

**MODULE - 2***Business Organisations**Notes*

319en07

**7****PUBLIC SECTOR ENTERPRISES**

You have learnt about various forms of business organisations, which primarily relate to private enterprises. Traditionally, business activities were left mainly to individual and private organisations, and the government was taking care of only the essential services such as railways, electricity supply, postal services etc. But, it was observed that private sector did not take interest in areas where the gestation period was long, investment was heavy and the profit margin was low; such as machine building, infrastructure, oil exploration, etc. Not only that, industries were also concentrated in some regions that had certain natural advantages like availability of raw materials, skilled labour, nearness to market. This led to regional imbalances. Hence, the government while regulating the business activities of private enterprises went in for direct participation in business and set up public enterprises in areas like coal industry, oil industry, machine building, steel manufacturing, finance and banking, insurance etc. These units are not only owned by central, state or local government but also managed and controlled by them and are termed as Public Sector Enterprises. In this chapter, you will learn about the nature and characteristics of public enterprises and the forms of their organisation.

**OBJECTIVES**

*After studying this lesson, you will be able to:*

- state the meaning of public sector enterprises;
- identify the main characteristics of public sector organisations;
- distinguish between public sector and private sector;
- describe different forms of organisation of public sector enterprises;
- state the features, merits and limitations of Departmental Undertakings, Public Corporations and Government Companies;

## Public Sector Enterprises

- explain the importance of public sector enterprises; and
- outline the current scenario of public enterprises.

### 7.1 MEANING OF PUBLIC ENTERPRISES

As stated earlier, the business units owned, managed and controlled by the central, state or local government are termed as public sector enterprises or public enterprises. These are also known as public sector undertakings.

A public sector enterprise may be defined as any commercial or industrial undertaking owned and managed by the government with a view to maximise social welfare and uphold the public interest.

Public enterprises consist of nationalised private sector enterprises, such as, banks, Life Insurance Corporation of India and the new enterprises set up by the government such as Hindustan Machine Tools (HMT), Gas Authority of India (GAIL), State Trading Corporation (STC) etc.

### 7.2 CHARACTERISTICS OF PUBLIC ENTERPRISES

Looking at the nature of the public enterprises, their basic characteristics can be summarised as follows:

- Government Ownership and Management :** The public enterprises are owned and managed by the central or state government, or by the local authority. The government may either wholly own the public enterprises or the ownership may partly be with the government and partly with the private industrialists and the public. In any case the control, management and ownership remains primarily with the government. For example, National Thermal Power Corporation (NTPC) is an industrial organisation established by the Central Government and part of its share capital is provided by the public.
- Financed from Government Funds :** The public enterprises get their capital from Government Funds and the government has to make provision for their capital in its budget.
- Public Welfare :** Public enterprises are not guided by profit motive. Their major focus is on providing the service or commodity at reasonable prices. Take the case of Indian Oil Corporation or GAIL India Limited. They provide petroleum and gas at subsidised prices to the public.
- Public Utility Services :** Public sector enterprises concentrate on providing public utility services like transport, electricity, telecommunication etc.
- Public Accountability :** Public enterprises are governed by public policies formulated by the government and are accountable to the legislature.

## MODULE - 2

### Business Organisations



*Notes*

- (f) **Excessive Formalities :** The government rules and regulations force the public enterprises to observe excessive formalities in their operations. This makes the task of management very sensitive and cumbersome.

**7.3 DIFFERENCE BETWEEN PRIVATE AND PUBLIC SECTOR ENTERPRISES**

In the earlier lessons you have studied about the various forms of business organisation existing under private ownership or in private sector. By private sector, we mean, economic and social activities undertaken privately by a single individual or group of individuals. They prefer to do business in private sector basically to earn profit.

On the other hand public sector refers to economic and social activities undertaken by public authorities. The enterprises in public sector are set up with the main aim of protecting public interest. Profit earning comes next.

Besides the difference in the objective, the enterprises in both these sectors also differ in many other aspects. In this section let us know the differences between the enterprises of public sector and private sector.

<i>Basis of difference</i>	<i>Private sector enterprises</i>	<i>Public sector enterprises</i>
1. Objective	Maximisation of profit.	Maximise social welfare economic and ensure balanced development.
2. Ownership	Owned by individuals.	Owned by Government.
3. Management	Managed by owner and professional managers.	Managed by Government.
4. Capital	Raised by owners through loans, private sources and public issues.	Raised from Government funds and sometimes through public issues.
5. Area of operation	Operates in all areas with adequate return	Operates in basic and public utility sectors. on investment.



