BUSINESS STUDIES

Chapter 3: PRIVATE AND PUBLIC SECTOR ENTERPRISES

PRIVATE AND PUBLIC SECTOR ENTERPRISES

❖ Private Sector Enterprises:

It implies all those enterprises which are owned and managed by individuals or group of individuals. e.g., Reliance Industries Ltd, Wipro Ltd, etc. The various types of organisations in private sector are — Sole proprietorship, partnership, Joint Hindu Family business, Company, Cooperative societies and Multinational Corporation.

❖ Public Sector Enterprises:

It implies all those enterprises which are managed/owned partly or wholly by Central or State Government or by both. They supply goods and services at reasonable price and are operated on more or less self-supporting basis. Public enterprises are formed by the government to take decisions and to participate in economic activities on behalf of it.

They contribute towards the economic development in the competitive and liberalised world. They are accountable to public through Parliament, and public funds are used by them for their activities. e.g., Air India, Indian Railways, etc.

❖ Forms Of Organising Public Sector Enterprises:

Departmental Undertaking: It is the oldest and most traditional form of organising public sector enterprises. It may be run either by the Central Government or by State Government. It is managed by the government officials, and rules of Central/State Governments are applicable. It has no separate legal existence. It functions under the overall control of one ministry or department of government, and is managed by the concerned minister. e.g., railways, post and telegraph department, defense, telephone services, etc.

❖ Features:

- They are financed from the Government Treasury and an annual appropriation for them is made in the budgets of the government.
- They are subject to accounting and audit controls applicable to other government activities.
- The staff of departmental undertakings are government servants and they are headed by civil servants and Indian Administrative Service (IAS) officers. They are recruited and compensated as per the rules of civil services and are transferable from one ministry to another.
- They are major sub-divisions of government departments. They are not a separate entity. Thus, they are subject to direct control of the ministry.
- Their management is directly under the concerned ministry. Thus, they are accountable to it.

❖ Merits:

- The control on departmental undertaking is very effective, as it is subject to parliamentary control.
- They are subject to accounting and audit controls. Thus, they have high degree of public accountability.
- The revenue of departmental undertaking is deposited in the Treasury of the Government. So, these undertakings help in increasing the government revenue.
- They are most suitable for operations where national security is concerned, because of direct control of the concerned ministry.

❖ **Limitations:**

- The departmental undertaking works under strict parliamentary control. There is too much interference of ministers and top officials. This reduces the flexibility and efficiency of the undertaking.
- Heads of the departments of these enterprises do not have decision-making powers. Decisions can only be taken after approval from concerned ministry. This leads to delay in decision-making.
- Due to interference and inflexibility, the bureaucrats are conservative and cautious. Therefore, they are unable to take advantage of business opportunities.
- A number of rules and regulations and lengthy channels of operations cause delay in decision-making and consequently, urgent matters suffer. This leads to red tapism and bureaucracy.
- Constant interference from the concerned ministry and the politicians unduly affects the working of to the public enterprises.
- Such enterprises are insensitive to consumers' needs and do not provide adequate services.

Public or Statutory Corporation

It is a corporate body created by the legislature with defined powers, functions and is financially independent with a clear control over a specified area. It Si has the power of governance as well as considerable amount of operational flexibility like private enterprises. 10 e.g., Air India, State Bank of India, Life Insurance Corporation of India, etc.

❖ **Features:**

- They are formed by a Special Act of Parliament. The Act defines their powers, objects and privileges.
- They can sue and be sued, enter into contracts and purchase or sell property in their own name as it has the status of body corporate.
- They are independently financed. They are financed by borrowings from the government or from public and through revenue generated by sale of goods and

services. They can also make use of their revenues.

- They are free from government accounting and audit control because they are not financed from the central budget of the government.
- The employees of such enterprises are not government or civil servants. Their conditions, procedures, rules and regulations of work are prescribed under the provisions of the act itself.

❖ **Merits:**

- They are free from undue interference from government control. Thus, they enjoy freedom in functioning and have operational flexibility.
- As they are not financed from central budget, the government do not interfere in their financial matters.
- Due to autonomous set up, they have their own rules and regulations, policies and procedures for their independent functioning. But the Act may provide few matters and issues which require approval from particular ministry.
- With a combination of initiative of private enterprises and power of government, they prove to be of value in economic development.

❖ **Limitations:**

- Autonomy exists on papers only. In reality, all operations and actions are subject to many rules and regulations.
- Government and political interference has always been there in major decisions, especially where huge funds are involved.
- Government often appoints advisors to the Corporation Board. This affects the freedom in decision-making and leads to disagreements. This further delays the decision.
- Corruption is rampant in these corporations, as the officials may misuse their autonomy and indulge in unfair practices.

Government Company

A government company is registered and governed by the provisions of the Indian Companies Act. They are established for purely business purposes and in true spirit compete with companies in the private sector. The government exercises control over the paid up share capital of the company. e.g., Steel Authority of India.

According to Indian Companies Act, 1956, '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.

❖ **Features:**

- The government company is incorporated under the prevailing Indian Companies Act.
- The government company has a separate legal existence. Thus, it can buy and sell property and enter into contract in its own name.
- The management is according to the provisions of Indian Companies Act.
- Government companies are exempted from the accounting/ audit rules and procedures. However, an auditor is appointed by the Central Government and an annual report is to be presented in Parliament/ State Legislature.
- The government company obtains its funds from government shareholding and can also raise the funds from the capital market.
- The company can file a suit in court of law against any third party and be sued.
- The employees of a government company are appointed according to the rules and regulations as provided under the Memorandum and Articles of Association of the company.

❖ **Merits:**

- A government company can be established by fulfilling the requirements of the Indian Companies Act. No separate act in Parliament is required.
- Government company is relatively free from government and political interference. It can function freely and smoothly under the general vigilance of the government.
- Government company has a separate legal entity.
- The government company provides goods and services to consumers at a reasonable price. It helps to control market and curb unhealthy business practices.

❖ **Limitations:**

- Government is the only shareholder in some of the companies. Thus, provisions of the Companies Act do not have much relevance.
- A government company evades constitutional responsibility, as it is not answerable directly to Parliament for non-performance of duties.
- The independent character of a government company exists in paper only. Politicians, ministers and government officials interfere in its working. Executive agencies of the government can materially reduce its autonomy.

