Class 11 Business Studies

Chapter - 3

Public, Private & Multinational Company

Indian Economy

Indian Economy has two Sectors

- Public Sector
- Private Sector

Private Sector

- Business enterprises which are owned and managed by individuals or a group of individuals are called private sector enterprises.
- Various form of organization are sole proprietorship, partnership, joint Hindu family, cooperative, company and multinational corporations.

Types of Private Sector

Six types of Private Sector are

- Sole Proprietorship
- Partnership
- Joint Hindu Family
- Cooperative
- Company
  - Private (Ltd.)
  - Public (Ltd.)
- Multinational Corporations

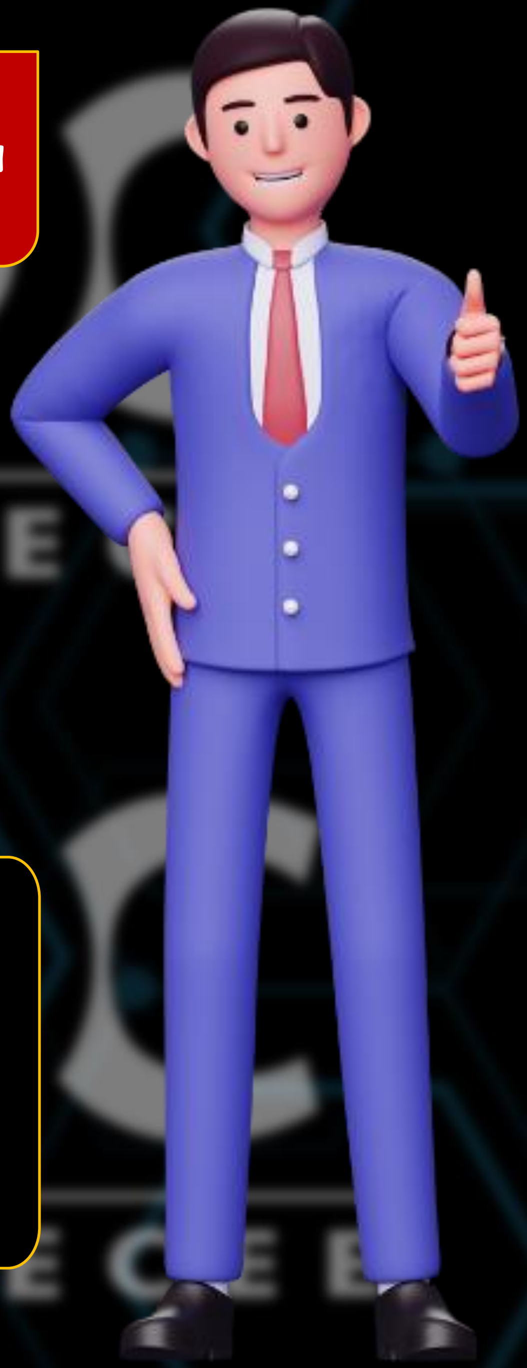
Public Sector

- Business enterprises which are managed and owned by the government. These organizations may either be partly or wholly owned by the central or state government.
- The forms of organization which a public enterprise may take are departmental undertaking, statutory corporation and government company etc.

