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Chapter 3

Private, Public and Global Enterprises

FORMS OF ORGANISING PUBLIC SECTOR ENTERPRISES

Government's participation in business and economic sectors of the country needs some kind of organisational framework to function.

The government has a major role to play in the formation of the public sector. But the government acts through its people, its offices, employees and they take decisions on behalf of the government. For this purpose, public enterprises were formed by the government to participate in the economic activities of the country. These public enterprises are owned by the public and are accountable to the public through the Parliament.

A public enterprise may take any particular form of organisation depending upon the nature of its operations and their relationship with the government. The forms of organisation which a public enterprise may take are as follows:

(i) Departmental undertaking

(ii) Statutory corporation

(iii) Government company

1 DEPARTMENTAL UNDERTAKINGS

These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself. They act through the officers of the Government and its employees are Government employees. These undertakings may be under the central or the state government and the rules of central/state government are

applicable. Examples of these undertakings are railways and post and telegraph department.

Features

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

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

(iii) The employees of the enterprise are Government servants;

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

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

Merits

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

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

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

(iv) Where national security is concerned, this form is most suitable.

Limitations

(i) Departmental undertakings fail to provide flexibility, which is essential for the smooth operation of business;

(ii) The employees or heads of departments of such undertakings are not allowed to take independent decisions. This leads to delays, in matters where prompt decisions are required;

(iii) The bureaucrat's over-cautious and conservative approval does not allow them to take risky ventures;

(iv) There is a lot of political interference through the ministry;

(v) These organisations are usually insensitive to consumer needs and do not provide adequate services to them.

2. 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.

Features

(i) Statutory corporations are set up under an Act of Parliament and are governed by the provisions of the Act.

(ii) This type of organisation is wholly owned by the state. The government has the ultimate financial responsibility and has the power to appropriate its profits.

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

(iv) This type of enterprise obtains funds by borrowings from the government or from the public through revenues, derived from sale of goods and services;

(v) A statutory corporation is not subject to the same accounting and audit procedures applicable to government departments.

(vi) The employees of these enterprises are not government or civil servants and are not governed by government rules and regulations.

Merits

(i) They enjoy independence in their functioning and a high degree of operational flexibility.

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

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

Limitations

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

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

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

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

GOVERNMENT COMPANY

A government company is established under The Companies Act, 2013 and is registered and governed by the provisions of The Act.

According to the section 2(45) of the Companies Act 2013, 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 and includes a company which is a subsidiary of a government company.

Features

(i) It is an organisation created under the Companies Act, 2013 or any other previous Company Law.

(ii) The company can file a suit in a court of law against any third party and be sued;

(iii) The company can enter into a contract and can acquire property in its own name;

(iv) The management of the company is regulated by the provisions of the Companies Act, like any other public limited company;

(v) The employees of the company are appointed according to their own rules and regulations as contained in the Memorandum and Articles of Association of the company.

(vi) The government company obtains its funds from government shareholdings and other private shareholders. It is also permitted to raise funds from the capital market.

Merits

(i) A government company can be established by fulfilling the requirements of the Indian Companies Act.

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

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

(iv) These companies by providing goods and services at reasonable prices are able to control the market and curb unhealthy business practices.

Limitations

(i) Since the Government is the only shareholder in some of the companies, the provisions of the Companies Act does not have much relevance;

(ii) The government being the sole shareholder, the management and administration rests in the hands of the government. The main purpose of a government company, registered like other companies, is defeated.

CHANGING ROLE OF PUBLIC SECTOR

At the time of Independence, it was expected that the public sector enterprises would play an important role in achieving certain objectives of the economy either by direct participation in business or by acting as a catalyst. The public sector would build up infrastructure for other sectors of the economy and invest in key areas. The private sector was unwilling to invest in projects which required heavy investment and had long gestation periods. The government then took it upon itself to develop infrastructural facilities and provide for goods and services essential for the economy.

The Indian economy is in a stage of transition. The Five Year Plans in the initial stages of development gave lot of importance to the public sector. In the post–1990s, the new economic policies, emphasised on liberalisation, privatisation and globalisation. The role of public sector was redefined. It was not supposed to play a passive role but to actively participate and compete in the market with other private sector companies in the same industry. They were also held accountable for losses and return on investment. If a public sector was making losses continuously, it was referred to the Board for Industrial and Financial Reconstruction (BIFR) for complete overhauling or shut down. Various committees were set up to study the working of inefficient public sector units with reports on how to improve their managerial efficiency and profitability.

(i) Development of infrastructure: **The development of infrastructure is a prerequisite for industrialisation in any country. The process of industrialisation cannot be sustained without adequate transportation and communication facilities, fuel and energy, and basic and heavy industries. It was only the government which could mobilise huge capital, coordinate industrial construction and train technicians and workforce. Rail, road, sea and air transport was the responsibility of the government, and their expansion has contributed to the pace of industrialisation and ensured future economic growth.**

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

(iii) Economies of scale: Where large scale industries are required to be set up with huge capital outlay, the public sector had to step in to take advantage of economies of scale.

