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Contact – 8920884581

Chapter 3 – Private, Public & Global Enterprises

1. Public Sector: The public sector refers to the part of the economy that is owned and controlled by the government. In this sector, the government holds the majority stake or complete ownership of the organization. The primary objective of public sector enterprises is to provide essential goods and services to the general public and promote the welfare of society. These enterprises are established to fulfill social objectives and not solely for profit-making. Examples of public sector organizations include government departments, public utilities (such as electricity, water, and gas supply companies), public sector banks, and government-run educational institutions.
2. Private Sector: The private sector refers to the part of the economy that is owned and controlled by private individuals or entities. It includes businesses and enterprises that are owned by individuals, partnerships, or corporations. The main motive of private sector enterprises is to earn profits and maximize shareholders' wealth. Private sector organizations operate based on market principles and are driven by competition. They make independent decisions regarding pricing, production, and distribution. Examples of private sector organizations include sole proprietorships, partnerships, private limited companies, multinational corporations, and privately-owned educational institutions.

Forms of Public sector enterprises

1. Departmental Undertakings: In this form, the public sector enterprise is directly under the control of the government department. The department responsible for its operations manages all aspects, including finance, production, and marketing. Examples include the Department of Posts and the Indian Railways.
2. Statutory Corporations: Statutory corporations are established by an act of Parliament or state legislatures. They have a separate legal entity from the government and operate with greater autonomy. These corporations have their own board of directors and management structure. Examples include Air India and State Bank of India.
3. Government Company: A government company is a public sector enterprise registered under the Indian Companies Act. The government owns at least 51% of the company's shares, and it has a separate legal entity. These companies have a board of directors and operate with some degree of autonomy. Examples include Oil and Natural Gas Corporation (ONGC) and Bharat Heavy Electricals Limited (BHEL).
4. Cooperative Organizations: Cooperative organizations are formed by a group of individuals who come together voluntarily to address their common economic and social needs. These organizations are owned and controlled by their members, who actively participate in their functioning. Examples include the Indian Farmers Fertiliser Cooperative Limited (IFFCO) and the National Cooperative Dairy Federation of India (Amul).

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5. Joint Sector Enterprises: Joint sector enterprises are established and jointly owned by the government and private enterprises. The government and private partners contribute capital and share the risks and profits. This form of organization promotes a partnership between the public and private sectors. Examples include Maruti Udyog Limited (now Maruti Suzuki India Limited) and Bharat Petroleum Corporation Limited (BPCL).
6. Public-Private Partnership (PPP): Public-Private Partnership refers to a contractual arrangement between the government and private sector entities for the provision of public services or infrastructure projects. The government and private partners share the risks and rewards. Examples of PPP projects include toll roads, airports, and power plants.

Departmental Undertaking

Departmental Undertakings refer to the government-owned enterprises or organizations that operate within a government department. These undertakings are established by the government to perform specific tasks or provide essential services to the public.

Features of Departmental Undertakings:

1. Government Ownership: Departmental Undertakings are owned and controlled by the government, either at the central or state level.
2. Part of Government Department: These undertakings operate as a part of a government department, which provides them with administrative support and supervision.
3. Financial Dependence: They receive financial resources from the government's budgetary allocation or through revenue generated from their operations.
4. Public Service Orientation: Departmental Undertakings are primarily focused on providing essential services or meeting public welfare objectives rather than maximizing profits.
5. Government Accountability: These undertakings are subject to government regulations, scrutiny, and accountability for their performance and utilization of resources.
6. Employment Generation: They contribute to employment opportunities by hiring personnel for various positions within the undertaking.

Merits of Departmental Undertakings:

1. Public Welfare: Departmental Undertakings are established to provide essential services like healthcare, education, transport, etc., which directly benefit the public.
2. Government Control: Being government-owned, these undertakings allow the government to exercise direct control over operations, policies, and service standards.
3. Service Orientation: The primary focus of Departmental Undertakings is to cater to the needs of the public and ensure the equitable distribution of services.
4. Financial Stability: These undertakings enjoy financial stability as they receive funds from the government budget, ensuring their sustainability and continuity of operations.
5. Social Accountability: Departmental Undertakings are accountable to the public, as they operate in the public domain and are responsible for delivering services efficiently.