Types of Public Sector

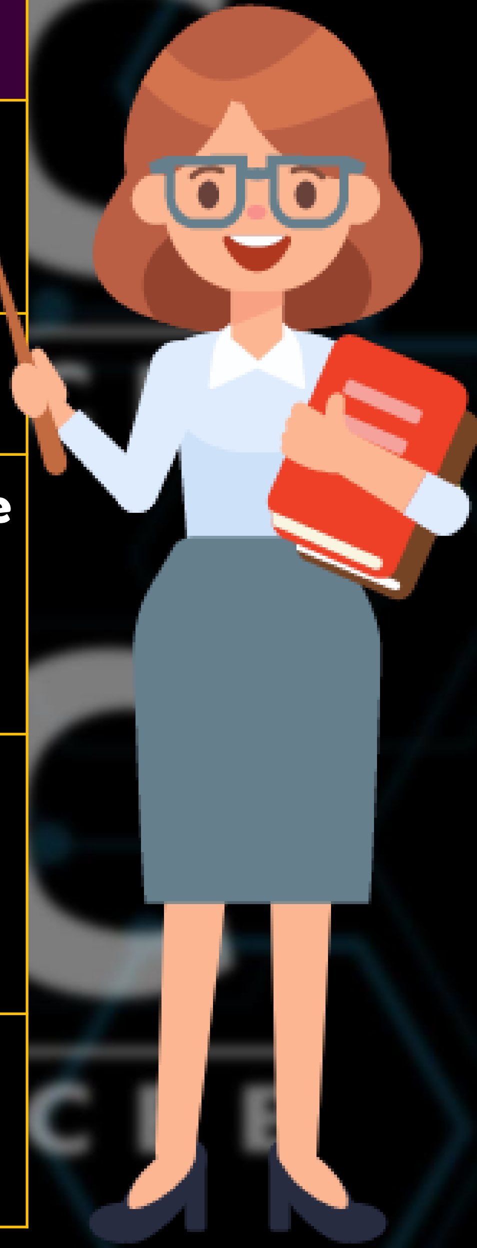
Three Types of Public Sector

- Departmental Undertakings
- Statutory Corporation
- Government Company



The differences between Private and Public Sector Enterprises are :

Basis	Private Sector Enterprise	Public Sector Enterprise
Aim	The basic aim of any private sector enterprise is to earn maximum profit.	The basic aim of any public sector enterprise is to provide services to the public.
Capital Contribution	The capital is invested either by the owner or the investor.	The capital is contributed by the government.
Management	The management and the control lie in the hands of the board of directors having more private professionals.	The management and the control lie in the hands of the board of directors having more government representatives.
Employees	They have their own rules and regulations regarding the selection and remuneration of their employees.	They follow government rules and regulations regarding the selection and remuneration of employees.
Freedom of Operations	In private sector enterprise there is more freedom of operations.	In public sector enterprise, there is less freedom of operations because of interference of government.



Departmental Undertakings

- This is the oldest and most traditional form of public sector 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.
- They act through the officers of the Government and its employees are Government employees.

Features of Departmental Undertakings

Funding

- The funding of these enterprises come directly from the government treasury. The revenue earned also belongs to the government and is paid to the government treasury.

Accounting and Audit Rules

- These undertakings follow accounting rules framed by the Indian accounts department and the audit is also under the direct control of the government.

Service Conditions

- The employees of these enterprises are government servants and they are headed by IAS officers and civil servants who are transferable from one ministry to another.

Accountability

- They are accountable to the ministry since their management is directly under the concerned ministry.

Merits of Departmental Undertakings

1) **Revenue is a Source of Income for the Government :**
   - Whatever, revenue is earned by these enterprises is directly deposited into the government treasury, hence the revenue is an important source of income for the government.

2) **Accountability :**
   - These undertakings are established for some specific work of the ministry.
   - Government receives their work through government audit. Hence, they provide a high degree of public accountability.

3) **National Security :**
   - Where national security is concerned, this form is most suitable since it is under the direct control and supervision of the concerned ministry.

4) **Effective Control :**
   - These undertakings ensure effective control over their operations by the parliament.
   - The control of departmental undertaking is very effective as it is direct and centralized.

Demerits of Departmental Undertakings

1) **Lack of Flexibility :**
   - ➢ Departmental undertakings fail to provide flexibility, which is essential for the smooth operation of business.

2) **Delay in Decision-making :**
   - ➢ These enterprises failed to make quick decisions because for every decision they have to obtain approval from the concerned ministry.

