Revision Notes

Class – 11 Business Studies

Chapter 3 - Private, Public and Global Enterprises

Public and Private Sector

- The Indian economy is made up of both privately held and government-owned businesses.
- Individuals or groups of individuals own businesses in the private sector.
- The government owns and manages a variety of organisations in the public sector. The federal or state governments may own these organisations in part or entirely. They could also be a part of the ministry or created by a Parliamentary Special Act.
- The Government of India had established the approach to economic development in the Industrial Policy Resolution of 1948.
- The Industrial Policy Resolution of 1956 also set forth some goals for the public sector to achieve in order to speed up the rate of expansion and industrialization.
- The 1991 industrial policy was diametrically opposed to all previous strategies in which the government considered disinvesting in the public sector and giving the private sector more independence.
- At the same time, companies from outside India were welcomed to invest in India.
- In the Indian economy, public sector units, private sector firms, and multinational corporations coexisted.

Indian Economy- Public and Private Sector

Public sector

1. Departmental Undertakings
2. Statutory Corporation
3. Government Companies

Private sector

1. Sole Proprietorship
2. Partnership
3. Joint Hindu Family
4. Cooperative
5. Multinational Corporations
6. Company (public ltd.), (private ltd.)

1. Departmental Undertakings

- These businesses are set up as ministry departments and are regarded as extensions or parts of the ministry.
- They operate through government personnel, and its employees are government employees.
- These endeavours may be governed by the federal or state governments, and the rules of the federal or state governments apply.
- Railways and the Post and Telegraph Department are two examples of these businesses.

Features

- These Enterprises are funded directly from the government's purse and are an annual allotment from the government's budget.

- Subject to accounting and Audit controls applicable to other government activities.
- Employees of the Enterprises are government employees, and their recruitment and working conditions are similar to those of government employees..
- It is the major subdivision of the government department and is subject to direct control of the ministry.

Merits

- Ensure that Parliament has effective control over their operations..
- High degree of public accountability.
- The revenue earned by the enterprise goes directly to the treasury.
- When it comes to national security, this is the best option because it is under the direct authority and supervision of the relevant ministry.

Limitations

- No flexibility which is essential for the smooth operation of the business.
- The employees or the head of departments of such undertakings are not allowed to take independent decisions, without the approval of the ministry concerned.
- Bureaucrats' overly cautious and conservative approval prevents them from embarking on dangerous initiatives.
- No action can be taken until the right channels of authority are followed.
- There is a lot of political involvement in the ministry.
- Consumer requirements are generally ignored by these organisations, which do not deliver acceptable services.

- A Special Act of Parliament creates statutory corporations, which are public enterprises.
- The Act establishes its powers and functions, as well as the rules and regulations that govern its personnel and its interactions with government agencies.
- They have government power as well as a significant amount of private-sector operating flexibility.

Features

- They are set up under an act of Parliament and are governed by provisions of act.
- This type of organisation is wholly owned by the state.The government has the ultimate financial responsibility and has the power to appropriate its profit.
- It is a legal entity that has the authority to sue and be sued, to enter into contracts, and to acquire property in its own name.
- It obtains fund by borrowings from the government or from the public.
- The conditions of service of the employees are governed by the provisions of act itself.

Merits

- They enjoy independence in their functioning and high degree of operational flexibility.
- The government does not interfere in their financial matters including income and receipt.
- Within the powers granted to them by the legislation, they create their own policies and procedures.
- It is a valuable instrument for economic development.

Limitations

- Every action is governed by a set of rules and regulations, hence operational flexibility isn’t much possible.
- In big choices or where large sums of money are involved, government and political intervention has always been present.
- Corruption is pervasive everywhere there is public interaction.
- Appointing Advisors to the Corporation Board limits the corporation's ability to enter into contracts and make other decisions.

3. Government Company

- A government company, according to section 2(45) of the Companies Act 2013, is one in which the central government, or any state government, or partly by the central government and partly by one or more state governments, holds at least 51 percent of the paid up capital, and includes a subsidiary of a government company.
- Certain restrictions apply to the appointment and retirement of directors and other senior management professionals.
- The company's shares are purchased in the name of India's President.
- Government corporations are referred to as such, since the government is the majority stakeholder and has authority over the administration of these businesses.

Features

- It is a company formed under the Companies Act of 2013 or any preceding company legislation.
- Any third person can sue the firm in a court of law, and the company can be sued.

- A corporation can engage into a contract and purchase real estate in its own name.
- The management of the company is regulated by provisions of companies
- The firm's management is governed by the requirements of the Companies Act, much like any other public limited company.
- Employees are hired in accordance with the company's own rules and regulations, which are outlined in the company's memorandum and articles of organisation.
- These businesses are exempt from accounting and auditing norms and regulations. The central government appoints an auditor.
- The money for the government corporation comes from government shareholdings and other private stockholders.

Merits

- The Indian Companies Act specifies the prerequisites for forming a government business.
- Apart from the government, it has its own legal entity.
- It has complete autonomy over all management choices and takes measures based on sound business judgement.
- Companies can control the market and discourage unhealthy business practises by supplying goods and services at appropriate pricing.
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Limitations

- Because the government is the sole stakeholder in some of the enterprises, the Companies Act's restrictions are largely irrelevant.
- It avoids the constitutional duty that a government-funded enterprise should have.