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6. Employment Opportunities: They provide employment opportunities, thereby reducing unemployment and contributing to the overall socio-economic development of the country.

Limitations of Departmental Undertakings:

1. Lack of Autonomy: Departmental Undertakings often face bureaucratic hurdles and lack decision-making autonomy, resulting in delayed decision-making processes.
2. Political Interference: These undertakings are susceptible to political interference, which may hinder their efficiency and objective decision-making.
3. Inefficiency: Due to the absence of profit motive, Departmental Undertakings may suffer from operational inefficiencies, resulting in suboptimal service delivery.
4. Limited Flexibility: They may lack the flexibility and adaptability of private enterprises, making it difficult to respond quickly to changing market dynamics or customer demands.
5. Lack of Innovation: Departmental Undertakings may face challenges in innovation and technological advancements due to the absence of profit incentives.
6. Budgetary Constraints: These undertakings are dependent on government budgets for funding, which may restrict their ability to invest in infrastructure development or expansion.

Statutory corporations

Statutory corporations refer to government-owned corporations established by an Act of Parliament or State Legislature. These corporations are created to undertake commercial activities and provide essential services to the public. Here are the six features, merits, and limitations of statutory corporations:

Features of Statutory Corporations:

1. Legal Entity: Statutory corporations have a separate legal entity distinct from the government or individuals who establish them.
2. Created by Law: These corporations are established through an Act of Parliament or State Legislature.
3. Government Ownership: The government holds the majority of the shares in a statutory corporation, ensuring its control and management.
4. Commercial Activities: Statutory corporations engage in commercial activities to generate revenue and serve the public.
5. Public Services: They provide essential services like transportation, telecommunications, electricity, etc., to the public.
6. Autonomy: While the government controls them, statutory corporations often have a certain degree of autonomy in their operations.

Merits of Statutory Corporations:

1. Public Welfare: They focus on providing essential services to the public, ensuring the welfare and convenience of citizens.

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2. Financial Autonomy: Statutory corporations have the authority to generate their revenue through business activities, reducing dependence on government funding.
3. Specialized Expertise: These corporations often employ professionals and experts in their respective fields, ensuring efficient service delivery.
4. Flexibility: Statutory corporations can adapt to changing market conditions more quickly compared to government departments, enabling them to respond effectively to consumer demands.
5. Accountability: As separate legal entities, statutory corporations are accountable for their performance and outcomes, making them more transparent.
6. Improved Infrastructure: They contribute to the development of infrastructure by investing in and providing services like transportation, communication, and power supply.

Limitations of Statutory Corporations:

1. Political Interference: These corporations may face undue political influence, which can impact decision-making and hamper their efficiency.
2. Lack of Profit Orientation: Sometimes, statutory corporations focus more on fulfilling social objectives rather than profitability, which can lead to financial losses.
3. Bureaucratic Structure: The hierarchical structure and bureaucracy associated with these corporations can slow down decision-making processes and hinder innovation.
4. Limited Accountability: Despite separate legal entity status, there may be challenges in holding statutory corporations accountable due to political or bureaucratic influences.
5. Lack of Competition: As government-owned entities, statutory corporations may face less competition, which can lead to complacency and a lack of motivation for improvement.
6. Inefficiency and Red Tape: The presence of bureaucracy and complex procedures can lead to inefficiency and red tape, affecting the overall functioning of statutory corporations.

Government Company

Government company refers to a company in which at least 51% of the paid-up capital is held by the government. Here are the six features, merits, and limitations of a government company:

Features of a Government Company:

1. Ownership: The majority of the share capital (at least 51%) is held by the government.
2. Control: The government exercises control over the company through its shareholding and appointment of directors.
3. Objective: Government companies are formed with the aim of providing essential goods or services to the public.
4. Legal Entity: Government companies have a separate legal identity from the government.
5. Autonomy: They enjoy a certain degree of autonomy in decision-making and business operations.