**INTEXT QUESTIONS 7.1**

1. What is meant by public sector?
2. State whether the following statements are true or false and correct the statements if needed.



*Notes*

## Public Sector Enterprises

- (a) The objective of private sector enterprises is welfare of the customers.
- (b) The public sector enterprises are managed by professional managers.
- (c) The private sector enterprises concentrate on area of public utility services.
- (d) The private sector enterprises are owned and managed by private individuals.
- (e) The public enterprises are totally funded by the public.

## MODULE - 2

### Business Organisations



Notes

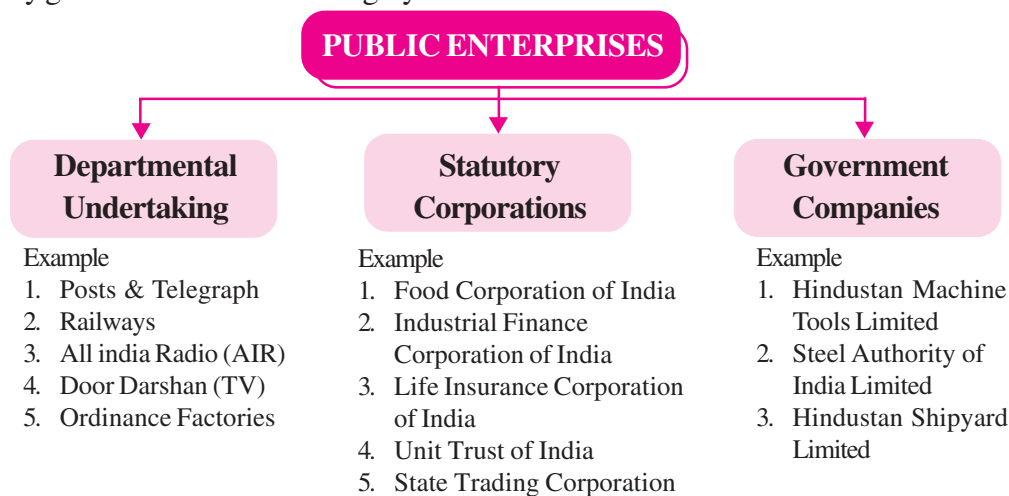
## 7.4 FORMS OF ORGANISATION OF PUBLIC ENTERPRISES

There are three different forms of organisation used for the public sector enterprises in India. These are (1) Departmental Undertaking; (2) Statutory (or Public) Corporation, and (3) Government Company.

**Departmental Undertaking** form of organisation is primarily used for provision of essential services such as railways, postal services, broadcasting etc. Such organisations function under the overall control of a ministry of the Government and are financed and controlled in the same way as any other government department. This form is considered suitable for activities where the government desires to have control over them in view of the public interest.

**Statutory Corporation** (or public corporation) refers to a corporate body created by the Parliament or State Legislature by a special Act which define its powers, functions and pattern of management. Statutory corporation is also known as public corporation. Its capital is wholly provided by the government. Examples of such organisations are Life Insurance Corporation of India, State Trading Corporation etc.

**Government Company** refers to the company in which 51 percent or more of the paid up capital is held by the government. It is registered under the Companies Act and is fully governed by the provisions of the Act. Most business units owned and managed by government fall in this category.



## 7.5 DEPARTMENTAL UNDERTAKINGS

Departmental undertakings are the oldest among the public enterprises. A departmental undertaking is organised, managed and financed by the Government. It is controlled by a specific department of the government. Each such department is headed by a minister. All policy matters and other important decisions are taken by the controlling ministry. The Parliament lays down the general policy for such undertakings.



Notes

### 7.5.1 Features of Departmental Undertakings

The main features of departmental undertakings are as follows:

- (a) It is established by the government and its overall control rests with the minister.
- (b) It is a part of the government and is managed like any other government department.
- (c) It is financed through government funds.
- (d) It is subject to budgetary, accounting and audit control.
- (e) Its policy is laid down by the government and it is accountable to the legislature.

### 7.5.2 Merits of Departmental Undertakings

The following are the merits of departmental undertakings :

- (a) **Fulfillment of Social Objectives :** The government has total control over these undertakings. As such it can fulfill its social and economic objectives. For example, opening of post offices in far off places, broadcasting and telecasting programmes, which may lead to the social, economic and intellectual development of the people are the social objectives that the departmental undertakings try to fulfill.
- (b) **Responsible to Legislature :** Questions may be asked about the working of departmental undertaking in the parliament and the concerned minister has to satisfy the public with his replies. As such they cannot take any step, which may harm the interest of any particular group of public. These undertakings are responsible to the public through the parliament.
- (c) **Control Over Economic Activities :** It helps the government to exercise control over the specialised economic activities and can act as instrument of making social and economic policy.
- (d) **Contribution to Government Revenue :** The surplus, if any, of the departmental undertakings belong to the government. This leads to increase in government income. Similarly, if there is deficiency, it is to be met by the government.
- (e) **Little Scope for Misuse of Funds :** Since such undertakings are subject to budgetary accounting and audit control, the possibilities of misuse of their funds is considerably reduced.

