.

The most commonly quoted figures of the extent of the government's business activity (referred to as public enterprise) relate to autonomous units of the Central government. It is so because a report entitled 'Public Enterprise Survey' covering these enterprises is presented to Parliament every year just before the budget. Look at Table 16.1 carefully. It presents the number of public enterprises, their investment, and persons employed by them for the period 1980-1987.

**Table 16.1**
**Total Number of Public Enterprises, their Investment and Employment**

| As on March 31 | No. of Units | Total Investment (Rs. Crores) | Number of Persons Employed (in lakhs) |
|---|---|---|---|
| 1983 | 209 | 30,038 | 20.2 |
| 1984 | 214 | 35,394 | 20.7 |
| 1985 | 221 | 42,791 | 21.1 |
| 1986 | 225 | 50,362 | 21.5 |
| 1987 | 226 | 61,603 | 22.1 |

**Source:** Public Enterprise Survey

Look at Table 16.2 for the contribution of public enterprises in the manufacturing sector (both of the Central and State governments).

**Table 16.2**
**Share of Public Enterprises in the Registered Factories during 1982-83**

| Type of Ownership | All Registered Factories | | Fixed Capital | | Total Employees | |
|---|---|---|---|---|---|---|
| | Number | % to Total | Rs. in Crores | % to Total | No. in Lakhs | % to Total |
| Central. State and Local Governments | 5.116 | 5.5 | 26,735 | 65.2 | 21.9 | 27.3 |
| Joint Sector | 1,821 | 2.0 | 2,996 | | | 6.1 |
| Private Sector | 86,229 | 92.5 | 11,275 | 27.5 | 53.3 | 66.6 |
| Total | 93,166 | 100.0 | 41,006 | 100.0 | 80.1 | 100.0 |

Note: Fixed capital is depreciated value of all assets which have a normal economic life of one year or more.
Source: Annual Survey of Industries

Table 16.2 indicates that though out of 93,116 factories in the country, 92.5%.(86,229) were in the private sector. Their fixed capital was only 27.5% of the total.capital employed in all factories in the country. The total employees of the private sector factories constituted 66.6% of the total persons (80.1 lakh) employed in all the factories in the country by the end of March 1983. As against this, public enterprises were only 5.5% in number but had 65.2% of fixed capital with them and had 27.3% employees. This means that public enterprises, though much less in number, are large in size as they contribute a major share in the fixed capital. Further, public enterprises are capital intensive, i.e, they employ more capital as compared to manpower.

Yet another way of showing the importance of public enterprises is their share in paid-up capital. By the end of 1987 there were 1,066 government companies with a paid-up capital of Rs. 33,793 crores. The total number of joint stock companies were about 1,50,620 with an aggregate paid-up capital of Rs. 43,614 crores. This means that the paid-up capital of the public enterprises is over 77% of all the joint stock companies in the country, though their number is less than 10%.

Apart from the huge investments and a large number of persons employed in public enterprises the areas of their operations are very diverse. They are involved in the production of heavy, medium and light engineering 'goods, transport equipment, communication equipment, basic raw materials (minerals and metals, steel, coal, petroleum, fertilisers and chemicals), consumer goods (textiles, paper, salt, footwear, etc.), and services. As a matter of fact almost the entire production and distribution of energy (coal, oil, electricity and atomic energy) is through public enterprises. The whole of the air and rail transport, manufacture of aircraft, ships, railway engines and coaches are in the public sector, Public enterprises contribute 80% of production of steel, 100% of copper and primary lead, and 87% of zinc. All the life and general insurance companies and institutions which provide long-term finance are public enterprises. Government also owns 90% of commercial banking.

With a huge amount of capital invested in public enterprises, the question is often asked whether they have been successful from the financial point of view. This is a difficult question to answer because there is no single and clear measurement of success. Different persons measure success in different ways. The most common measurement of success for business enterprises is profit on a continuous basis. Here again, opinions can differ about the quantum of profit and how one arrives at the figure of profit.

Judged in terms of financial performance, the profitability of public enterprises is inadequate. The total net profit (before payment of tax) and the total capital employed for all the 214 Central government enterprises is presented in the Table 16.3

Table 16.3

Total Profit Earned and Capital Employed by the Central Government Public Enterprises during 1984-87

| Particulars | Years | | |
|---|---|---|---|
| | 1984-85 | 1985-86 | 1986-87 |
| Capital Employed | 36,382 | 42,965 | 51,931 |
| Profit Before Tax | 2,099 | 2,173 | 3,095 |
| Profit as a Percentage on Capital | 5.8 | 5.1 | 6.0 |

Further, we have to note the fact that bulk of the profit is earned in the petroleum, power and telecommunication sectors which have large elements of monopoly. Look at the Table 16.4 carefully. It presents sector-wise details of after tax profit/loss made by 214 Central government public enterprises.

Table 16.4
Group-wise Performance of Public Enterprises during 1986-87

| S.No. | Group | No. of Enterprises in the Group | Net Profit or Loss (Rs. in Crores) |
|---|---|---|---|
| 1) | Steel | 6 | (-) 26.4 |
| 2) | Minerals & Metals | 14 | 2.0 |
| 3) | Coal' | 7 | (-) 331.0 |
| 4) | Power | 3 | 233.8 |
| 5) | Petroleum | 12 | 2,142.1 |
| 6) | Chemicals & Fertilizers | 28 | (-) 146.3 |
| 7) | Heavy Engineering | 16 | 8.9 |
| 8) | Medium & Light Engineering | 20 | 54.8 |
| 9) | Transport Equipment | 13 | (-) 50.6 |
| 10) | Consumer Goods | 16 | (-) 141.1 |
| 11) | Agro-based Products | 5 | (-) 4.0 |
| 12) | Textile | 14 | (-) 189.6 |
| 13) | Trading & Marketing | 19 | 40.4 |
| 14) | Transportation Services | 9 | (-) 55.6 |
| 15) | Contracts & Construction | 7 | (-) 27.5 |
| 16) | Industrial Development & Technical Consultancy | 11 | 2.9 |
| 17) | Development of Small Industry | 1 | (-) 0.3 |
| 18) | Tourist Services | 2 | (-) 0.8 |
| 19) | Financial Services | 5 | 38.3 |
| 20) | Telecom. Services | 2 | 201.8 |
| 21) | Non-Commercial Public Enterprises Under Section 25 of the Companies Act | 4 | 17.2 |
| | Total | 214 | 1,769.1 |

(-) indicates loss.

## 16.8 CONTRIBUTION OF PUBLIC ENTERPRISES

Many people argue that if we judge the contribution of public enterprises only in financial terms, we are less than fair to them. There are many other important aspects of their contribution which cannot be ignored. Non-financial gains of public enterprises are diverse and substantial. Some of these gains are as follows:

1) Public enterprises have a great deal for the country to emerge as an industrial nation. Today, India is considered to be among the industrialised nations of the world. We are also self-reliant in many major areas of industrial production and most items of consumer goods and services.

2) They have helped the industrialisation and development of backward areas.,

3) They have also assisted the development of backward communities, particularly scheduled castes and bcheduled tribes, by providing employment opportunities.

4) Expansion of public enterprises have led to the reduction of income disparities. As 'compared to private enterprises, the salary differential between the lowest and the highest paid employees is much less in public enterprises.

5) The constitutional objective of avoidance of concentration of economic power in few hands, has been greatly achieved by the public enterprises. In the absence of these enterprises, economic power would have gone into the hands of a few large and established business houses. It may be noted that the large business houses, which are often in the news and weild political influence, do not at present possess even one tenth of the assets owned by the public enterprises. If the industry in the hands of the government today had been with the private sector, it would have dominated the government rather than the government directing it.

6) The dealings of public enterprises with their suppliers, dealers, customers, employees and public at large have a higher level of morality than in the counter part private enterprises.

Thus, we find that public enterprises are an important instrument in implementing the nation's social and economic policies, and their success cannot and should not be measured only in terms of profit.'

## 16.9 PROBLEMS OF PUBLIC ENTERPRISES

We have learnt that the government in India is in business in a big way covering varied fields of activity. We also studied about the performance and contributions of public enterprises. Now let us study the limitations of these enterprises.

1) Even though public enterprises are often registered as joint stock companies like any other private sector companies, their way of working is not fully commercial. It is so because these enterprises being close to the government system, often adopt the procedures, practices and attitudes prevalent in government departments.

2) The Board of Directors of public enterprises are not fully professional. Often there is no continuity in the job of the top men.

3) There is too much job security at all managerial levels below the board and this affects the level of performance in public enterprises.

4) The system of reward and punishment in public enterprises more often resembles that in the government than in similar private enterprises.

5) Many important and large public enterprises are in areas where technology is difficult and new. And also the location is not always decided from the economic point of view.

6) The workers unions are strong and well-organised. So, they are able to extract from these enterprises more than their rightful share.

7) Most public enterprises show poor performance due to surplus manpower and low productivity of the personnel, almost at all levels, particularly so at lower levels.

8) Public enterprises are very large in size as compared to private enterprises. Of the first 20 largest industrial enterprises in the country (in terms of assets), not less than 16 are public enterprises. The complexity of managerial probiems increase in geometric progression with increase in size. The public enterprises, by and large, have not been able to adequately cope with their complex managerial and administrative problems.

9) Many constraints are also caused due to the public enterprises being subject to the government type audit by the Comptroller and Auditor General of India, and Parliament's scrutiny of their affairs.

So far right answers to many of these problems have not been found. Many expedients and remedies have been tried from time to time, but without much success.

**Check Your Progress** C

1) Which of the following statements are True and which are False?

   i) Most public enterprises have appointed an excessive number of professional directors.

   ii) Only a few public enterprises earn profits.

   iii) Public enterprises have not made any contribution to the public welfare.

   iv) The security of managerial jobs is the same in the public and private enterprises.

   v) The system of reward and punishment to employees is quite effective in public enterprises.

vi) Public enterprises, though smaller in number, employ larger amounts of capital than private enterprises.

