

As per CBSE Revised Syllabus for 2021 Exam



Unit 3

Public, Private and Multinational Company

Public Sector and Private Sector Enterprises – Concept

Difference between Private Sector and Public Sector Enterprises

Private Sector Enterprises	Public Sector Enterprises
<ul style="list-style-type: none">❑ The private sector enterprises are the businesses owned, managed and controlled by individuals or a group of individuals.❑ The various forms of organisation in the private sector are:<ul style="list-style-type: none">• Sole Proprietorship• Partnership• Joint Hindu Family Business• Cooperative Societies• Company• Multi-National Corporations (MNCs)	<ul style="list-style-type: none">❑ The public sector enterprises are various organisations owned and managed by the government. These organisations may either be partly or wholly owned by the central or state government. They may also be a part of the ministry or come into existence by a Special Act of the Parliament. The government, through these enterprises participates in the economic activities of the country.❑ The forms of organisation which a public sector enterprise may take are:<ul style="list-style-type: none">• Departmental Undertakings• Statutory Corporations• Government Companies

Features of Public Sector Enterprises (PSEs)

1. **The government has a major role to play in the formation of public sector enterprises.**

But the government acts through its people, its offices, employees and they take decisions on behalf of the government. For this purpose, public enterprises were formed by the government to participate in the economic activities of the country.

2. Public sector enterprises contribute to the economic development.

They are expected to contribute to the economic development of the country in today's liberalised, competitive world.

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3. Public sector enterprises are owned by the public and are accountable to the public through the Parliament.

They are characterised by public ownership, public funds being used for its activities and public accountability.

4. A public enterprise may take any particular form of organisation depending upon the nature of its operations and their relationship with the government.

- The suitability of a particular form of organisation would depend upon its requirements. The forms of organisation which a public sector enterprise may take are: Departmental Undertakings, Statutory Corporations and Government Companies.
- At the same time, in accordance with general principles, any organisation in the public sector should ensure organisational performance productivity and quality standards.

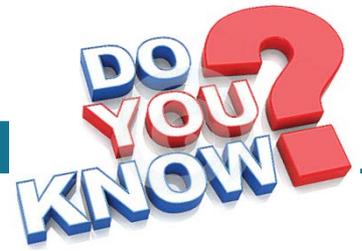


Top Tip

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., private sector and public sector.



The government in its industrial policy resolutions, from time-to-time, defines the area of activities in which the private sector and public sector are allowed to operate.

- In the Industrial Policy Resolution 1948, the Government of India had specified the approach towards development of the industrial sector. The roles of the private and public sector were clearly defined and the government through various Acts and Regulations was overseeing the economic activities of both the private and public sector.
- The Industrial Policy Resolution, 1956 had also laid down certain objectives for the public sector to follow so as to accelerate the rate of growth and industrialisation. The public sector was given a lot of importance but at the same time mutual dependency of public and private sectors was emphasised.

- The 1991 Industrial Policy was radically different from all the earlier policies where the government was deliberating disinvestment of public sector and allowing greater freedom to the private sector. At the same time, foreign direct investment was invited from business houses outside India. Thus, multinational corporations or global enterprises which operate in more than one country gained entry into the Indian economy. Thus, we have public sector units, private sector enterprises and global enterprises coexisting in the Indian economy.

Departmental Undertakings

– Features, Merits and Limitations

- This is the oldest and most traditional form of organising public enterprises.
- These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself.
- The Government functions through these departments and the activities performed by them are an integral part of the functioning of the government.
- They have not been constituted as autonomous or independent institutions and as such are not independent legal entities.
- 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. For example, the **Indian Railways** are managed by the Ministry of Railways. **Post and telegraph** services are run as a department, in the Ministry of Communication. The Delhi Milk Scheme, All India Radio, Doordarshan are other examples of departmental undertakings.



Indian Railways

Features

1. They are **accountable to the ministry** since their management is directly under the concerned ministry.
2. 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.
3. They are subject to **accounting and audit controls** applicable to other Government activities.
4. **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.

5. It is generally considered to be a **major subdivision of the Government department** and is subject to direct control of the ministry.

Merits

Departmental undertakings have certain advantages which are as follows:

1. These undertakings facilitate the Parliament to exercise **effective control over their operations.**
2. These ensure a **high degree of public accountability.**
3. The revenue earned by the enterprise goes directly to the treasury and hence is a **source of income for the Government.**
4. Where **national security** is concerned, this form is most suitable since it is under the direct control and supervision of the concerned ministry.