### 7.5.3 Limitations of Departmental Undertakings

Departmental undertakings suffer from the following limitations:

- (a) **The Influence of Bureaucracy :** On account of government control, a departmental undertaking suffers from all the ills of bureaucratic functioning. For instance, government permission is required for each expenditure, observance of government decisions regarding appointment and promotion of the employees and so on. Because of these reasons important decisions get delayed, employees cannot be given instant promotion or punishment. On account of these reasons some difficulties come in the way of working of departmental undertakings.
- (b) **Excessive Parliamentary Control :** On account of the Parliamentary control difficulties come in the way of day-to-day administration. This is also because questions are repeatedly asked in the parliament about the working of the undertaking.
- (c) **Lack of Professional Expertise :** The administrative officers who manage the affairs of the departmental undertakings do not generally have the business experience as well as expertise. Hence, these undertakings are not managed in a professional manner and suffer from deficiency leading to excessive drainage of public funds.
- (d) **Lack of Flexibility :** Flexibility is necessary for a successful business so that the demand of the changing times may be fulfilled. But departmental undertakings lack flexibility because its policies cannot be changed instantly.
- (e) **Inefficient Functioning :** Such organisations suffer from inefficiency on account of incompetent staff and lack of adequate incentives to improve efficiency of the employees.



Notes

It may be noted that departmental form of organisation for public enterprises is on its way to oblivion. Most undertakings such as those providing telephone, electricity services are now being converted into government companies, e.g., MTNL, BSNL, and so on.

<i>Merits</i>	<i>Limitations</i>
(a) Fulfillment of social objectives	(a) The Influence of Bureaucracy
(b) Responsibility to the public	(b) Excessive Parliamentary Control
(c) Control Over Economic Activities	(c) Lack of Professional Expertise
(d) Contribution to Government Revenue	(d) Lack of Flexibility
(e) Little Scope for Misuse of Funds	(e) Inefficient Functioning



**INTEXT QUESTIONS 7.2**



*Notes*

1. List any three services that are being taken care of by Departmental Undertakings.
2. Identify the following and categorise them into Departmental Undertakings, Statutory Corporations and Government Companies.
  - (a) Business Organisation established by the government and controlled by the Ministry concerned.
  - (b) Organisations incorporated under a special Act of Parliament or state legislature.
  - (c) It is managed by the government and is subject to budgetary, accounting and audit control.
  - (d) Organisation established by the government and registered under the companies Act.
3. Identify the Merits and Limitations of the departmental undertakings. Put their number in the boxes given below.
  - (a) The organisation fulfills the social and economic objectives of the government.
  - (b) Lack of flexibility, hence cannot take quick decision.
  - (c) The possibility of misuse of funds is limited.
  - (d) The organisation suffers due to inefficient and incompetent staff.
  - (e) The organisation is responsible to the public through the parliament.

Merits

○	○	
○	○	○

Limitations

○	○	
○	○	○

We have just discussed Departmental undertakings. Now we shall study about the second category of Public Enterprises, namely Statutory Corporation or Public Corporation.

**7.6 STATUTORY CORPORATIONS**

The Statutory Corporation (or Public Corporation) refers to such organisations which are incorporated under the special Acts of the Parliament/State Legislative Assemblies. Its management pattern, its powers and functions, the area of activity, rules and regulations

## Public Sector Enterprises

for its employees and its relationship with government departments, etc. are specified in the concerned Act. Examples of statutory corporations are State Bank of India, Life Insurance Corporation of India, Industrial Finance Corporation of India, etc. It may be noted that more than one corporation can also be established under the same Act. State Electricity Boards and State Financial Corporation fall in this category.

### 7.6.1 Features of Statutory Corporations

The main features of Statutory Corporations are as follows:

- (a) It is incorporated under a special Act of Parliament or State Legislative Assembly.
- (b) It is an autonomous body and is free from government control in respect of its internal management. However, it is accountable to parliament and state legislature.
- (c) It has a separate legal existence. Its capital is wholly provided by the government.
- (d) It is managed by Board of Directors, which is composed of individuals who are trained and experienced in business management. The members of the board of Directors are nominated by the government.
- (e) It is supposed to be self sufficient in financial matters. However, in case of necessity it may take loan and/or seek assistance from the government.
- (f) The employees of these enterprises are recruited as per their own requirement by following the terms and conditions of recruitment decided by the Board.

