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	Statutory corporation and Government Company – Part 2
Module Id	kebs_10302
Pre-requisites	Knowledge about forms of business organisations , private and Public sector
Objectives	After going through this lesson, the learners will be able to understand the following: • Features, merits and limitations of Government Company • Difference between departmental undertaking, statutory corporation and Government Company • Role of public sector enterprises after independence • Reasons for the Establishment of Public Sector after Independence
Keywords	PSU's , Departmental undertaking , Government Company

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

Table of Content:

Government Company

According to The Indian Companies Act, 1956, a government company is a company in which not less than 51% of the paid up capital is held by the the central government, or by any state Governments or Government or partly by central Government and partly by one or more state Governments.

a. Hindustan Machine Tools Ltd. (HMT)
b. Bharat Heavy Electricals Ltd (BHEL)
c. Steel Authority of India Ltd(SAIL)
d. Oil and Natural Gas Corporation Ltd. (ONGC)
e. Coal India Ltd.

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

Features of Government Company

a. **<u>Formation</u>**

It is an organisation created by the Indian Companies Act, 2013 or any other previous Company Law.

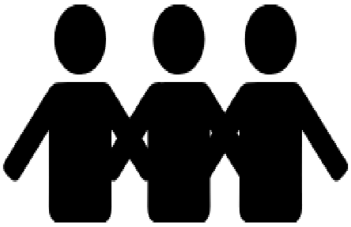
b. **<u>Separate Legal entity</u>**

It has a separate legal existence i.e. the company can file a suit in a court of law against any third party and be sued. It can enter into a contract and can acquire property in its own name.

c. **<u>Management</u>**

The management of the company is regulated by the provisions of the Companies Act, like any other public limited company.

d. **Employees**



Its employees are not civil servants and 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

e. **Control**

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

f. **Funds**

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 of Government Company

a. **No need for separate act**

A government company can be established by fulfilling the requirements of the Indian Companies Act. A separate Act in the Parliament is not required.

b. **Separate legal existence**

It has a separate legal entity, apart from the Government. So Government company can file a suit in a court of law against any third party and be sued. It can enter into a contract and can acquire property in its own name

c. **Autonomy in decision making**

It enjoys autonomy in all management decisions and takes actions according to business prudence. So quick decisions can be taken in order to capitalise the market opportunities.

d. <u>Curb unhealthy business practices</u>

The main objective of these enterprises is not to earn profit but provide services. These companies by providing goods and services at reasonable prices are able to control the market and curb unhealthy business practices.

Limitations of Government Company

(i) <u>Less relevance of Companies Act</u>

a government company is a company in which not less than 51% of the paid up capital is held by the government. Since the Government is the only shareholder in some of the Companies, the provisions of the Companies Act do not have much relevance.

(ii) <u>Evading constitutional responsibility</u>

It evades constitutional responsibility, which a company financed by the government should have. It is not answerable directly to the Parliament

(iii) <u>Control by government</u>

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.

Difference between Departmental Undertakings, Public Corporations and Government Companies

	Basis of Difference	**Departmental Undertakings**	**Public Corporations**	**Government Companies**
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
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 Ministry 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 & service providing enterprises with long gestation period	All types of industrial and commercial enterprises

Changing Role of Public Sector:

After Independence

- Expected that the public sector enterprises could play an important role in achieving certain objectives of the economy either by direct participation in business or by acting as a catalyst
- Post 90's period, the new economic policies emphasized liberalisation, privatisation and globalization.
- The role of the public sector was redefined. It was not supposed to play a passive role but to actively participate and compete in the market with other private sector companies in the same industry.

Reasons for the Establishment of Public Sector after Independence:

1. <u>Development of infrastructure:</u>

The development of infrastructure is a prerequisite for industrialisation in any country. In the pre-Independence period, basic infrastructure was not developed and therefore, industrialisation progressed at a very slow pace. The process of industrialisation cannot be sustained without adequate transportation and communication facilities, fuel and energy, and basic and heavy industries.

The private sector did not show any initiative to invest in heavy industries or develop it in any manner. They did not have trained personnel or finances to immediately establish heavy industries which was the requirement of the economy.

It was only the government which could mobilise huge capital, coordinate industrial construction and train technicians and workforce. Rail, road, sea and air transport was the responsibility of the government, and their expansion has contributed to the pace of industrialisation and ensured future economic growth.

The public sector enterprises were to operate in certain spheres. Investments were to be made to:

a) Give infrastructure to the core sector, which requires huge capital investment, complex and upgraded technology, big and effective organisation structures like steel plants, power generation plants, civil aviation, railways, petroleum, state trading, coal, etc;
b) Give a lead in investment to the core sector where private sector enterprises are not functioning in the desired direction, like fertilizers, pharmaceuticals, petro-chemicals, newsprint, medium and heavy engineering;
c) Give direction to future investments like hotels, project management, consultancies, textiles, automobiles, etc**.**

So, it is only the government which could mobilize huge capital, coordinate industrial construction and train technicians and workforce.

