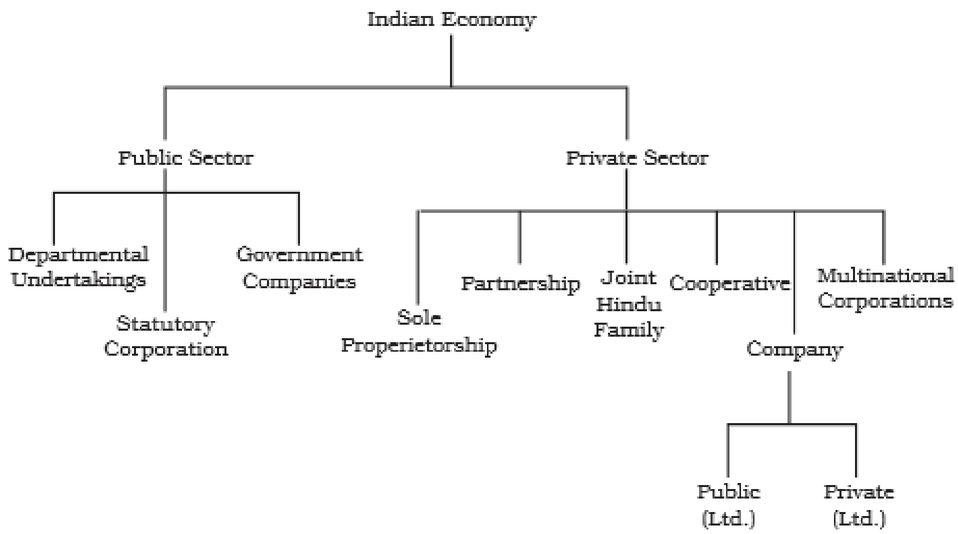
Name: ____________________

Date: __/__/__

Private Sector and Public Sector

The private sector consists of business owned by individuals or a group of individuals, as you have learnt in the previous chapter. The various forms of organisation are sole proprietorship, partnership, joint Hindu family, cooperative and company.

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. The government, through these enterprises participates in the economic activities of the country.



A public enterprise may take any form of organisation depending upon the nature of its operations and their relationship with the government. The suitability of a form of organisation would depend upon its requirements. At the same time, in accordance with general principles, any organisation in the public sector should ensure organisational performance productivity and quality standards.

The forms of organisation which a public enterprise may take are as follows:

(i) Departmental undertaking
(ii) Statutory corporation
(iii) Government company

Department Undertaking

Meaning of Department Undertaking

This is the oldest and most traditional form of organising public enterprises. These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself. The Government functions through these departments and the activities performed by them are an integral part of the functioning of the government. They have not been constituted as autonomous or independent institutions and as such are not independent legal entities.

Features

The main characteristics of Departmental undertakings are as follows:

(i) The funding of these enterprises come directly from the Government Treasury and are an annual appropriation from the budget of the Government. The revenue earned by these is also paid into the treasury;

(ii) They are subject to accounting and audit controls applicable to other Government activities;

(iii) The employees of the enterprise are Government servants and their recruitment and conditions of service are the same as that of other employees directly under the Government. They are headed by Indian Administrative Service (IAS) officers and civil servants who are transferable from one ministry to another;

(iv) It is generally considered to be a major subdivision of the Government department and is subject to direct control of the ministry;

(v) They are accountable to the ministry since their management is directly under the concerned ministry.

Merits

(i) These undertakings facilitate the Parliament to exercise effective control over their operations;

(ii) These ensure a high degree of public accountability;

(iii) The revenue earned by the enterprise goes directly to the treasury and hence is a source of income for the Government;

(iv) Where national security is concerned, this form is most suitable since it is under the direct control and supervision of the concerned Ministry.

Limitations

(i) Departmental undertakings fail to provide flexibility, which is essential for the smooth operation of business;
(ii) The employees or heads of departments of such undertakings are not allowed to take independent decisions, without the approval of the ministry concerned.
(iii) These enterprises are unable to take advantage of business opportunities. The bureaucrat's over-cautious and conservative approval does not allow them to take risky ventures;
(iv) There is red-tapism in day-to-day operations and no action can be taken unless it goes through the proper channels of authority;
(v) There is a lot of political interference through the ministry;
(vi) These organisations are usually insensitive to consumer needs and do not provide adequate services to them.

Statutory Corporations

Meaning of Statutory Corporation

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.

