Chapter 3: Private, Public and Global Enterprises

Exercises — Exercises

Q1 Explain the concept of public sector and private sector.

India has a mixed economy, in which both privately owned and government owned enterprises operate, so the economy is classified into two sectors. The private sector consists of businesses owned by an individual or a group of individuals. Its forms are sole proprietorship, partnership, joint Hindu family, cooperative and company. The public sector consists of organisations owned and managed by the government. They may be wholly or partly owned by the central or state government, may be part of a ministry, or may be created by a Special Act of Parliament. Through these enterprises the government takes part in the economic activities of the country.

Q2 State the various types of organisations in the private sector.

The private sector consists of businesses owned by individuals or groups of individuals. Its organisations are of five types: (i) sole proprietorship, owned and run by one person; (ii) partnership, owned by two or more persons who share profits and losses under an agreement; (iii) joint Hindu family business, run by the family members under the Karta; (iv) cooperative society, a voluntary association of persons for mutual welfare; and (v) company, which may be a private limited or a public limited company. Multinational corporations are also private sector organisations.

Q3 What are the different kinds of organisations that come under the public sector?

A public enterprise can take one of three forms, depending on the nature of its operations and its relationship with the government. (i) Departmental undertaking: established as a department of a ministry and treated as its extension, e.g. Railways and the Post and Telegraph Department. (ii) Statutory corporation: brought into existence by a Special Act of Parliament, which defines its powers, functions and employee rules. It is a body corporate, financially independent. (iii) Government company: registered under the Companies Act, 2013, in which the government holds not less than 51 per cent of the paid up capital.

Q4 List the names of some enterprises under the public sector and classify them.

Public sector enterprises fall into three forms. Departmental undertakings: Railways and the Post and Telegraph Department, which are run as parts of government ministries (the chapter itself cites these two). Statutory corporations: bodies set up by Special Acts of Parliament, such as the Life Insurance Corporation of India and the Food Corporation of India. Government companies: companies registered under the Companies Act with at least 51 per cent government capital, such as SAIL, BHEL, and trading companies like STC and MMTC. Classification rests on legal formation and ownership.

Q5 Why is the government company form of organisation preferred to other types in the public sector?

The government company form is preferred because: (i) it can be set up simply by fulfilling the requirements of the Companies Act, with no separate Act of Parliament; (ii) it is a separate legal entity apart from the government, so it can sue and be sued, enter contracts and own property in its own name; (iii) it enjoys autonomy in management decisions and acts according to business prudence; (iv) it can raise funds from the government, private shareholders and the capital market; and (v) by supplying goods and services at reasonable prices it can control the market and curb unhealthy business practices.

Q6 How does the government maintain a regional balance in the country?

The government is responsible for developing all regions and states in a balanced way and removing regional disparities. Before Independence, industrial progress was limited to a few areas such as port towns. After 1951, the Five Year Plans gave particular attention to backward regions, and public sector industries were deliberately set up there. Four major steel plants were located in backward areas to speed up development, provide employment and develop ancillary industries. The government locates new enterprises in backward areas and, at the same time, prevents the mushrooming of private sector units in already advanced areas.

Q7 State the meaning of public private partnership.

Public Private Partnership (PPP) is a relationship between public and private entities in the context of infrastructure and other services. It allocates tasks, obligations and risks among the partners in an optimal manner. The public partners are government entities such as ministries, departments, municipalities or state-owned enterprises; the private partners may be local or foreign businesses or investors with relevant technical or financial expertise, and NGOs or community organisations may also take part. The government contributes capital, investment and assets and ensures social obligations are met, while the private sector contributes its expertise in operations, management and innovation.

Q8 Describe the Industrial Policy 1991, towards the public sector.

The 1991 industrial policy was radically different from earlier policies and introduced four major reforms for the public sector: restructure and revive potentially viable PSUs; close down those that cannot be revived; bring down government equity in non-strategic PSUs to 26 per cent or lower; and fully protect workers' interests. Its main elements were: (a) reducing industries reserved for the public sector from 17 to 8, and later to 3 (atomic energy, arms and rail transport); (b) disinvestment, i.e. selling equity shares to the private sector and the public to raise resources and improve efficiency and financial discipline; (c) treating sick units like private ones, referring them to the BIFR for restructuring or closure, with a National Renewal Fund to retrain or compensate retrenched workers; and (d) Memorandum of Understanding, giving managements greater autonomy but holding them accountable for specified results.

Q9 What was the role of the public sector before 1991?

At Independence the public sector was expected to achieve key economic objectives, either by direct participation in business or by acting as a catalyst. It was to build infrastructure and invest in areas the private sector avoided because of heavy investment and long gestation periods. Its roles were: (i) developing infrastructure such as transport, power and heavy industries, since only the government could mobilise huge capital; (ii) promoting regional balance by locating units in backward areas; (iii) achieving economies of scale in large industries like power, petroleum and telephones; (iv) checking the concentration of economic power in a few private hands; and (v) import substitution and export promotion, with heavy engineering units and companies like STC and MMTC.

Q10 Can the public sector companies compete with the private sector in terms of profits and efficiency? Give reasons for your answer.

Yes, they can, provided the right conditions exist. After the 1991 policy, the public sector was meant to compete actively in the market with private companies in the same industry, and units were made accountable for losses and return on investment. Measures supporting this include MoUs that give managements autonomy and clear targets, disinvestment to bring financial discipline and corporate governance, and closure or restructuring of continuously loss-making units through the BIFR. In areas like telecom, competition has given consumers more choice, lower prices and better quality. Government companies also enjoy managerial autonomy and can raise funds from the capital market. However, departmental undertakings and statutory corporations still face red tape and political interference, so the public sector's success depends on greater autonomy and accountability.

Q11 Why are global enterprises considered superior to other business organisations?

Global enterprises are huge organisations operating in many countries through a network of branches, and they are considered superior because of their distinct features. (i) Huge capital resources: they can raise funds through shares, debentures, bonds and borrowing from international banks. (ii) Foreign collaboration: they supply technology, brand names and production know-how to Indian firms. (iii) Advanced technology: they meet international standards and exploit local resources optimally. (iv) Product innovation: strong research and development departments create new products. (v) Marketing strategies: aggressive, effective advertising and reliable market information. (vi) Expansion of market territory: they become international brands. (vii) Centralised control: the headquarters controls broad policy while branches run day to day operations.

Q12 What are the benefits of entering into joint ventures and public private partnership?

Joint ventures pool the resources and expertise of two or more businesses and share risks and rewards. Benefits: (i) increased resources and capacity, with pooled finance and manpower; (ii) access to new markets and established distribution networks; (iii) access to advanced technology, saving time and cost; (iv) innovation, as partners bring new ideas and products; (v) low cost of production, e.g. cheap raw materials and skilled labour in India; and (vi) use of an established brand name and goodwill, saving investment. Public private partnership allocates tasks and risks optimally between the partners. The government provides capital, assets and social responsibility, while the private sector brings expertise in operations, management and innovation. This helps deliver infrastructure such as roads, power, water, hospitals and housing efficiently, as in the Kundli Manesar Expressway.