(iv) Check over concentration of economic power: The public sector acts as a check over the private sector. In the private sector there are very few industrial houses which would be willing to invest in heavy industries with the result that wealth gets concentrated in a few hands and monopolostic practices are encouraged. This gives rise to inequalities in income, which is detrimental to society. The public sector is able to set large industries which requires heavy investment and thus the income and benefits that accrue are shared by a large of number of employees and workers. This prevents concentration of wealth and economic power in the private sector.

(v) Import substitution: During the second and third Five Year Plan period, India was aiming to be self-reliant in many spheres. Obtaining foreign exchange was also a problem and it was difficult to import heavy machinery required for a strong industrial base. At that time, public sector companies involved in heavy engineering which would help in import substitution were established.

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

- Restructure and revive potentially viable PSUs

- Close down PSUs, which cannot be revived
- Bring down governments equity in all non-strategic PSUs to 26 per cent or lower, if necessary; and
- Fully protect the interest of workers.

(a) Reduction in the number of industries reserved for the public sector from 17 to 8 (and then to 3): In 2001, only three industries were reserved exclusively for the public sector. These are atomic energy, arms and rail transport. This meant that the private sector could enter all areas (except the three) and the public sector would have to compete with them.

(b) Disinvestment of shares of a select set of public sector enterprises: Disinvestment involves the sale of the equity shares to the private sector and the public. The objective was to raise resources and encourage wider participation of the general public and workers in the ownership of these enterprises.

(c) Policy regarding sick units to be the same as that for the private sector: All public sector units were referred to the Board of Industrial and Financial Reconstruction to decide whether a sick unit was to be restructured or closed down. The Board has reconsidered revival and rehabilitation schemes for some cases and winding up for a number of units.

(d) Memorandum of Understanding: Under this system, public sector units were given clear targets and operational autonomy for achieving those targets. The MoU was between the particular public sector unit and their administrative ministries defining their relationship and autonomy.

5. GLOBAL ENTERPRISES

Global enterprises thus are huge industrial organisations which extend their industrial and marketing operations through a network of their branches in several countries. These enterprises operate in several areas producing multiple products with their business strategy extending over a number of countries. They do not aim at maximising profits from one or two products but instead spread their branches all over.

Features

(i) Huge capital resources: **These enterprises are characterised by possessing huge financial resources and the ability to raise funds from different sources.**

(ii) Foreign collaboration: **Global enterprises usually enter into agreements with Indian companies pertaining to the sale of technology, production of goods, use of brand names for the final products, etc. These MNCs may collaborate with companies in the public and private sector.**

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

(iv) Product innovation: **These enterprises are characterised by having highly sophisticated research and development departments engaged in the task of developing new products and superior designs of existing products.**

(v) Marketing strategies: **The marketing strategies of global companies are far more effective than other companies. They use aggressive marketing strategies in order to increase their sales in a short period.**

(vi) Expansion of market territory: Their operations and activities extend beyond the physical boundaries of their own countries. They operate through a network of subsidiaries, branches and affiliates in host countries. Due to their giant size they occupy a dominant position in the market.

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

JOINT VENTURES

MEANING

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

The reasons behind the joint venture often include business expansion, development of new products or moving into new markets, particularly in another country. In this kind of a joint venture, two or more (parent) companies agree to share capital, technology, human resources, risks and rewards in the formation of a new entity, under shared control.

Joint Ventures are of two types —

Contractual joint venture

Equity-based joint venture

TYPES OF JOINT VENTURES

(i) 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 elements of control in the joint venture. A typical example of a contractual joint venture is a franchisee relationship.

(ii) 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 in accordance with the agreement of the parties. The key operative factor in such case is joint ownership by two or more parties. The form of business entity may vary — company, partnership firm, trusts, limited liability partnership firms, venture capital funds, etc.

A joint venture must be based on a memorandum of understanding signed by both the parties, highlighting the basis of a joint venture agreement. The terms should be thoroughly discussed and negotiated to avoid any legal complications at a later stage. The joint venture agreement must also state that all necessary governmental approvals and licences will be obtained within a specified period.

Benefits

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

(ii) Access to new markets and distribution networks: When a business enters into a joint venture with a partner from another country, it opens up a vast growing market.

(iii) Access to technology: Technology is a major factor for most businesses to enter into joint ventures. Advanced techniques of

production leading to superior quality products saves a lot of time, energy and investment as they do not have to develop their own technology.

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

(v) Low cost of production: **When international corporations invest in India, they benefit immensely due to the lower cost of production.**

(vi) Established brand name: **When two businesses enter into a joint venture, one of the parties benefits from the other's goodwill which has already been established in the market.**