Changing Role of Public Sector

❖ **Development of Infrastructure:**

- It is a prerequisite for industrialization in any country
- Without proper transportation and communication facilities, fuel and energy, and

basic and heavy industries, the industrialisation process cannot be sustained. Only the government had the ability to collect vast sums of money, coordinate industrial building, and train technicians and workers.

- Expansion of rail, road, sea and air transport has contributed to pace of industrialisation and ensured future economic growth.

❖ **Regional Balance:**

- The government is in charge of ensuring that all regions and states develop in a balanced manner and that regional inequities are eliminated. Attention will be paid to the reasons for the delay, and public-sector industries will be purposefully established.
- Four big steel facilities were built in underdeveloped areas to help promote economic growth, generate jobs, and develop ancillary industries.

❖ **Economies of Scale:**

- Because large-scale companies demand a large capital investment, the government was forced to step in to take advantage of economies of scale.
- Electric, power, 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:**

- New private sector industrial conglomerates should be willing to engage in heavy sectors, resulting in a wealth concentration in a few hands.
- The public sector has the ability to establish massive industries that demand significant investment
- This prevents wealth and economic power from being concentrated in the private sector.

❖ **Import Substitution:**

- Importing heavy machinery, which is necessary for a robust industrial basis, was challenging.
- At the time, public-sector heavy engineering firms were founded to aid in the import substitution process.
- Several public sector enterprises, such as STC and MMTC, have also played a major role in increasing the country's exports.

Government Policy Towards Public Sector Since 1991

- In 1991, the government implemented four important reforms in the public sector as part of its new industrial policy.

- In the 1956 resolution on industrial policy, 17 industries were reserved for the public sector. Atomic energy, armaments and communication, mining, and railways were the sole industries retained for the public sector in 1991. Only three industries, atomic energy, armaments, and rail transportation, were reserved solely for the public sector in 2001.
- The sale of equity shares to the private sector and the general public is referred to as disinvestment. The goal was to collect funds and foster more public and worker participation in the ownership of these businesses.
- All public sector units were referred to the Board of Industrial and Financial Reconstruction, which determined whether a sick unit should be rebuilt or closed down. In a few cases the board has reassessed revival and rehabilitation plans, as well as winding up for a number of units.
- Improvement of performance using a Memorandum of Understanding (MOU) system in which managements are given more authority but are held accountable for specific outcomes. Public sector units were given explicit targets and operational autonomy to meet those targets under this approach

Global Enterprises Or Multinational Corporations (mncs):

A Multinational Corporation is one which operates in two or more than two countries. Such companies have branches, factories, offices, etc in different countries. In simple words, it can be stated that a Multinational Company is a huge industrial organisation which extends its industrial and marketing operations through a network of its branches in several countries. Their branches are also called Majority Owned Foreign Affiliates (MOFA). Few examples of MNCs are Coca Cola, Hyundai, Reebok, L'oreal, Samsung, Sony, etc.

❖ **Features:**

- **Huge Capital Resources:** The assets and sales of MNCs are quite huge. They operate on large scale and have the ability to raise funds from many sources. They may issue equity shares, debentures or bonds to the public. They can also avail loans from financial institutions and international banks. Investors and banks of the host country are interested in investing in them. Thus, they enjoy credibility in capital market and are able to raise, huge capital resources.
- **Centralized Control:** An MNC operates in more than one country. It has its branches, factories and offices in several countries. It operates through network of branches and subsidiaries in host countries and controls the operations with a centralized system in home country.
- **Foreign Collaboration:** MNCs may collaborate with companies in the public and private sector. Big industrial houses wanting to diversify and expand have gained by collaborating with MNCs in terms of patents, resources, foreign exchange, etc. At the same time, these foreign collaborations have given rise to the growth of monopolies and concentration of power in few hands. In their collaboration

agreements, generally, there are restrictive clauses related to technology, pricing, dividends, payment, tight control by foreign technicians, etc.

- **Advanced Technology:** In the production methods, they possess technological superiorities. They are able to conform to international standards and quality specifications. This leads to industrial progress of the home country of such corporations. Computerization and other inventions are due to the technological advancements provided by them.
- **Expansion of Market Territory:** Their operations and activities extend beyond the physical boundaries of their own countries. Their international image expands their market territory enabling them to become international brands. Due to their giant size, they occupy a dominant position in the market.
- **Marketing Strategies:** They use aggressive marketing strategies in order to increase the sales in short period. They have effective advertising and sales promotion techniques. Because of a well-established brand, promoting sales is not difficult for them.
- **Product Innovation:** Due to a huge capital base, these enterprises are involved in qualitative research. They are able to have highly sophisticated research and development departments. They are continuously engaged in developing new products of better quality and superior design of existing products.

Joint Ventures

When two or more firms join together for a common purpose and mutual benefit, it is known as a joint venture. The two organisations may be private, government-owned or a foreign company. Joint ventures share technology, capital, human resources, risks, rewards, etc. In broader sense, a joint venture is the pooling of resources and expertise by two or more business, to achieve a particular goal. obey buza e.g., Maruti and Suzuki, Bharti and Airtel, etc.

Joint ventures are formed due to the following reasons,

- Business expansion
- Development of new products
- Moving into new markets in another country

❖ **Features:**

- Joint venture is a short-term partnership between two firms.
- It is a temporary business activity.
- In joint venture, profits and losses are shared in agreed proportion. If there is no agreement, profits and losses are shared equally.
- The joint venture agreement will be automatically terminated after completing the venture.
- At the end of the venture, all the assets are liquidated and liabilities are paid-off.

❖ **Merits:**

- **Increased Resources and Capacity:** Joining hands with other enterprises helps in tapping up more resources and this enhances the capacity to grow and expand.
- **Access to New Markets and Distribution Networks:** When two enterprises join their hands, they are free to enhance or expand their market. For example, Indian company and Chinese company form a joint venture. This will help Indian company to sell its products in China also and the same advantage can be derived by the Chinese company too. Establishing their own retail outlets may prove to be very expensive.
- **Access to Technology:** Companies who do not have the capacity to develop their own technology, join their hands with other companies to access their technologies. This helps in improving the quality of products, thereby saving time, energy, investment, etc.
- **Low Cost of Production:** Most of the international companies invest in India because of the presence of lower cost of production. International corporations obtain quality products for their global market at a low price because of low cost of raw materials, labour, technical workforce, management, professional and excellent manpower in the field of science, law, etc.
- **Established Brand Name:** When two business firms enter a joint venture, one of the involved parties can derive the benefits from the other's goodwill, which has been established in the market since long. Due to this fact, there is a ready market for the launch of product. Thus, a lot of investment required for marketing is saved.
- **Innovation:** Joint venture allows business to come naman up with new and creative products. This helps in S raising the sale of innovative products in the market. Specially foreign partners who have new ideas and technology come up with innovative products.