Limitations

This form of organisation suffers from serious drawbacks, some of which are as follows:

1. Departmental undertakings fail to provide flexibility, which is essential for the smooth operation of business.
2. 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.
3. 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.

4. There is **red tapism in day-to-day operations** and no action can be taken unless it goes through the proper channels of authority.
5. There is lot of **political interference** through the ministry.
6. These organisations are usually **insensitive to consumer needs** and do not provide adequate services to them.

Statutory Corporation – Features, Merits and Limitations

- 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.
- This is a corporate body created by the legislature with defined powers and functions and is financially independent with a clear control over a specified area or a particular type of commercial activity.
- 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.

Examples of Statutory Corporations: The Reserve Bank of India (RBI), State Bank of India (SBI), Life Insurance Corporation (LIC), Employees State Insurance Corporation (ESIC), Oil and Natural Gas Corporation (ONGC), etc.



The Reserve Bank of India (RBI)

Features

Statutory corporations have certain distinct features, which are discussed as below:

1. Statutory corporations are **set up 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.
2. 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.
3. A statutory corporation is a **body corporate** and can sue and be sued, enter into contract and acquire

property in its own name.

4. 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.
5. 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.
6. 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

This form of organisation enjoys certain advantages in its working, which are as follows:

1. They enjoy independence in their functioning and a high degree of operational flexibility. They are **free from undesirable government regulation and control.**
2. 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.
3. Since they are **autonomous organisations** 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.

4. 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

This type of organisation suffers from several limitations, which are as follows:

1. In reality, a statutory corporation does not enjoy as much operational flexibility as stated above. All actions are subject to **many rules and regulations**.
2. **Government and political interference** has always been there in major decisions or where huge funds are involved.
3. Where there is dealing with public, **rampant corruption exists**.
4. 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.

Government Company – Features, Merits and Limitations

A government company is established under The Companies Act, 2013 and is registered and governed by the provisions of The Act. A government company may be formed as a private limited company or a public limited company. 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.”*

Since the government is the major shareholder and exercises control over the management of these companies, they are known as government companies.

All provisions of the Companies Act 2013 are applicable to government companies unless otherwise specified.

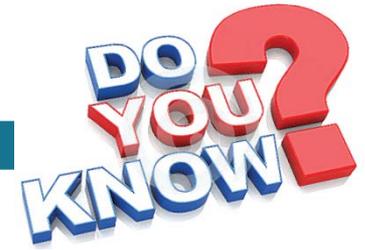
The government exercises control over the paid up share capital of a government company.

The shares of the company are purchased in the name of the President of India.



Bharat Heavy Electricals Limited (BHEL)





Examples of Government Companies:

- Bharat Heavy Electricals Limited (BHEL)
- Maruti Udyog Limited
- Steel Authority of India Limited (SAIL)
- Hindustan Steel Limited
- Hindustan Aeronautics Limited
- Bharat Earthmovers Limited (BEML)
- Madras Refineries Limited (MRL)
- Indian Telephone Industries Limited
- Hindustan Antibiotics Limited
- Hindustan Machine Tools (HMT)

Features

1. It is an organisation created under the Companies Act, 2013 or any other previous Company Law.
2. The company can file a suit in a court of law against any third party and be sued.
3. The company can enter into a contract and can acquire property in its own name.
4. The management of the company is regulated by the provisions of the Companies Act, like any other public limited company.
5. 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.

6. 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.
7. 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

1. A government company can be **established by fulfilling the requirements of the Indian Companies Act, 2013**. A separate Act in the Parliament is not required.
2. It has a **separate legal entity**, apart from the Government.
3. **It enjoys autonomy** in all management decisions and takes actions according to business prudence.
4. These companies by providing goods and services at reasonable prices are able to control the market and **curb unhealthy business practices**.

Limitations

1. Since the Government is the only shareholder in some of the companies, the provisions of the Companies Act does not have much relevance.
2. It evades constitutional responsibility, which a company financed by the government should have. It is not answerable directly to the Parliament.
3. 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.



Private Sector vs Public Sector Enterprises

Private sector enterprises are owned, managed and controlled by individuals or a group of individuals. Their main objective is to earn profit.

Public sector enterprises are owned, managed and controlled by the government. The forms of organisation which a public enterprise may take are departmental undertakings, statutory corporations and government companies.