2. Regional balance:

The government is responsible for developing all regions and states in a balanced way and removing regional disparities. Most of the industrial progress was limited to a few areas like the port towns in the pre-Independence period. After 1951, the government laid down in its Five Year Plans, that particular attention would be paid to those regions which were lagging behind and public sector industries were deliberately set up. Four major steel plants were set up in the backward areas to accelerate economic development, provide employment to the workforce and develop ancillary industries. This was achieved to some extent but there is scope for a lot more. Development of backward regions so as to ensure a regional balance in the country is one of the major objectives of planned development**.**

Therefore, the government had to locate new enterprises in backward areas and at the same time prevent the mushrooming growth of private sector unit in already advanced areas.

3. **Economies of scale**:

Where large scale industries are required to be set up with huge capital outlay, the public sector had to step in to take advantage of economies of scale. Electric power plants, natural gas, petroleum and telephone industries are some examples of the public sector setting up large scale units. These units required a larger base to function economically which was only possible with government resources and mass scale production.

4. **Check over concentration of economic power**:

The public sector acts as a check over the private sector. In the private sector there are very few industrial houses which would be willing to invest in heavy industries with the result that wealth gets concentrated in a few hands and monopolistic practices are encouraged. This gives rise to inequalities in income, which is detrimental to society. The public sector is able to set large industries which requires heavy investment and thus the income and benefits that accrue are shared by a large of number of employees and workers. This prevents concentration of wealth and economic power in the private sector

5. **Import substitution:**

During the second and third Five Year Plan period, India was aiming to be self-reliant in many spheres. Public sector companies involved in heavy engineering which would help in import substitution were established. Simultaneously several public sector companies like STC and MMTC have played an important role in expanding exports of the country.

6. **Government Policy towards Public Sector since 1991.**

The Government of India had introduced four major reforms in the public sector in its new industrial policy in 1991. The main elements of the Government policy are as follows:

- Restructure and revive potentially viable PSUs
- Close down PSUs, which cannot be revived
- Bring down governments equity in all non-strategic PSUs to 26 per cent or lower, if necessary; and
- Fully protect the interest of workers.

a. Reduction in the number of industries reserved for the public sector - from 17 to 8 (and then to 3) these are atomic energy, arms and rail transport.

This meant that the private sector could enter all areas (except the three) and the public sector would have to compete with them. The public sector has played a vital role in the development of the economy. However, the private sector is also quite capable of contributing substantially to the nation building process. Therefore, both the public sector and the private sector need to be viewed as mutually complementary parts of the national sector. Private sector units also have to assume greater public responsibilities. Simultaneously, the public sector needs to focus on achieving more in a highly competitive market.

b. Disinvestment of shares of a select set of public sector enterprises - Disinvestment involves the sale of the equity shares to the private sector and the public

Objective:

i. raise resources
ii. Encourage wider participation of the general public and workers in the ownership of these enterprises.

The government had taken a decision to withdraw from the industrial sector and reduce its equity in all undertakings. It was expected that this would lead to improving managerial performance and ensuring financial discipline. But there remains a lot to be done in this area.

The primary objectives of privatising public sector enterprises are:

- Releasing the large amount of public resources locked up in nonstrategic Public Sector Enterprises (PSEs), so that they may be utilised on other social priority areas such as basic health, family welfare and primary education.
- Reducing the huge amount of public debt and interest burden;
- Transferring the commercial risk to the private sector so that the funds are invested in able projects;
- Freeing these enterprises from government control and introduction of corporate governance; and
- In many areas where the public sector had a monopoly, for example, telecom sector the consumers have benefitted by more choices, lower prices and better quality of products and services

c. Policy regarding sick units to be the same as that for the private sector

All public sector units were referred to the Board of Industrial and Financial Reconstruction to decide whether a sick unit was to be restructured or closed down. The Board has reconsidered revival and rehabilitation schemes for some cases and winding up for a number of units. There is a lot of resentment amongst workers of the units which are to be closed down.

A National Renewal Fund was set up by the government to retrain or redeploy retrenched labour and to provide compensation to public sector employees seeking voluntary retirement. There are many enterprises which are sick and not capable of being revived as they have accumulated huge losses. With public finances under intense pressure, both central and state government are just not able to sustain them much longer. The only option available to the government in such cases is to close down these undertakings after providing a safety net for the employees and workers. Resources under the National Renewal Fund have not been sufficient to meet the cost of Voluntary Separation Scheme or Voluntary Retirement Scheme

d. Improvement of performance through Memorandum of Understanding (MoU)

Improvement of performance through a MoU (Memorandum of Understanding) system by which managements are to be granted greater autonomy but held accountable for specified results. Under this system, public sector units were given clear targets and operational autonomy for achieving those targets. The MoU was between the particular public sector unit and their administrative ministries defining their relationship and autonomy.