PUBLIC-PRIVATE PARTNERSHIP (PPP, P3 OR P3):

Infrastructure development has been a key responsibility of the government. Due to the shortage of funds, government alone would not be able to fulfil this demand. To overcome this issue, Public-Private Partnership (PPP) came into the picture.

Public-Private Partnership means partnership between public sector and private sector in financing, designing and developing infrastructural facilities. It refers to the participation of private sector in government projects. In such projects, the private sector contributes money, technical know how and managerial expertise. It is basically a joint venture between public sector and private sector.

PPP is formed for the following projects

- Power
- Transport

- Water
- Healthcare Sort
- Education
- Telecommunications etc.

❖ **Features:**

- **Facilitate Partnership between Public Sector:** and Private Sector PPP is an arrangement between public sector and a private party, in which private sector provides service and/or asset to the public at large.
    - **a) Public Service:** It is service that government is obligated to provide to its citizens. e.g., provision of electricity, water, etc.
    - **b) Public Asset:** It is an asset which is linked to the delivery of public service. e.g., public road, bridges, flyovers, etc.
- **Operations or Management for a Specified Time Period:** PPP arrangement is for a specific period and at the expiry of such period, such partnership comes to an end.
- **Suitable for Big and High Priority Projects:** PPP is suitable for big projects where gestation period is long and also for high priority projects aimed at creating public goods, like in infrastructure sector.is DEDE The government may provide subsidy, support a project by providing tax breaks, and guarantee annual revenues for a fixed period to the private parties.
- **Sharing of Revenues:** Revenue is shared between the government and private enterprise in an agreed ratio.
- **Risk Sharing:** Risk of the project is also shared between the government and the private party.

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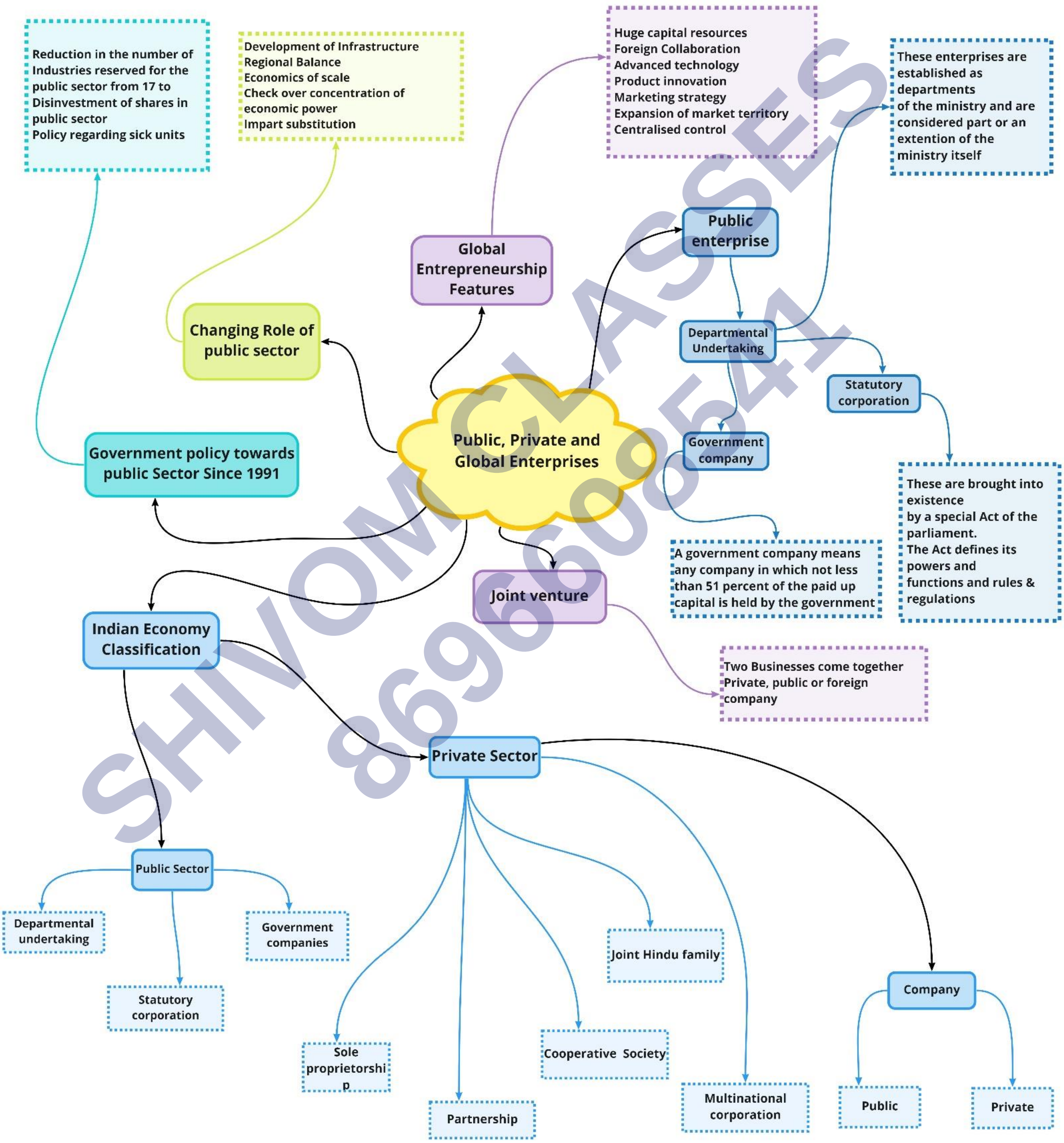
Chapter- 3 : Public, Private and Global Enterprises



Important Questions

Multiple Choice Questions-

Question 1. The minimum number of members to form a public company is.

