

1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 01 (Class XI, Part- 1)
Module Name/Title	Private sector and Public sector enterprises – Part 1
Module Id	kebs_10301
Pre-requisites	Knowledge about various forms of business organisations
Objectives	<p>After going through this lesson, the learners will be able to understand the following:</p> <ul style="list-style-type: none">• Meaning of Private sector• Meaning of Public sector• Difference between Private and Public sector• Different forms of public sector enterprises• Features, merits and limitations of departmental undertakings• Features, merits and limitations of Statutory Corporation
Keywords	Private sector, Public sector enterprises, PSU

2. Development Team

Role	Name	Affiliation
National MOOC Coordinator	Prof. Amarendra P. Behera	CIET, NCERT, New Delhi
Program Coordinator	Dr. Rejaul Karim Barbhuiya	CIET, NCERT, New Delhi
Course Coordinator (CC) / PI	Dr. Punnam Veeraiah	CIVE, RIE Campus, Bhopal
Course Co-Coordinator / Co-PI	Dr. Nidhi Gusain	CIET, NCERT, New Delhi
Subject Matter Expert (SME)	Ms. Mamta Narula	D.P.S Vasant Kunj, New Delhi
Review Team	Dr. Munipalle Usha Ms. Preeti Sharma	UPGC, Osmania University, Hyderabad, Kenriya Vidyalaya, Sector 24 Noida
Technical Team	Mr. Shobit Saxena Ms. Khushboo Sharma	CIET, NCERT, New Delhi CIET, NCERT, New Delhi

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Introduction

You must have come across all types of business organisations in your daily life.

In your neighbourhood market, there are shops owned by sole proprietors (ie. Grocery store, vegetable shop) or big retail organisations run by a company (i.e.; Reliance mart, Shoppers Stop etc.). Then there are people providing you services like legal services, medical services, being owned by more than one person i.e., partnership firms. These are all privately owned organisations. Similarly, there are other offices or places of business which may be owned by the government. For example, Railways is an organisation wholly owned and managed by the government. The post office, in your locality is owned by the Post and Telegraph Department, Government of India. This is because of plenty of private courier services firms operating in bigger towns (ie. Blue dart, DTDC etc.) Then there are businesses which operate in more than one country known as global enterprises.

Therefore, you may have observed that all types of organisations are doing business in the country whether they are public, private or global.

In this chapter we shall be studying how the economy is divided into two sectors, public and private, the different types of public enterprises, their role and that of the global enterprises.

Private Sector and Public Sector

There are different kinds of business organizations existing in our country which can be:

1. Small or large
2. Industrial or trading,
3. Privately owned or government owned.

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.

1. Private Sector
2. Public Sector

1. Private sector

Private sector includes business owned by individuals or a group of individuals. Forms of organizing Private sector enterprises:

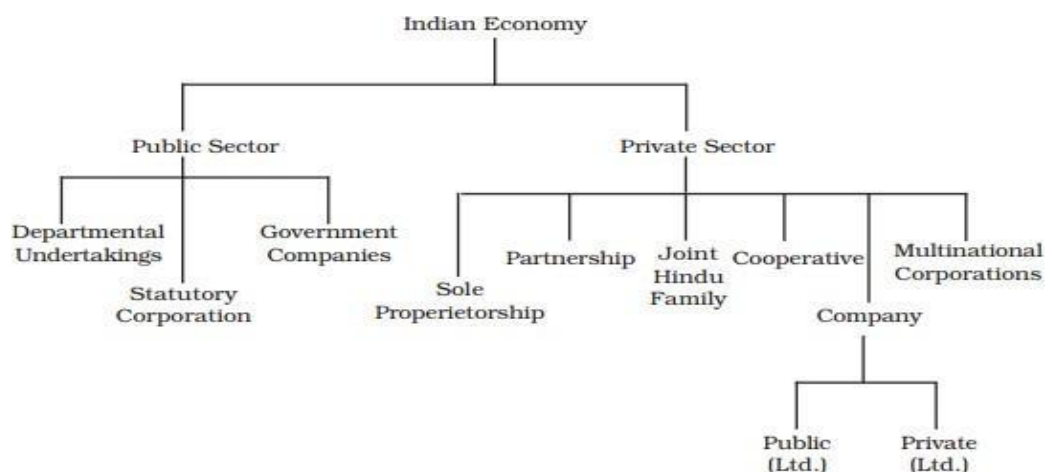
- i. Sole proprietorship
- ii. Partnership
- iii. Joint Hindu family
- iv. Cooperative society
- v. Company

Public sector

Public sector includes organisations which are owned and managed by the government. These may either be partly or wholly owned by the central or state government.