2) Fill in the blanks.

i) The public enterprises have government type audit by the ...........

ii) The three more profitable industries under public enterprises in 1986-87 were ..................

iii) Public enterprises have helped the development of .............. by providing employment opportunities.

iv) As compared to private enterprises the salary differential is ............... in public enterprises.

v) Most public enterprises are lacking in ......... management.

vi) Over ....... percentage of commercial banking is in the hands of government.

## 16.10 LET US SUM UP

The evils of free enterprises and private ownership, establishment of welfare state, planned economic development, optimum utilisation of scarce natural resources, encouraging and protecting small-scale industries, protecting the economy from the dominance of foreign investors, etc., have led to the regulation and control of private business activities by government. Governmental controls may be classified into: i) direct controls, and ii) indirect controls. Direct controls include such measures as licensing of new manufacturing enterprises or expansion of the same, subsidies for promoting exports, quota restrictions on imports and exports, price control and rationing of goods, etc. Indirect controls consist of measures like levy of customs duty on imports or exports, changing the rate of interest on bank loans, and so on.

The need for direct government participation in business may be explained by three types of reasons: i) basic reasons, ii) ideological reasons, and iii) specific reasons. The term 'public enterprise' as a business entity refers to any 'business undertaking which is owned and managed by the central or state or local government, and of which the output is marketed i.e., not supplied free of charge. These enterprises are governed by public policies framed by government and aimed at maximising social welfare and upholding public interest. They are accountable to the government and the Parliament or state legislatures regarding the fulfilment of their objectives. The justification of public enterprises may lie in the following:

1) The inability or unwillingness of private entrepreneurs to invest in industries which are crucial for rapid industrial growth.
2) Need for balanced regional development.
3) Bringing about greater equality of income and wealth.
4) Prevention of concentration of economic power and monopoly in the private sector.
5) Fulfilment of the priorities and targets laid down in development plans.
6) Larger resources at the disposal of government to promote basic and heavy industries.

The main features of public enterprises are : government ownership and control, contribution of capital by the government, governance by public policies, objectives in conformity with development plans, accountability to legislature, etc. The objective of public enterprises are: rapid industrialisation, channelising resources for development, reduction of inequalities in the distribution of income and wealth, balanced regional development, control of monopoly power and concentration of wealth, check of rise in prices, mobilisation of public savings, provision of satisfactory employment conditions, etc.

Judged in terms of financial performance, the profitability of public enterprises is quite inadequate. A large number of public enterprises are running in losses. Enterprises in the petroleum, power and telecommunication industries which have large elements of monopoly are earning profits. However, contribution of public enterprises in certain respects cannot be ignored, There are many problems and limitations associated with the working of public enterprises.

## 16.11 KEY WORDS

Capital Employed: Total fixed assets less accumulated depreciation plus working capital. The working capital means all current assets less current liabilities and provisions.

Industrial Policy Resolution: It is a formal decision of the government in the form of a resolution regarding its industrial policy, including the place which the public and private enterprises would have in the economy.

Public Enterprise: Is an industrial, commercial or business activity of the government, where a return on investment is expected.

Socialist Pattern of Society : Broadly it means a system in which the benefits of economic development accrue more and more to the relatively less privileged classes of the society and there is an effort to avoid concentration of wealth and to reduce disparities of income.

## 16.12 SOME USEFUL BOOKS


Bhushan Y.K., *Fundamentals of Business Organisation and Management*, Sultan Chand & Sons: New Delhi, (Part Nine, Chapters 4 & 5).

Ghosh, P.K., 1982, *Public Enterprise in India*, Book World: Calcutta, (Chapters I & 2).

Khera S.S., 1963, *Government in Business*, Asia Publishing House: New Delhi, (Chapter I).

Kolesov, V., 1980, *The Public Sector*, Sterling Publishers: New Delhi, (Chapter 2).

Laxmi Narain, 1988, *Principles and Practice of Public Enterprise Management*, S. Chand & Co.: New Delhi, (Chapters 1 & 2).

Rarnesh, M.S., 1985, *Principles and Practice of Modern Business Organisation, Administration & Management*, Kalyani Publishers: New Delhi, (Volume I, Chapter 8).

Singh, B.P., and Chhabra, T.N., 1988, *Business Organisation and Management*, Kitab Mahal: Allahabad, (Part One, Chapters 43 & 44).


## 16.13 ANSWERS TO CHECK YOUR PROGRESS

A 1) i) False ii) False iii) False iv) True v) False

2) i) Positive, negative ii) direct iii) indirect iv) guides v) three vi) the industrial policy resolution

B 2) i) False ii) True iii) True iv) False v) True

3) i) business ii) social, economic iii) developmental iv) General Insurance Corporation

C I) i) False ii) True iii) False iv) True v) False vi) True

2) i) Comptroller and Auditor General of India ii) petroleum, power, telecommunications iii) backward communities iv) much less v) efficient vi) 90

## 16.14 TERMINAL QUESTIONS

1 What is a public enterprise? What are its characteristics? How is it different from a private enterprise?

2 Explain fully the reasons underlying Government control over private business activities.

3 Distinguish between the following with examples:

i) Inducive and restraining controls.

ii) Direct and indirect controls.

4 Why is it necessary for government to directly participate in business and industry?

5 Write short notes on:

i) Extent of government participation in business.

ii) Rationale of public enterprises.

6 Outline the nature of problems and limitations associated with the operation of public enlerprises.

7 Comment on the financial performance of public enterprises in India. In what respects the public enterprises have made a positive contribution to the well being of the nation?

**Note:** **Thete questions will help you to understand the unit better. Try to write answers for thdm. But do not send your answers to the university. These are for your practice only.**

# UNIT 17 FORMS OF ORGANISATION IN PUBLIC ENTERPRISES

## Structure



## 17.0 OBJECTIVES

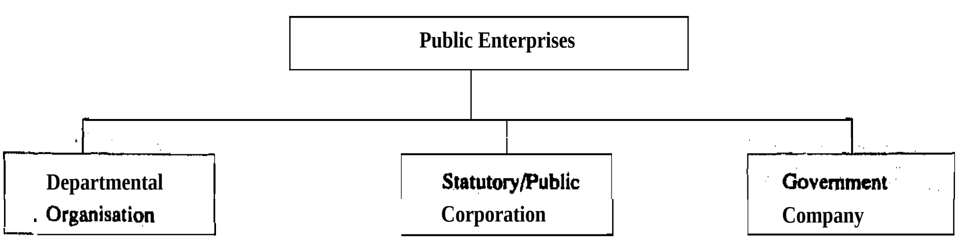
After studying this unit, you should be'able to:

- describe various forms of organisation in public enterprises
- describe the features of each form of organisation
- explain the merits of each form of organisation
- evaluate the suitability of each form of organisation.

## 17.1 INTRODUCTION

In Unit 16 you have studied the meaning, objectives, features, merits and limitations of. public enterprises. But, what are the forms of organisation in public enterprises? Are the forms of organisation in public enterprises same as private enterprises? As you know (Unit 2) the business enterprises promoted by private entrepreneurs are organised in any of the following three forms: 1) sole proprietorship, 2) partnership, and 3) joint stock company. But, the forms of organisation in public enterprises are different. In the case of public enterprises there are three forms of organisation: 1) departmental organisation, 2) public corporation, and 3) government company. Look at Figure 17.1 for the forms of organisation in public enterprises. In this unit we shall discuss about the features, merits and limitations of each of these three forms of organisation and evaluate which form is suitable under a given situation.

**Figure 17.1**
**Forms of Organisation In Public Enterprises**



## 17.2 DEPARTMENTAL ORGANISATION

Departmental form of organisation is the oldest form of organising public enterprises. Under this form of organisation, business activities of the undertakings are conducted under the overall control of one of the departments of the govemment. In other words, when a public enterprise is organised, financed and controlled in much the same way as any other government department. it is known as 'departmental form of organisation.' This form of organisation is generally, chosen for such undertakings which are important from the view point of public interest and national interest. This form is suitable for most of the undertakings which are not run on pure commercial principles. Departmental form of organisation, generally, is suitable under the following situations:

i) Where the basic purpose of an enterprise is to procure revenue for the government.

ii) Where the government desires to have firm control over service sectors keeping in view public interest (e.g., posts and telegraph, broadcasting, etc).

iii) Where maintenance of secrecy is regarded as a matter of strategic importance (e.g. atomic energy, defence industries, etc.).

iv) Where projects are in earlier stage of initial planning and require constant efforts and continuous funds that can be provided only by the government.

However, the latest trend seems to favour the participation of private enterprises even in defence industries. For instance, the Bharat Electronics Ltd., which is a stale owned undertaking, is given a company form of management. A part of the telecommunication services was converted into two joint stock companies in 1981. One of them is called the Videsh Sanchar Nigam Ltd., which is responsible for the overseas telecommunication service; the other is the Mahanagar Telephone Nigam Ltd., which is responsible for telephone systems in Bombay and Delhi.

### 17.2.1 Features

The main features of departmental form of organisation are as follows:

1) Overall control rests with the minister: Under this form of organisation, overall responsibility of management rests with the minister under whose ministry the undertaking functions. The minister, in turn, delegates authority downwards to the various levels of the organisation. Thus, the line type of authority relationship is represented between executives at different levels. In some cases, to manage the day-to-day operations, the government may appoint a Board. The examples of such Boards are the Railway Board, the Postal Services Board, the Telecommunications Board, etc. However, in this form of organisation, the overall responsibility rests with the minister and the minister is answerable to the legislature for the efficient operation of the undertaking.

2) Employees are the civil servants: The employees in the case of departmental organisation are civil servants. For example, Union Public Service Commission (UPSC) is responsible for the recruitment of gazetted personnel in railways and postal services (which are departmental organisations) as it is for administrative and police service. The terms and conditions of service of the employees are also the same as for the other government employees.

3) Financed through budget appropriations: The finances of a departmental form of organisation are not independent of the govemment. They are financed out of the government treasury through the annual budget appropriations and its revenues are paid into the treasury. For example, railways and postal (they are departmental organisations) budgets form part of the government budget.

4) Accounting and auditing systems: This form of organisation is subject to budget, accounting and audit controls. For this purpose, the undertaking is treated on par with other government organisations.