(a) 5

(b) 21

(c) 12

(d) 7

Question 2. __________ consists of business owned by individuals or a group of individuals

(a) Public Sector

(b) Private Sector

(c) Service Sector

(d) None of the above

Question 3. Reconstruction of sick public sector units is taken by

(a) BIFR (Board of Industrial and Financial reconstruction

(b) MOU (Memorandum of Understanding)

(c) FERA (Foreign Exchange Regulation Act)

(d) IDBI (Industrial Development Bank of India

Question 4. Stages in the formation of a public company are in the following order

(a) Promotion, Incorporation, capital subscription, the commencement of business

(b) Incorporation, Capital of Business, Capital Subscription Commencement of Business, Promotion

(c) Capital Subscription, Promotion, Incorporation, Commencement of Business

(d) Promotion, the commencement of business

Question 5. Departmental Undertakings are suitable in case of

(a) National security

(b) Commercial undertakings

(c) Industrial undertakings

(d) Infrastructural Facilities

Question 6. Which one of the following is NOT a public sector undertaking?

(a) Partnership

(b) Departmental undertaking

(c) Government companies

(d) Statutory corporation

Question 7. In the industrial policy resolution ______, the Government of India has specified the approach towards the development of the industrial sector.

(a) 1956

(b) 1948

(c) 1932

(d) 2009

Question 8. Indian economy is __________

(a) Closed Economy

(b) Private Economy

(c) Mixed Economy

(d) Fully Developed Economy

Question 9. Preliminary Contracts are signed

(a) After commencement of business business

(b) After incorporation but before the capital subscription

(c) Before the incorporation

(d) After incorporation but before

Question 10. Statutory corporations are _____________

(a) Private enterprises

(b) Sole Proprietorship

(c) Public enterprises

(d) None of the above

Question 11. Which of the following comes under the private sector?

(a) Joint Hindu Family

(b) Partnership

(c) Sole Proprietorship

(d) All of the above

Question 12. Application for approval of name of a company is to be made to

(a) Government of the State in which Company is to be registered

(b) Registrar of Companies

(c) SEBI

(d) Government of India

Question 13. Which one of the following is the disadvantage of MNCs?

(a) Disregard national Priorities

(b) Bringing foreign exchange

(c) Improved standard of living

(d) Bringing Advanced Technology

Question 14. Steel Authority Of India Limited is a public enterprise. Identify this form of public enterprises

(a) Government Company

(b) Statutory Corporation

(c) Departmental Undertaking

(d) Multinational Company

Question 15. _________ not been constituted as autonomous or independent institutions and as much are not independent legal entities.

(a) MHRD

(b) Departmental undertakings

(c) Indian Institute of foreign trade

(d) All India Ratio

Very Short :

Question 1 What are the different types of PSEs?

Question 2 Mention the types of business enterprise which operates in more than one nation.

Question 3 What are the objectives of a public sector enterprise?

Question 4 Provide 2 features of a public-private partnership.

Question 5 What are the features of an MNC?

Question 6 What is a Joint venture?

Question 7 What is a departmental undertaking?

Short Questions:

Question 1. What are the major objectives of public enterprises?

Question 2. Differentiate between Private and Public Sector Enterprises.

Question 3. Mention, in brief, the significant features/characteristics of Global Corporations.

Question 4. Explain the term Foreign Collaboration in brief.

Question 5. What do you mean by the term “Disinvestment of Shares”?

Question 6. What is Departmental Undertaking? Mention its advantages and disadvantages.

Question 7. What are statutory/public corporations? Present their advantages and disadvantages.

Question 8. What is a Government Company? Define its merits and demerits.

Question 9. Present a comparative view of different forms of public enterprises.

Question 10. What are the objectives of privatizing public sector enterprises?

Long Questions:

Question 1. The role of the public sector is not satisfactory. What are the suggestions for improvement in public sector operations?

Question 2. Define Multinational Corporations and their role in the economic development of a nation.

Question 3. Write down the full form of the following: BIFR, MOU, MNC, MOFA, VRS, NRF, PSES, IMF, IBRD.

Question 4. State some danger of MNC towards the domestic economy?

Case Study Questions:

1. Mr. Gajendra is a businessman dealing in the sale of electronic items. His daughter Gauri is working in Kotak Mahindra Bank and his son, Sarvesh is working in State Electricity Board. Mr. Gajendra applied for a home loan with Kotak Mahindra. He was impressed with the efficient work culture of the bank as he got the loan in a short period of time, much before his expectations. He also applied for electricity connection in State Electricity Board. Even after six months, he could not get any satisfactory response for the delay in getting his connection from concerned authorities. Gauri told her father that public sector and its work culture is different from that of private sector. It could not compete with private sector in terms of efficiency and in terms of profits as well.

(i) His daughter Gauri is working in Kotak Mahindra Bank. Identify the sector, in which Gauri is working

a) Public sector

b) Private sector

c) Both (a) and (b)

d) Neither (a) nor (b)

(ii) 'It could not compete with private sector in terms of efficiency and in terms of profits as well.' The reason for this is their ------

a) Motive

b) Autonomy

c) Management

d) All of these

(iii) .... his son, Sarvesh is working in State Electricity Board' Identify the form of business organisation state Electricity Board is related to ?

a) Departmental Undertaking

b) Statutory Corporation

c) Government Company

d) Private Sector Company

(iv) What is the reason behind delay in decision making in the form of business employing Sarvesh?

a) Red-tapism

b) Employee absenteeism

c) Mismanagement

d) Conflict of interest

2. Direction: Read the following text and answer the questions that follow:

To pool resources and expertise of Tech Top Computer Ltd. India, Shizuka Computers Ltd. of Japan has signed an agreement with Tech Top Computers Ltd. to form a new business entity Techzuka Computer Ltd. in India. Both the business parties have subscribed the shares of new company in agreed ratio. The new venture has proved to be in interest of both the companies. Such an alliance has enabled both the companies to take advantage of new opportunities by pooling their resources. Tech Top Computers Ltd. is benefitted by cheap and abundant raw material of India, learning professional management practices, and technically qualified workforce of Shizuka Computers Ltd. Tech Top Computers Ltd. is able to find markets both in India as well as Japan because their products are innovative, and available at competitive rates.

'Both the business parties have subscribed the Shares of the new company in agreed ratio'

.... benefitted by learning professional management practices and technically qualified workforce of Shizuka Computers Ltd.'.