Departmental Undertakings

This is the oldest and most traditional form of organising public enterprises. The Government functions through these departments. *Examples:* Posts & Telegraphs, Indian Railways.

Merits

1. Effective control

2. High degree of public accountability
3. Source of income for the Government
4. National security

Limitations

1. Fail to provide flexibility
2. Delay in decision-making
3. Unable to take advantage of business opportunities
4. Red tapism
5. Political interference

Statutory Corporation

Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament. Examples: Indian Airlines, LIC, RBI, etc.

Merits

1. Free from undesirable government regulations

2. Government does not interfere in their financial matters
3. Free from red tapism and bureaucracy
4. Protection of public interest.

Limitations

1. Rules and regulations
2. Corruption
3. Government and political interference
4. Curbs the freedom of the corporation

Government Company

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 state government or both. Examples: HMT, BHEL, etc.

Merits

1. Easily established
2. Separate legal entity
3. Enjoys autonomy

4. Curbs unhealthy business practices

1. Government is the only major shareholder
2. Not directly accountable to the Parliament

Limitations

1. Government is the only major shareholder
2. Not directly accountable to the Parliament

Objective Type Questions

Question 1

Match the columns:

(i) It enjoys maximum autonomy in all management activities.	(a) Government Company
(ii) LIC and Air India are the examples of this form of enterprise.	(b) Statutory Corporation
(iii) This enterprise is most suitable when national security is concerned.	(c) Departmental Undertaking



Answer 1

(i) – (a), (ii) - (b), (iii) - (c)



Question 2

A government company is any company in which the paid-up capital held by the government is not less than
(Choose the correct alternative)

- (a) 49 per cent
- (b) 51 per cent
- (c) 50 per cent
- (d) 25 per cent



Answer 2

(b) 51 per cent



Question 3

PSEs are organisations owned by

(Choose the correct alternative)

- (a) Joint Hindu Family Business
- (b) Government
- (c) Foreign Companies
- (d) Private entrepreneurs



Answer 3

(b) Government



Question 4

A corporation established under a special law of Parliament *(Choose the correct alternative)*

- (a) Statutory Corporation
- (b) Departmental undertaking
- (c) Government company
- (d) Multi-national Corporation



Answer 4

(a) Statutory Corporation



Question 5

Reserve Bank of India has been set up as which type of public enterprise? *(Choose the correct alternative)*

- (a) Statutory Corporation
- (b) Departmental undertaking
- (c) Government company
- (d) Multi-national Corporation



Answer 5

(a) Statutory Corporation



Question 6

“Steel Authority of India Limited is a public enterprise.”
Identify this form of organising public enterprises.

(Choose the correct alternative)

- (a) Statutory Corporation
- (b) Departmental undertaking
- (c) Government company
- (d) Multi-national Corporation



Answer 6

(c) Government company



Question 7

The oldest form of organisation of public enterprises
(Choose the correct alternative)

- (a) Statutory Corporation
- (b) Departmental undertaking
- (c) Government company
- (d) Multi-national Corporation



Answer 7

(b) Departmental undertaking



Question 8

Disinvestments of PSEs implies

(Choose the correct alternative)

- (a) Sale of equity shares to public
- (b) Investing in new areas
- (c) Buying shares of PSEs
- (d) Closing down private sector/public operations



Answer 8

(a) Sale of equity shares to public



Question 9

Public enterprises are owned by the public.

True/False? Give reason.



Answer 9

False: Public sector enterprises are owned, managed and controlled by the government.



Question 10

A departmentally run enterprise enjoys corporate status. *True/False? Give reason.*



Answer 10

False: They are established as departments of the ministry, e.g., Indian Railways.



Question 11

A statutory corporation is a body corporate.

True/False? Give reason.



Answer 11

True: A statutory corporation can sue and be sued, enter into contract and acquire property in its own name.



Question 12

Reserve Bank of India (RBI) is an example of a Government company. *True/False? Give reason.*



Answer 12

False: RBI is an example of a statutory corporation.



Question 13

A government company enjoys maximum autonomy.

True/False? Give reason.



Answer 13

True: It enjoys maximum autonomy in all management decisions and actions. There is no undue departmental interference in the working of a government company.



Question 14

The government provides funds to departmental undertakings.
True/False? Give reason.



Answer 14

True: The funding of departmental undertakings come directly from the Government Treasury. The revenue earned by these is also paid into the treasury.



Question 15

Who heads the departmental undertakings?



Answer 15

Departmental undertakings are headed by government employees, IAS officers and civil servants.