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6. Accountability: Government companies are accountable to the government and have to comply with regulations and reporting requirements.
7. Profit Motive: While government companies aim to provide public services, they also focus on generating profits.
8. Social Welfare: Government companies often prioritize the welfare of society and public interest.

Merits of a Government Company:

1. Social Objectives: Government companies can be instrumental in achieving social and welfare objectives, such as providing essential services, promoting employment, and addressing regional imbalances.
2. Financial Support: These companies often receive financial support from the government in the form of capital infusion, loans, guarantees, etc., which enables them to undertake large-scale projects.
3. Stability: Government companies usually enjoy stability and continuity of operations since they are backed by the government, which ensures their long-term viability.
4. Infrastructure Development: They play a vital role in developing critical infrastructure sectors like power, transportation, telecommunications, etc., which are essential for the overall economic development of the country.
5. Public Confidence: Due to their association with the government, these companies tend to enjoy a higher level of public confidence and trust, which can be advantageous in attracting investments and customers.
6. Strategic Control: Government companies in strategic sectors like defense, energy, and natural resources allow the government to maintain control over crucial industries and safeguard national interests.

Limitations of a Government Company:

1. Bureaucratic Interference: Government companies may face bureaucratic interference, leading to delays in decision-making and operational inefficiencies.
2. Lack of Autonomy: These companies may have limited autonomy in decision-making due to government control, which can hinder their agility and responsiveness.
3. Political Interference: Political considerations and changes in government policies can significantly impact the functioning and decision-making of government companies.
4. Accountability Issues: Due to their association with the government, there can be challenges in holding government companies accountable for their performance, especially when political factors come into play.
5. Lack of Profit Orientation: The social and welfare objectives of government companies sometimes take precedence over profit-making, which may affect their financial performance and efficiency.
6. Inefficiencies and Red Tape: Government companies can be prone to inefficiencies, bureaucracy, and red tape, leading to delays, cost overruns, and suboptimal outcomes.

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Changing role of Public Sector

The changing role of the public sector, as per your provided points, can be explained as follows:

1. Development of infrastructure: The public sector plays a crucial role in the development of infrastructure. It involves providing essential services such as transportation, power, telecommunications, and other public facilities. The government invests in core sectors where private enterprises may not be able to operate efficiently or where their operations may not align with national development goals. The public sector takes the lead in infrastructure projects and provides the necessary direction for future investments in this area.

2. Regional balance: The public sector helps maintain regional balance by ensuring that development is not concentrated in specific areas or regions. It promotes equal growth opportunities across various regions and aims to reduce regional disparities. The government may invest in less developed regions to stimulate economic growth and provide necessary infrastructure and facilities.

3. Economies of scale: The public sector can benefit from economies of scale, which refers to the cost advantages that arise from large-scale operations. By undertaking projects on a large scale, the public sector can often achieve lower costs per unit and provide goods and services at affordable prices. This enables access to essential services for a larger section of the population.

4. Check over concentration of economic power: The public sector helps prevent the concentration of economic power in the hands of a few private entities. It ensures that key industries and sectors are not monopolized by a limited number of players, which can lead to unfair practices and exploitation. By participating in strategic sectors of the economy, the public sector provides competition and safeguards against the undue dominance of private enterprises.

5. Import substitution: The public sector can contribute to import substitution, which refers to the domestic production of goods that were previously imported. By investing in industries and sectors that have the potential for import substitution, the government aims to reduce dependency on foreign goods, promote domestic industries, and enhance self-sufficiency.

6. Government policy towards the public sector since 1991: In India, since 1991, there has been a shift in government policy towards the public sector. The number of industries reserved exclusively for the public sector has been reduced from 17 to 8, and subsequently to 3. This policy change aimed to promote liberalization and encourage private sector participation in various industries.