5) Sovereign immunity: Being an integral part of the govemment, it enjoys the sovereign immunity of the state: Therefore, it cannot be sued without the consent of the government.

### 17.2.2 Merits

You have learnt about the meaning and features of departmental form of organisation. Now let us discuss about the merits of this form of organisation.

1) Maximum degree of government control : This form of organisation lends itself to the maximum degree of government control. Therefore, government can met its social obligations very effectively.

2) Limited scope to misuse public funds: As you know, departmental undertakings are managed by the concerned ministry. Hence, the accountability of the enterprise to Parliament is complete. You have also learnt that these undertakings are treated on par with other government departments for purposes of budgeting, accounting and auditing. Therefore, the danger of misuse of the public funds is reduced. In the words of Krishna Menon's Committee 'the accountability of departmental undertakings to Parliament is complete, their management being under the ministry concerned'.

3) Governmental control over economic activities: It provides an opportunity for the government to secure absolute control of economic activities. The government can freely use departmental undertakings as instruments of its social and economic policy.

4) Multiplies economic progress: The surplus coming from departmental undertakings increases the revenue of the government. Thus, this surplus can be utilised for the economic progress of the nation and the welfare of the masses.

5) Responsible to Parliament: A departmental enterprise is responsible to Parliament even for its day-to-day operations. It is not possible for a departmental enterprise to claim certain privileges from Parliamentary scrutiny. For example, if members of Parliament ask questions regarding the appointment or dismissal or promotion of a particular employee, or regarding a particular sale or purchase transaction, it is a matter of day-to-day operations. Such a question can be allowed to be asked of a departmental enterprise but not of a statutory corporation or a government company.

### 17.2.3 Limitations

Departmental form of organisation suffer from the following limitations:

1) Bureaucracy and red-tapism: You know that the staff of these departmental undertakings are the civil servants. So it is too close to the bureaucratic system of the government where much importance is attached to rules, regulations and precedents for every decision. Therefore, scope for initiative is limited. Normally a business enterprise needs much flexibility and quickness in decision making which you do not find in the departmental form.

2) Suffers from political instability: These undertakings are generally at the mercy of the political party which is in power. The fate of departmental undertakings also depends on the balance of power between the ruling party and the opposition. Hence there is even a possibility of victimising such undertakings because of political changes and political instability. Thus, these undertakings are subject to political changes and attacks motivated by political considerations.

3) Excessive parliamentary control: You have learnt that the departmental undertakings are completely answerable to Parliament even for their day-to-day operations. As a result there is less scope for any initiative and skill in the departmental organisation. Every detail relating to their working are scrutinised and question in Parliament and outside. This causes delay in making vital decisions relating to the organisation.

4) Lack of professional expertise: These undertakings, as you know, are managed by civil servants who often lack business acumen. They are selected and trained altogether for a different purpose. Regid adherence to formalities and procedures causes delays in decision making which is quite opposed to business principles. Besides, there is no bar on transfers of these officers. This hampers their understanding commitment and responsibility.

5) Absence **of** competition **and** profit motive: Departmental undertakings are run with the objective of service motive. So, the commercial principles which are necessary for their very success are neglected. Further, due to lack of competition there is little incentive to improve their operational efficiency.

6) Financial constraints: You know that these undertakings are financed through annual budget appropriations made by the legislature and its revenues are paid into the treasury. They are not allowed to raise finances on their own and depend completely on the government. As a result, sometimes, these undertakings suffer due to shortage of funds. Further, these enterprises do not have much flexibility in financial matters, as they are subject to budget, accounting and audit controls.

Check **Your** Progress A

1) What are the forms of organisation in public enterprises?

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2) What is a departmental form of organisation in public enterprises?

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**3)** State whether each of the following statements are True or False.

i) Under departmental form of organisation overall control rests with the managing director.

ii) **A** public enterprise organised under departmental form can raise the capital by public issue of shares.

iii) The staff working under departmental form of organisation are the civil servants.

iv) In departmental form of organisation, individuals are not allowed to subscribe to the capital.

v) Departmental form is suitable when the enterprise is working with profit motive.

vi) Departmental form of organisation is not suitable where maintenance of secrecy is regarded as a matter of strategic importance.

vii) Departmental form of organisation suffers from red-tapism and bureaucracy.

viii) Personnel working in departmental undertakings are not subject to transfer.

## 17.3 PUBLIC CORPORATION

Public corporation is a corporate body created by the Parliament or State Legislature as the case may be, by a special Act which defines its powers. duties, functions, immunities and the pattern of management. Public corporation is also known as statutory corporation. The capital is wholly subscribed by the government. It is managed by the management committee constituted according to the provisions of the Act. It is answerable to the Parliament or State Legislature as the case may be.

As stated by Roosevelt, public corporation is an organisation which is clothed with the power of the government but is possessed of the flexibility of private enterprise. Herbet Morrison views a public corporation as a combination of public ownership, public accountability and business management for public ends. Thus the public corporation device is an attempt to combine public interest with the flexibility of operation most prominently found in a company form of orgartisation working in the private sector.' Normally, the public corporations are constituted for any of the following purposes:

i) To transfer the business of a nationalised undertaking to the corporation.

ii) To facilitate the acquisition of undertakings belonging to an existing company.

iii) To promote, develop and operate certain schemes.

iv) To extend certain social services and utility-services.

v) To provide for regulation and control of the working and operations of an institution or for other matters connected therewith or incidental thereto.

The development of the public corporation is largely a post-independence phenomenon. The first public corporation was the Damodar Valley Corporation which was established under a Parliament Act in 1948. It is a multi-purpose river project. In the same year, the government set up the Industrial Finance Corporation of India to provide finance for industries in the private sector. In 1953 when the Indian Airlines and Air India were set up, the Air Corporations Act was passed. In 1955 the State Bank of India was established through the State Bank of India Act and the Life Insurance Corporation of India was set up through the Life Insurance Corporation Act of 1956. Thus, we find that whenever the government wants to undertake a commercial activity, it goes to Parliament and gets approval to set up a distinct entity.

It may be noted that it is not necessary that each corporation will have an Act of its own. More than one statutory corporation can also be established under the same act of the legislature. For example, the State Electricity Boards have been established in most of the states under the Electricity (Supply) Act of 1948. Similarly, most of the States have State Financial Corporations set up under the State Financial Corporations Act of 1951.

## 17.3.1 Features

You have studied what a public corporation is. Now let us discuss about the main features of the public corporations.

1) **Created by a special Act of legislature:** Public corporation is an autonomous corporate body created by a special Act of a legislature as the case may be. The Act defines the powers, duties, privileges, immunities, relationship to the government department, etc.

2) **It is a corporate body:** A corporation, like a joint stock company (Unit 2), is a legal entity. It means that a corporation is an 'artificial person' which exists in the eyes of law. Like a living being, it can enter into contracts and can transact any business under its own name. Since it does not have physical existence, it operates through its agents, which is its Board of Directors.

3) **Owned by the State:** It is Fully owned by the state and the capital is wholly subscribed by the state.

4) **Managed by a Board of Directors:** It is managed by a Board of Directors constituted according to the provisions of the Act. The members of the Board represent various interests and are appointed by the concerned public authority.

5) **Answerable to legislature:** Public corporation is answerable to legislature (Parliament/ State Assembly) which creates it. The way the corporation would be held accountable is mentioned in the Act. Parliament is not expected to interfere in its day-to-day working. But it can discuss matters of policy and the overall performance of the corporation. Sometimes, however, questions are asked and answered on the floor of the house even though they relate to the day-to-day functioning of a corporation. You may ask why this happens. Parliament in a democracy is supreme and it is not possible to curtail its freedom. Further, when public enterprises are mismanaged. Parliament cannot be stopped from enquiring into their performance even though it may involve infringement of a principle agreed to by Parliament itself.

6) **Relation with the government:** Even though a statutory corporation is owned by the government, it does not operate as a wing or part of the government. The legal relationship and channels of communication between the government and the corporation are laid down in the Act of its incorporation. For example, the Life Insurance Corporation which is a statutory corporation, would be guided on matters of policy involving public interest as per the directions issued in writing by the Central Government. Thus, the relationship with the government is formal and clear.

In practice, however, there is a lot of informal dealing with the statutory corporations. An example would clarify as to how this happens. Suppose the government wants the Indian Airlines to operate a service between Delhi and Imphal which is not being run by the Indian Airlines because it is uneconomical. Now, under the Air Corporation Act, the government can ask the Indian Airlines to run a service by issuing a written directive. But the government will only suggest the Airlines to undertake such service. If there is a formal order by the government, it may have to meet the loss, if any, suffered by the Indian Airlines in carrying out its orders. In many matters, therefore, the government prefers to remain informal and get things done without owning the responsibility for its actions.

7) **Own staffing system:** Although a corporation is owned and managed by the government, its employees are not government servants. The employees are recruited, remunerated and governed by the rules and regulations laid down by the corporation. Their pay and benefits are also different from those of the government servants. Thus, the corporation can have the necessary freedom in regard to its employees in running its business. However, the government closely regulates the terms and conditions of employment of corporations, but that is mainly to maintain uniformity in the pay and benefits received by the employees of the various corporations.

8) **Financial independence:** A major source of autonomy of a statutory corporation is its independence in respect of its finances. Unlike departmental form of organisation, a public corporation is not subject to the budget, accounting and audit controls. The corporation shall have its own funds and all receipts of the corporation'shall be credited thereto and payments shall be made therefrom. Once the funds are given to a corporation, it manages them on its own. It does not have to go to the Parliament to get its budget approved. A corporation can also borrow money within and outside the country after getting approval from the government.

## 17.3.2 Merits

Public corporation strikes a mid-way between departmentally run public undertakings and the privately owned and managed corporate bodies. It absorbs some of the salient desirable features of both of them to fetch the best of both forms. At the same time, it eliminates some of their major weaknesses also. Let us discuss about the merits of a public' corporation form of organisation.

1) **Initiative and flexibility:** As it is an autonomous corporate body set up under an Act of legislature, it manages its affairs independently with its own initiative and flexibility. It experiments in new lines, exercises initiative in business affairs and enjoys the operational flexibility as in private enterprises.

