

Dinchak pooja, a student of class XI was reading a newspaper. There was the news item that Government planned to disinvest its shares in some PSUs as they were incurring heavy losses. At the same time, it was written that some private companies and MNCs were earning so much of profits. Maruthi Suzuki Ltd which a joint venture of Maruthi Company and Suzuki Company of Japan was launching a new car in the market. She was curious to know about these terms like PSUs, joint venture etc.

## CHAPTER 3

# Public And Global Enterprises

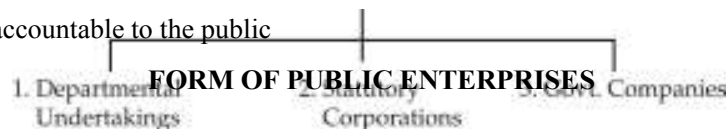
### PUBLIC SECTOR ENTERPRISES

**Meaning :** - The public sector consists of various organisations owned and managed by central or state or by both governments. The govt. participates in economics 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

#### 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 utilisation 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 organisations are usually insensitive to consumer needs and do not provide goods and adequate service to them.
5. Such organisations are managed by civil servants and govt. officials who may not have the necessary expertise and experience in management.

### **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 statute / 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 free 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.

### **DEMERIT**

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 corp. is suitable for undertaking requiring monopoly powers e.g. public utilities.

### **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 Act.
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 its 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. It can appoint professional managers on high salaries.

### **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.

### **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 summarised 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 expanding exports of the country.

Very important role was assigned to public sector but its performance was far from satisfactory which forced govt. to do rethinking on public enterprises.

#### **PUBLIC SECTOR REFORMS :-**

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

- a) **Reduction in no. of industries reserved for public sector** - This no. is reduced from 17 to 8 and to 3 industries only in 2001. These three industries are atomic energy, arms and rail transport.
- b) **Memorandum of Understanding (MOU)** - Under this govt. lays down performance targets for the management and gives greater autonomy to hold the management accountable for the results.
- c) **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.
- d) **Restructure and Revival :-** All public sector sick units were referred to Board of Industrial and financial Reconstruction (BIFR). Units which were potentially viable were restructured and which could not be revived were closed down by the board.

#### **MULTI NATIONAL COMPANIES/GLOBAL ENTERPRISES**

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

**Example-** GEC, IBM, PHILIPS, COCA-COLA UNILEVER LTD, LG, SAMSUNG, HYUNDAI MOTORS.

---

### **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. Centralised 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 orgs possess 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. Similarly Suzuki Motors of Japan and 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 teachnology 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.

### **• Very Short Answer type Questions**

**(1 Mark)**

1. Name the types of public sector enterprises?

**Ans.** i) Departmental undertakings                      ii) statutorycorporations    iii) Government company

2. Name the organization which is considered as a part of Government Company only?

**Ans.** Departmental undertakings

3. Where national security is concerned, which form of public enterprises is most suitable?

**Ans.** Departmental undertakings, because they are under the direct control and supervision of the ministry.

4. Mention any two examples of departmental undertakings?

**Ans.** i) Post and Telegraphs                                      ii) Indian railways

5. Name the organization formed by passing a special act of the parliament?

**Ans.** Statutory Corporation

6. Mention any two examples of statutory corporation?

**Ans.** i) Food Corporation of India                                      ii) Life Insurance Corporation

7. Name the company in which at least 51% shares are kept by the government?

**Ans.** Government Company

8. In whose name the shares of a government Company are purchased?

**Ans.** The President of India

9. Mention any two examples of a government company?

**Ans.** i) Bharat Heavy Electricals Limited                      ii) Hindustan Machine Tools Limited

### • LONG ANSWER TYPE QUESTIONS

10. What is public, private partnership? Explain its features.

**Ans:-**The following points should be explained

- Helps partnership public sector and private sector
- Related to high priority projects
- Suitable for big projects
- Public welfare
- Sharing revenue

11. What are the benefits of entering into joint ventures?

**Ans:-** The following points should be explained

1. Increased resources and capacity
2. Access to new market and distribution networks
3. Access to technology
4. Innovation
5. Low cost of production
6. Established brand name

12. Name the form of public sector enterprises that is constituted as an autonomous unit by an Act of Parliament? Explain any five features of such an organizations?

