

**N. PARANJOTHI**

**PGT (SS) COMMERCE**

**EMPID. NO: 2182**

**AECS, KAIGA**

# **Online Teaching Material**

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**Class XI**

**SUBJECT: Business Studies**

**CHAPTER - 3**

**Public, Private And Global Enterprises**

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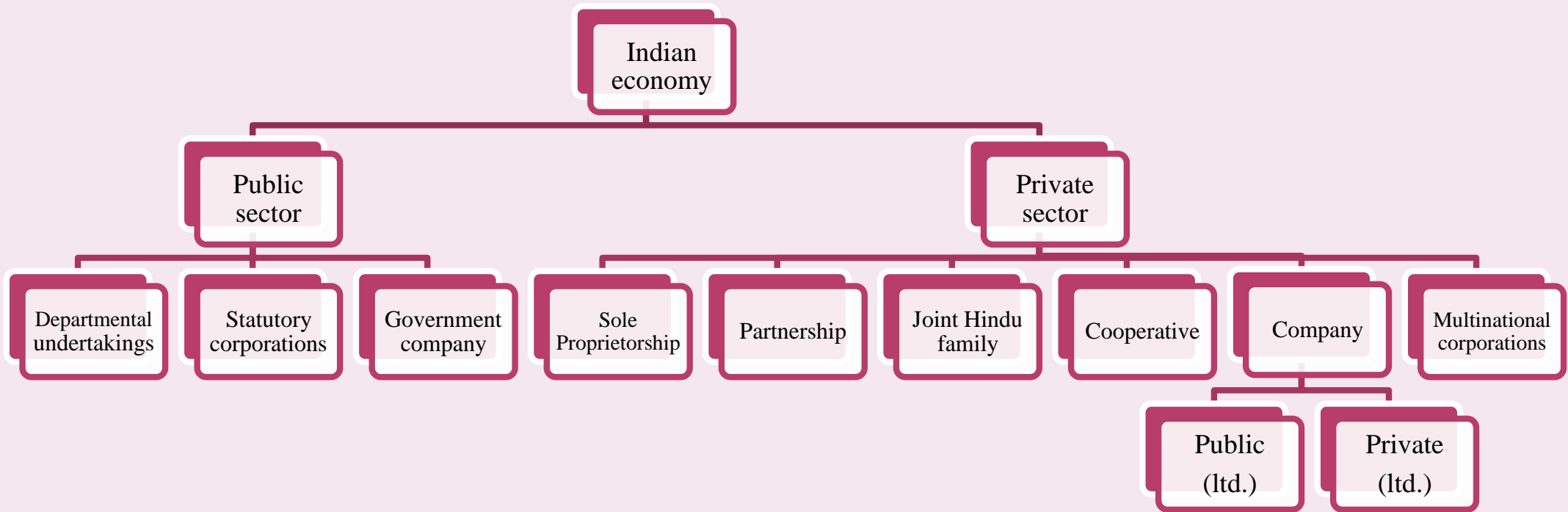
# Concept

There are all kinds of business organisations — small or large, industrial or trading, privately owned or government owned existing in our country. These organisations affect our daily economic life and therefore become part of the Indian economy. Since the Indian economy consists of both privately owned and government owned business enterprises, it is known as a mixed economy. The Government of India has opted for a mixed economy where both private and government enterprises are allowed to operate. The economy, therefore, may be classified into two sectors viz., public sector and private sector.

**Public Sector Enterprises** - The public sector consists of various organisations owned and managed by the government. These organisations may either be partly or wholly owned by the central or state government.

**Private Sector Enterprises** - The private sector consists of business owned by individuals or a group of individuals. The various forms of organisation are sole proprietorship, partnership, joint Hindu family, cooperative and company.

# Forms of Public Sector Enterprises



# **PUBLIC SECTOR ENTERPRISES**

## **1. Departmental Undertakings**

This is the oldest and most traditional form of organizing public enterprises. These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself.

They act through the officers of the Government and its employees are Government employees. These undertakings may be under the central or the state government and the rules of central/state government are applicable. Examples of these undertakings are railways and post and telegraph department.

## Features :

- i. The funding of these enterprises come directly from the Government Treasury and are an annual appropriation from the budget of the Government. The revenue earned by these is also paid into the treasury;
- ii. They are subject to accounting and audit controls applicable to other Government activities;
- iii. The employees of the enterprise are Government servants and their recruitment and conditions of service are the same as that of other employees directly under the Government. They are headed by Indian Administrative Service(IAS) officers and civil servants who are transferable from one ministry to another;
- iv. It is generally considered to be a major subdivision of the Government department and is subject to direct control of the ministry;
- v. They are accountable to the ministry since their management is directly under the concerned ministry.