2) **Avoids red-tapism:** The evils of red-tapism and bureaucracy associated with departmental form of organisation are avoided. Business functions cannot be carried out efficiently in a government set-up, which is marked by rules, regulations and procedures. Compared with a departmental organisation a public corporation can take quick decisions and prompt actions on any matter affecting its business.

3) **Easy to raise capital:** Public corporations are government owned statutory bodies. They can easily raise required capital on their own whenever needed by floating bonds at relatively lower rates of interest. Public also comes forward to subscribe to such bonds since they are safe.

4) **Protects public interest:** As you know, compared to a departmental organisation, a public corporation is relatively free from political interference, parliamentary enquiry and departmental checks and controls. Although it has a considerable degree of administrative autonomy, its policies are subject to Parliamentary control. Thus, it ensures protection of public interests. Further, the Board of Directors of the public corporations consists of persons from various fields such as business experts and the representatives of special interests like labour, consumers, etc., who are nominated by the government. Thus, exploitation of any class at the cost of another is ruled out.

5) **Works with service motive:** Public corporation avoids the defects of profiteering, exploitation, illegitimate speculation, etc., which are often associated with private

enterprises. A public corporation works primarily with service motive and profit earning is only a secondary consideration. Though it works efficiently to show good results in the form of 'surplus,' such surplus must not be the result of exploitation. The surpluses generated by the public corporations are used for the good of the consumers and the community.

6) **Secures working efficiency:** It secures greater working efficiency by providing better amenities and more attractive terms of service to its employees which in turn; reduces the labour problems.

7) **Secures benefits of large scale economies:** Economies of large scale operations are realised by the virtue of increased size and scale of the business. Further, it is easy to reap considerable economies in management by affecting the integration of several companies under this form. For example, giant government undertakings organised as autonomous units such as, banking, insurance, transport, etc., can secure better management and staff with comparatively lesser costs.

## 17.3.3 Limitations

You have learnt about the merits of public corporation form of organisation. This form of organisation also suffers from certain limitations.

1) **Less autonomy:** Compared to departmental form, public corporations enjoy more autonomy. But, in practice, the autonomy of public corporation is closely and systematically controlled by the government even in matters where they are supposed to have freedom. For example, the Food Corporation of India and the Electricity Boards in various States (these are statutory corporations) are of important to the government and to the public at large. But, the Central and State Governments often find it difficult to allow them the freedom which they are entitled to as per their Acts.

2) **Inflexibility:** A public corporation is set up by a special Act of legislature. Any change in the objects and powers of the corporation requires an amendment in the Act by the legislature. This tends to make a corporation inflexible and insensitive to changing situations.

3) **Clash amongst divergent interests:** As you know, the corporations are owned by the government and are managed by a Board of Directors appointed by the govemment. When the Board of Directors represent different interests there may be clash of interests. This in turn, may hamper the smooth functioning of the corporation. Sometimes, the directors may abuse their autonomy and authority by indulging in undesirable practices. This would defeat the social objectives of public corporation.

4) **Ignores commercial principles:** Public corporations do not have to face any competition. They are neither guided by profit motive nor haunted by the fear of loss. Therefore, there is a possibility of ignoring commercial principles in their working. This may ultimately lead to inefficiency and losses to the corporation. The losses, thus arising are met by the govemment through subsidies.

5) **Excessive public accountability:** You know that the public corporations work with the service motive rather than profit motive. This public accountability of the corporation sometimes acts as a stumbling block in the operational efficiency of the enterprise.

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**Check Your Progress B**

1) What is a public corporation?

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2) List the features of a public corporation.

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3) Fill in the blanks.
   i) For public corporation capital is fully subscribed by ...............
   ii) Public corporation is created by a ............
   iii) Public corporation is managed by ..............

4) State whether each of the following statements are True or False.
   i) Members of the Board of Directors of a public corporation are elected by the public.
   ii) Capital of public corporation is partly subscribed by the private entrepreneurs.
   iii) Public corporations can raise required capital on their own.
   iv) The employees of a public corporation are government servants.
   v) The budget of the public corporation is to be approved by Parliament every year.
   vi) Members of the Board of Directors of a public corporation are nominated by the concerned public authority.

## 17.4 GOVERNMENT COMPANY

According to the Indian Companies Act. **a government company is a company in which 51 per cent or more of the total paid-up capital is held by the central government or any state government or by many state governments or partly central government and partly by one or more state governments. Any company which is subsidiary of such a company is also considered a government company.** Thus a government company is an enterprise wherein government is a predominant shareholder having the bulk of controlling interests, Government company is registered under Indian Companies Act. When the government applied to the Registrar of Joint Stock Companies for setting up a new company, it has to follow all the rules and procedures as are applicable to private persons. Just because the government is getting a company registered it does not get any concession in regard to the formal requirements. You have studied about the formalities and procedure of registration of a company in Unit 4.

Of late, we come across mixed-ownership companies wherein capital is jointly held by the state and private (Indian or foreign) interests. A government company in which both the government and private (enterprises/individuals) are shareholders, is known as a **mixed-ownership company.** The Government of' India has registered and organised a large number of its commercial and industrial undertakings mostly as private limited companies even though their control and regulation actually rests with the government by virtue of its owning majority of shares. But why does the government do like that'? Government, normally, establishes the company form of organisation for the following reasons.

1) **Public interest :** Government sometimes acquires shares of the existing private enterprises when they are unprofitable or have become insolvent or are in financial crisis. Government acquires such companies in the interests of the country. Eastern Shipping Corporation and Hindustan Shipyard Ltd., are examples of the companies taken over by the Government of India.

2) **Mixed-ownership :** Sometimes, in order to secure capital, technical knowhow, expert guidance, etc., the government may be desirous of starting an enterprise in association with private entrepreneurs. In such situations, the government may set up mixed-ownership companies. The examples of mixed-ownership companies are Hindustan Machine Tools, Hindustan Shipyard Ltd., Heavy Engineering Corporation, Hindustan Cables, etc.

3) **Industrial promotion :** In order to encourage industrial promotion, sometimes, government may establish some companies. Such companies are not directly connected with any manufacturing activity, but they are expected to bring out commercially

feasible projects to be eventually established in private or public sectors. National Industrial Development Corporation, and National Small Industries Corporation are some examples in this category.

4) **Promotion of trade or commerce :** Government may also establish some companies to promote trade or commerce. State Trading Corporation, Export Credit & Guarantee Corporation (ECGC), etc., are some examples.

5) **Lack of incentive :** The private entrepreneur does not come forward to establish enterprises because of certain risks such as longer gestation period, heavy investment outlay, lack of profit in the initial years of its formation, etc. In such cases the government may establish government companies.

### 17.4.1 Features

The basic features of a government company are the same as those of a statutory corporation. However, there is one major difference i.e., an act of legislature (central/state) is necessary for establishing a statutory corporation while a government company does not require it. This difference has some constitutional implications. You would learn about the distinction between public corporation and government company in this unit later. The other features of the government company are about the same as those of the statutory corporation. Now we shall discuss the features of government company in detail.

1) **Created under Indian Companies Act :** Government company is a corporate body created under the Indian Companies Act, 1956, like any other joint stock company in the private sector. With regard to registration, memorandum, articles, meetings, capital structure, accounts, audit, etc., it is governed by the provisions of the Companies Act. But the government has the authority to exclude or modify certain provisions of the Companies Act by special notifications duly approved by the legislature.

2) **It is a corporate body :** A government company is a legal entity. It is an 'artificial person' which exists in the eyes of law. Like a living being it can file a suit in a court of law or be sued, can enter into contract and acquire property in its own name.

3) **Scope for private participation in the capital :** A government company may be wholly or partly owned by the government. In any case, the share of the government is not less than 51%. In case it is partly owned by the government, the private persons (individuals as well as corporate bodies) can also participate in the capital. Thus, there is scope for the private sector to participate in the capital.

4) **Managed by a Board of Directors :** It is managed by the Board of Directors. All the directors or the majority of them, depending on the extent of private participation, are appointed by the government. While constituting the Board the government may give representation to various interests like technocrats, labour, consumers, foreign collaborators, etc.

5) **Enjoys financial independence :** Government company can use and reuse the revenue derived from the sale of its goods and services. If necessary, it can borrow money from the financial institutions and the general public.

6) **Independent staffing :** Its employees are not civil servants. They are appointed by the company on its own terms and conditions. It regulates its personnel policies according to its Articles of Association.

7) **Independent accounting and auditing system :** It is exempted from the accounting and audit laws and procedures applicable to government departments. Its accounting practices are more akin to those of commercial enterprises and its auditors are chartered accountants appointed by the government on the advice of the CAG.

8) **Annual reports :** Its annual reports and accounts alongwith the audit reports are to be presented to the legislature, as per the Companies Act.

### 17.4.2 Distinction Between Government and Non-government Companies

There are certain differences between a govemment companies and other joint stock companies called 'non-government companies'. They are as follows:

1) **Paid-up capital :** In the case of a government company not less than 51% of the paid-up share capital is held by the central govemment or by the state government or jointly by the central or one or more state governments. There can be any combination of the shares owned by the central and state governments. But the total paid-up capital owned by one or more governments should be 51% or more, to make it a government company. It may be noted that there are a few government companies which have private participation in the equity. In the case of non-government companies, major share of the paid-up capital is held by the private individual.

2) **Auditor appointment :** The auditor of a government company is appointed by the government on the advice of the Comptroller and Auditor General of India (CAG). He is also empowered to direct the auditor about the manner and method of auditing. Sometimes, the CAG himself carries out the audit of government companies under the Companies Act. The Auditor of a non-government company is appointed .by the General Body of the company.

3) **Annual reports :** The annual reports alongwith audit reports of government companies are laid before Parliament if it is a central government company, and before the state legislature in case of a state government company. In case of a non-government company, the audit reports are laid before its General Body.

4) **Provisions of the Companies Act :** Central government has the power to exempt any provision of the Companies Act from applying to a government company except the provisions regarding audit. But, central government has nothing to do with regard to the provisions of the Companies Act relating to a non-government company.