3) **Political Interference :**
   - ➢ Political interference hinders the efficient working of these undertakings.
   - ➢ Most of the time is elapsed in attending a political meeting and implementing their recommendations.

4) **Red Tapism :**
   - ➢ Departmental undertaking suffers from red tapism in its day-to-day working.
   - ➢ Actions can be taken only after following the proper channels of the authority.

5) **Bureaucracy :**
   - ➢ These enterprises are not able to take full benefits of business opportunities.
   - ➢ Bureaucratic and conservative approach of the concern ministry hinders their initiative.

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.

- It is a corporate body created by the legislature with defined powers and functions and is financially independent with a clear control over a specified area or a particular type of commercial activity.

- **For e.g.** : Indian Airlines, Air India, State Bank of India, (LIC) Life Insurance Corporation of India etc.

Features of Statutory Corporations

Formation	➢ Statutory Corporations are set up under an Act of Parliament. The Act defines the objects, powers and privileges of a statutory corporation.
A Body Corporate	➢ It has a separate legal entity, distinct from its members. Therefore, it can sell or purchase property, enter into contracts, can sue and be sued.
Independently Financed	➢ Usually, these enterprises are independently financed by borrowings from the government or from the public or through revenue. ➢ They earn from the sales of goods and services. These enterprises have the authority to use their revenues.
Own Service Conditions	➢ The employees of these enterprises are not government employees. ➢ The conditions of recruitment and service of the employees are laid down by the legislation that creates them.
Independence from Government Accounting	➢ Unlike government departments, enterprises are not bound to adopt government accounting or audit procedures. ➢ Even they are not dependent on the central budget of the government.

Merits of Statutory Corporations

1) **Operational Flexibility :**
   - Statutory Corporations can enjoy a high degree of flexibility in their operations, as it is free from unnecessary government control and regulations.

2) **Non-interference by the Government :**
   - The government does not interfere in the financial matters of the organization because they are independently financed.

3) **Valuable Instrument from Economic Growth :**
   - The enterprises are considered to be an effective instrument for economic development as they have the power of the government along with the initiative of private enterprises.

4) **Autonomous Organizations :**
   - Statutory Corporations have the autonomy to frame their policies and procedures within the provided authority.

Demerits of Statutory Corporations

1) **Corruption :**
   - ➢ Where it involves dealing with the public, corruption is inevitable. This corruption destructs the whole purpose of creating such enterprises.

2) **Government Interference :**
   - ➢ In matters, related to some important decisions, there is always government and political interference.

3) **Flexibility on Papers Only :**
   - ➢ All decisions of the enterprise are subjected to many rules and regulations by the government.
   - ➢ Therefore, the operational flexibility is available on paper only.

Government Company

- According to the Companies Act 2013, a government company means any company in which at least 51 per cent of the paid-up share capital is held by the central or state government or partly by the central government and partly by one or more state governments and includes a company which is a subsidiary of a government company.

- **For e.g.** : Steel Authority of India, State Trading Corporation, and Hindustan Machine Tools.

Features of Government Company

Created by Companies Act

- It is an organization created under the Companies Act, of 2013 or any other previous company law.

File a Suit

- Being a separate legal entity, a government company can sue and be sued by a third party.

Enter into a Contract

- The company has the authority to sell and purchase the property and to enter into contracts in its name.

Audit by Central Government

- Audit of accounts is conducted by an auditor appointed by the central government.
- Its annual report is also laid on both houses of the parliament.

The Rules Contained in MOA and AOA

- The memorandum and article of association lay down the rules and regulations for appointing the employees of the company.

Merits of Government Company

1) **Ease Information :**
   - A separate act of parliament is not required for setting up a government company as it is established under the companies act 2013.

2) **Autonomy :**
   - General company has full autonomy in doing its business operations and in all business decisions and takes action which it thinks necessary for the betterment.

3) **Good Market Control :**
   - These companies by providing good and services at reasonable prices can control the market and reduce unhealthy business practices.