### 7.6.2 Merits of Statutory Corporations

Statutory Corporation as a form of organisation for public enterprises has certain advantages that can be summarised as follows:

- (a) **Expert Management :** It has the advantages of both the departmental and private undertakings. These enterprises are run on business principles under the guidance of expert and experienced Directors.
- (b) **Internal Autonomy :** Government has no direct interference in the day-to-day management of these corporations. Decisions can be taken promptly without any hindrance.
- (c) **Responsible to Parliament :** Statutory organisations are responsible to Parliament. Their activities are watched by the press and the public. As such they have to maintain a high level of efficiency and accountability.
- (d) **Flexibility :** As these are independent in matters of management and finance, they enjoy adequate flexibility in their operation. This helps in ensuring good performance and operational results.

## MODULE - 2

### Business Organisations



Notes





*Notes*

- (e) **Promotion of National Interests :** Statutory Corporations protect and promote national interests. The government is authorised to give policy directions to the statutory corporations under the provisions of the Acts governing them.
- (f) **Easy to Raise Funds :** Being government owned statutory bodies, they can easily get the required funds by issuing bonds etc.

**7.6.3 Limitations of Statutory Corporations**

Having studied the merits of statutory corporations we may now look to its limitations also. The following limitations are observed in statutory corporations.

- (a) **Government Interference :** It is true that the greatest advantage of statutory corporation is its independence and flexibility, but it is found only on paper. In reality, there is excessive government interference in most of the matters.
- (b) **Rigidity :** The amendments to their activities and rights can be made only by the Parliament. This results in several impediments in business of the corporations to respond to the changing conditions and take bold decisions.
- (c) **Ignoring Commercial Approach :** The statutory corporations usually face little competition and lack motivation for good performance. Hence, they suffer from ignorance of commercial principles in managing their affairs.

<i>Merits</i>	<i>Limitations</i>
(a) Expert Management	(a) Government Interference
(b) Internal Autonomy	(b) Rigidity
(c) Responsible to Parliament	(c) Ignoring Commercial Approach
(d) Flexibility	
(e) Promotion of National Interest	
(f) Easy to Raise Funds	



**INTEXT QUESTIONS 7.3**

1. State the features of statutory corporation mentioning its
  - (a) Incorporation
  - (b) Management
2. Rectify the errors (if any) in the following sentences and write the correct sentence in the specified space.
  - (a) Statutory Corporations are autonomous organisations.

## Public Sector Enterprises

- (b) Statutory Corporations are registered under the Companies Act.
- (c) Statutory Corporations are motivated by profit.
- (d) The internal management of the Statutory Corporations is controlled by the Government.
- (e) The capital of Statutory Corporation is provided by private industrialists.

Having studied about Departmental Undertakings and Statutory Corporations we shall now study about Government Companies, which is the modern form of Public Enterprises.

### 7.7 GOVERNMENT COMPANIES

As per the provisions of the Companies Act, a company in which 51% or more of its capital is held by central and/or state government is regarded as a Government Company. These companies are registered under Companies Act, 1956 and follow all those rules and regulations as are applicable to any other registered company. The Government of India has organised and registered a number of its undertakings as government companies for ensuring managerial autonomy, operational efficiency and provide competition to private sector.

#### 7.7.1 Features of Government Companies

The main features of Government companies are as follows:

- (a) It is registered under the Companies Act, 1956.
- (b) It has a separate legal entity. It can sue and be sued, and can acquire property in its own name.
- (c) The annual reports of the government companies are required to be presented in parliament.
- (d) The capital is wholly or partially provided by the government. In case of partially owned company the capital is provided both by the government and private investors. But in such a case the central or state government must own at least 51% shares of the company.
- (e) It is managed by the Board of Directors. All the Directors or the majority of Directors are appointed by the government, depending upon the extent of private participation.
- (f) Its accounting and audit practices are more like those of private enterprises and its auditors are Chartered Accountants appointed by the government.
- (g) Its employees are not civil servants. It regulates its personnel policies according to its articles of associations.