### 17.4.3 Merits

You have learnt about the meaning and features of government company form of organisation in public enterprises. Now let us discuss about the merits of this form of organisation.

1) **Easy to form :** Most of the public enterprises in India are in the form of joint stock companies. The main reason for this is the ease with which the government can form a company. Whenever the need arises to take up a new activity, the government can float a new company. It can avoid all the problems of getting a bill passed by the legislature, as is required when a statutory corporation is to be set up.

2) **Easy to bring changes in the constitution :** Government favours this form because it is easy to bring changes in the constitution through amendments to Articles. Most of the government companies are fully-owned by the government. As the sole shareholder, the government has all the right to amend the Articles of Association of the company and pass resolution in the meeting, when the need arises.

3) **Facilitates taking over a running enterprise :** This fonn facilitates taking over a running enterprise by the government after securing a majority interest in the equity of the company. For example, after acquiring the equity of the Burmah-shell group of companies, the government changed their name to Bharat Petroleum Corporation Ltd., which now operates as a government company. In the same way, dozens of private sector companies which were taken over by the government are running as government companies, with or without a change in name.

4) **Facilitates private participation :** This form of organisation facilitates private participation in the equity of public enterprises. If the government wants. it can easily do so by selling a part of the equity of a government company to the public at large.

5) **Easy to transfer ownership :** This form is also helpful in disposing of a public enterprise easily. Once the price at which the shares are to be transferred is decided, the transfer of ownership becomes easy by selling the shares to the private party.

6) **More autonomy :** It has almost all the advantages available in the public corporation form of organisation. It has its own charter, autonomy of operations, self-sufficiency in finance, freedom in personnel matters, etc.

7) **Flexibility in operations :** As you know, the employees of the government company are not the civil servants. So, the evils of red-tapism and bureaucracy associated with departmental form of organisation are avoided. This enables a government company to take decisions and prompt actions on any matter affecting its business.

### 17.4.4 Limitations

The government company form of organisation suffers from the following limitations:

1) **Evades constitutional responsiblity :** The government company can be created without specific approval of Parliament. Parliament does not discuss the reasons for setting up a government company or its constitution. Thus it evades constitutional reponsibility.

2) **Government interference :** Being the sole shareholder in most cases, the government can revise the Memorandum and Articles of Association of a government company, whenever necessary. Thus, the constitution of a government company can be altered without any public discussion but public scrutiny is necessary in the case of a statutory corporation. This may affect the autonomy of the company.

3) **Fear of piiblic accountability :** The directors and chief executives of a government company always have the fear of public accountability. As a result, they may not take the initiative in breaking new ground and in entering into new areas of activities.

4) **Public criti'cism :** The performance of a government company is shown in the annual reports of the ministry concerned. These annual reports are placed before the Parliament or State Legislature as the case may be. As such, they become public documents exposing the enterprise to the glare of public criticism.

5) **Lack of professional management :** As you know, the directors of a government company are mostly appointed by the government. So, these enterprises fail to achieve business efficiency found in similar enterprises in the private sector.

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**Check Your Progress C**

1) What is a government company?

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2) Fill in the blanks.

   i) The auditors of a government company are appointed by the .......... on the advice of the .............

   ii) To become a government company, the minimum percentage of the paid-up capital to be held by the government is ...............

   iii) Most of the public enterprises in India are organised in the form of ...................

   iv) Government company is created under the ................. Act.

   v) Government company is managed by a ................

3) State whether the following statements are True or False.

   i) The General Insurance Corporation of India is a government company.

   ii) The government company is a corporate body.

   iii) The government has the right to run a government company as it likes.

iv) All the funds of government companies are always provided by the government,

v) A government company is free to employ persons according to its requirements without any reference to government.

vi) A company with 51% or more shares owned by the government is a government company.

vii) The government can exempt government companies from the application of some of the provisions of the Companies Act.

## 17.5 COMPARISON OF THE FORMS OF ORGANISATION

We have already discussed the features and limitations of each of the three forms of organisations i.e., departmental organisation, statutory corporation, and government company. Now let us compare the features of these three forms and evaluate which form is suitable in a given situation. Look at Table 17.1 which summarises the features of all the three forms.

Table 17.1
Comparative Study of the Three Forms of Organisation in Public Enterprises

| S.No. | Basis | Departmental Organisation | Public Corporation | Government Company |
|---|---|---|---|---|
| 1) | Formation | Created by the government and attached to a particular ministry | Comes into existence by a special Act of legislature. | Formed by ministry under the Companies Act. |
| 2) | Legal Status | No separate legal status. | It is a separate legal entity. | It is a separate legal entity. |
| 3) | Management | Managed by the concerned ministry of the government. | Managed by the Board of Directors nominated by the government. | Managed by the Board of Directors consisting of members nominated by the government plus the elected shareholders. |
| 4) | Capital | Provided wholly by the governnient out of budgetary appropriation. | Fully subscribed by the government. | Minimum of 51% by tlie government. |
| 5) | Scope for Private Participation | No scope for private participation. | No scope for private participation. | Scope for private (national/ international) participation in its share capital and hence in its affairs too. |
| 6) | Operational Autonomy | Least or no autonomy. Works as a part and parcel of the government. | Works as an autonomous body within the provisions of tlie Act. Enjoys considerable degree of autonorny as there is no government interference in day-to-day affairs. | Runs on commercial principles like a private enterprisr and enjoys higher degree of freedom from govemment interference. |
| 7) | Flexibility | Subject to government control completely. Subject to budget, accounting and audit procedures of the government. | Subject to some restrictions by the government. Not subject to budget, audit and accounting procedures of the govt. | More freedom from government control. Not subject to audit budget and accounting procedures of the governnlent. |
| 8) | Public Accountability | Concerned Minister is accountable to the legislature. | Accountable to the public through legislature. | Government and the concerned ministry is accountable to the public. |
| 9) | Operating Finance and Borrowing Powers | Budgetary allocation only. No powers to borrow. Its revenues are paid into the treasury. | Makes own arrangements and enjoys borrowing powers. It has authority to use its revenues. | Makes own arrangements and enjoys borrowing powers. It has the authority to use tlie revenue. |
| 10) | Staffing and Terms of Service | Employees are the civil servants and governed by civil service code. | Employees are not civil servants. Employees governed by its own contract of service. | Employees are not civil servants. Employees governed by its own contract of service. |

The comparison of the features of the three forms of organisation clearly shows that the accountability to legislature and the government control are maximum in departmental organisation and minimum in government company. In the matters of staffing, financing and day-to-day operations, the departmental organisation has the least autonomy while the company form enjoys the maximum autonomy. Similarly, departmental form of organisation is the least flexible while company form enjoys the maximum flexibility. The main features of the public corporation and government company are about the same. There is hardly any difference in the working of these two forms of organisation. For example, the Life Insurance Corporation of India is a statutory corporation, but the General Insurance Corporation of India is a govemment company. But both of them function alike in respect of their working and management.

The main difference, however, is that the public corporation is established by a special Act of legislature while the government company is incorporated under the Companies Act without referring to legislature. There is scope for private participation in capital and management in the case of government company whereas there is no such scope in a public corporation. Then the company form of organisation is able to evade parliamentary control.

From this relative assessment of the features of these three forms of organisation, it should be obvious that company form of organisation is best suited to industrial and commercial undertakings, while statutory corporations should be preferred in the case of public utility undertakings. To run efficiently the Industrial and commercial enterprises must have maximum autonomy of management and manned by professional managers so as to ensure their functioning on business lines. For such enterprises, it is essential that there is least interference from the Ministry or Parliament in their day-to-day affairs. Besides, there should be adequate flexibility with regard to formulation of policy and strategy. With the company form of organisation, these requirements are substantially fulfilled because of the juristic entity of companies and there being no need for getting parliamentary approval for changes in strategy or policies. On the other hand, public utilities are best organised as statutory corporation in view of their monopoly character and the necessity of strict regulation of their rates by government.

You will observe that various government organisations often include in their names the words like 'corporation' (State Trading Corporation of India Ltd.), 'company' (Hindustan Photofilms Manufacturing Company Ltd.), 'authority' (Steel Authority of India Ltd.), and Commission (Oil and Natural Gas Commission). But, there are no legal implications of this. They do not necessarily indicate the form in which they are organised. For example, the word 'corporation' is used as a part of the names of both the statutory corporations and the government companies. The Life Insurance Corporation of India is a statutory corporation but the General Insurance Corporation of India is a government company. It is, therefore, not possible to distinguish between a statutory corporation and a govemment company on the basis of the words used in their names.

To some extent, we can distinguish between a statutory corporation and a government company with the word 'limited'. Normally, the government company carries the word 'limited' as a part of its name. But there are some exceptions even in this case. If a government company is registered under Section 25 of the Companies Act it need not use the word 'limited' as port of its name because such companies are established for cultural social or non-commercial purposes only. They do not pay dividends to its members and should apply their income mainly to promote specific objectives. There are four central government companies in this category. They are: i) National Research Development Corporation. ii) Indian Dairy Corporation. iii) Trade Fair Authority of India, and iv) Artificial Limb Manufacturing Corporation of India. These companies do not use the word limited in their names. even though they have been incorporated under the Companies Act.

**Check Your Progress D**

1) Fill in the blanks.
   i) .............. is created by a special Act of legislature and .................. is incorporated under Companies Act.
   ii) .............. form is closer to bureaucratic system compared to the other forms,
   iii) The scope for private participation in the capital is there in .............. form.
   iv) .............. form of organisation is subject to budget, accounting and audit procedures of the government.
2) State whether the following statements are True or False.
   i) For all practical purposes there is no difference between a statutory corporation and a government company.

ii) Both the statutory corporation and the government company are corporate bodies.

iii) Compared to other forms of organisation, departmental organisation has more financial autonomy.

iv) The words 'corporation' and 'company' in the name of a public enterprise can indicate different forms of organisation.

v) Operational autonomy is more in the case of statutory corporation compared to departmental organisation.

## 17.6 LET US SUM UP

There are three forms of organisations in public enterprises: 1) departmental organisation, 2) statutory corporation, and 3) government company.

