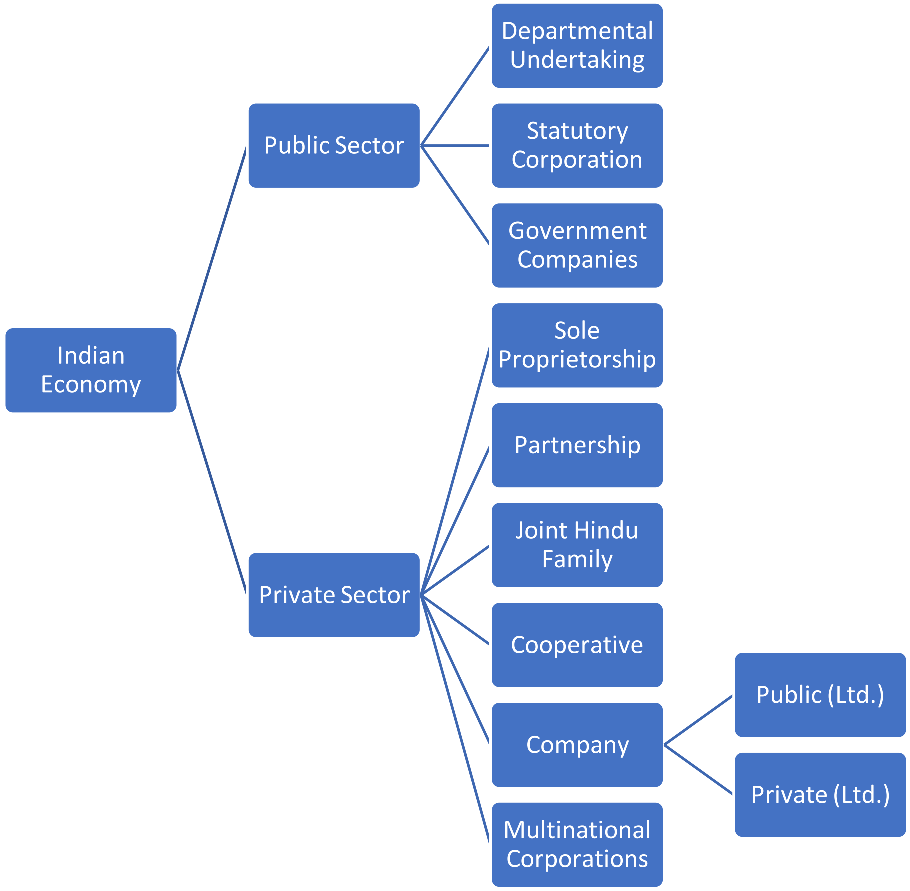
Class XI Business Studies

Chapter 3 Private, Public and Global Enterprises

Revision Notes

Public and Private Sector

- Indian economy consists of both privately owned and government owned business enterprises
- The private sector consists of business owned by individuals or a group of individuals
- The public sector consists of various organisations owned and managed by the government. These organisations may either be partly or wholly owned by the central or state government. They may also be a part of the ministry or come into existence by a Special Act of the Parliament
- In the Industrial Policy Resolution 1948, the Government of India had specified the approach towards development of the industrial sector.
- The Industrial Policy Resolution, 1956 had also laid down certain objectives for the public sector to follow so as to accelerate the rate of growth and industrialization
- The 1991 industrial policy was radically different from all the earlier policies where the government was deliberating disinvestment of public sector and allowing greater freedom to the private sector.
- At the same time, foreign direct investment was invited from business houses outside India.
- Thus, public sector units, private sector enterprises and global enterprises coexisting in the Indian economy.



Departmental Undertakings

- These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself
- They act through the officers of the Government and its employees are Government employees.
- These undertakings may be under the central or the state government and the rules of central/state government are applicable
- Examples of these undertakings are railways and post and telegraph department

Features

- The funding of these enterprises come directly from the Government Treasury and are an annual appropriation from the budget of the Government
- Subject to accounting and audit controls applicable to other Government activities
- The employees of the enterprise are Government servants and their recruitment and conditions of service are the same under government
- It is a major subdivision of the Government department and is subject to direct control of the ministry
- They are accountable to the ministry

Merits

- facilitate the Parliament to exercise effective control over their operations
- high degree of public accountability
- The revenue earned by the enterprise goes directly to the treasury and hence is a source of income for the Government
- Where national security is concerned, this form is most suitable since it is under the direct control and supervision of the concerned Ministry