## MODULE - 2

### Business Organisations



Notes

**7.7.2 Merits of Government Companies**

The merits of government company form of organising a public enterprise are as follows:

- (a) **Simple Procedure of Establishment :** A government company, as compared to other public enterprises, can be easily formed as there is no need to get a bill passed by the parliament or state legislature. It can be formed simply by following the procedure laid down by the Companies Act.
- (b) **Efficient Working on Business Lines :** The government company can be run on business principles. It is fully independent in financial and administrative matters. Its Board of Directors usually consists of some professionals and independent persons of repute.
- (c) **Efficient Management :** As the Annual Report of the government company is placed before both the houses of Parliament for discussion, its management is cautious in carrying out its activities and ensures efficiency in managing the business.
- (d) **Healthy Competition :** These companies usually offer a healthy competition to private sector and thus, ensure availability of goods and services at reasonable prices without compromising on the quality.

**7.7.3 Limitations of Government Companies**

The government companies suffer from the following limitations:

- (a) **Lack of Initiative :** The management of government companies always have the fear of public accountability. As a result, they lack initiative in taking right decisions at the right time. Moreover, some directors may not take real interest in business for fear of public criticism.
- (b) **Lack of Business Experience :** In practice, the management of these companies is generally put into the hands of administrative service officers who often lack experience in managing the business organisation on professional lines. So, in most cases, they fail to achieve the required efficiency levels.
- (c) **Change in Policies and Management :** The policies and management of these companies generally keep on changing with the change of government. Frequent change of rules, policies and procedures leads to an unhealthy situation of the business enterprises.

<i>Merits</i>	<i>Limitations</i>
(a) Simple procedure of establishment	(a) Lack of initiative
(b) Efficient working on Business lines	(b) Lack of business experience
(c) Efficient management	(c) Change of policies and management
(d) Healthy competition	



*Notes*



**INTEXT QUESTIONS 7.4**

1. The main objectives of establishing Government Companies are to ensure:
  - (a) Managerial autonomy
  - (b) \_\_\_\_\_
  - (c) \_\_\_\_\_
  
2. Classify the following statements as merit or limitation of Government Companies and put the respective numbers in the boxes given below:
  - (a) Its formation is simple and it is governed by Companies Act, 1956.
  - (b) It creates healthy competition in private sector.
  - (c) The Government Companies make delay in taking timely decisions.
  - (d) A change in Government leads to change in rules, policies and procedure of Government Company.
  - (e) It has financial and administrative autonomy.

Merits

○	○
○	○

Limitations

○	○
○	○



Notes

**7.8 COMPARATIVE VIEW OF PUBLIC SECTOR ENTERPRISES**

S.No.	<i>Departmental Undertakings</i>	<i>Public Corporations</i>	<i>Government Companies</i>
1. Establishment	By a Ministry	By the Parliament under a special Act	By a Ministry with or without private participation
2. Legal Status	No separate entity distinct from the Government	Separate entity to sue and be sued	Separate corporate existence
3. Capital	Provided out of budgetary appropriation	Provided wholly by the Government	Part of it may be provided by private entrepreneurs

## MODULE - 2

### Business Organisations



Notes

Public Sector Enterprises			
4. Management	Government official from the Ministry concerned	Board of Directors	Board of Directors may include private individuals
5. Control and Accountability	Control vests with the Minister and the Ministry concerned	Parliament	Government (Ministry concerned)
6. Autonomy	No autonomy. Works as a part and parcel of government	No governmental interference in day-to-day affairs	Some freedom from governmental interference
7. Suitability	Defence, public utilities	Heavy industries and service providing enterprises with long gestation period.	All types of industrial and commercial enterprises

### 7.9 IMPORTANCE OF PUBLIC SECTOR ENTERPRISES

You know that all enterprises in our country are not public enterprises. There is mixed economy in our country and the private as well as the public sector contribute to the development of our economy. However, there are only some selected areas in which the government establishes its enterprises for a balanced development of the economy and promote public welfare. There are several areas where huge investment of capital is necessary but the margin of profit is either meager or it can be obtained only after a long period as in case of generation and supply of electricity, machine building, construction of dams, etc. The private businessmen hesitate to establish their enterprises in these areas but they cannot be neglected in public interest. As such these enterprises are established and run by the government. Similarly the public enterprises also help in balanced regional development by promoting industries in every part of the country. For example, with the establishment of Bhilai Steel Plant in Madhya Pradesh, several new small industries have come up in that state.

Industrial progress is of utmost importance for the development of the country and for this, it is necessary that some basic industries like oil, coal, gas, iron, steel, production of heavy electrical goods, etc., are to be fully developed. Public enterprises give impetus to the development of these basic industries and also help in the development of the private sector with their products and services. There are some industries which require heavy capital investment on account of technical reasons. Electricity, power, production of gas, heavy machinery tools, production of telephone etc., are such industries.