Under the departmental form of organisation, the enterprise is organised, financed and controlled in the same way as any other government department. The overall control rests with the concerned minister and the minister is answerable to the legislature for its efficient operations. It is financed through annual budget appropriations made by the legislature and its revenues are paid into the treasury. It is subject to budget accounting and audit controls as applicable to other government departments. Employees of this organisation are civil servants.

Departmental organisation has certain advantages. Since its accountability to legislature is complete, government gets maximum degree of control over the operations of these enterprises. Therefore, there is limited scope to misuse public funds, The government can use departmental undertakings as instruments of its social and economic policy. The surpluses coming from these undertakings can be utilised by the government for the economic progress of the nation. These undertakings suffer from bureaucracy and red-tapism, extensive legislative control, political instabilities, lack of professional expertise, lack of flexibility and autonomy in financial matters, and absence of competition and profit motive.

Public corporation is a corporate body created by the Parliament or a State Legislature by a special Act which defines its powers, duties, functions, immunities, and the pattern of management. It is also called 'statutory corporation'. Public corporation is fully owned by the state and the capital is wholly subscribed by the state. It enjoys financial autonomy. It is managed by a Board of Directors nominated by the government. Its employees are not the civil servants. Public corporation is answerable to the legislature which creates it. But the legislature is not expected to interfere in its day-to-day operations.

Public corporation form of organisation has certain merits. Being an autonomous corporate body, it can manage its affairs independently with initiative and flexibility, and can also avoid red-tapism. Since it has financial independence, it can easily raise capital whenever needed. As it works with service motive and answerable to legislature, it protects the public interest and avoids the defects of profiteering, exploitation, illegitimate speculation, etc. It can secure working efficiency and economies of scale. Public corporations suffer from excessive government interference, .inflexibility in policy matters, clash of interest among Board members, excessive public accountability and lack of commercialism.

Government company is a corporate body registered under Indian Companies Act in which not less than 51% of the paid-up share capital is held by the central government or any state government or by several state governments or partly by the central government and partly by one or more state governments. Any company which is a subsidiary of such a company is also considered a government company. For establishing a government company, the government need not go to the legislature. In this form of organisation there is scope for private participation in the capital as well as management. It is managed by the Board of Directors consisting of members nominated by the government and the elected members of the private shareholders, if any. It has financial autonomy and independent staffing system. It is free from auditing, accounting and budgetary controls applicable to departmental organisations.

The major advantage of the government company is that: while taking care of all the disadvantages of the departmental form, it provides all the benefits of the public corporation. It is easy to form and also easy to bring changes in its constitution whenever needed. There is scope for private participation in capital and management. It facilitates taking over a running enterprise by the government or transferring the ownership to private enterpreneurs. Being autonomous in financial, staffing and accounting aspects, government company has more operational flexibility. The major limitation of this form of organisation is that it evades parliamentary probe. It also suffers from lack of professional management, government interference, fear of public accountability among top executives, and so on.

The relative assessment of the features of all the three forms indicates that the departmental form of organisation is suitable for such undertakings which are very important from the view point of public interest and national interest. The company form of organisation is best suited for commercial and industrial undertakings, while public. corporations should be preferred for public utility, undertakings.

## 17.7 KEY WORDS

**Autonomy :** In the context of public enterprise, autonomy refers to the management's independence in policy-making and execution of policies without political interference.

**Corporate Body :** An organisation having a legal entity created by an Act of the legislature, or by registration under the Companies Act.

**Departmental Organisation :** A form of organisation where a public enterprise is organised, financed and controlled in the same way as the govemment department.

**Government Company : A** company registered under the Indian Companies Act in which not less than 51% of the paid-up share capital is held by the central govemment or any state government or partly by the central government and partly by the one or more state governments.

**Mixed-Ownership Company :** An enterprise where capital is jointly held by the government and private interests (Indian or foreign).

**Public Accountability :** Answerability of public enterprises to the public through Parliament or stare legislature as the case may be.

**Public Corporation :** An autonomous corporate body created by a special Act of Parliament or state legislature with defined functions and powers.

**The Comptroller** and **Auditor-general of India :** An authority under the Constitution of India to ensure thorough audit of accounts of government organisations.

## 17.8 SOME USEFUL BOOKS


Administrative Reforms Commission, 1967. ***Report of the Study Team on Public Sector Undertakings***, Government of India: New Delhi. (Chapter 2).

Bhushan, Y.K. 1987. ***Fundamentals of Business Organisation & Management,*** Sultan Chand: New Delhi (Part Nine, Chapter 5).

Ghosh, P.K., 1982. ***Public Enterprises in India,*** Book World: Calcutta (Chapter 3).

Ramesh M.S., 1985. ***Principles and Practice of Modern Business Organisation, Administration and Management,*** Kalyani Publishers: New Delhi (Volume 1, Chapter 8).

Singh, B.P., arid T.N. Chhabra, 1988. ***Business Organisation and Management,*** Kitab Mahal: Allahabad (Section Eight, Chapter 43).


## 17.9 ANSWERS TO CHECK YOUR PROGRESS

A 3) i) False ii) False iii) True iv) True v) True vi) False vii) True viii) False

B 3) i) Government ii) Special Act of legislature iii) Board of Directors

4) i) False ii) False iii) True iv) False v) False vi) True

C 2) i) Government, the Comptroller and Auditor-General of India

ii) 51%

iii) Joint stock companies

iv) Indian companies

v) Board of Directors

3) i) True ii) True iii) False iv) False v) True vi) True vii) True

D 1) i) Statutory corporation, government company

ii) Departmental organisation

iii) Government company

iv) Departmental

2) i) True ii) True iii) False iv) False v) True

## 17.10 TERMINAL QUESTIONS

1 What are the forms of organisation in public enterprises? Explain the features of each form.

2 What is a statutory corporation? Explain its features, merits and limitations.

3 What is a government company? List the differences between a government company and a non-government company.

4 What are the main features of the government company? How are they different from those of the statutory corporation?

5 What is a government company? Explain its features, merits and limitations.

6 What is a departmental form of organisation? Give the main features of this form of organisation and comment on the lack of its popularity.

7 Compare the company form of organisntion with the statutory corporation. Which of the two would you recommend for managing public enterprises and why?

**Note: These Questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.**

# UNIT 18 PUBLIC ,UTILITIES

## Structure



## 18.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning and features of public utilities
- describe the forms of organisation and management of public utilities
- explain the pricing and sales policies of public utilities
- justify the need for control and regulation of public utilities.

## 18.1 INTRODUCTION

In our day-to-day life, directly or indirectly, we require a number of essential services. In the cities you have tap-water. Similarly various means of transport help you in undertaking your journey everyday. You need electricity for lighting, air-conditioning, etc. Electricity is also used for running Factories, trams, railways, irrigating crops, etc. Have you ever thought how they are provided? All these services are called public utility services and the organisations which provide these services are known as public utility undertakings. In this unit we shall discuss the meaning, features, forms of organisation, management, pricing policies and sales policies of public utility undertakings. We shall also discuss about the need for state regulation and control of public utilities.

## 18.2 WHAT IS A PUBLIC UTILITY?

Water, gas, electricity, transport, communication, etc., are needed by the public in their daily life. Whenever there is any interruption in the supply of such goods or services, the normal life of people is disturbed. Suppose, if the water-taps go dry, you do not get water. To fetch water you have to go to nearby wells or hand-pumps. In this process you may get late for your office or place of work. Similarly, If the electricity supply or transport services are not available, public life and activities are severely upset. Therefore, these services have a great significance to the community. Hence they are termed as essential services or indispensable necessities. The business enterprises established basically to provide efficient and uninterrupted supply of the goods that are absolutely indispensable for a civilised community are referred to as public utility organisations. We can say that the public utilities are clothed with public interests. Thus, **public utilities are the business undertakings engaged in supplying essential goods and/or services of daily necessity for the general public.** The institutions which undertake certain essential services like the supply of gas, water, electricity, urban transport, ctc., are examples of public utility undertakings. All the public utility undertakings have an obligation to supply the essential goods and services to everyone in the community without any discrimination at reasonable prices.

## 18.3 FEATURES OF PUBLIC UTILITIES

You have learnt that the public utility undertakings deal with essential goods and services. Because of this reason, these undertakings are quite distinct from other business enterprises. Now let us study the distinctive features of the public utilities.

1) Indispensability: Public utilities deal with essential services such as water, gas, light, power, transport, telephone, telegraph, postal services, etc. These services are required to meet basic needs of the community and to provide a civilised and comfortable life to every citizen irrespective of caste and creed. Therefore, these services must be made available regularly, uniformly and adequately. That is why these public utilities are indispensable in all modem societies.

2) Field of operation: The field of operation of public utility undertakings is mostly local. Such concerns fulfil the needs of the citizens, usually of a city, town or at the most of a district. For example, Delhi Milk Supply Undertaking or Mother Dairy supplies milk through its booths at various localities to the people living in Delhi only.

3) Monopolistic or semi-monopolistic position: Undertakings supplying essential public services by nature assume the position of a monopoly. They do not have competitors. You can take the example of Delhi Electric Supply Company. It does not have any competitor for supplying electricity to the residents of Delhi. It is viewed that competition in the supply of essential products or services may lead to unnecessary duplication and social waste. For example take the supply of drinking water in a town. It involves heavy expenditure in digging the well, installing the plant and laying down the distribution pipe line. This is, normally, under the control of the concerned municipality. If another undertaking is involved in the same operation in the same town, equal amount of money is required which is a waste. To avoid any such wasteful expenditure, monopoly is given to public utilities. However, some public utilities may have a few competitors. Take the case of milk supply in Delhi. Mother Dairy supplies the milk. But Delhi Milk Supply Undertaking or Nanak Milk Supply Cornpany also supplies milk in Delhi. Therefore the position enjoyed by Mother Dairy is semi-monopolistic.

4) Regulation and control : As you know these undertakings enjoy a monopolistic or semi-monopolistic position. So, they are in a position to misuse it and exploit the customers. For instance they may supply poor quality goods, services may be irregular, may charge high prices, etc. The government has to ensure the quality of the products or services at reasonable prices. Public is to be assured of regular and adequate supply of services and goods without discrimination. Therefore, it is essential to regulate their working as well as the price and supply policies of public utilities. Regulatory powers of the government in respect of these undertakings are provided in Special Acts of the legislature.