Features

(i) Statutory corporations are set up under an Act of Parliament and are governed by the provisions of the Act. The Act defines the objects, powers, and privileges of a statutory corporation;

(ii) 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. At the same time, the state also must bear the losses, if any;

(iii) A statutory corporation is a body corporate and can sue and be sued, enter contract and acquire property in its own name;

(iv) This type of enterprise is usually independently financed. It obtains funds by borrowings from the government or from the public through revenues, derived from sale of goods and services. It has the authority to use its revenues;

(v) A statutory corporation is not subject to the same accounting and audit procedures applicable to government departments. It is also not concerned with the central budget of the Government;

(vi) The employees of these enterprises are not government or civil servants and are not governed by government rules and regulations. The conditions of service of the employees are governed by the provisions of the Act itself.

Merits

(i) They enjoy independence in their functioning and a high degree of operational flexibility. They are free from undesirable government regulation and control;

(ii) Since the funds of these organisations do not come from the central budget, the government generally does not interfere in their financial matters, including their income and receipts;

(iii) Since they are autonomous organisations they frame their own policies and procedures within the powers assigned to them by the Act. The Act may, however, provide few issues/matters which require prior approval of a ministry;

(iv) A statutory corporation is a valuable instrument for economic development. It has the power of the government, combined with the initiative of private enterprises.

Demerits

(i) A statutory corporation does not enjoy as much operational flexibility as stated above. All actions are subject to many rules and regulations;

(ii) Government and political interference has always been there in major decisions or where huge funds are involved;

(iii) Where there is dealing with public, rampant corruption exists;

(iv) The government has a practice of appointing advisors to the Corporation Board. This curb the freedom of the corporation in entering contracts and other decisions.

Government Companies

Meaning of Government Company

A Government company is established under the Indian Companies Act, 1956 and is registered and governed by the provisions of the Indian Companies Act. These are established for purely business purposes and in true spirit compete with companies in the private sector.

Features

(i) It is an organisation created by the Indian Companies Act, 1956;
(ii) The company can file a suit in a court of law against any third party and be sued;
(iii) The company can enter a contract and can acquire property in its own name;
(iv) The provisions of the Companies Act regulate the management of the company, like any other public limited company;
(v) 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. The Memorandum and Articles of Association are the main documents of the company, containing the objects of the company and its rules and regulations;
(vi) These companies are exempted from the accounting and audit rules and procedures. An auditor is appointed by the Central Government and the Annual Report is to be presented in the parliament or the state legislature;
(vii) The government company obtains its funds from government shareholdings and other private shareholders. It is also permitted to raise funds from the capital market.

Merits

(i) A government company can be established by fulfilling the requirements of the Indian Companies Act. A separate Act in the Parliament is not required;
(ii) It has a separate legal entity, apart from the Government;
(iii) It enjoys autonomy in all management decisions and takes actions according to business prudence;
(iv) These companies by providing goods and services at reasonable prices are able to control the market and curb unhealthy business practices.

Limitations

(i) Since the Government is the only shareholder in some of the Companies, the provisions of the Companies Act do not have much relevance;
(ii) It evades constitutional responsibility, which a company financed by the government should have. It is not answerable directly to the Parliament;
(iii) The government being the sole shareholder, the management and administration rests in the hands of the government. The main purpose of a government company, registered like other companies, is defeated.

Changing Role of Public Sector

Introduction

The public sector would build up infrastructure for other sectors of the economy and invest in key areas. The private sector was unwilling to invest in projects which required heavy investment and had long gestation periods. The government then took it upon itself to develop infrastructural facilities and provide for goods and services essential for the economy.

They were also held accountable for losses and return on investment. If a public sector was making losses continuously, it was referred to the Board for Industrial and Financial Reconstruction (BIFR) for complete overhauling or shut down

(i) Development of infrastructure: The development of infrastructure is a prerequisite for industrialisation in any country. In the pre-Independence period, basic infrastructure was not developed and therefore, industrialisation progressed at a very slow pace. The process of industrialisation cannot be sustained without adequate transportation and communication facilities, fuel and energy, and basic and heavy industries.

(ii) Regional balance: The government is responsible for developing all regions and states in a balanced way and removing regional disparities. Most of the industrial progress was limited to a few areas like the port towns in the pre-Independence period. After 1951, the government laid down in its Five-Year Plans, that attention would be paid to those regions which were lagging behind and public-sector industries were deliberately set up.

(iii) Economies of scale: Where 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.