(i) Identify the kind of business enterprise formed by Shizuka Computers Ltd. and Tech Top Computers Ltd.

a) Cooperative Society

b) Partnership

c) Joint Venture

d) MNC

(ii) The type of business venture formed is _________ venture.

a) Equity-based

b) Contractual

c) Human-resource-based

d) Technology-based

(iii) Which of the following benefits of such type of partnership is not mentioned in above passage

a) Increased resources

b) Access to new markets

c) Established brand name

d) Innovation

(iv) This has resulted in which of the following:

a) Access to new market

b) Established brand name

c) Low cost of production

d) Both (b) and (c)

MCQ Answer-

1. Answer: (d) 7
2. Answer: (b) Private Sector
3. Answer: (a) BIFR (Board of Industrial and Financial reconstruction)
4. Answer: (a) Promotion, Incorporation, capital subscription, the commencement of business
5. Answer: (a) National security
6. Answer: (a) Partnership
7. Answer: (a) 1956
8. Answer: (c) Mixed Economy
9. Answer: (c) Before the incorporation
10. Answer: (c) Public enterprises
11. Answer: (d) All of the above
12. Answer: (b) Registrar of Companies
13. Answer: (a) Disregard national Priorities
14. Answer: (a) Government Company
15. Answer: (b) Departmental undertaking

Very Short Answer :

1. Answer: The different types of Public Sector Enterprises or PSEs are:

- Statutory Corporation

- Departmental Undertaking
- Statutory Corporation

2. Answer: Companies that operate a business in more than one nation are called Multinational Companies (MNCs). However, such companies have their headquarters in one country where all the primary business activities take place. For instance, Capgemini, Amazon, etc.,

3. Answer: To accomplish rapid economic enhancement through industrial growth

To prevent the development of monopoly and concentration of the economic power in the private hands

4. Answer: The private sector's role in the partnership is to make maximum use of its skills in managing tasks, innovation and operations to run the business effectively.

The public partners in a public-private partnership (PPP) are the government organisations, i.e., municipalities, government departments, ministries or state-owned enterprises. The private partners can be either local or international and include businesses or investors with financial or technical skills that are relevant to the project.

5. Answer:

- Product innovation
- Foreign collaboration
- Advanced technology
- Huge capital resources

6. Answer: A joint venture is a business arrangement in which two or more persons give their consent to pooling their resources for the purpose of completing a particular task. This task can either be a new project or any other business pursuit. In a joint venture (JV), each of the participants is accountable for profits, losses and costs related to it.

7. Answer: Departmental undertaking is a form of organisation in the public sector where a public enterprise is allowed to function as a full-fledged division. It is maintained, organised and financed by the government. For e.g. India Posts functions as a department within the Ministry of Communication.

Short Answers:

1. Answer: Public enterprises are guided by several socio-economic and political objectives.

Importance/Need/Objectives of Public Enterprises: Public enterprises have got the following motives:

1. Economic Motive/Objectives:

(a) Availability of essential commodities of life in sufficient quantity at cheaper rates: These industries aim at supplying essential commodities at cheaper rates to the people. Mother Daily and Delhi Milk Scheme in Delhi are its examples. Water, electricity, and gas supply are also in this category.

(b) Establishment of basic industries: In order to accelerate the pace of economic growth, basic industries are a must. These industries require heavy expenditure and Carry a lot of risks. This is why private entrepreneurs hesitate in establishing basic industries. These industries are iron and steel, locomotives, aircraft, and ship-building, etc.

(c) Balanced regional development: Private industries are not keen to set up industries in remote and backward regions due to a lack of facilities and infrastructure. It leads to the haphazard and unbalanced development of the country. Public enterprises aim at balanced regional development of the country in addition to their economic motive.

2. Social Motive: Involvement of the government in these enterprises is because of the social welfare of the people. Satisfying the basic needs of the people at cheaper rates shows the social motive of these enterprises. They help to check malpractices on the part of private entrepreneurs.

3. Political Motive: Ministers, Members of Parliament and Legislative Assemblies try to establish a public enterprise in their constituencies for political gain This results in the growth of the area, and the states of the politician, and thus political motive is achieved and regional imbalance takes place.

4. Reduced wasteful expenditures: Wasteful expenditures can be reduced with the nationalization of industries, because under private ownership company may not be managed efficiently, so expenditures of 11 that company may be excessive. Therefore, there is a need b nationalization.

5. Self-Reliance: These enterprises save valuable foreign exchange through import substitution In addition, public sector enterprises export goods on a large scale to attain the goal of economic self-reliance.

6. Infrastructure: Transport, communication, irrigation, power, etc. can be developed only on large scale, with huge resources but a private owner cannot have huge resources. So there should be a nationalization of infrastructure.

2. Answer: Difference between Private and Public Sector Enterprises:

Basis of Comparison	**Private Sector Enterprise**	**Public Sector Enterprise**
1. Ownership	It is owned and controlled by private individuals.	It is owned and controlled by the Central or State Govt

2. Profit motive	The profit motive is very important and essential for its survival.	The profit motive is not the main guiding factor. It serves social objectives as well.
3. Purpose	The motivating factor is to earn profits.	Its main objective is to promote public welfare.
4. Social Objectives	Social objectives are not seriously undertaken.	It is guided by social objectives like the development of backward regions, the creation of employment, and the equitable distribution of wealth.
5. Efficiency	Quick decision-making promotes efficiency.	Decision-making is not fast. There is red-tapism. bureaucratic control has reduced its efficiency.
6, Government Control	It is not subject to strict financial control by the Government	It is subject to strict financial control by the Government.
7, Management	It is managed by professional managers.	It is managed mostly by Government officials.
8. Public Accountability	It is accountable to the owners.	It is accountable to the public through Parliament.

3. Answer: Features of Global Corporation: The important features of most multinational corporations are as under:

1. Giant-Size: The assets and sales of MNCs run into billions of dollars and they make huge profits through their operations. For example, the physical assets of IBM are worth around 8 billion dollars. The sales turnover of some global corporations exceeds the gross national product of several developing countries.

2. International Operations: An MNC operates in many countries through a parent corporation in the home country. It runs its operations through a network of branches, subsidiaries, and affiliates in host countries. Production, marketing, and other operations are scattered in different countries to get the economies of local operations.

