Unit 3

Part A

One Mark Questions

1. What is Private Sector?

The private sector consists of business owned by individuals or a group of individuals.

2. What is Public Sector?

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.

3. Mention any one form of organizing Public Sector Enterprises.

Department undertaking, statutory company, government company

4. Give an example for Departmental Undertakings.

Indian Railways

5. Give an example for Statutory Corporations.

Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament.

6. Give an example for 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

7. State the Minimum amount of Capital held by the Govt. in Government Companies.

51%

8. Give an example for Global Enterprises.

Infosys, TCS, HCL

9. State any one benefit of Joint Venture.

Increased resources and capacity: 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.

10. Give an example for Joint Venture.

Hero-Honda, Kawasiki-Bajaj etc

11. Expand MoU.

Memorandum of Understanding

12. Expand MNC.

Multi-National Companies

13. Expand BIFR.

Board for Industrial and Financial Reconstruction

Multiple Choices One Mark Questions

1. A government company is any company in which the paid-up capital held by the government is not less than

(a) 49 percent **(b) 51 percent** (c) 50 percent (d) 25 percent

2. Centralized control in MNCs implies control exercised by

(a) Branches (b) Subsidiaries **(c) Headquarters** (d) Parliament

3. PSEs are organizations owned by

(a) Joint Hindu Family **(b) Government** (c) Foreign Companies (d) Private entrepreneurs

4. Reconstruction of sick public-sector units is taken up by

(a) MOFA (b) MoU **(c) BIFR** (d) None of the above

5. Disinvestments of PSEs implies

(a) Sale of equity shares to private sector/public (b) Closing down operations (c) Investing in new areas (d) None of the above

Two marks Questions

1. What are Departmental Undertakings?

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.

2. State any two merits of Departmental Undertakings.

(i) These undertakings facilitate the Parliament to exercise effective control over their operations;
(ii) These ensure a high degree of public accountability;

3. State any two limitations of Departmental Undertakings.

(i) There is red tapism in day-to-day operations and no action can be taken unless it goes through the proper channels of authority;
(ii) There is a lot of political interference through the ministry;

4. Give the meaning of 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.

5. Mention any two merits of Statutory Corporations.

(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;

6. Mention any two limitations of Statutory Corporations.

(i) Government and political interference has always been there in major decisions or where huge funds are involved;
(ii) Where there is dealing with public, rampant corruption exists;

7. Give the meaning of Government Companies.

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.

8. State any two merits of Government Companies.

(i) It has a separate legal entity, apart from the Government;

(ii) It enjoys autonomy in all management decisions and takes actions according to business prudence;

9. State any two limitations of Government Companies.

(i) Since the Government is the only shareholder in some of the Companies, the provisions of the Companies Act does 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;

10. What is Disinvestment in relation to PSEs?

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 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.

11. What do you mean by Global Enterprises?

They are characterised by their huge size, large number of products, advanced technology, marketing strategies and network of operations all over the world. Global enterprises thus are huge industrial organisations which extend their industrial and marketing operations through a network of their branches in several countries.

12. Give the meaning of Joint Ventures.

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. When two businesses agree to join for a common purpose and mutual benefit, it gives rise to a joint venture.

13. Write any two benefits of Joint Ventures.

(i) 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) When a business enters into 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.

Four Marks Questions

1. Briefly explain any four features of Departmental Undertakings.

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;

2. Briefly explain the merits of Departmental Undertakings.

(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.

3. Briefly explain any four limitations of Departmental Undertakings.

(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;

4. Briefly explain any two merits and two limitations of Departmental Undertakings.

(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) 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;

5. Briefly explain any four features of Statutory Corporations.

(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;

6. Briefly explain any four merits of Statutory Corporations.

(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.

7. Briefly explain the limitations of Statutory Corporations.

(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.

8. Briefly explain any two merits and two limitations of Statutory Corporations.

(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) 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.

9. Briefly explain any four features of Government Companies.

(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;

10. Briefly explain the merits of Government Companies.

(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 can control the market and curb unhealthy business practices.

11. Briefly explain any two merits and two limitations of Government Companies.

(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) Since the Government is the only shareholder in some of the Companies, the provisions of the Companies Act do not have much relevance;
(iv) It evades constitutional responsibility, which a company financed by the government should have. It is not answerable directly to the Parliament;

12. Briefly explain any four features of Global Enterprises.

(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.

13. Briefly explain any four benefits of Joint ventures.

(i) Increased resources and capacity: 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) Access to new markets and distribution networks: 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) Access to technology: 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) Innovation: 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.

Eight marks Questions

1. What are Global Enterprises? Explain their features.

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).

(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.

2. What do you mean by Joint ventures? Explain their benefits.

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.

(i) Increased resources and capacity: 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) Access to new markets and distribution networks: 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) Access to technology: 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) Innovation: 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) Low cost of production: 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) Established brand name: 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.

3. Explain the changing role of Public Sector.

(i) Reduction in the number of industries reserved for the public sector from 17 to 8 (and then to 3): 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

(ii) Disinvestment of shares of a select set of public sector enterprises: 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.

(iii) Policy regarding sick units to be the same as that for the private sector: 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.

(iv) Memorandum of Understanding: 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