Limitations

- No flexibility, which is essential for the smooth operation of business
- The employees or heads of departments of such undertakings are not allowed to take independent decisions, without the approval of the ministry concerned
- The bureaucrat’s over-cautious and conservative approval does not allow them to take risky ventures
- no action can be taken unless it goes through the proper channels of authority
- lot of political interference through the ministry
- These organisations are usually insensitive to consumer needs and do not provide adequate services to them

Statutory Corporations

- Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament
- The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments.
- They have the power of the government and considerable amount of operating flexibility of private enterprises

Features	Merits	Limitations
• They are set up under an Act of Parliament and are governed by the provisions of the Act • This type of organisation is wholly owned by the state. The government has the ultimate financial responsibility and has the power to appropriate its profits. • It is a body corporate and can sue and be sued, enter into contract and acquire property in its own name • It obtains funds by borrowings from the government or from the public • It is not subject to the same accounting and audit procedures applicable to government departments • The conditions of service of the employees are governed by the provisions of the Act itself	• They enjoy independence in their functioning and a high degree of operational flexibility • the government generally does not interfere in their financial matters, including their income and receipt • they frame their own policies and procedures within the powers assigned to them by the Act • It is a valuable instrument for economic development.	• It does not enjoy as much operational flexibility as stated above. All actions are subject to many rules and regulations • Government and political interference has always been there in major decisions or where huge funds are involved • Where there is dealing with public, rampant corruption exists • Appointing advisors to the Corporation Board curbs the freedom of the corporation in entering into contracts and other decisions

<u>Government Company</u>

- According to the section 2(45) of the Companies Act 2013, a government company means any company in which not less than 51 per cent of the paid up capital is held by the central government, or by any state government or partly by Central government and partly by one or more State governments and includes a company which is a subsidiary of a government company.

- There are certain provisions which are applicable to the appointment/retirement of directors and other managerial personnel
- The shares of the company are purchased in the name of the President of India.
- Since the government is the major shareholder and exercises control over the management of these companies, they are known as government companies

Features

- It is an organisation created under the Companies Act, 2013 or any other previous Company Law.
- The company can file a suit in a court of law against any third party and be sued;
- The company can enter into a contract and can acquire property in its own name;
- The management of the company is regulated by the provisions of the Companies Act, like any other public limited company;
- The employees of the company are appointed according to their own rules and regulations as contained in the Memorandum and Articles of Association of the company
- These companies are exempted from the accounting and audit rules and procedures. An auditor is appointed by the Central Government
- The government company obtains its funds from government shareholdings and other private shareholders

Merits

- A government company can be established by fulfilling the requirements of the Indian Companies Act.
- It has a separate legal entity, apart from the Government;
- It enjoys autonomy in all management decisions and takes actions according to business prudence;
- These companies by providing goods and services at reasonable prices are able to control the market and curb unhealthy business practices.

Limitations

- The Government is the only shareholder in some of the companies, the provisions of the Companies Act does not have much relevance
- It evades constitutional responsibility, which a company financed by the government should have.
- The management and administration rests in the hands of the government. The main purpose of a government company, registered like other companies, is defeated

<u>Changing Role of Public Sector</u>

Development of Infrastructure

- It is prerequisite for industrialisation in any country
- The process of industrialisation cannot be sustained without adequate transportation and communication facilities, fuel and energy, and basic and heavy industries.
- It was only the government which could mobilise huge capital, coordinate industrial construction and train technicians and workforce
- Expansion of rail, road, sea, air transport has contributed to the pace of industrialisation and ensured future economic growth
- Investment were made to give infrastructure to core sector, give lead in investment to core sctor and give direction to future investments

Regional Balance

- The government is responsible for developing all regions and states in a balanced way and removing regional disparties.
- Attention would be paid to those regions which were lagging behind and public sector industries were deliberately set up
- Four major steel plants were set up in the backward areas to accelerate economic development, provide employment to the workforce and develop ancilliary industries

Economies of Scale

- Large scale industries are required to be set up with huge capital outlay, the public sector had to step in to take advantage of economies of scale
- Electric power, plants, natural gas, petroleum and telephone industries required a larger base to function economically which was only possible with government resources and mass scale production.

Concentration of economic power

- Few industrial houses in private sector, which would be willing to invest in heavy industries with the result that wealth gets concentrated in a few hands
- The public sector is able to set large industries which requires heavy investment
- This prevents concentration of wealth and economic power in the private sector.