3. Centralized Control: An MNC has its headquarters in the home country in order to control the branches and subsidiaries. The local management of branches and subsidiaries operate within the policy framework of the parent corporation. This is possible due to the fact the parent-company holds40% to 100% of the equity of the subsidiary company.

4. Oligopolistic Power: Many multinational corporations enjoy oligopolistic power. They occupy a dominant position in the market. Through the process of merger and takeover of other firms, an MNC may acquire a huge economic power. This makes it oligopolistic in character because of which it has a dominant position in the market. For example, Hindustan Lever Limited acquired Tata Oil Mills to improve its market shares.

5. Collective Transfer of Resources: A multinational corporation facilitates a multilateral transfer of resources. Such transfer takes place in the form of a" package" which includes technical know-how, machinery, and equipment, raw materials, management expertise, etc.

6. Professional Management: These corporations employ professional skills, specialized knowledge, and training. These managers have specialized training and skills in different functional areas like finance, marketing, and human resources.

7. International Market: MNCs have access to international markets as a result of vast resources and superior marketing skills. Because of this, MNCs are in a position to sell whatever products they manufacture in different countries throughout the world.

4. Answer: Foreign Collaboration: Enterprises having equity participation V of foreign units is known as foreign collaboration. It is an enterprise jointly owned, managed, and controlled by Indians and foreigners. These enterprises are enjoying the vast resources of the country and abroad. It combines the financial resources and managerial and technological expertise of two or more countries.

The amount of profit is shared (between the Indian owner and the foreign partner. The government these days has liberalized its policies regarding foreign participation in Indian i: enterprises. According to New Industrial Policy, 1999 approval will be given for direct foreign investment up to 51% equity in high priority industries and automatic permission will be given to foreign technology agreements in identified high priority industries.

5. Answer: Disinvestment of Shares-The major plank of the privatization program in India has been the disinvestment of government shareholdings in a select number of public enterprises. The rationale behind this program is to raise a non-inflationary form of finance for the budget.

The program commenced in 1991-92 and till 1995-96 the „ government had disinvested a part of its equity in 40 public sector enterprises and had raised an amount of Rs. 10,915 crore through the various rounds of disinvestment undertaken between this period. The shares were offered to financial institutions, mutual funds, private sector enterprises, and the general public as well.

The Union Government constituted Disinvestment Commission in August 1996 to advise it on the disinvestment program of public sector enterprises. The government referred 40 public sector undertakings to the Commission for advice about disinvestment. The government has now been taking steps to implement the report of the Disinvestment Commission.

To ensure transparency in the Disinvestment program, bids are invited for the sale of shares of selected public enterprises and the shares are sold to the highest bidder. During 2000-01, the Government raised Rs. 1,869 crores through disinvestment in public undertakings as compared to Rs. 1,829 crores during 1999-2000 and Rs. 5,371 crores during 1998-99. The target of disinvestment for the year 2002-03 was Rs. 0 crores.

6. Answer:Departmental Undertaking – It works as the ministry or a department of the government. The budget of these departmental organizations is presented to the parliament just like other ministries. Indian Railways and Post and Telegraph departments are its examples.

Departmental organizations are entirely owned and controlled by either the Central Government or by a State Government.

Advantages of Departmental Undertaking: Departmental organization enjoy the following merits:

1. Service Motive: These enterprises are formed with a service motive. Public interest and social welfare hold priority for them. These undertakings also help to reduce the burden of tax on the public.

2. National Importance: Activities that have got national importance are performed by these departmental organizations. The risk of misuse of public money minimized due to strict budget, accounting, and audit.

3. Secrecy: These organizations are capable of maintaining secrecy. because these are under the control of the government. The government can avoid disclosure of facts on the plea of public interest.

4. Proper Management: These enterprises are managed by qualified government staff. Their work is systematic. They are properly v managed and supervised. Such control and management keep the government official alert.

Disadvantages of Departmental Undertaking – Departmental organization suffer from the following disadvantages:

1. Least profit earning venture: Departmental organization is owned and controlled by the government. It is formed with a service motive, so it does not remain an excellent profit

earning venture.

2. Red tape: Employees follow the beaten track. They do not take much interest in the work. They are careless and bother much for their salaries. Officers worry much for their status and respect. Decisions are generally delayed due to bureaucratic procedures and political considerations.

3. Lack of competent workers: Government employees are not much efficient in business affairs. They have sufficient administrative experience but not experienced enough to manage the activities of, the enterprise. Promotion to the higher rank is based upon seniority, so competent employees are not recruited.

4. Political evils: Every important decision in the departmental organization has a political motive. It is managed and controlled by the minister, who is the representative of a political party. The minister has to look after the interest of his party.

5. Lack of competition: Generally departmental organizations have the status of monopoly. Lack of competition makes them incompetent. In the absence of competition and profit motive, there is little incentive for hard work and efficiency. There is hardly any link between reward and performance.,

7. Answer: Statutory/Public Corporations: Public corporations are; formed by the special act of Parliament or Legislative Assemblies. Their existence is separate from the government. This is why these corporations are called autonomous bodies. Though these corporations are independent in financial matters, even then they remain under the control of the government. It is an autonomous body fully financed by the government.

According to Morrison, "Public corporation is a combination of public ownership, public accountability, and business management for the public end." Examples of such corporations are Air India, Life Insurance Corporation of India, etc.

Merits/Advantages of Statutory Corporations – Public corporations enjoy the following merits:

1. Free from government control: These are autonomous bodies, which are not under the direct control of the government.

2. Service motive: These corporations are also formed in the public interest for social welfare like other public enterprises. Service motive dominates their activities.

3. Independent decision: Public corporations are independent in making their own decisions, policies, and plans.

4. Efficient management: These corporations are benefited from efficient management because they are managed by a competent board of directors, who are professional in their attitude and work. As changes in government do not affect its stability, it can take long term policy decisions.

5. Economic self-independence: Public corporations are financially independent. They have to arrange their own finances. It is free from political interference by ministers and bureaucrats.

Demerits/Disadvantages of Statutory Corporations – Public corporations have got the following disadvantages:

Red Tape: Like other public enterprises and government departments public corporations are also victims of red-tapism.

