Commerce CLASSES

Business Studies Notes PDF

On

Private, Public and Global Enterprises

(Class – 11 / Chapter- 3)

PRIVATE SECTOR ENTERPRISES

The private sector consists of businesses owned by individuals or a group of individuals. The various forms of organisation are- sole proprietorship, partnership, joint hindu family, cooperative and company.

PUBLIC SECTOR ENTERPRISES

Meaning: The public sector consists of various organizations owned and managed by central or State or by both governments. The govt. participates in the economic activity of the country through these enterprises.

FORM OF PUBLIC ENTERPRISES

1. Departmental Undertakings
2. Statutory Corporations
3. Govt. Companies

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 endeavors 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

- It has no Separate legal entity.
- It is financed by annual budget allocation of the govt. and all its earnings go to the government treasury.
- The government rules relating to audit & accounting are applicable to it.
- Its employees are the government employees & are recruited & appointed as per the government Rules.
- These are accountable to the concerned ministry.

MERITS

- These undertakings facilitate the Parliament to exercise effective control over their operations.
- These ensure a high degree of public accountability.
- The revenue earned by the enterprise goes directly to the treasury and hence is a source of income for the Government.
- Where national security is concerned, this form is most suitable since it is under the direct control and supervision of the concerned 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

2. STATUTORY CORPORATIONS

It is established under a special Act passed in parliament or state legislative assembly. Its objectives, powers and functions are clearly defined in the special Act. They have government power as well as a significant amount of private-sector operating flexibility.

Examples: Unit Trust of India, Life Insurance Corporation.

FEATURES

- It is established under a special act which defines its objects, powers and functions.
- They are set up under an act of Parliament and are governed by provisions of act.
- It has its own staff, recruited and appointed as per the provisions of act.
- The conditions of service of the employees are governed by the provisions of the act itself.
- It is not subject to the same accounting & audit rules which are applicable to the government. Department.
- 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.

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

- In reality, there is not much operational flexibility. It suffers from a lot of political interference.
- Usually they enjoy monopoly in their field and do not have profit motive due to which their working turns out to be inefficient.
- Where there is dealing with the public, rampant corruption exists. Thus public corporations are suitable for undertaking requiring monopoly powers e.g. public utilities.

3. GOVERNMENT COMPANY

A government company is established under The Companies Act, 2013 and is registered and governed by the provisions of The Act. A government company is a company in which not less than 51% of the paid up share capital is held by the central govt. or state govt. or jointly by both.

Examples: Hindustan Insecticides Ltd., State Trading Corp. of India, Hindustan Cables Ltd.

FEATURES

- It is registered or Incorporated under Companies Act 1956.
- It has a separate legal entity.
- Management is regulated by the provision of companies Act.
- Employees are recruited and appointed as per the rules and regulations contained in Memorandum and Articles of association.
- The govt. Co. obtains its funds from the government. shareholdings and other private shareholdings. It can also raise funds from the capital market.

MERITS

- A government company can be established by fulfilling the requirements of the Indian Companies Act. A separate Act in the Parliament is not required.
- It has a separate legal entity, apart from the Government.
- It enjoys autonomy in all management decisions and takes actions according to business prudence
- Companies can control the market and discourage unhealthy business practices by supplying goods and services at appropriate pricing.

LIMITATIONS

- It suffers from interference from the government. officials, ministers and politicians.
- It evades constitutional responsibility which a company financed by the govt. should have as it is not directly answerable to parliament.
- 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

Public sector in India was created to achieve two types of objectives – (1) to speed up the economic growth of the country and (2) to achieve a more equitable distribution of income and wealth among people. The role and importance of the public sector changed with time. Its role over a period of time can be summarized as following:

1. Development of Infrastructure- At the time of independence, India suffered from acute shortage of heavy industries such as engineering, iron and steel, oil refineries, heavy machinery etc. Because of the huge investment requirement and long gestation period, the private sector was not willing to enter these areas. The duty of development of basic infrastructure was assigned to the public sector which was discharged quite efficiently.
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- In certain industries (like Electric power plants. natural gas, petroleum etc) huge capital and large base are required to function economically. Such areas were taken up by the public sector.
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 – Public enterprises were also engaged in production of capital equipment which were earlier imported from other countries. At the same time public sector Companies like STC and MMTC have played an important role in expanding exports of the country. Very important role was assigned to the public sector but its performance was far from satisfactory which forced govt. to do rethinking on public enterprises.

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- MNCs possess huge capital resources and they are able to raise lot of funds from various sources.
2. International Operations- A MNC has production, marketing and other facilities in several countries.
3. Centralized control- MNCs have headquarters in their home countries from where they exercise control over all branches and subsidiaries. It provides only a broad policy framework to them and there is no interference in their day to day operations.
4. 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.
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. Advanced technology – This organisation possesses advanced and superior technology which enables them to provide world class products & services.
7. Product Innovations- MNCs have highly sophisticated research and development departments. These are engaged in developing new products and superior design of existing products.

JOINT VENTURES

Meaning: When two or more independent firms together establish a new enterprise by pooling their capital, technology and expertise, it is known as a joint venture.

Example: Hero Cycle of India and Honda Motors Co. of Japan jointly established Hero Honda. Similarly, Suzuki Motors of Japan and Maruti of Govt. of India come together to form Maruti Udyog.

Joint Ventures are of two types —
- Contractual joint venture
- Equity-based joint venture

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:

1. Greater resources and Capacity – In a joint venture the resources and capacity of two or more firms are combined which enables it to grow quickly and efficiently

2. Access to advanced technology – It provides access to advanced techniques of production which increases efficiency and then helps in reduction in cost and improvement in quality of product.

3. Access to New Markets and distribution network – A foreign co. gain access to the vast Indian market by entering into a joint venture with Indian Co. It can also take advantage of the well established distribution system of local firms.

4. Innovation – Foreign partners in joint ventures have the ideas and technology to develop innovative products and services. They have an advantage in highly competitive and demanding markets.

5. Low Cost of production – Raw material and labor are comparatively cheap in developing countries so if one partner is from a developing country they can be benefitted by the low cost of production.

6. Well known Brand Names- When one party has well established brands & goodwill, the other party gets its benefits. Products of such brand names can be easily launched in the market.

PUBLIC PRIVATE PARTNERSHIP

A Public Private Partnership (PPP) is described as collaboration between public and private entities in the context of infrastructure and other services.

FEATURES

1. Facilitates partnership between public sector and private sector.
2. Pertaining high priority projects.
3. Suitable for big projects (capital intensive and heavy industries).
4. Public welfare example Delhi Metro Railway Corporation.
5. Sharing revenue – Revenue is shared between government and private enterprises in the agreed Ratio.