The development of public enterprises also prevents concentration of economic power in the hands of an individual, or a group of individuals. Not only that, in our country

## Public Sector Enterprises

economic inequalities are increasing. Poor are becoming poorer and the rich more rich. The public enterprises can help in reducing inequalities with the help of various policies like utilising the earned profits in public welfare activities and by selling raw material to the small scale industries at lower prices.

It is also necessary for the economic progress of the country that industries which can decrease imports and increase exports are only promoted. Public enterprises also ensure promotion of such industries.

There is an old belief that the benefits derived from the nature should be made available to all without any distinction. The public enterprises ensure that land, oil, coal, gas, water, electricity and other necessary resources are made available to all at fair prices.

The security of the country is supreme. There should be no compromise in ensuring this. The production of fighter aeroplanes, arms and ammunition etc, connected with the security of the country is put under the domain of Public Enterprises for the purpose. Thus, public welfare, planned economic development of the country, regional balance, import substitution and checking concentration of economic powers are the major goals achieved through public enterprises.

### 7.10 CURRENT SCENARIO

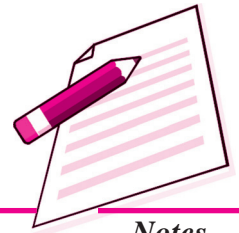
Public sector enterprises occupy an important place in the Indian economy. At the time of independence, the Indian economy was basically agrarian with a weak industrial base. There were very few public sector enterprises in our country. The Indian Railways, the Posts and Telegraphs, the Port Trust, Government Salt Factories were the prominent public sector enterprises. After getting independence, the government felt that if the country needs to speed up its economic growth, then state's intervention in all sectors of the economy is inevitable.

At the commencement of the first five-year plan (1.4.1951) Government's investment was Rs. 29 crores in five central public sector enterprises. Now it has increased to Rs. 3,93,057 crores in 239 enterprises as on 31 March 2006. The public sector enterprises have been making substantial contribution to augment the resource of central government. During 2004-05 their contribution to the central exchequer was Rs. 1,10,599 crores.

There is no doubt that public enterprises have played a significant role in the Indian economy. But the overall performance of most of the public sector enterprises is not satisfactory. The rate of return on capital investment is very low. Most of them suffer from the limitations already discussed in the earlier sections. To improve the performance of the public enterprise, Government of India has taken several measures. On 24 July 1991 the Government of India announced its Industrial policy to improve the performance and portfolio of public sector enterprises. The new economic policies also emphasised on liberalisation, privatisation and globalisation of Indian economy. The role of public

## MODULE - 2

### Business Organisations



*Notes*

## MODULE - 2

### Business Organisations



#### Notes

### Public Sector Enterprises

sector was redefined. In July 1997, Government identified nine central public sector enterprises as 'Navaratnas'. They are BHEL, BPCL, GAIL, HPCL, IOC, MTNL, NTPC, ONGC, SAIL. These public sector enterprises have been given autonomy for capital investment, to enter into joint ventures, to raise capital from domestic and international market etc. In October 1997, the Government granted enhanced autonomy and delegation of financial power to some other profit making public sector enterprises and categorised them as 'Miniratnas'. Presently there are 45 Miniratna Public Sector Enterprises functioning in India.

The Government has taken every step to revive and restructure the public sector enterprises to improve their performance, productivity and profitability. Major emphasis has been laid on the sick and chronically loss making enterprises, which are capable of being revived. These enterprises are referred to Board for Industrial and Financial Reconstruction (BIFR) to prepare appropriate revival or rehabilitation package. The government has set up a Board for Reconstruction of Public Sector Enterprises (BRPSE), which considers and advises the Government on the proposal of restructuring/ revival of sick and loss making units including the proposal for disinvestment or closure or sale. BRPSE has made recommendations in respect of 31 central public sector enterprises so far and out of them the Government has approved revival plan of 15 cases till 30 March 2006.



### INTEXT QUESTIONS 7.5

1. Enumerate the major goals achieved through public sector enterprises.
  - (a) \_\_\_\_\_
  - (b) \_\_\_\_\_
  - (c) \_\_\_\_\_
  - (d) \_\_\_\_\_
  - (e) \_\_\_\_\_
2. (a) Expand the following:
 

(i) BHEL	(ii) BPCL	(iii) GAIL
(iv) HPCL	(v) IOC	(vi) MTNL
(vii) NTPC	(viii) ONGC	(ix) SAIL

  - (b) Under which category are all the above public sector enterprises placed by the Central Government.