Forms of organizing public sector enterprises:

- i. Departmental undertaking
- ii. Statutory Corporation
- iii. Government company



Basis	Private Sector Enterprises	Public Sector Enterprises
Meaning/Ownership	Private sector includes business owned by individuals or a group of individuals.	Public sector includes organisations which are owned and managed either partly or wholly owned by the central or state government.
Forms	Forms of organizing Private sector enterprises: 1. Sole proprietorship 2. Partnership 3. Joint Hindu family 4. Cooperative society 5. Company	Forms of organizing public sector enterprises: 1. Departmental undertaking 2. Statutory Corporation 3. Government company
Objective	Main objective of Private sector enterprises is to earn profit	Public sector enterprises are formed by the government to participate in the economic activities of the country. They are expected to contribute to the economic development of country.

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.

Forms of organizing public sector enterprises:

Government's participation in business and economic sectors of the country needs some kind of organisational framework to function. You have studied about the forms of business organisation in the private sector viz., sole proprietorship, partnership, Hindu undivided family, cooperative and company.

In the public sector, as it grows, an important question arises in respect of how it is to be organised or what form of organisation it should take. The government has a major role to play in the formation of the public sector. 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. They are expected to contribute to the economic development of the country in today's liberalised, competitive world. These public 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.

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. At the same time, in accordance with general principles, any organisation in the public sector should ensure organisational performance productivity and quality standards.

The forms of organisation which a public enterprise may take are as follows:

1. Departmental undertaking
2. Statutory corporation
3. Government company

1. Departmental Undertakings:

These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself. The activities performed by them are an integral part of the functioning of the government. This form is considered suitable for activities where the government desires to have control over them in view of the public interest.

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.



DEPARTMENTAL UNDERTAKING

Examples:

- Railways is an organisation wholly owned and managed by the government.
- The post office is owned by the Post and Telegraph Department, Government of India
- All India Radio (AIR) and Door Darshan (TV) under the ministry of Information and Broadcasting
- Ordnance Factories

Features/Nature of Departmental Undertakings:

a. Funding



The funding of these enterprises come directly from the Government Treasury and is an annual appropriation from the budget of the Government. The revenue earned by these is also paid into the treasury

b. Accounting and audit



They are subject to accounting and audit controls applicable to other Government activities

c. Employees

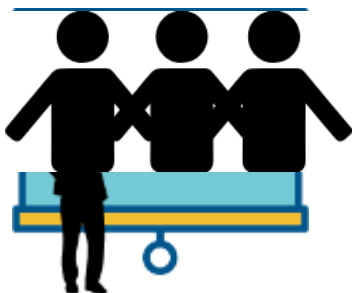
The employees of the enterprise are Government servants and their recruitment and conditions of service are the same as that of other employees directly under the Indian Administrative Service (IAS) officers and civil servants who are transferable from one ministry to another;

d. Control



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

e. Accountability



They are accountable to the ministry since their management is directly under the concerned ministry.

Merits of Departmental Undertakings

a. Effective control

These undertakings facilitate the Parliament to exercise effective control over them Operations. It helps the government to exercise control over the specialised economic activities and can act as instrument of making social and economic policy.

b. High accountability

Departmental undertaking ensures a high degree of public accountability. They are governed by public policies formulated by the government and are accountable to the legislature.

c. Source of income for government

The revenue earned by the enterprise goes directly to the treasury and hence is a source of income for the Government. so the surplus generated, if any, of the departmental undertakings belong to the government. This leads to increase in government income.

d. National security

Where national security is concerned, this form is most suitable since it is under the direct control and supervision of the concerned Ministry. It is suitable for activities where secrecy and strict control is required like defence production.