Import Substitution

- It was difficult to import heavy machinery required for a strong industrial base.
- At that time, public sector companies involved in heavy engineering which would help in import substitution were established.
- Simultaneously, several public sector companies like STC and MMTC have played an important role in expanding exports of the country.

Government Policy towards publice sector since 1991

- Four major reforms in the public sector in its new industrial policy in 1991were made:
  - In the 1956 resolution on Industrial policy, 17 industries were reserved for the public sector. In 1991, only 8 industries were reserved for the public sector, they were restricted to atomic energy, arms and communication, mining, and railways. In 2001, only three industries were reserved exclusively for the public sector. These are atomic energy, arms and rail transport
  - Disinvestment involves the sale of the equity shares to the private sector and the public. The objective was to raise resources and encourage wider participation of the general public and workers in the ownership of these enterprises
  - All public sector units were referred to the Board of Industrial and Financial Reconstruction to decide whether a sick unit was to be restructured or closed down. The Board has reconsidered revival and rehabilitation schemes for some cases and winding up for a number of units.
  - Improvement of performance through a MoU system by which managements are to be granted greater autonomy but held accountable for specified results. Under this system, public sector units were given clear targets and operational autonomy for achieving those targets

<u>Global Enterprises</u>

- Global enterprises thus are huge industrial organisations which extend their industrial and marketing operations through a network of their branches in several countries.
- Their branches are also called Majority Owned Foreign Affiliates (MOFA).
- These enterprises operate in several areas producing multiple products with their business strategy extending over a number of countries.
- They do not aim at maximising profits from one or two products but instead spread their branches all over
- They are in a position to exercise massive control on the world economy because of their capital resources, latest technology and goodwill

<u>Features:</u>

- Huge capital resources:
  - They possess huge financial resources and the ability to raise funds from
  - different sources.
  - They are able to tap funds from various sources.
  - They may issue equity shares, debentures or bonds to the public.
  - They are also in a position to borrow from financial institutions and international banks.
  - They enjoy credibility in the capital market

- Foreign collaboration:
    - They enter into agreements with Indian companies pertaining to the sale of technology, production of goods, use of brand names for the final products, etc.
    - They may collaborate with companies in the public and private sector.
    - There are usually various restrictive clauses in the agreement relating to transfer of technology, pricing, dividend payments, tight control by foreign technicians, etc.
    - foreign collaborations have given rise to the growth of monopolies and concentration of power in few hands

- Advanced technology:
    - These enterprises possess technological superiorities in their methods of production.
    - They are able to conform to international standards and quality specifications.
    - This leads to industrial progress of the country in which such corporations operate since they are able to optimally exploit local resources and raw materials

- Product innovation:
    - These enterprises are characterised by having highly sophisticated research and development departments engaged in the task of developing new products and superior designs of existing products.
    - Qualitative research requires huge investment which only global enterprises can afford

- Marketing strategies:
    - They use aggressive marketing strategies in order to increase their sales in a short period.
    - They posses a more reliable and up-to-date market information system.
    - They already have carved out a place for themselves in the global market, and their brands are well-known, selling their products is not a problem.

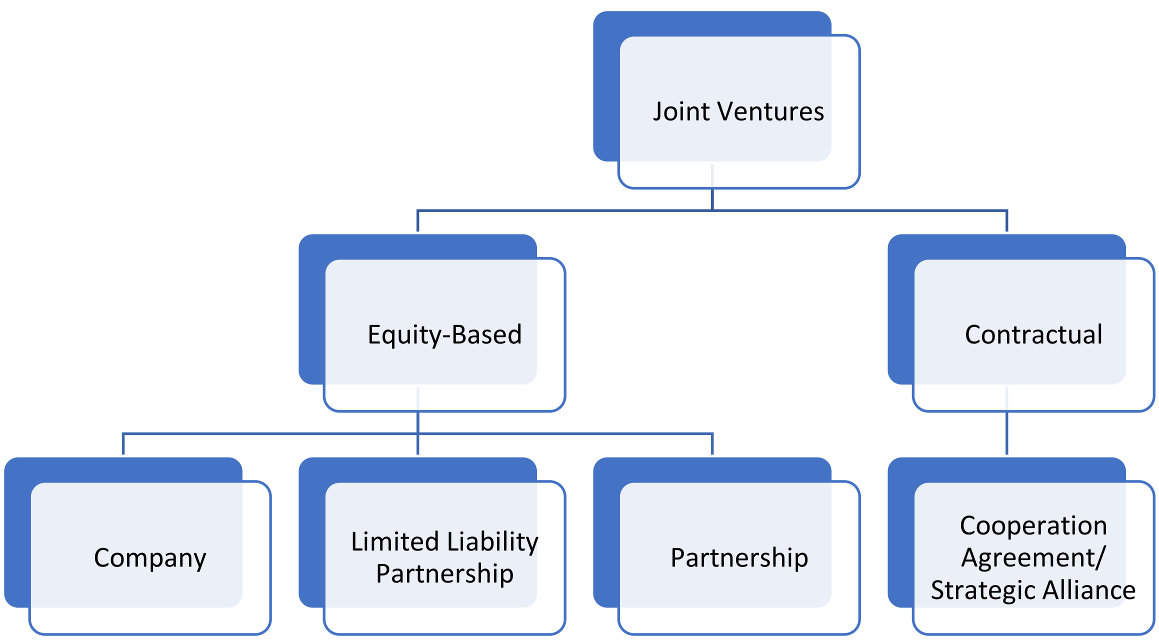
- Expansion of market territory:
    - Their operations and activities extend beyond the physical boundaries of their own countries.
    - Their international image also builds up and their market territory expands enabling them to become international brands.
    - They operate through a network of subsidiaries, branches and affiliates in host countries. Due to their giant size they occupy a dominant position in the market.