### WHAT YOU HAVE LEARNT

- Business units owned, managed and controlled by the central, state or local government are termed as public sector enterprises or public enterprises. These are also known as public sector undertakings.
- Characteristics of Public Enterprises
  - ▶▶ Owned, managed and controlled by Government.
  - ▶▶ Funded by Government
  - ▶▶ Welfare oriented
  - ▶▶ Concentrate on public utility services
  - ▶▶ Responsible to parliament
  - ▶▶ Observance of Government formality is necessary
- There are three different forms of organisation used for the public sector enterprises. These are (1) Departmental Undertaking; (2) Statutory (or Public) Corporation and (3) Government Company.
- Departmental undertakings are organised, managed and financed by the Government. It is a part of the government and is managed like any other government department. It is financed through the government funds. It is subject to budgetary, accounting and audit control. So the possibility of misuse of funds is reduced. It fulfills the social and economic objectives of the government and is responsible to the legislature. It helps the government to exercise control over the specialised economic activities. Departmental undertakings suffer from limitations of bureaucratic functioning. Excessive parliamentary control, lack of flexibility, inefficient functioning are the other limitations of Departmental Undertakings.
- The Statutory Corporations are the organisations, which are incorporated under the special Acts of the Parliament/State Legislative Assemblies. These are autonomous bodies and are free from government control in respect of their internal management. However, they are accountable to parliament and state legislature. The capital is wholly provided by the government. They are managed by Board of Directors, which is composed of individuals who are trained and experienced in business management. The members of the board of Directors are nominated by the government.
- It is true that the greatest advantage of statutory corporation is its independence and flexibility, but it is found only on paper. In reality, there is excessive government interference in most of the matters. The amendments to their activities and rights



*Notes*



## MODULE - 2

### Business Organisations



#### Notes

### Public Sector Enterprises

can be made only by the Parliament. Since all these organisations face little competition, sometimes they ignore the commercial approach in managing their affairs.

- A company in which 51% or more of its capital is held by central and/or state government is regarded as a Government Company. These companies are registered under Companies Act 1956 and follow all those rules and regulations as are applicable to any other registered company. The capital is wholly or partially provided by the government. The Government Companies are formed simply by following the procedure laid down by the Companies Act. These companies are managed by the Board of Directors consisting of professionals and independent persons of repute. The government company can be run on business principles and it provides a healthy competition to private sector. In spite of all these advantages, these companies suffer from the limitations like lack of initiative in taking right decisions at the right time, lack of expertise in business management, frequent change of policies and management due to change in Government, etc.
- Importance of Public Sector Enterprises
  - ▶▶ Balanced regional development
  - ▶▶ Boost the basic industries of an economy
  - ▶▶ Concentrate on public welfare activities
  - ▶▶ Promote export
  - ▶▶ Price control of essential goods
  - ▶▶ Limit the influence of private monopoly.
  - ▶▶ Ensure security of the country.
  - ▶▶ Minimise economic inequalities.
- Current Scenario: At the commencement of first five-year plan Government's investment was Rs. 29 crores in five central public sector enterprises. Now it has increased to Rs. 3,93,057 crores in 239 enterprises as on 31 March 2006. The public enterprises have played a significant role in Indian economy. But the overall performance of most of the public sector enterprises is not satisfactory. The government is taking every step to revive and restructure the public sector enterprises to improve their performance, productivity and profitability. Major emphasis has been given on the sick and chronically loss making enterprises, which are capable of being revived. On 24 July 1991 the Government of India announced its Industrial policy to improve the performance and portfolio of public sector enterprises. The new economic policies also emphasised on liberalisation,

## Public Sector Enterprises

privatisation and globalisation. The role of public sector was redefined. To grant autonomy and delegation of financial power to some of the profit making public sector enterprises Government has given them the status of Navaratnas and Miniratnas.



### KEY TERMS

Departmental Undertaking	Private sector	Public sector
Government Companies	Public Enterprises	Statutory Corporation



### TERMINAL EXERCISE

#### *Very Short Answer Type Questions*

1. Define Public Sector Enterprise.
2. What is meant by Public Corporation?
3. State the meaning of Departmental Undertaking.
4. What is a Government Company?
5. Name any two important goals to be achieved through public enterprises.

#### *Short Answer Type Questions*

6. Give any four features of Departmental Undertakings.
7. Distinguish between private sector and public sector enterprises (by giving any two points of distinction).
8. Explain (a) Fulfillment of social objectives and (b) Control over economic activities as merits of Departmental Undertakings.
9. How do public enterprises help in reducing the economic inequalities in the country?
10. Explain any two limitations of Statutory Corporations.