5) Franchise: Public utilities operate under franchise i.e. the right to interfere with public property (land, buildings, roads, etc.) for proper functioning. For example, the railways which is a public utility undertaking, can put up barriers on roads restricting movement of traffic across railway track at level crossings. Similarly, water supply undertakings can dig pits across the roads while laying water pipes, and so on. The government grants special rights as well as casts duties and responsibilities on these concerns through a charter which is called franchise. The franchise or charter contains the powers, privileges and rights granted to these undertakings as well as duties and liabilities for which these undertakings are accountable. This is done to ensure their working efficiently'and satisfactorily. The franchise can be withdrawn if the undertaking does not comply with the regulations and restrictions subject lo which the franchise is issued.

6) Huge capital investment: These undertakings require huge capital investment in fixed assets. Take the case of Mother Dairy which supplies milk in Delhi. For supply of milk to its consumers it has to set up a milk plant, storage plant, and large fleet of vans/ tankers. It has also to construct depots for distribution of milk at various places in different localities of Delhi. Then, it has to monitor the distribution of milk to its consumers properly. Thus, all the public utilities invest huge amount of capital in fixed assets.

7) Inelastic demand: The demand of public utility services is more or less inelastic. It means that there will be no change in demand with rise or fall in the price of that service. Take the example of electricity for domestic use. With the rise or fall in the rate of electricity per unit, the consumption of electricity remains more or less the same. Thus, the demand for electricity is inelastic. Demand for public utilities has also the following special features:

   a) These services cannot be shared and, therefore, their demand has been increasing day-by-day.

   b) These services sell themselves. There is no need for advertisement or salesmen for creation of demand for such services.

   c) These services have both direct and derived demand. When electricity is used for domestic lighting, cooling, heating, cooking, etc, it is a direct demand. But when it is used by a factory for manufacturing or production purposes, it is a derived demand. Thus, direct demand arises from the requirements for direct and immediate consumption. Derived demand is created by the utilisation of these services for industrial and commercial purposes.

   d) The derived demand for such services is generally elastic. Derived demand for these public utility services is particularly elastic and direct demand is normally inelastic. Demand for gas or electricity by a housewife is usually inelastic. Demand for electricity in factories may decline if the cost of electricity is too high.

8) Non-transferable demand by the consumer: The demand of the consumer is non-transferable. If a consumer is provided electricity at his house, he cannot transfer his right of using electricity to his neighbour. Every consumer is to obtain the supply separately after fulfilling the rules and regulations of the undertakings.

9) Risk involved: The degree of risk involved in the business carried out by the public utilities is less as compared with other industries. This is because the demand for essential goods and services is not likely to fall, rather it is likely to increase over time. For instance, the demand for water, gas, milk, electricity, etc., is not likely to fall but increase since the population is increasing continuously year after year.

**10)** Size of the undertaking: These undertakings are required to be set up on a sufficiently large scale so as to meet the demand of the public of that locality. Moreover, the size of the unit must be large enough to make it possible for the undertakings to supply the service continuously at economical rates.

**11)** Choice of site: The promoters of public utilities do not have much choice in the selection of site for the undertaking. They have to locate their enterprise as per the permission granted to them by the concerned authorities. They have to operate as per the prescribed local conditions and regulations.

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'Check Your Progress A

1) Define Public Utility Undertaking.

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2) Which of the following services are called public utility services? Indicate with a tick mark.
   a) Supply of water
   b) Supply of newspaper
   c) Manufacture and supply of bread
   d) Supply of electricity
   e) Supply of milk.
   f) Manufacture and supply of cloth
   g) Transportation by rail

3) Which of the following characteristics apply to public utilities?
   a) Inelastic demand for service provided

b) Franchise
c) Nation-wide operation
d) Many competitors

4) Which of the following statements are True and which are False?
   a) Public utility services must be advertised to create demand
   b) Public utility services cannot be shared.
   c) Direct demand for public utility services is elastic.
   d) The demand for electricity of a consumer is non-transferable.

## 18.4 ORGANISATION AND MANAGEMENT OF PUBLIC UTILITIES

You have learnt about the meaning and features of public utility undertakings. Now let us study about the organisation and management of these undertakings. Public utility undertakings are organised in any of the following three forms: i) a public or private limited company, ii) statutory corporation, and iii) departmental undertakings of the government or any public authority like municipality. When organised as a private limited company, the ownership and management rest with the private parties. When organised as a public limited company, the ownership and management rest with the government. Large public utilities are often organised as statutory corporations under a special act of the legislature. The act lays down the bye-laws and rules which are part of the constitution of the undertaking. The ownership and management rest with the corporation and its governing board. Comparatively smaller concerns are registered under the Companies Act, 1956, having their Memorandum and Articles of Associztion. If a public utility is established as a department of the government or any local authority, it is naturally owned by the government or municipality and managed by their officials.

Every public utility undertaking has to take a licence from the concerned government, This licence confers monopoly and franchise rights upon them. The licence is to be renewed from time to time depending upon the satisfactory working of the undertaking. The franchise empowers these undertakings to acquire private property and interfere with public property (land, buildings, roads, etc.) whenever it is necessary for them to do so. Each of the above forms of organisation and management has got its own merits and limitations. However. since public interest is involved, the government has control directly or indirectly over the management and working of all these undertakings. As a matter of prudence, governments, central or state or local bodies such as municipalities, run most of such undertakings. Let us study briefly the merits and limitations of each of the above forms of organisation.

**Private Limited Company:** As you know a private limited company is a form of business organisation registered under the Companies Act, 1956, with a minimum number of two persons and a maximum number of 50 persons. It has its Memorandum and Articles of Association. It has certain privileges and is subject to certain restrictions. You have earlier studied the features and formation of private limited companies in Units 2 and 4. Usually, goods transport by road is operated by private limited companies. But other public utility services may also be organised as private limited companies. The important merit of this form of organisation is the maintenance of quality of product or service. But the major limitation of this form of organisation is the lack of public accountability.

**Public Limited Company:** As you know, a public limited company is formed by at least seven persons, without any limit to its maximum nuniber of members. Unlike a private company, it is free from restrictions of transferability of shares and issue of its prospectus to the public. You have studied in detail the features and formation of public limited companies in Units 2 and 4. A number of public utility services have been provided by these companies in the past in Europe and the USA as well as in India. Indian Railways and Electricity Supply Undertakings in various cities are some examples. Such companies however, suffer from the shortcoming of public accountability and social responsibility. Most of these undertakings have been nationalised now.

**Dep'artmental Management:** Some public utility undertakings are run by government departments, under the control and direction of Ministries headed by ministers. Examples of such undertakings are: Railways run by the Ministry of Railways through the Railway Board, Posts and Telegraphs run by the Ministry of Conimunications, etc. You have studied about the departmental form of organisation in detail in Unit 17. The chief advantages of organising public utilities under this form of organisation are as follows:

1) It ensures control by responsible officials of the government.
2) Finances are provided by the government through annual budget grants which are passed by the Parliament or State Legislature of the respective State Government.
3) The revenue goes to the public exchequer.
4) Public accountability is maintained, since report on their working is presented and discussed in the Parliament/State Assembly.

The major shortcoming of departmental management is that of red-tapism and bureaucracy. Efficiency of operations suffer due to lack of proper attitude of workers towards public service.

Some of the public utility concerns owned and managed by local authorities are: the Bombay Electric Supply & Transport Undertaking (BEST) owned and managed by the Bombay Municipal Corporation and the Delhi Electric Supply Undertaking (DESU) owned and managed by the Delhi Municipal Corporation and so on. In these cases, they are managed by elected committees of the Municipalities. Municipal management is justified because it provides the elected representatives an opportunity to manage the affairs of public utilities. However, municipal control has the following limitations:

1) The elected members of such bodies may not possess necessary skill and competence.
2) Sometimes the political wrangling may only add to the miseries of the people.
3) Local areas are sometimes too small for the economic conduct of certain utilities. Due to the restricted area of operation, sometimes plants may not work to their maximum capacity resulting in higher operational costs.

**Public** Corporations: As you 'know, public corporations are autonomous bodies set up under the special Acts of Parliament or State Legislatures. Such corporations derive their rights and powers through the special acts and the area of operation is also fixed by the Act. The corporation is not completely controlled by the Government. It has its own finances and Board of Management. It works like a joint stock company. However, it is accountable to the Parliament or State Legislatures, since its audited annual report is placed before the Parliament or State Assembly, as the case may be. You have studied in detail about public corporations in Unit 17. Public utility concerns. organised as public corporations, have the following merits:

1) They possess the efficiency and flexibility of private enterprises.
2) They are directly accountable to the Parliament/State Legislature. Thus the broader interest of community at large, is safeguarded.

However, the public utilities organised in the form of public corporations suffer from the following limitations:

1) Indirect interference of the leaders of the ruling party in the functioning.
2) The Managing Directors or the Executive Directors are usually appointed from among the civil servants or the politicians, who hardly have any knowledge or acumen of business dealings.

**Check** Your Progress B

1) Name the alternative forms of organisation and management of public utilities.

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2) Which of the following statements are True and which are False?

   a) Public corporations are established by government in order to operate public utilities.

   b) Management of public utilities by municipal corporation is just like management as a govemment department.

   c) The revenue earned by public utilities run by government department is set aside as a reserve of the public utility undertaking.

   d) The major limitations of the public utilities organised as private limited companies is the lack of public accountability.

## 18.5 PRICING POLICY OF PUBLIC UTILITIES

Price of a commodity is usually determined by two factors: 1) demand, and 2) supply. This does not apply in the case of all goods and services supplied by the public utility undertakings. There are other considerations which play a more important role in fixing the price. In the case of public utility concerns, price is not fixed on the basis of cost involved in the production or supply of such services i.e. cost of service principle. It is determined on the basis of the purchasing capacity of the consumers, which is called the principle of what the traffic will bear. You must be eager to know why it is so. Let us now discuss about it.