**Ans:-** Statutory Corporation.

The following points should be explained

- Statutory Corporation is fully owned by the Government.
- It is having a separate legal entity.
- Its employees are not government employees.
- Board of Directors are appointed by the government
- It prepares its own budget and can retain its earnings which can be used for its business.
- Profit is not the main motive.



13. (a) Mention six causes responsible for inefficiency of government enterprises?  
 (b) Give any three distinctions between a statutory corporation and a government company?

**Ans:-a)** The following causes should be explained

Performance of the Public Sector was poor due to

- unorganized plants,
- out dated technology,
- underutilization of capacity,
- over staffing,
- trade unionism,
- political interference
- inefficient management

**b)** The differences between Statutory Corporation and Government Company

Basis	Statutory Corporation	Government Company
<b>Formation</b>	By an Act of Parliament	Under the Companies Act
<b>Management Control</b>	Nominated board of directors	board of directors may contain private individuals
<b>Ownership</b>	Wholly owned by Government	Only 51% of shares owned by Government

### • HOTS (HIGHER ORDER THINKING SKILLS)

1. Can the public sector companies compete with the private sector in terms of profit & loss efficiency? Give reasons for your answer.

**Ans.** No, public sector companies cannot compete with the private sector in terms of profit & efficiency. Following are the reasons for this:

1. Public sector enterprises (PSEs) are owned by the government which has social services as the main motive. They do not operate fully on commercial basis. They are launched to achieve social objective like development of backward region, creation of employment opportunities, etc.
2. Working of public sector enterprise is subject to interference of the government. Autonomy & flexible enjoyed by PSEs are only in name.
3. Due to the bureaucratic control, the management is very poor inefficient. They are managed by bureaucrats & not by professional.

ques.2. Public sector enterprises have played vital role in the economic development of india.however; government of India vigorously pursues the policy of disinvestment of such units. What is the rationale of disinvestment at this time?

**Ans.** Public sector enterprises played a significant role in the economic development of India by filling gaps in the industrial sector, generating employment opportunities, balance regional development, check over concentration of economic power & so on. despite their impressive role, public sector undertaking (PSUs) in India suffered several problems shortcoming such as excessive overhead, under- utilisation of production capacity, inefficient management, low return on investment or even losses, etc.therefore, government of India pursued the policy of disinvestment of sick PSUs.disinvestment involves the sale of the equity shares to the private sector& the public, i.e., reducing equity of the government.

**ques.3. State any three situations wherein Government Company is the most suitable form of organizing public enterprises?**

**Ans.** Government Company is the most suitable form of organizing public enterprises in the following situations:

- a. When the government wants to control a company in the private sector without nationalization because of financial or employment crises, e.g., Indian iron steel co.
- b. When the government feels necessary to promote & develops a field of economic activity, e.g., STC.
- c. When the government wishes to launch an enterprise in association of certain private interests, domestic or foreign, e.g., Hindustan Machine Tools.

### **Case Study-**

Coca Cola, a Multinational company is registered in USA and has its business operation viz. producing, marketing facilities etc. in many countries of the world. Its headquarter is located in USA which exercises control over its branches and subsidiaries operated within the broad policy framework of parent organization. To manage its subsidiaries in different countries, the company employs trained and professional managers. To international competition it uses sophisticated technology that leads to greater productivity and better quality.

1. What is Multinational corporation?

Ans-The company registered in one country having its business operation in other countries.

2. Name the Multinational corporation which is mentioned in the above case.

Ans- Coca Cola.

3. Give two features of MNC mentioned in the above case that distinguish it from other enterprise.

Ans-(i) Giant size (ii) Operations in many countries

4. How is Coca Cola able to operate in many countries?

Ans-Through its various branches, subsidiaries etc.