Rigid structure: The constitution of such a corporation is rigid. The objects and powers of such corporations cannot be changed without amending the statute, which is a time-consuming and cumbersome process.

Theoretical autonomy: The autonomy of these corporations exist only on paper. In actual practice, interference by political bosses and ministers gives the wrong signal to their autonomy. Red-tapism and bureaucratic control reduce the flexibility of operations.

8. Answer: Government Company – A Government company is a company in Which not less than 51 percent of paid-up capital is held by the Central Government or State Government jointly by both Governments. It is formed and registered under the Companies Act 1956.

Merits of a Government Company: A government company enjoys the following benefits:

1. Internal autonomy: A government company is a separate entity and so can manage its affairs on its own. There is the absence of direction. parliamentary and ministerial control. Thus, it is an autonomous body. It can be operated on commercial principles. It can manage its affairs independently.

2. Flexibility in operations: It can be operated on commercial principles because of independence in respect of internal management, finance, and appointment of person.

3. Collaboration: It is the only form of organization by which the Government can make use of managerial skill, technical know-how, and expertise of the private sector.

4. Easy formation: It is relatively easy to form a government company as no statute is required to be enacted. It can be created by the executive decision of the Government.

5. Expert management: Since the annual report on the working of the enterprise is placed before the Parliament or the State Legislature, the management of a government company tends to be cautious, and efficient to avoid its criticism.

6. Sound management policies: It cannot afford to follow unsound policies because its working can be compared with similar companies in the private sector.

Demerits of a Government Company-The government companies usually suffer from the following weaknesses:

1. Board composed with yes men: The Board of Directors of a government company usually consists of politicians and civil servants which may not be able to follow sound business principles.

2. Theoretical autonomy: The independent character of a government company exists in paper only. Government officials, ministers, and politicians often interfere with its work.

3. Lacking responsibilities: A government company evades the constitutional responsibilities which other state enterprises owe to the Parliament. The Parliament is not, taken into confidence for its creation as government decision is sufficient in this regard. The accounts of a government company need not be audited by the Comptroller and

Auditor General of India. Thus, it concentrates more power in the hands of the Government than a statutory corporation.

4. The practice of forming government companies has been regarded as a fraud on the Companies Act because the Government is empowered to specify the provisions of the Company Act to be followed or applied and modifications if any.

9. Answer: A comparative view of different forms of Public Enterprises:

Basis of comparison	Departmental Organisation	Statutory Corporation	Government Company
1. Formation	It is formed by a Ministry Concerned.	Formed by Special Act of Parliament or State Legislature	It is established Under the Companies Act by a Ministry with or without private sector participation.
2. Ownership	The departmental organization is wholly under Government Department.	It is wholly owned by the Government Central or State.	At least 51 percent of paid-up share capital owned by the Government.
3. Legal Status	No separate entity is distinct from the Government Department.	It enjoys a separate legal entity.	Separate legal entity as per Companies Act 1956.

4. Control /Management	Control vested with Government officials from the Ministry concerned.	Control is exercised by the Nominated Board of Directors.	Board of Directors as required under Companies Act 1956.
5. Staffing System	Staff mainly consists of Civil Servants- Govt. Service	It is managed by professionals under a contract of service (not Govt. Service)	Managed by professionals under a contract of service (not Govt. Service)
6. Financing	Budgetary allocation, can't borrow from the general public.	Separate arrangements can borrow also.	Separate arrangements can borrow also.
7. Autonomy	It enjoys no autonomy. Sufficient autonomy.	Govt does not interfere in day-to-day affairs.	Sufficient autonomy Government does not interfere so much in operations.
8. Public Accountability (Parliamentary control)	Highest	Higher	High accountability for investors and creditors.

9. Suitability	The public utility, defense, etc.	Industrial and Commercial Undertakings,	Industrial and Commercial undertakings, providing for the participation of domestic and foreign private capital.

10. Answer: The primary objectives of privatizing public sector enterprises are following:

Releasing the large amount, to utilize on other social priority areas.

Reducing the huge amount of public debt and interest burden.

Transferring the commercial risk to the private sector.

Freeing these enterprises from government control.

Long Answers:

1. Answer: Suggestions for the improvement of Public enterprises- In order to make public sector enterprises more efficient and prone to public welfare the government set up various committees from time to time. Some important committees set up by the government are as under:

Name of Committee	Year of Inception of Committee/Commission
(1) Chagla Commission	1958
(2) Krishna Mohan Gupta Committee	1959
(3) Administrative Reforms Committee	–
(4) F. Mohammad Committee	1980
(5) Arjunsen Gupta Committee	1998

The annual evaluation is made by the Standing Conference of Public Enterprises (SCOPE) of al 1 committees made by the government. Some of the main and important suggestions offered by the various committees are as follows:

1. Labour policy: Public enterprises should design their labor policy in such a fashion that there should be a cordial relationship between the workers and the management. Actions should be initiated in such a fashion to minimize industrial disputes.

Appointments should be based not on pulls and pressures but on ability and expertise. Efficient workers must be suitably rewarded. The compensation of employees should be linked with their productivity. Workers must have a sense of belonging to their organization. There should be only one trade union in an industry whose role is to maintain industrial peace.

2. Price policy: The government has realized that the price policy of public enterprises should be based on the existing price structure because there is no clear-cut perception about the price policy of public sector enterprises. Prices of commodities must commensurate to the public. The seventh plan emphasized that public enterprises must generate at least a 10% profit margin. So, the price should be determined with a view to raising the level of profitability in the government monopolies and promote public welfare.

3. Commercial outlook: In any case; public sector enterprises must generate the surplus which may be plowed both in the form of investment for economic development. This is possible only when the cost is reduced and productivity is raised. It will benefit the consumer and the entire society. So, the public enterprises must adopt a commercial outlook by which there would Beacon-ordination between national and profitability.

4.Autonomy to public enterprises: Public sector enterprises should have complete autonomy and minimum possible government interference in operation and routine matters. Politicians should not be appointed to control public sector enterprises. However, incompetent and able politicians are available, they should better be appointed as honorary consultants. In no case, should they be directly involved in the control and management of the enterprises?

Only professionals should be appointed as managers. They have been given greater autonomy so as to make them more efficient and competitive.

