Revision Notes

CHAPTER : 3

PRIVATE, PUBLIC AND GLOBAL ENTERPRISES

PRIVATE SECTOR ENTERPRISES

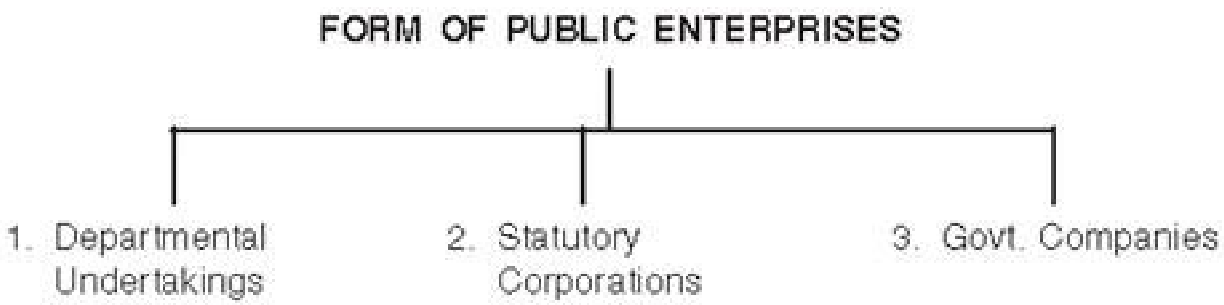
The private sector consists of business owned by individuals or a group of individuals. The varios forms of organisation are- sole proprietorship, partnership, joint hindu family, cooperative and company.

PUBLIC SECTOR ENTERPRISES

Meaning: The public sector consists of various organizations owned and managed by central or State or by both governments. The govt. participates in economic activity of the country through these enterprises.

FEATURES:

1. Capital is contributed by central or state or both govts.
2. Public welfare or Service is the main objective.
3. Management & control are in the hands of govt.
4. It is accountable to the public.



I. DEPARTMENT UNDERTAKING

These are established as departments of the ministry and are financed, managed and controlled by either central govt. or state govt.

Examples: Indian Railways, Post & Telegraph departments.

FEATURES

1. No Separate Entity: It has no Separate legal entity.
2. Finance: It is financed by annual budget allocation of the govt. and all its earnings go to govt. treasury.
3. Accounting &Audit: The govt. rules relating to audit & accounting are applicable to it.
4. Staffing: Its employees are govt. employees & are recruited & appointed as per govt. rules.
5. Accountability: These are accountable to the concerned ministry.

MERITS

1. It is more effective in achieving the objective laid down by govt. as it is under the direct control of govt.
2. It is a source of govt. income as its revenue goes to govt. treasury.
3. It is accountable to parliament for all its actions which ensures proper utilization of funds.
4. It is suitable for activities where secrecy and strict control is required like defence production.

DEMERITS

1. It suffers from interference from minister and top officials in their working.
2. It lacks flexibility which is essential for smooth operation of business.
3. It suffers from red tapism in day to day Work.
4. These organizations are usually insensitive to consumer needs and do not provide goods and adequate service to them.
5. Such organization are managed by civil servants and govt. officials who may not have the necessary expertise and experience in management.

SUITABILITY:

(i) Where full Govt. control is needed.
(ii) where secrecy is very important such as defence.

STATUTORY CORPORATIONS

It is established under a special Act passed in parliament or state legislative assembly. Its objectives, powers and functions are clearly defined in the special Act.

Examples: Unit Trust of India, Life Insurance Corporation.

FEATURES

1. It is established under a special act which defines its objects, powers and functions.
2. It has a separate legal entity.
3. Its management is vested in a Board of directors appointed or nominated by government.
4. It has its own staff, recruited and appointed as per the provisions of act.
5. This type of enterprise is usually independently financed. It obtains funds by borrowing from govt. or from public or through earnings.
6. It is not subject to same accounting & audit rules which are applicable to govt. department.

MERITS

1. **Internal Autonomy**: It enjoys a good deal of autonomy in its day to day operations and is free from political interference.
2. **Quick decisions**: It can take prompt decisions and quick actions as it is tree from the prohibitory rules of govt.
3. **Parliamentary control**: Their performance is subject to discussion in parliament which ensures proper use of public money.
4. **Efficient Management**: Their directors and top executives are professionals and experts of different fields.

DEMERITS

1. In reality, there is not much operational flexibility. It suffers from lot of political interference.
2. Usually they enjoy monopoly in their field and do not have profit motive due to which their working turns out to be inefficient.
3. Where there is dealing with public, rampant corruption exists. Thus public corporation is suitable for undertaking requiring monopoly powers e.g. public utilities.

SUITABILITY: It is suitable for organizing public enterprise when,

(i) The enterprise requires special power under an Act.

(ii) The enterprise requires a huge amount of capital investment.

GOVERNMENT COMPANY

A government company is a company in which not less than 51% of the paid up share capital is held by the central govt. or state govt. or jointly by both.

Examples: Hindustan Insecticides Ltd., State Trading Corp. of India, Hindustan Cables Ltd.

FEATURE

1. It is registered or Incorporated under companies Act1956.
2. It has a separate legal entity.
3. Management is regulated by the provision of companies Act.
4. Employees are recruited and appointed as per the rules and regulations contained in Memorandum and Articles of association.
5. The govt. Co. obtains it funds from govt. shareholdings and other private shareholdings. It can also raise funds from capital market.