Question 16

Why are departmental undertakings accountable to the ministry?



Answer 16

Because their management is directly under the concerned ministry.



Question 17

Where national security is concerned, which form of public enterprises is most suitable?



Answer 17

Departmental undertakings, because they are under the direct control and supervision of the ministry.



Question 18

Why is there red tapism in day-to-day operations of a departmental undertaking?



Answer 18

Because of bureaucrats' control, no action can be taken unless it goes through the proper channels of authority.



Question 19

Name the organisation formed by passing a Special Act of the Parliament.



Answer 19

Statutory company



Question 20

Name the company in which at least 51% shares are kept by government.



Answer 20

Government company



Question 21

In whose name the shares of a government company are purchased?



Answer 21

The President of India



Question 22

Name the organisation which is considered as a part of government only.



Answer 22

Departmental undertaking.



Question 23

Name the organisation which is formed by passing a special Act of Parliament of State Legislature.



Answer 23

Statutory Corporation



Case Studies

Question 1

Once upon a time a round of Election to the five Legislative Assemblies of the country was in progress. The different political parties were putting in the best of their efforts to entice the people through their respective promises to them. There were three main political parties contesting elections in these states. One of the political parties made a promise that if they came into power, they would set up such public sector enterprises in the states which will have the partnership of both the public and the government. However,



in these enterprises, the ownership of the government shall not be less than 51%. The setting up of these enterprises is done as per the provisions of the Indian Companies Act, 2013. The financing of these enterprises is done jointly by both, the people and the government. The second political party promised that if they came into power, they would set up such public sector enterprises which will be completely under the ownership of the government. The burden of financing them will not be put on the shoulders of the people, but they will be managed with the general budget. The third political party, which was contesting the elections for the first time, promised



that on coming into power they would set up such public sector enterprises which will be fully financed by the government. However, there will be no bar to get loan from the people to set up them. They will be set up as per the special Act passed by the Parliament or the State Legislative Assembly.

On the basis of the above para, identify the type of public sector enterprises to be set up as being promised by the three political parties. Also state any two merits of each of them.

(6 marks)



Answer 1

(a) The first political party promised to set up Government Companies.

Merits:

- (i) A government company can be easily established under the Indian Companies Act, 2013. A separate Act in the Parliament is not required.
 - (ii) It has a separate legal entity, apart from the government. It is free from government regulations.
- (b) The second political party promised to set up Departmental Undertakings.**

-
- (i) Since control is direct and centralised, these undertakings facilitate the Parliament to exercise effective control over their operations.
 - (ii) These ensure a high degree of public accountability.
 - (c) The third political party promised to set up Public Corporations/Statutory Corporations.**
 - (i) The government does not interfere in their financial matters, including their income and receipts.
 - (ii) A statutory corporation is relatively free from red tapism and bureaucracy and hence, can take quick decisions.

Question 2

‘Indian Railways’ is a part of Railway Ministry. It is organised, financed and controlled by Railway Ministry. The finances are allocated from government treasury and whatever revenue it earns is deposited to government treasury only. It is treated as a part of government and even the appointment recruitment and selection of employees is done in the same way as that of civil servant.

- (i) Name the type of public sector enterprise ‘Indian Railways’ is.
- (ii) What is the status of employees working in Indian Railways?

(iii) How does it get its finance?

(iv) What does it do with its revenue?

(6 marks)



Answer 2

- (i) Departmental Undertaking
- (ii) They are considered as civil servants or government employees.
- (iii) From government treasury.
- (iv) It is deposited in the government treasury.



Question 3

Gas authority of India Ltd. (GAIL) is carrying on various projects of energy and power. Majority of its shares are held by the government of India. It was registered under the previous Companies Act. It enjoys all the characteristics of a company. The board of directors are appointed by the government. The Board and shareholders are responsible for the efficient working of the company. The company prepares its annual report and submit to the appropriate authorities.

- (a) Name the type of public sector enterprise referred to in the above para.

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- (b) In whose name does the government buy shares?
- (c) State any three features of the type of public sector enterprise identified in part (a) other than those discussed in the above para. **(5 marks)**

Answer 3

- (a) Government Company (b) President of India
- (c) Features of government company:
- (i) The company can file a suit in a court of law against any third party and be sued.
 - (ii) The company can enter into a contract and can acquire property in its own name.
 - (iii) The government company obtains its funds from government shareholdings and other private shareholders. It is also permitted to raise funds from the capital market.