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

- This control is limited to the broad policy framework of the parent company.
- There is no interference in day to day operations

<u>Joint Ventures</u>

- When two businesses agree to join together for a common purpose and mutual benefit, it gives rise to a joint venture.
- Joint venture is the pooling of resources and expertise by two or more businesses, to achieve a particular goal.
- The risks and rewards of the business are also shared. The reasons behind the joint venture often include business expansion, development of new products or moving into new markets, particularly in another country
- Examples of Joint Ventures are AVI Oil India Pvt. Ltd., Green Gas Ltd etc
- A joint venture must be based on a memorandum of understanding signed by both the parties, highlighting the basis of a joint venture agreement.
- Negotiations and terms must take into account the cultural and legal background of the parties.
- The joint venture agreement must also state that all necessary governmental approvals and licences will be obtained within a specified period



<u>Equity-Based Joint Venture</u>

- An equity joint venture agreement is one in which a separate business entity, jointly owned by two or more parties, is formed in accordance with the agreement of the parties

- The Forms of business entity may vary.
- Features:
    - agreement to either create a new entity or for one of the parties to join into ownership of an existing one
    - Shared ownership by the parties
    - Shared management
    - Shared responsibilities regarding capital investment and other financing arrangements
    - Shared profits and losses according to the agreement.

Contractual Joint Venture

- There is only an agreement to work together.
- The parties do not share ownership of the business but exercise some elements of control in the joint venture
- Features:
    - Two or more parties have a common intention of running a business venture;
    - Each party brings some inputs
    - Both parties exercise some control on the business venture
    - The relationship is relatively longer duration

Benefits:

- Teaming up adds to existing resources and capacity enabling the joint venture company to grow and expand more quickly and efficiently
- When a business enters into a joint venture with a partner from another country, it opens up a vast growing market
- They have Access to Advance technology. Advanced techniques of production leading to superior quality products saves a lot of time, energy and investment as they do not have to develop their own technology.
- Joint ventures allow business to come up with something new and creative for the same market. Especially foreign partners can come up with innovative products because of new ideas and technology
- International corporations invest in India, they benefit immensely due to the lower cost of production. They are able to get quality products for their global requirements
- One of the parties benefits from the other’s goodwill which has already been established in the market.

Public Private Partnership

- PPP is, therefore, defined as a relationship between public and private entities in the context of infrastructure and other services.

- Under the PPP model, public sector plays an important role and ensures that the social obligations are fulfilled and sector reforms and public investment are successfully met

Features:

- The public partners in PPP are Government entities, i.e., ministries, government departments, municipalities or stateowned enterprises. The private partners can be local or foreign (international) and include businesses or investors with technical or financial expertise relevant to the project
- The government's contribution to PPP is in the form of capital for investment and transfer of assets that support the partnership in addition to social responsibility, environmental awareness and local knowledge.
- The private sector's role in the partnership is to make use of its expertise in operations, managing tasks and innovation to run the business efficiently.

Examples:

- Power generation and distribution, water and sanitation, refuse disposal, pipelines, hospitals, school buildings and teaching facilities, stadiums etc

Merits:

- Transfer of design and construction risk.
- Potential to accelerate project

Limitations:

- Conflict between parties may arise on environmental considerations
- Does not attract private finance easily.