#### *Long Answer Type Questions*

11. What is meant by public sector enterprises? State in brief its features?
12. How are the public sector enterprises helping in the balanced development of the Indian Economy and promoting public welfare in the country?
13. What is a Government Company? How is it different from Statutory Corporation? Give any five such distinctions.

## MODULE - 2

### *Business Organisations*



*Notes*

## MODULE - 2

### Business Organisations



Notes

## Public Sector Enterprises

14. Explain the merits of a Statutory Corporation over a Departmental Undertaking.
15. In a democracy like India, can we eliminate the public sector and give all the rights to the private sector? Give suitable arguments.
16. **While traveling on National Highway you noticed a Company named Hindustan Potash Ltd. Your father told you that it is a Government Company. But you were not satisfied. Therefore, your father explained you the features of a Government company to convince you. What are these features?**
17. **You have heard about various types of Public Sector Enterprises such as Departmental Undertakings, Public Corporations and Government Companies. Taking an example of all three give at least one name and two features of each.**



## ANSWERS TO INTEXT QUESTIONS

- 7.1**
1. It refers to economic and social activities undertaken by public authorities.
  2. (a) False – The objective of public sector enterprises is welfare of the customer.  
(b) False – The public sector enterprises are managed by the Government.  
(c) False – The public sector enterprises concentrate on area of public utility service.  
(d) True  
(e) False – The public enterprises are financed from government funds and sometimes through public issues.
- 7.2**
1. (a) Railways                      (b) Postal Services                      (c) Broadcasting
  2. (a) Departmental undertaking                      (d) Statutory corporation  
(c) Government company                      (d) Government company
  3. Merits – (a), (c), (e)                      Limitations – (b), (d)
- 7.3**
1. (a) It is incorporated under a special Act of Parliament or State Legislature.  
(b) It is managed by a Board of Directors which is composed of individuals who are trained and experienced.
  2. (a) No change

## Public Sector Enterprises

- (b) Statutory corporations are incorporated under special Act of Parliament or state assemblies.
- (c) Statutory corporation are not motivated by profit.
- (d) The internal management of the statutory corporation is free from government control.
- (e) The capital of statutory corporation is provided by the government.

- 7.4** 1. (b) Operational efficiency (c) Competition to private sector  
 2. Merits – (a), (b), (e) Limitations – (c), (d)

- 7.5** 1. (a) Public welfare (b) Planned economic development of the country  
 (c) Regional balance (d) Import substitution  
 (e) Checking concentration of economic power

2. (a) (i) BHEL – Bharat Heavy Electricals Limited  
 (ii) BPCL – Bharat Petroleum Corporation Limited  
 (iii) GAIL – Gas Authority of India Limited  
 (iv) HPCL – Hindustan Petroleum Corporation Limited  
 (v) IOCL – Indian Oil Corporation Limited  
 (vi) MTNL – Mahanagar Telephone Nigam Limited  
 (vii) NTPC – National Thermal Power Corporation  
 (viii) ONGC – Oil and Natural Gas Corporation Ltd.  
 (ix) SAIL – Steel Authority of India Limited

(b) Navaratna



### DO AND LEARN

Find out from 10 residents of your locality to get information about which type of organisation they serve and categorise them in Private sector and Public Sector. Prepare a report stating the reasons for placing the respective organisations in different sectors.

## MODULE - 2

### Business Organisations



*Notes*



### ROLE PLAY



#### Notes

1. Suresh and Ramesh are two close friends meeting each other after a long time. You are required to read the following and pick a role for yourself and the other for your friend and give suitable arguments.

Suresh : Hey, Ramesh! How are you? I am seeing you after a very long time.

Ramesh : Hello, Suresh! It is good to see you too.

Suresh : What are you doing presently?

Ramesh : I am working as an officer in Indian Railway.

Suresh : That's good. But I am in a Government Company.

Both of them started discussing about their own organisation.

In the light of the merits and limitations of Departmental Undertakings and Government Companies, you are required to continue the conversation with suitable argument.

2. There was a news about the good performance of Public Sector Organisations. That convince you, as a student of Business Studies. You decide to talk to your tutor about this during the PCP classes. You are Rajan and the conversation with you tutor started as follows :

Rajan : Sir, What is the reason that Govt. Organisations are performing well now a days in comparision to earlier years.

Tutor : Rajan you are absolutely correct. But do you know, that there are different types of organisation & all of them are not meant for earning profits.

Rajan : Is it so sir? Can you please tell something more about these organisations.

Tutor : Sure Rajan & the discussion continues.