4) **Independent Status :**
   - The government company has its legal entity, separate from the government.

Demerits of Government Company

1) **Provisions of Companies Act not Relevant :**
   - Since, in a government company the government is the only shareholder and also the management in the hands of the government.
   - Hence, the provisions of the Companies Act do not have much relevance.

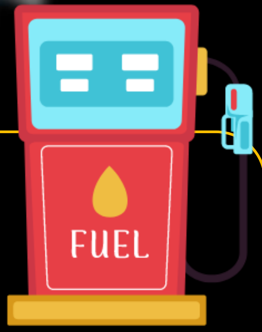
2) **Evades Constitutional Responsibility :**
   - In some of the companies the provision of the Companies Act does not have much relevance.
   - The companies are not answerable to the parliament hence, they evade constitutional responsibility which an enterprise financed by the government should have.

3) **Main Purpose Defeated :**
   - Being a government company, the whole management is in the hands of the government.
   - Thus, the purpose of registering it under the Companies Act 2013 gets defeated.

The differences between Departmental Undertaking, Statutory Corporation and Government Company are :

Basis	Departmental Undertaking	Statutory Corporation	Government Company
Formation	It is established as one of the departments of the ministry and is considered as the extension of the ministry.	It is bought into existence by an Act of parliament.	It is established under the Companies Act 2013.
Legal Status	It doesn't have a separate legal entity.	It has a separate legal entity.	It has a separate legal entity.
Status of Employees	Employees of these enterprises are government employees.	Employees of these public enterprises are not government employees.	Employees of the government company are not government employees.
Financed	It is financed out of the government treasury.	It is independently financed either by borrowings or through the revenue obtained by the sale of goods and services.	It obtains its funds from government and private shareholdings.
Ownership	These enterprises are wholly under the concerned ministry.	These enterprises are fully owned by the government.	The majority of shares i.e., at least 55 shares are owned by the government.
Accountability	These enterprises are fully accountable to the ministry.	They are accountable to the parliament.	These are accountable to the ministry.

The Changing Role of the Public Sector



Development of Infrastructure

- The various facilities like transportation, communication and fuel etc. require heavy investment. Initially, the private sector was unwilling to invest in these projects. So, it was the only government which provide huge funds for the development of infrastructure facilities.

Economies of Scale

- It is an accepted principle that if we produce on a large scale, we may get the goods at cheaper rates. This is what is known as the economy of scales.
- To achieve the benefits of the same large-scale industries requiring huge capital outlay had to be established.

Import Substitution

- In the initial, second and third five-year plan, our country aimed to be self-reliant in many spheres.
- Public sector companies like STC, BHEL, HAL etc. had a strong base for providing import substitution and they also helped in expanding exports of the country.

Regional Balance

- During the pre-independence period, industrial progress was limited to only too few areas.
- Thus, to ensure regional balance, many public sector enterprises were established in backward areas to increase the rate of economic growth and employment opportunities.

Check over-concentration of Economic Power

- Concentration of economic power means accumulation of wealth into the hands of a few. This leads to economic inequalities which are determined for any society.
- The basic role of public sector enterprises was to check the concentration of economic power and monopolistic practices in the private sector.

Government Policies towards the Public Sector since 1991

- In its industrial policy resolutions, the government defines the area of activities in which the private and the public sector are allowed to work. This resolution gave more importance to the public sector.
- The major developments regarding the role given to public sector enterprises are as under :
    a) Reduction in the number of industries reserved for the public reserved.
    b) Disinvestment of shares.
    c) Policy regarding sick units to be the same as that of private sector.
    d) Memorandum of understanding.

Global Enterprises (Multinational Corporations)

- MNCs are gigantic corporations which have operations in a number of countries. They are characterized 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 organizations 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 in a number of countries.