Additionally, there has been a process of disinvestment, wherein the government has sold shares of select public sector enterprises to private entities or the general public. This strategy has been employed to improve efficiency, bring in private capital and expertise, and reduce the fiscal burden on the government. One example of such disinvestment is the sale of government shares in companies like Bharat Petroleum Corporation Limited (BPCL) and Air India.

These changes in government policy reflect a gradual shift towards a more open economy and increased private sector participation, while still acknowledging the importance of the public sector in key areas such as infrastructure and strategic industries.

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Government policy towards the public sector since 1991

Since 1991, the Indian government has implemented several policy changes regarding the public sector. Here are some key developments:

1. Reduction in the number of industries reserved for the public sector: Prior to 1991, the Indian government had reserved 17 industries exclusively for the public sector. However, in line with economic reforms and liberalization, this number was gradually reduced to 8, and later further decreased to 3. The intention behind this policy change was to encourage private sector participation and competition in various industries.

2. Disinvestment of shares of select public sector enterprises: The government initiated the disinvestment of shares in certain public sector enterprises. This involved selling a portion of the government's ownership in these companies to private investors, including individuals and institutions. The disinvestment policy aimed to improve the efficiency and performance of these enterprises, promote competition, and generate funds for the government.

3. Policy regarding sick units aligned with the private sector: The government introduced a policy to treat sick units in the public sector on par with those in the private sector. This meant that if a public sector enterprise was financially or operationally unviable, efforts were made to revive or rehabilitate it. However, if revival was not possible, the enterprise could be closed down or sold off, similar to the approach taken for sick units in the private sector.

4. Memorandum of Understanding (MoU) with examples: A Memorandum of Understanding is a formal agreement between two or more parties that outlines their mutual understanding and intentions. In the context of business studies, an MoU can be signed between a company and its suppliers, customers, or other stakeholders to establish terms, conditions, and objectives of their collaboration.

For example, a manufacturing company might sign an MoU with a raw material supplier to ensure a steady supply of materials at agreed-upon prices and quality standards. The MoU may also cover aspects like delivery schedules, payment terms, and dispute resolution mechanisms. This document helps establish a clear understanding and builds trust between the involved parties.

The government policy towards the public sector since 1991 has been focused on privatizing public sector enterprises. The primary objectives of privatization have been to promote efficiency, increase competition, attract private investment, reduce the fiscal burden on the government, and improve the overall performance of these enterprises. Here are 10 points highlighting the objectives of privatizing public sector enterprises:

1. Efficiency enhancement: Privatization aims to improve the efficiency and productivity of public sector enterprises by introducing private management practices and reducing bureaucratic interference.

2. Competition promotion: Privatization introduces competition by allowing private players to enter the market, leading to improved product quality, better services, and competitive pricing.

3. Resource mobilization: Privatization allows the government to raise funds by selling its stake in public sector enterprises, which can be used for various developmental purposes.

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4. Technological advancement: Private players often bring in advanced technology and expertise, which can help modernize public sector enterprises and make them globally competitive.
5. Profit generation: Privatization aims to transform loss-making public sector enterprises into profitable entities, generating revenue for the government through dividends and taxes.
6. Employment generation: Privatization can lead to the creation of new job opportunities as private players expand operations and invest in modernizing the acquired enterprises.
7. Managerial autonomy: Privatization reduces government interference and grants managerial autonomy to private owners, allowing them to make decisions swiftly and effectively.
8. Consumer welfare: Privatization intends to enhance consumer welfare by providing better quality goods and services, improved customer support, and increased consumer choice.
9. Sectoral development: Privatization promotes the growth of specific sectors by attracting private investment, fostering innovation, and driving overall economic development.
10. Global integration: Privatization helps public sector enterprises integrate into the global economy by encouraging foreign direct investment, partnerships, and acquisitions.