## **Merits :**

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

## **Limitations :**

- i. Departmental undertakings fail to provide flexibility, which is essential for the smooth operation of business;
- ii. The employees or heads of departments of such undertakings are not allowed to take independent decisions, without the approval of the ministry concerned. This leads to delays, in matters where prompt decisions are required;
- iii. These enterprises are unable to take advantage of business opportunities. The bureaucrat's over-cautious and conservative approval does not allow them to take risky ventures;
- iv. There is red tapism in day-to-day operations and no action can be taken unless it goes through the proper channels of authority;
- v. There is a lot of political interference through the ministry;
- vi. These organizations are usually insensitive to consumer needs and do not provide adequate services to them.

## 2. STATUTORY CORPORATIONS

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Statutory corporations are public enterprises brought into existence by a special act of the parliament. The act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments. It is a corporate person and has the capacity of acting in its own name. Statutory corporations therefore have the power of the government and considerable amount of operating flexibility of private enterprises.

# Features :

- i. Statutory corporations are setup under an Act of Parliament and are governed by the provisions of the Act. The Act defines the objects, powers and privileges of a statutory corporation;
- ii. This type of organisation is wholly owned by the state. The government has the ultimate financial responsibility and has the power to appropriate its profits. At the same time, the state also has to bear the losses, if any;
- iii. A statutory corporation is a body corporate and can sue and be sued, enter into contract and acquire property in its own name;
- iv. This type of enterprise is usually independently financed. It obtains funds by borrowings from the government or from the public through revenues, derived from sale of goods and services. It has the authority to use its revenues;
- v. A statutory corporation is not subject to the same accounting and audit procedures applicable to government departments. It is also not concerned with the central budget of the Government;
- vi. The employees of these enterprises are not government or civil servants and are not governed by government rules and regulations. The conditions of service of the employees are governed by the provisions of the Act itself. At times, some officers are taken from government departments, on deputation, to head these organisations.

## **Merits :**

- i. They enjoy independence in their functioning and a high degree of operational flexibility. They are free from undesirable government regulation and control;
- ii. Since the funds of these organisations do not come from the central budget, the government generally does not interfere in their financial matters, including their income and receipts;
- iii. Since they are autonomous organizations they frame their own policies and procedures within the powers assigned to them by the Act. The Act may, however, provide few issues/matters which require prior approval of a particular ministry;
- iv. A statutory corporation is a valuable instrument for economic development. It has the power of the government, combined with the initiative of private enterprises.

## **Limitations :**

- i. In reality, a statutory corporation does not enjoy as much operational flexibility as stated above. All actions are subject to many rules and regulations;
- ii. Government and political interference has always been there in major decisions or where huge funds are involved;
- iii. Where there is dealing with public, rampant corruption exists;
- iv. The Government has a practice of appointing advisors to the Corporation Board. This curbs the freedom of the corporation in entering into contracts and other decisions. If there is any disagreement, the matter is referred to the government for final decisions. This further delays action.

### **3.GOVERNMENT COMPANY**

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A government company is established under The Companies Act, 2013 and is registered and governed by the provisions of The Act. These are established for purely business purposes and in true spirit compete with companies in the private sector. According to the section 2(45) of the Companies Act 2013, a government company means any company in which not less than 51 per cent of the paid up capital is held by the central government, or by any state government or partly by Central government and partly by one or more state governments and includes a company which is a subsidiary of a government company.

## Features :

- i. It is an organisation created under the Companies Act, 2013 or any other previous Company Law.
- ii. The company can file a suit in a court of law against any third party and be sued;
- iii. The company can enter into a contract and can acquire property in its own name;
- iv. The management of the company is regulated by the provisions of the Companies Act, like any other public limited company;
- v. The employees of the company are appointed according to their own rules and regulations as contained in the Memorandum and Articles of Association of the company. The Memorandum and Articles of Association are the main documents of the company, containing the objects of the company and its rules and regulations; These companies are exempted from the accounting and audit rules and procedures. An auditor is appointed by the Central Government and the Annual Report is to be presented in the Parliament or the State Legislature;
- vi. The government company obtains its funds from government shareholdings and other private shareholders. It is also permitted to raise funds from the capital market.



## **Merits :**

- i. A government company can be established by fulfilling the requirements of the Indian Companies Act. A separate Act in the Parliament is not required;
- ii. It has a separate legal entity, apart from the Government;
- iii. It enjoys autonomy in all management decisions and takes actions according to business prudence;
- iv. These companies by providing goods and services at reasonable prices are able to control the market and curb unhealthy business practices.

## **Limitations :**

- i. Since the Government is the only shareholder in some of the companies, the provisions of the Companies Act does not have much relevance;
- ii. It evades constitutional responsibility, which accompany financed by the government should have. It is not answerable directly to the Parliament;
- iii. The government being the sole shareholder, the management and administration rests in the hands of the government. The main purpose of a government company, registered like other companies, is defeated.

**THANK YOU**

**GOOD LUCK!!**