Features of Multinational Company (MNC)

Huge Capital Resources

- These enterprises have huge financial resources and also possess the ability to raise funds from different sources.
- They can raise funds by issuing equity shares, debentures or bonds to the public or by borrowing from financial institutions, international banks etc.

Advanced Technology

- These enterprises have up-to-date advanced technology for production.
- Hence, goods and services produced by MNCs conform to international standards and quality specifications.

Foreign Collaboration

- Usually, these enterprises agree with the companies of the host country.
- The agreement may be in respect of the sale of technology, production of goods, resources, use of brand name etc.

Marketing Strategies

- The marketing strategies of global companies are far more effective than other companies.
- They use aggressive marketing strategies like advertising and sales promotion techniques to increase their sales in a short period.

Product Innovation

- These enterprises have efficient teams doing research and development in their R&D departments.
- The main task is to develop new products and design existing products into new shapes in such a manner as makes them look attractive and also creates demand for the consumers.

Centralized Control

- The branches of MNCs are spread all over the world but all the branches are managed and controlled by their head office in their home country.
- All these branches have to work as per the policies of the parent country. A common system for working is evolved but the day-to-day workers are not disturbed by the head office.

Joint Venture

- When two or more organizations may be private, government-owned or a foreign company agree to join together for a common purpose and mutual benefit, it gives rise to a joint venture.
- A joint venture is the pooling of resources and expertise by two or more businesses, to achieve a particular goal. The aim may be of starting a new business or expansion of existing business.
- Joint ventures are formed either for long-term or short-term projects. The basic purpose of the joint venture is to attain the top position for both enterprises.

Two Types of Joint Ventures

Contractual Joint Venture (CJV) :

- In a contractual joint venture, a new jointly-owned entity is not created. There is only an agreement to work together.
- The parties do not share ownership of the business but exercise some element of control in the joint venture. A typical example of a contractual joint venture is a franchisee relationship.

Equity-based Joint Venture (EJV) :

- An equity joint venture agreement is one in which a separate business entity, jointly owned by two or more parties, is formed by the agreement of the parties.
- The key operative factor in such a case is joint ownership by two or more parties. The form of business entity may vary- company, partnership firm, trust, limited liability partnership firm etc.

Benefits of Joint Ventures

1) **Increased Resources and Capacity :**
   - A joint venture involves the pooling of human and financial resources.
   - Thus, a joint venture enterprise can easily face market challenges and take the advantage of new growth opportunities.

2) **Access to Technology :**
   - Joint venture helps to use the latest and advanced technology of the world.
   - Advanced technology helps in improving the quality of the products, saving the time, cost, energy and money to be spent in developing own technologies.

3) **Low cost of Production :**
   - Joint venture helps in reducing the cost.
   - Joining hands with others, especially with foreign companies helps in reducing the cost of production because of their good system, knowing how qualified workforce and management professionals etc.

4) **Established Brand Name :**
   - Joint ventures may prove very beneficial in developing and branding the name of the enterprises.
   - This is possible when two enterprises either into a joint venture both are benefited from each other's name, fame, reputation and goodwill etc. already established in the market.

5) **Innovation :**
   - Joint ventures enable business enterprises to come up with new ideas for products and services that help them to meet the market demand. The joint venture also helps to create and tap demand for their new products.

Public Private Partnership (PPP)

- PPP is defined as a relationship between public and private entities in the context of infrastructure and other services.
- The cooperative venture between the public and private sectors built on the expertise of each, through the allocation of resources, risks and returns jointly.

Features of Public-Private Partnership

Allocation of Risk

- Under public-private partnership projects are built through the joint distribution of resources hence the risk and returns are jointly shared by both.

Ensures Economy, Effectiveness & Efficiency

- Under this model rewards and investments both are shared by the public and private sectors.
- Hence, the projects ensure that our resources are used most economically.

Faster Implementation

- Under the public-private partnership, private sectors join hands with expertise and funds.
- So, they are always interested to recover the benefits.