As you know, the goods and services provided by public utility concerns are essential services or goods. These products or services are used by the poor and the rich alike. The rich can pay higher price to avail of these services, while the poor may not be able to pay for it if prices are fixed on cost basis. Hence the government takes care of and safeguards the interests of the poor by regulating the prices of such goods and services so that the poorer people may also be able to use them. Normally, the consumer would like to pay a fair price. But what is a fair price, is a question which cannot be easily answered. Determination of a fair price involves a number of considerations like cost of production, cost of supply, a reasonable rate of profit, paying capacity of the customers, changes in the general price level, and so on. Thus, price determination is not a simple matter. It is to be determined after due consideration and consultation with various interests. However, the following three broad aspects of the price policy of public utility undertakings can be kept in mind.

1) Promotional aspect: This aspect is concerned with the promotion of demand of the services provided by the public utility undertakings. Promotional aspect refers to increasing demand for the products or services. Promotion of demand is necessary to ensure full utilisation of the production capacity of the undertaking. This helps in spreading the overhead costs over large output. You may have seen that transport services such as roadways and railways issue monthly tickets (Season tickets) as a concessional rates to a large number of regular passengers.

2) Price discrimination: As you have learnt, the demand for the products of a public utility undertaking is elastic in some markets and inelastic in other markets. Take the case of transport services. In the case of general public or tourists the demand for bus service is elastic, since these persons do not depend upon public buses alone. They may hire three wheelers or taxis. But most of the regular office-goers or students depend mainly upon public buses only. For them the demand is inelastic. Here the undertakings have to charge less from the students and office-goers, and more from the tourists and the general public. Take another example of electric supply undertakings. They charge more for supply of electricity for domestic purposes than for agricultural purposes. In some cases, public utilities can demand lower price in one market and higher price in others, or may charge lower price from one category ot consumers ana higher price from the other category of consumer.

3) Social considerations: Some of the public utility undertakings touch everyday life of the people and are "affected with public interests". In such cases the price of the product is not fixed purely on economic basis. Considerations of social welfare play an important role in the price fixation, Consumers with low incomes or poor people get the services at concessional or subsidised rates.

## 18.6 SALES POLICY OF PUBLIC UTILITIES

You have learnt that the pricing policy of the public utilities are different'from other business firms. Similarly, the marketing strategy of public utility undertakings is also somewhat different from the other commercial undertakings. Let us now study the sales policies of public utilities.

1) The products or services offered by public utilities are 'essential' requirements of the public and have usually large demand from the public.
2) The public utilities do not generally have rivals or competitors. A particular product is supplied by one undertaking in a particular area. So there is no possibility of different

rates being charged by different producers in the same area. So there is no necessity for price discount.

3) These undertakings are granted franchise by the government. They had the right to interfere with private property as well as right to use publibproperty (roads, land, buildings, etc.).
4) There are no middlemen or intermediaries for sale of their products or services. They sell directly to their consumers or sell through their own distribution network. For example water supply, electric supply, and transport undertakings come in direct contract with the consumers. Therefore, they have to offer best possible terms to users of these services.
5) Unlike other commercial concerns, public utility undertakings do not have the problems of credit collection from the customers. In some cases, as in electricity undertakings, the supply is stopped if there is default in payment of bills by a specified date. In some cases, the dealings are on cash basis, as in railways and road transport undertakings.
6) There is no necessity for the public utility undertakings to advertise their goods and services like other business units. I-Iowever, they have to inform the public about the service which they provide. For example, a transport undertaking has to keep the public informed about the new services introduced from time to time on different routes, changes in the routes, changes in the timings, etc. Such information facilitates the customers in utilising the service which ultimately leads to utilisation of full capacity.

## 18.7 PUBLIC CONTROL AND STATE REGULATION

As you have learnt, the public utility undertakings are engaged in the supply of essential goods and services to the public. The products and services are to be supplied regularly. They should be of a standard quality and reasonably priced. You have also learnt that the public utility undertakings assume the position of monopolies or semi-monopolies. What will happen if they misuse this monopolistic position? Suppose if the water supply undertaking supplies impure water, what will be the result? Epidemics like cholera, gastro-enteritis, jaundice, etc., will spread. Similarly, if the railways do not run the trains in time, the normal life shall be disturbed. Offices, schools, business houses will be hampered for some time. Sometimes taking advantage of the monopoly position, public utilities may charge higher prices which the general public may not be able to pay. For all these reasons, it is necessary to regulate and control the functioning of public utility undertakings.

The Central or State Governments or the local authorities regulate the functioning of public utilities. The objectives of such regulation are as follows:

i) To ensure quality and regular supply of the goods and services.
ii) Fixation of reasonable prices in the public interest.
iii) To assure proper maintenance of equipment and machinery so as to avoid breakdowns and prevent inconvenience to the public.

Public utilities are being regulated by the government in different ways. Private promoters of public utilities are required to obtain a licence from the government. The licence stipulates the controlling powers of the government. Besides, rates may be also framed to ensure that the unde taking adopts its policies in the interest of the public consumers. The government may also nationalise public utilities run by the private undertakings and manage them through public corporations or boards having sufficient representation of the public: Establishing public utilities directly as a departmental undertaking of the government is often preferred as it enables direct control by government. Thus, public utility undertakings are accountable to the public as they deal with the utilities or services of public interest. In most of the countries, therefore, they are manned by public authority

**Check Your Progress C**

1) Enumerate the broad aspects of price policy of public utility undertakings.

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2) Fill in the blanks.
   a) Prices of public utility services are fixed on the principle of ..............
   b) The demand for public utility services is ............ in some markets and .......... in others.
   c) Demand for water for domestic use is...................
   d) When different prices are charged in different markets for the same product or service, it is known as ..........

3) Which of the following statements are True and which are False'?
   a) Demand for electric power for industrial purposes is inelastic.
   b) Problems of credit recovery do not arise in the case of public utility concerns.
   c) Regulation and control of public utilities are not necessary if they are run by government departments.
   d) Controlling powers of the government are included in the licence granted to private parties which promote the public utilities.

## 18.8 LET US SUM UP

Public utilities are the enterprises which supply essential goods and services to the public. They are expected to supply the essential goods and services to everyone in the community without discrimination. The institutions which undertake certain essential services like the supply of water, gas, electricity, rail and road transport, postal service, milk supply, etc., are some examples of public utility undertakings. Public utilities are distinct from other commercial undertakings. They are endowed with certain characteristics. They are:

I) indispensability of product or service, 2) restricted area of operation, 3) monopolistic or semi-monopolistic position, 4) regulation and control by government, 5) franchise, 6) huge capital investment, 7) inelastic demand, 8) non-transferability of supply by the consumer, 9) lower risk, and 10) limited choice of size and of site.

Public utility undertakings are accountable to public authorities since they are entrusted with public interests. Therefore, their ownership and management are usually vested in public authority. There are four alternative forms of organisation and management of public utilities: 1) public or private limited company, 2) public corporation, 3) government department, and 4) a local authority such as municipality or board or council.

Price fixation of public utility products and services is not done on the basis of demand and supply of these products/services. It is determined on the principle of "what the traffic will bear". However, other considerations like cost of service, price discrimination, promotional aspect and social considerations also play important role in the price fixation. Marketing strategy of the public utilities is different from the other 'commercial undertakings. These undertakings need not necessarily advertise their products or services. Problems of credit collection do not arise in the case of public utilities. The products or services of some public utilities are sold on cash basis. Therefore, these undertakings do not suffer much loss on account of bad debts. In some cases the supply on credit is stopped if bills are not paid by a specified time. Normally, there are no intermediaries for the sale of their products. They sell directly to their consumers.

Public utility undertakings are subject to government regulation and control since they deal in products and services essential to the public. The objective of government regulation is to ensure quality of service and uninterrupted supply at a reasonable price.

## 18.9 KEY WORDS

**Cost of Service Principle:** The principle of fixing the price of a product or service on the basis of cost incurred by the organisation for providing that service or product.

**Franchise:** A charter issued by government to the public utility undertakings granting powers, privileges and rights as well as assigning duties and responsibilities for which the undertakings are accountable to the Government.

**Monopolistic or Semi-monopolistic Position:** Absence of competition from rival enterprises or the existence'of one or two competitors.

**Price Discrimination:** Charging different prices for the same product or service in different markets or from different customers in the same market.

**Principle of "What the Traffic Will Bear":** The principle of fixation of price of a product or service on the basis of what the consumer may be able to pay.

**Public Accountability:** The accountability of public utilities to the Parliament or State Legislatures for their performance.

**Public Utilities:** Business undertakings which deal with essential goods and services like gas, water, electricity, etc., and are 'clothed with public interests'.

## 18.10 SOME USEFUL BOOKS


Bhushan Y.K., 1987. *Fundamentals of Business Organisation and Management,* Sultan Chand: New Delhi. (Part Nine, Chapter 6).

Ramesh, M.S., 1985. *Principles and Practice of Modern Business Organisation, Administration & Management*, Kalyani Publishers: New Delhi. (Volume I, Chapter 2).

Sinha, J.C., and Mugali, V.N., 1988. *Principles and Practice of Business Organisation and Management*, R. Chand & Co: New Delhi. (Chapter 2.4).


## 18.11 ANSWERS TO CHECK YOUR PROGRESS

A 2) a, d, c, g are public utility services.
3) Characteristics of public utilities: a, b
4) a) False b) True c) False d) True

B 2) a) False b) True c) False d) True

C 2) a) What the traffic will bear b) elastic, inelastic c) inelastic d) price discrimination
3) a) False b) True c) False d) True

## 18.12 TERMINAL QUESTIONS

1) What is a public utility undertaking? State its essential characteristics.
2) Discuss the various aspects of price policy of public utilities.
3) "Selling and pricing strategies of public utilities are different from other organisations". Discuss.
4) Do you advocate private ownership and inanagement of public utility undertakings? If so, why?
5) Explain the following brietly:
   a) Public utility undertakings
   b) Moriopolistic positioq of public utilities
   c) Franchise
   d) Problems faced by public utility undertakings

**Note:** These Questions will help you to understand the unit better. Try to write answers for them. But do not send your answers to the university. These are for your practice only.