CHAPTER - 3

PUBLIC, PRIVATE AND GLOBAL ENTERPRISES

- **Introduction:**

Soma, a student of class XI was reading a newspaper. There was the news item that the Government planned to disinvest its shares in some PSUs as they were incurring heavy losses. At the same time, it was written that some private companies and MNCs were earning so many profits. Maruthi Suzuki Ltd which a joint venture of Maruthi Company and Suzuki Company of Japan was launching a new car in the market. She was curious to know about these terms like PSUs, joint ventures etc.

Forms of Business Organisations

Public Sector

Private Sector

a. Departmental Undertakings
b. Statutory Corporations
c. Government Companies

a. Departmental Undertakings - Features

- Part of Government-Central or State
- Under direct control of the ministry
- Funds come directly from Govt. Treasury
- Employees are Govt. employees.
- Examples:- Railways
- Defense
- Post and Telegraphs

Merits

- Effective control
- Public Accountability
- Suitable for national security

Demerits

- Lack of flexibility
- Delay in decision making
- Red tape
- Political interference
- Unable to take advantage of opportunities

b. Statutory Corporations

They are created by Special Acts of the Parliament which contains their powers and functions, rules and regulations regarding their employees, and their relationship with government departments.

Features

- Statutory Corporation is fully owned by the Government.
- It is having a separate legal entity.
- Its employees are not government employees.
- Board of Directors are appointed by the government
- It prepares its budget and can retain its earnings which can be used for its business.
- Profit is not the main motive.
- It has public accountability.
- Usually, it is free from all types of interference.

Merits

- Free from undesirable government
- The government does not interfere in their financial matters.
- It is relatively free from red tapes and can make quick decisions.
- Its policies are subject to parliamentary control which ensures protection of public interest.

Limitations

- A statutory corporation's actions are subject to many rules and regulations.
- Government and political interference have always been there where huge funds are involved or in major decisions.
- Where there is dealing with the public, corruption exists at a larger level.

- The Board of Directors may misuse their powers and indulge in undesirable practices.

c. Government Company

Meaning: - According to The Indian Companies Act, 1956, a government company is a company in which not less than 51% of the paid-up capital is held by the central or state government or both.

The subsidiary of a government company is also considered as a government company. Eg:

1) Hindustan Machine Tools Ltd. (HMT)
2) Bharat Heavy Electricals Ltd (BHEL)
3) Steel Authority of India Ltd.

Features

- It is created by the Indian Companies Act, 1956.
- It is having a separate legal identity.
- Its employees are appointed according to the rules contained in the Memorandum and Articles of Association of the company.
- It is exempted from the accounting and audit rules and procedures.
- It obtains funds from government shareholdings, private shareholders, and the capital market.

Merits

- It can be easily established.
- It has a separate legal entity.
- There is no undue departmental interference in the working of the company.
- It can curb unhealthy business practices by providing goods and services at reasonable prices.

Changing Role of the Public Sector

Public Sector was started to achieve the following objectives:

- To speed up the economic growth of the country
- To achieve a more equitable distribution of income
- To create infrastructure facilities
- To develop all parts the country equally

Performance of the Public Sector was poor due to unorganized plants, outdated technology, underutilization of capacity, overstaffing, trade unionism, political interference, etc., So the government, in the Industrial Policy 1991, introduced the following reforms in the public sector.

- The number of industries reserved for the public sector was reduced from 17 to 3 industries namely atomic energy, arms, and rail transport.
- The Memorandum of Understanding signed between a public sector and its administrative ministry defines its autonomy and the targets to be achieved.
- Equity shares of public sector units are sold to the private sector and the public which is known as Disinvestment.
- Loss-making public sectors that are potentially viable will be restructured and revived through the Board of Industrial and Financial Reconstruction (BIFR). Public sector units which cannot be revived will be closed down.
- A National Renewal Fund was created to retrain and redeploy retrenched labor and to compensate employees seeking voluntary retirement.

Global Enterprises/Multinational Companies

Meaning:- A global enterprise is one that owns and manages a business in two or more countries.

Eg:- Unilever Ltd, Coca-cola, LG, Samsung, Hyundai Motors, Proctor and Gamble, etc.

Features

- A global enterprise has huge capital resources.
- It operates through a network of subsidiaries, branches, and affiliates in host countries
- It has its headquarters in the home country which controls all branches and subsidiaries.
- It uses advanced technology to provide world-class products and services.
- It employs professionally trained managers.
- It has vast access to international markets.
- It has advanced research and development departments that are engaged in developing new products and superior designs of existing products.
- It uses aggressive marketing strategies.
- It usually enters into agreements with local firms in the host countries.

Joint Ventures

Meaning: A joint venture is a business partnership between two or more companies for a specified purpose.

Eg : Hero Honda, Maruti Udyog, Birla Yamaha Ltd, etc.

Benefits

- A joint venture has greater resources and capacity.
- It has access to advanced technology
- It has access to new markets.
- It can produce products at a lower cost.
- It has ideas and technologies to develop innovative products and services.
- When one party in a joint venture has well-established brands and goodwill, the other party gets its benefits.

- **Public-Private Partnership (PPP)**

Public-Private Partnership means an enterprise in which a project or service is financed and operated through a partnership between the Government and private sectors.

Features

- It facilitates partnerships between the public and private sectors.
- It is related to high priority projects.
- It is suitable for big projects whose gestation period is long.
- Revenue is shared between government and private enterprise in the agreed ratio.
- It is used in the government projects targeted at public welfare.