Example: One of the most prominent examples of privatization in India is the privatization of the telecommunication sector. In 1991, the government allowed private players to enter the telecom market, leading to the establishment of companies like Bharti Airtel, Vodafone Idea, and Reliance Jio. This move resulted in increased competition, improved services, lower tariffs, and technological advancements such as the introduction of 4G and 5G networks. The privatization of the telecom sector has transformed it into a dynamic and rapidly growing industry, benefiting both the consumers and the overall economy.

Global Enterprises

Global Enterprises refer to large-scale businesses that operate and have a presence in multiple countries around the world. They possess certain key features that distinguish them from domestic or local enterprises. Let's explore each of the mentioned features in the context of Global Enterprises:

1. Huge Capital Resources: Global Enterprises typically have access to substantial financial resources, enabling them to invest in various operations, such as establishing new branches, acquiring foreign companies, or funding research and development initiatives.
2. Foreign Collaboration: Global Enterprises often engage in collaborations and partnerships with foreign companies or organizations. These collaborations can involve joint ventures, strategic alliances, or licensing agreements, allowing them to leverage local expertise, networks, and resources in foreign markets.
3. Advanced Technology: Global Enterprises prioritize the adoption and implementation of advanced technologies in their operations. This includes using state-of-the-art manufacturing techniques, employing cutting-edge software and systems, and leveraging automation and artificial intelligence to improve efficiency and productivity.

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4. Product Innovation: Global Enterprises focus on continuous product innovation and development to meet the evolving needs and preferences of customers across different markets. They invest in research and development activities to create new and improved products, which can help them gain a competitive edge and expand their market share.
5. Marketing Strategies: Global Enterprises employ tailored marketing strategies to effectively reach and target customers in diverse markets. These strategies may include localized advertising and promotional campaigns, market segmentation, and customization of products to suit the specific preferences and cultural contexts of different regions.
6. Expansion of Market Territory: Global Enterprises actively seek to expand their market presence beyond their home country. They establish subsidiaries, branches, or distribution networks in multiple countries, allowing them to tap into new customer bases and access untapped markets, thereby increasing their global market share.
7. Centralized Control: Global Enterprises often maintain a centralized control structure, where key decision-making authority and operational control rest with the headquarters or the central management team. This centralized control helps ensure consistency in operations, brand identity, and strategic direction across different regions.

Joint Venture

joint ventures refer to cooperative business arrangements between two or more independent entities to pursue a specific project or objective. These entities pool their resources, expertise, and capital to establish a separate legal entity that operates as a partnership for a finite period. There are two types of joint ventures based on the nature of the agreement: contractual joint ventures and equity-based joint ventures.

1. Contractual Joint Venture:

A contractual joint venture is a partnership established through a contractual agreement between two or more parties. This agreement outlines the terms, responsibilities, and obligations of each participant.

Elements of Contractual Joint Venture

a. Agreement: Parties involved in a contractual joint venture enter into a formal agreement that specifies the purpose, objectives, and responsibilities of each party.

b. Duration: The agreement includes a specified time period during which the joint venture will operate.

c. Sharing of Profits and Losses: The agreement outlines how profits and losses will be shared among the participating entities.

d. Limited Liability: Each party's liability is limited to the terms mentioned in the agreement.

e. Independence: The entities involved retain their individual legal status and independence, even though they collaborate for a specific purpose.

2. Equity-based Joint Venture

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An equity-based joint venture involves the creation of a separate legal entity, typically in the form of a corporation or partnership. The participating entities contribute capital, assets, and resources in proportion to their agreed-upon ownership shares.

Elements of Equity-based Joint Venture:

a. Formation of a Separate Entity: A new legal entity is created for the joint venture, with its own management and operations.

b. Capital Contribution: Each party contributes capital or assets to the joint venture based on their agreed-upon ownership share.

c. Sharing of Profits and Losses: The profits and losses of the joint venture are distributed among the participating entities according to their ownership stakes.

d. Shared Control and Management: The participating entities jointly control and manage the operations of the joint venture, often through a board of directors or management committee.

e. Sharing of Risks and Rewards: The risks and rewards associated with the joint venture are distributed among the parties according to their ownership shares.