5. Inspection of public enterprises: Public Sector Enterprises Bureau has been established for the annual inspection of public enterprises for preparing their annual progress reports offering guidelines to public enterprises. Public enterprises are also inspected by Public Accounts Committee and Estimates Committee. Every public enterprise should publish a comprehensive report of its functioning, so that people may come to know of their performance. The government lays down performance targets for the management of public sector enterprises.

Dr. Lanka Sundram suggested that "Parliamentary committees be appointed for inspection of public enterprises." Accepting this suggestion the government set up the Parliamentary Committee of Public Undertaking in 1963 which controls the public sector enterprises.

6. Proper auditing: According to the Administrative Reforms Committee, there should be three or four audit boards established under the direct control of the Comptroller and Auditor General so that accounts of public enterprises should be properly audited. Any lapse in this regard must be brought to the notice of the government by an independent

auditor.

7. Full utilization of productive capacity: The public sector enterprises should fully utilize their productive capacity; the Productive capacity of the existing enterprises should be raised only if at least 85% of the existing capacity is being utilized. Thus new industries and enterprises should be established only after complete utilization of the existing productive capacity.

2. Answer: Definition of Multinational Corporation (MNC): A Multinational Corporation refers to an organization that has its headquarters in one country and business operations in other countries. This means that this type of organization will have business across many countries. An MNC has its registered office in one country (called home country) and it carries its business operations in a number of foreign countries (called host countries).

A multinational corporation controls production and marketing facilities in more than one country. For instance, Coca-Cola is a company registered in the U.S.A., has production and marketing operations in many countries of the world.

Role of MNCs – Multinational companies have been playing an important role in several developing economies including India.

Multinationals can offer the following gains to the host country:

1.Investment of Foreign Capital: MNCs can help the developing economies to secure capital from the developed countries as they suffer from a shortage of capital required for rapid industrialization. They facilitate the transfer of capital from countries where it is abundant to countries where it is scarce. Thus, MNCs can help increase the investment level and thereby the pace of development of the host country. Since liberalization, India has attracted foreign investment worth several billion dollars.

2. Advanced Technology: The developing countries have old and obsolete technology. MNCs can be used as vehicles for the transfer of superior technology to developing countries. Advanced technological know-how, improved skills, and consultancy help the developing countries to improve the quality of products and reduce costs.

3. Creation of Job Opportunities: The MNCs set up facilities for the production and distribution of goods and thereby create employment opportunities it is In the host country. Multinational offer excess lent pay scales and career advancement opportunities to managers, technical and other staff.

4. Utilization of Idle Resources: The MNCs help in the utilization of idle resources of the host country and thus generate income for the country.

5. Creation of Healthy Competition-MNCs increase competition and break domestic monopolies. The inefficient firms are forced to either improve or withdraw from the market. Many Indian companies now compete with multinationals after liberalization through improved technology.

6. Professional Management: The MNCs kindle a managerial revolution in the host countries by professional management and the employment of the latest management techniques. The host countries are thus able to develop a culture of professional

management. Multinationals build up a knowledge base through management techniques like MBO and corporate planning.

7. Growth of Domestic Firms: The MNCs can help the growth of domestic firms to supply them materials, components, etc. Over the years, several ancillary units have grown to provide support to the MNCs.

8. Higher Standard of Living: Because of their superior technology, MNCs provide a large variety of quality products to the people in the host country. This helps to increase their standard of living.

9. Integration with the World Economy: The MNCs facilitate the integration of the economy of the host country with the world market. They encourage international brotherhood and cultural exchanges in the host country.

3. Answer:

BIFR	Board of Industrial and Financial Reconstructions
MOU	Memorandum of Understanding
MNC	Multi-National Corporation
MOFA	Majority Owned Foreign Affiliates
VRS	Voluntary Retirement Scheme
NRF	National Renewal Fund
PSES	Public Sector Enterprises
IMF	International Monetary Fund
IBRD	International Bank for Reconstruction and Development

4. Answer: Dangers from MNC:

1. Creation of Monopoly: MNC joins hands with big business houses and gives rise to monopoly and concentration of economic power in host countries.

2. Threat to National Sovereignty: These corporations tend to interfere in the political affairs of host nations. Some MNCs like IT1 are accused of overthrowing governments in countries such as Chile.

3. Alien Culture: MNCs tend to vitiate the cultural heritage of local people and propagate their own culture to sell their products. For example, MNCs have encouraged the consumption of synthetic food, soft drinks, etc. in India.

4. Depletion of Natural Resources: MNCs cause rapid depletion of some of the non-renewable natural resources in host countries.

Case Study Answers:

1.

(i) b) Private sector

Solution:

Gauri is working in private sector.

The private sector refers to the part of the economy that isn't controlled by the state. It includes any for-profit businesses run by individuals or companies. Businesses controlled by the government are part of the public sector, while charities or other non-profits are part of the voluntary sector.

(ii) d) All of these

Solution: The reason for this is their motive, autonomy and management.

(iii) a) Departmental Undertaking

Solution: Departmental Undertakings are the most established and traditional form of an organisation which is owned and regulated by authoritative bodies of the public sector. Such organisations and enterprises are financed and controlled, just like any other government-owned organisation in a country.

(iv) a) Red-tapism

Solution: The reason behind delay in decision making in the form of business employing Sarvesh is Red-tapism.

Red Tapism refers to excessive regulation or rigid conformity to formal rules that is considered redundant and bureaucratic and hinders action or decision-making. In other words, these are burdensome rules, providing no added value.

2.

(i) c) Joint Venture

Solution: The kind of business enterprise formed by Shizuka Computers Ltd. and Tech Top Computers Ltd. is Joint Venture.

(ii) a) Equity-based

Solution: The type of business venture formed is Equity- based venture.

An equity joint venture (EJV) is an agreement between two companies to enter into a separate business venture together. Each partner participates in gains and losses according to the percentage equity ownership they have in the joint venture.

(iii) c) Established brand name

Solution: Established brand name: To be an established brand, the brand should have also developed a place within its category. It has to be known, have some specific character traits that its customers would clearly associate with the brand. Any brand that has been around awhile runs the risk of becoming stale or lazy.

(iv) c) Low cost of production

Solution: This has resulted in Low cost of production. A low-cost producer is a company in a specific industry that can produce goods at a lower cost than other producers. That is, the producer has a higher profit margin on the sale of a product than competitors. This often leads to the producer charging lower prices for products to achieve higher sales that competitors.