Limitations of Departmental Undertakings

a. Less 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. Departmental undertakings fail to provide flexibility, which is essential for the smooth operation of business;

b. Delay in decision making

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 immediate actions are required. 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.

c. Unable to grab business opportunities

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. Departments are not able to take independent decision without the consent of ministries which are more concerned about their personal motive rather than commercial motives of organisations.

d. Redtapism

There is red tapism (excessive regulation or rigid conformity to formal rules) in day-to-day operations and no action can be taken unless it goes through the proper channels of authority. There is too much of procedures which results in delay. Commercial organisation cannot afford delay in taking decisions.

e. Political interference

There is a lot of political interference through the ministry. On account of government control, a departmental undertaking suffers from all the ills of bureaucratic functioning.

f. Insensitive to consumer needs

These organizations are usually insensitive to consumer needs and do not provide adequate services to them. Civil Servants are given control of these undertakings who may not have business outlook or commercial experience. So, they run the undertaking in their own fashion without considering the sovereignty of the consumers. Absence of competition and profit motive makes departmental organisations inefficient and irresponsible to consumer needs. This may ultimately harm the government enterprise. Under departmentalism, the officials rarely care for this important aspect of business and are generally negligent towards the needs of the consumers.

So we can see that departmental under taking offer certain advantages like high accountability effective control, source of income for government and suitable for areas which are important for national security. But some difficulties come in the way of working of departmental undertakings like delay in decision making, red tapism, political interference and inflexibility.

2. Statutory Corporations

They are created by Special Acts of the Parliament which contains their powers and functions, rules and regulations regarding their employees and its relationship with government departments.

Examples

- a. Food Corporation of India
- b. Industrial Finance Corporation of India
- c. Life Insurance Corporation of India
- d. Unit Trust of India
- e. State Trading Corporation

Features of Statutory Corporations

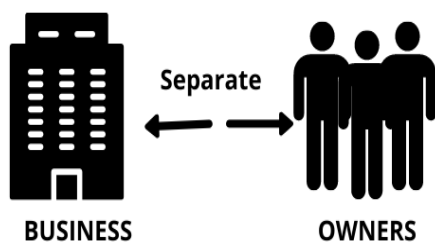
a. **Formation**

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

b. **Ownership**

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

c. **Separate Legal entity**



A statutory corporation is a body corporate and can sue and be sued, enter into contract and acquire property in its own name

d. **Finance**



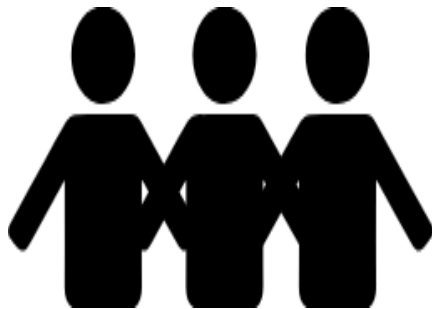
This type of enterprise is usually independently financed. It obtains funds by borrowings from the government or from the public through revenues, derived from sale of goods and services. It has the authority to use its revenues

e. **Control**



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

f. **Employees**



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.

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.

Merits of Statutory Corporations

a. **High degree of operational flexibility**

They enjoy independence in their functioning and a high degree of operational flexibility. They are free from undesirable government regulation and control

b. **No interference in their financial matters**

Since the funds of these organizations do not come from the central budget, the government generally does not interfere in their financial matters, including their income and receipts

c. **Autonomy**

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

d. Economic development

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 of Statutory Corporations

a. No real flexibility

In reality, a statutory corporation does not enjoy as much operational flexibility as stated above. All actions are subject to many rules and regulations

b. Government and political interference

Government and political interference has always been there in major decisions or where huge funds are involved

c. Corruption

statutory corporation are directly dealing with general public and where there is dealing with public, rampant corruption exists

d. Delay in decision making

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.