Benefits of Joint Venture

Joint ventures offer several benefits to businesses. Here are some of the key advantages:

1. Increased resources and capacity: Joint ventures allow companies to pool their resources, expertise, and capabilities, leading to increased financial and operational strength. By combining their assets, businesses can access a larger capital base, expanded production capacities, and a broader range of skills and knowledge.
2. Access to new markets and distribution networks: Joint ventures provide companies with the opportunity to enter new markets and expand their customer base. By partnering with a local or foreign company that has an established presence in the target market, businesses can leverage their partner's distribution networks, market knowledge, and customer relationships to quickly gain access to potential customers.
3. Access to technology: Joint ventures often involve the sharing or transfer of technology between partners. This can be particularly beneficial when one partner possesses valuable intellectual property, patents, or proprietary technology that the other partner can leverage to enhance their products, services, or processes. Access to advanced technology can accelerate innovation and help businesses stay competitive in the market.
4. Low cost of production: Collaborating in a joint venture can lead to economies of scale and cost efficiencies. By sharing production facilities, equipment, and other resources, partners can reduce their individual production costs. This can result in improved profitability and a competitive advantage by offering products or services at a lower cost than their competitors.
5. Established brand name: Partnering with a well-known and respected brand through a joint venture can provide instant credibility and recognition in the market. This can be particularly advantageous for companies that are new to a market or seeking to enhance their reputation. The established brand's reputation and customer trust can help drive sales and accelerate the growth of the joint venture.

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Public-Private Partnership

Public-Private Partnership (PPP) refers to a collaborative arrangement between the government/public sector and the private sector for the provision of public infrastructure or services. It involves sharing responsibilities, risks, and resources between the two sectors to achieve common goals and deliver public services efficiently.

Features of PPP model:

1. Joint collaboration: PPP involves a partnership between the public and private sectors, combining their expertise and resources.
2. Risk sharing: Risks associated with the project are shared between the government and the private sector, enabling better risk management.
3. Long-term contractual agreement: PPP projects typically involve long-term contracts between the government and the private sector, usually ranging from 10 to 30 years.
4. Performance-based payments: The private sector partner's compensation is often linked to project performance and meeting predefined targets.
5. Transfer of assets: At the end of the contract period, the ownership of the assets is usually transferred to the government.

Applications of PPP:

1. Infrastructure development: PPP is commonly used for the construction and operation of infrastructure projects like roads, bridges, airports, ports, power plants, and water supply systems.
2. Public services: PPP can be utilized for the delivery of public services such as healthcare facilities, education, waste management, transportation systems, and public housing.

Strengths of PPP:

1. Efficiency and innovation: PPP brings together the resources and expertise of both sectors, leading to improved efficiency and innovative approaches to service delivery.
2. Risk sharing: PPP allows for risk sharing between the public and private sectors, reducing the burden on the government and encouraging private sector investment.
3. Timely execution: PPP projects often have faster execution timelines compared to traditional government projects, as the private sector brings in management expertise and accountability.

Weaknesses of PPP:

1. Cost considerations: PPP projects may sometimes be more expensive due to the involvement of private sector profit margins and financing costs.
2. Limited control: The government may have limited control over the project during the contract period, which can lead to concerns about service quality and public interest.
3. Complexity: PPP projects involve complex contractual agreements, which can lead to challenges in negotiation, monitoring, and dispute resolution.

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Examples of PPP projects as per the Class 11 Business Studies CBSE NCERT syllabus:

1. Delhi Mumbai Industrial Corridor (DMIC): DMIC is a PPP project aimed at developing an industrial corridor between Delhi and Mumbai. It involves collaboration between the Indian government and private sector companies to develop infrastructure, industrial parks, and smart cities along the corridor.
2. Metro Rail Projects: Several metro rail projects in India have been implemented through PPP models, where private sector companies are involved in the construction and operation of metro rail systems in collaboration with the government.
3. Public Health Centers: In some regions, the government collaborates with private healthcare providers to operate public health centers, ensuring better healthcare facilities for the public.

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