MERITS

1. It can be easily formed as per the provision of companies Act. Only an executive decision of govt. is required.
2. It enjoys autonomy in management decisions and flexibility in day to day working.
3. These are able to control the market and curb unhealthy business practices.

LIMITATIONS

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

SUITABILITY:

(i) Where the private sector is also needed along with in govt.
(ii) Where activities related to finance are to be encouraged.

CHANGING ROLE OF PUBLIC SECTOR

Public sector in India was created to achieve two types of objective - (1) to speed up the economic growth of the country and (2) to achieve a more equitable distribution of income and wealth among people. The role and importance of public sector changed with time. Its role over a period of time can be summarized as following:

1. Development of Infrastructure: At the time of independence, India suffered from acute shortage of heavy industries such as engineering, iron and steel, oil refineries, heavy machinery etc. Because of huge investment requirement and long gestation period, private sector was not willing to enter these areas. The duty of development of basic infrastructure was assigned to public sector which it discharged quite efficiently.

2. Regional balance: Earlier, most of the development was limited to few areas like port towns. For providing employment to the people and for accelerating the economic development of backward areas many industries were set up by public sector in those areas.

3. Economies of scale: In certain industries (like Electric power plants. natural gas, petroleum etc) huge capital and large base are required to function economically. Such areas were taken up by public sector.

4. Control of Monopoly and Restrictive trade Practices – These enterprises were also established to provide competition to pvt. Sector and to check their monopolies and restrictive trade practices.

5. Import Substitution - Public enterprises were also engaged in production of capital equipments which were earlier imported from other countries. At the same time public sector Companies like STC and MMTC have played an important role in expending exports of the country. Very important role was assigned to public sector but is performance was far from satisfactory which forced govt. to do rethinking on public enterprises.

PUBLIC SECTORY REFORMS

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

(I) Reduction in No. of industries reserved for public sector: This no. is reduced from 17 to 8 and to 3 only in 2001. These three industries are atomic energy arms and rail transport.

(II) Memorandum of Understanding (MOU): Under this govt. lays down performance target for public sector and gives greater autonomy to hold the management but held accountable for the specified results.

(III) Disinvestment: Equity shares of public sector enterprises were sold to private sector and the public. It was expected that this would lead to improved managerial performance and better financial discipline.

(IV) Restructural and Revival: All public sector sick units were referred to Board of Industrial and Financial Re-construction (BIFR). Unite which were potentially viable were restructured and which could not be reviewed were closed down by the board.

MULTINATIONAL COMPANIES/GLOBAL ENTERPRISES

Multinational company may be defined of a company that has business operations in several countries by having its factories, branches or offices in those countries. But is has its headquarter in one country in which it is incorporated.

Examples: PHILIPS, Coca Cola etc.

FEATURES

1. Huge Capital Resources: MNCs possess huge capital resources and they are able to raise lot of funds from various sources.

2. International Operations: A MNC has production, marketing and other facilities in several countries.

3. Centralized control: MNCs have headquarters in their home countries from where they exercise control over all branches and subsidiaries. It provides only broad policy framework to them and there is no interference in their day to day operations.

4. Foreign Collaboration: Usually they enter into agreements relating to sale of technology, production of goods, use of brand name etc. with local firms in the host country.

5. Advanced technology - These organisation possesses advanced and superior technology which enable them to provide world class products & services.

6. Product Innovations: MNCs have highly sophisticated research and development departments. These are engaged in developing new products and superior design of existing products.

7. Marketing Strategies - MNCs use aggressive marketing strategies. Their brands are well known and spend huge amounts on advertising and sale promotion.

JOINT VENTURES

Meaning: When two or more independent firms together establish a new enterprise by pooling their capital, technology and expertise, it is known as a joint venture.

Example: Hero Cycle of India and Honda Motors Co. of Japan jointly established Hero Honda. Similarily, Suzuki Motors of Japan and Maruti of Govt. of India come together to form Maruti Udyog.

FEATURES
1. Capital is provided jointly by the Government and Private Sector Entrepreneurs.
2. Management may be entrusted to the private entrepreneurs.
3. It combines both social and profit objectives.
4. It is responsible to the Government and the private investors.

BENEFITS

1. Greater resources and Capacity - In a joint venture the resources and capacity of two or more firms are combined which enables it to grow quickly and efficiently

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

3. Access to New Markets and distribution network - A foreign co. gain access to the vast Indian market by entering into a joint venture with Indian Co. It can also take advantage of the well established distribution system of local firms.

4. Innovation - Foreign partners in joint ventures have the ideas and technology to develop innovative products and services. They have an advantage in highly competitive and demanding markets.

5. Low Cost of production - Raw material and labour are comparatively cheap in developing countries so if one partner is from developing country they can be benefitted by the low cost of production.

6. Well known Brand Names: When one party has well established brands & goodwill, the other party gets its benefits. Products of such brand names can be easily launched in the market.

Public Private Partnership (PPP):

It means an enterprise in which a project or service is finance and operated through a partnership of Government and private enterprises.

FEATURES:

1. Facilitates partnership between public sector and private sector.
2. Pertaining high priority project.
3. Suitable for big project (capital intensive and heavy industries).
4. Public welfare example Delhi Metro Railway Corporation.
5. Sharing revenue - Revenue is shared between government and private enterprises in the agreed Ratio.