(iv) Check over concentration of economic power: The public-sector acts as a check over the private sector. In the private sector, there are very few industrial houses which would be willing to invest in heavy industries with the result that wealth gets concentrated in a few hands and monopolistic practices are encouraged.

(v) Import substitution: During the second and third Five Year Plan period, India was aiming to be self-reliant in many spheres. Obtaining foreign exchange was also a problem and it was difficult to import heavy machinery required for a strong industrial base.

(vi) Government policy towards the public sector since 1991: The Government of India had introduced four major reforms in the public sector in its new industrial policy in 1991:

   a) Restructure and revive potentially viable PSUs
   b) Close PSUs, which cannot be revived
   c) Bring down governments equity in all non-strategic PSUs to 26 per cent or lower, if necessary; and
   d) Fully protect the interest of workers.

Government Policy Towards Public Sector Industries Since 1991

1. <u>Reduction in the number of industries reserved for the public sector from 17 to 8 (and then to 3):</u> 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
2. <u>Disinvestment of shares of a select set of public sector enterprises:</u> 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. The government had taken a decision to withdraw from the industrial sector and reduce its equity in all undertakings.
3. <u>Policy regarding sick units to be the same as that for the private sector:</u> 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 many units.
4. <u>Memorandum of Understanding:</u> Improvement of performance through a MoU (Memorandum of Understanding) 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

Global Enterprises

Meaning of Global Enterprises

MNCs or Multi-National Companies are businesses which have their operations in more than one country. They are characterised by their huge size, large number of products, advanced technology, marketing strategies and network of operations all over the world. Their branches are also called Majority Owned Foreign Affiliates (MOFA).

Features

(i) Huge capital resources: These enterprises are characterised by possessing huge financial resources and the ability to raise funds from different sources. They can tap funds from various sources. They may issue equity shares, debentures, or bonds to the public.

(ii) Foreign collaboration: Global enterprises usually enter contracts with Indian companies pertaining to the sale of technology, production of goods, use of brand names for the final products, etc.

(iii) Advanced technology: These enterprises possess technological superiorities in their methods of production. They can conform to international standards and quality specifications.

(iv) 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.

(v) Marketing strategies: The marketing strategies of global companies are far more effective than other companies. They use aggressive marketing strategies to increase their sales in a short period. They possess a more reliable and up-to-date market information system.

(vi) 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.

(vii) Centralised control: They have their headquarters in their home country and exercise control over all branches and subsidiaries.

Joint Ventures

Meaning of Joint Ventures

Business organisations as you have studied earlier can be of various types private or government owned or global enterprises. Now, any business organisation if it so desires can join hands with another business organisation for mutual benefit. These two organisations may be private, government-owned or a foreign company.

Formation of a JV

There are no separate laws for these joint ventures. The companies incorporated in India are treated the same as domestic companies. A joint venture company can be formed in any of the following ways:

(i) Two parties (individuals or companies), incorporate a company in India. Business of one party is transferred to a new company. For consideration of such transfer, shares are issued by the new company and subscribed by the above party. The other subscribes for the shares in cash;

(ii) The above two parties subscribe to the shares of the joint venture company in agreed proportion, in cash and start a new business;

(iii) Promoter shareholder of an existing Indian company and another party which may be either an individual or a company may collaborate to jointly carry on the business of that company: The other party may be non-resident or resident and may take up shares of the company through payment in cash.

Benefits

(i) <u>Increased resources and capacity:</u> Joining hands with another or teaming up adds to existing resources and capacity enabling the joint venture company to grow and expand more quickly and efficiently.

(ii) <u>Access to new markets and distribution networks:</u> When a business enters a joint venture with a partner from another country, it opens a vast growing market. For example, when foreign companies form joint venture companies in India they gain access to the vast Indian market.

(iii) <u>Access to technology:</u> Technology is a major factor for most businesses to enter joint ventures. 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.

(iv) <u>Innovation:</u> The markets are increasingly becoming more demanding in terms of new and innovative products. Joint ventures allow business to come up with something new and creative for the same market.

(v) <u>Low cost of production:</u> When international corporations invest in India, they benefit immensely due to the lower cost of production. They can get quality products for their global requirements.

(vi) <u>Established brand name:</u> When two businesses enter a joint venture one of the parties' benefits from the other's goodwill which has already been established in the market. If the joint venture is in India and with an Indian company, the Indian company does not have to spend time or money in developing a brand name for the product or even a distribution system.