- The government is in charge of management and administration. The main purpose of the government company, registered like other companies, is defeated.

Changing Role of Public Sector

1. 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.

2. 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.

3. 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.

4. **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.

5. **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.

6. **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

- Global enterprises are large industrial conglomerates that expand their manufacturing and marketing operations across multiple nations through a network of subsidiaries.
- Majority Owned Foreign Affiliates is another name for their branches (MOFA).
- They don't try to make the most money from just one or two things; instead, they spread their branches far and wide.
- Because of their capital resources, cutting-edge technology, and goodwill, they are in a position to exert significant power over the global economy.

Features:

1. **Huge capital resources:**

- They possess huge financial resources and the ability to raise funds from different sources.
- They can get money from a variety of places.
- They may sell stock, debentures, or bonds to the general public.

- They can also borrow money from banks and financial institutions around the world.
- They enjoy credibility in the capital market.

2. Foreign collaboration:

- They enter into agreements with Indian companies for the selling of technology, the manufacture of items, and the usage of brand names for finished products, among other things.
- They may work with both governmental and private sector businesses.
- In most agreements, there are numerous restrictive terms relating to technology transfer and priceline. dividend payments, foreign technicians' tight oversight, and so on.
- Collaborations with other countries have resulted in the creation of monopolies and the concentration of power in a few hands.

3. Advanced technology:

- These businesses have technological advantages in their manufacturing processes.
- They are capable of adhering to worldwide quality norms and specifications.
- As a result, the country in which such firms operate advances industrially since they are able to maximise the use of local resources and raw materials.

4. Product innovation:

- These businesses are distinguished by highly advanced research and development divisions tasked with inventing new goods and improving the designs of existing ones.
- Qualitative research necessitates a significant financial investment that only multinational corporations can make.

5. **Marketing strategies:**

- They employ aggressive marketing methods to boost sales in a short amount of time.
- They have a more trustworthy and up-to-date market data system.
- They've already carved out a niche in the worldwide market, and their brands are well-known, so selling their products isn't an issue.

6. **Expansion of market territory:**

- Their operations and activities are not limited to the borders of their respective countries.
- Their international image improves, and their market territory grows, allowing them to establish themselves as global brands.
- They operate in host nations through a network of subsidiaries, branches, and affiliates. They have a monopoly on the market due to their enormous size.

7. **Centralised control:**

- Their headquarters are in their home nation, and they have complete control over all of their branches and subsidiaries.
- This control is confined to the parent company's broad policy framework.
- There is no disruption to daily operations.

Joint Ventures

- A joint venture is formed when two businesses agree to work together for a common goal and mutual gain.
- The joint venture agreement must also stipulate that all required government permissions and licences will be secured within a certain time frame.

- A joint venture agreement must be founded on a memorandum of understanding signed by both parties that outlines the terms of the arrangement.
- The business's risks and gains are also shared.The reasons behind the joint venture often include business expansion, development of new products ar moving into new markets, particularly in another country
- Examples of Joint Ventures are AVI Of India Pvt. Ltd Green Gas Ltd etc.

Joint venture-Types

A. Equity-Based

- Company
- Limited liability partnership
- partnership

B. Contractual

- Cooperation Agreement/Strategic Alliances

A. Equity-Based joint Venture

- An equity joint venture agreement is one in which two or more parties agree to construct a distinct company entity that is jointly owned by the parties.
- The Forms of business entities may vary.

B. Contractual joint Venture

- There is simply a commitment to collaborate.

- Although the parties do not share ownership of the company, they do have some control over it.

Benefits:

- By joining forces, the joint venture firm can increase its resources and capabilities, allowing it to grow and expand more swiftly and efficiently.
- When a company forms a joint venture with a partner from another country, it gains access to a large and rapidly expanding market.
- They have Access to advanced technology.Advanced manufacturing procedures that result in higher-quality products save time, energy, and money because they do not have to build their own technology.
- Joint ventures allow business to come up with something new and creative for the same market.Because of new ideas and technology, especially international partners can come up with creative items.
- International firms invest in India, where they profit greatly from cheaper production costs. They are able to obtain high-quality products to meet their global needs.
- One party gains from the goodwill of the other, which has already been created in the marketplace.

Public Private Partriershíp

- A public-private partnership (PPP) is described as a collaboration between public and private entities in the context of infrastructure and other services.

Features:

- Government entities, i.e, government departments, municipalities, ministries, and state owned enterprises are the public partners in PPP. Private partners might be local or international, and they can include enterprises or investors with relevant technical or financial capabilities.

- In addition to social responsibility, environmental awareness, and local expertise, the government's commitment to PPP takes the shape of funds for investment and the transfer of assets that support the partnership.
- The private sector's role in the partnership is to apply its knowledge in operations, task management, and innovation to efficiently run the business.

Examples:

Power generation and distribution, water and sanitation, waste disposal, pipelines, hospitals, school buildings and teaching facilities, stadiums, and other infrastructure are all needed.

Merits:

- Transfer of design and construction risk.
- Potential to accelerate projects.

Limitations:

- Conflict between parties may arise on environmental considerations.
- Does not attract private finance easily.