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	Changing role of public sector enterprises and Global enterprises – Part 3
Module Id	kebs_10303
Pre-requisites	Knowledge about different types of public sector enterprises
Objectives	After going through this lesson, the learners will be able to understand the following: • Meaning and features of Global Enterprises/ Multi National Enterprises • Meaning of Joint ventures • Benefits of Joint ventures • Meaning of Public Private Partnership • Features of Public Private Partnership
Keywords	PSU's , MNC's , Global enterprises

2. Development Team

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Global Enterprises/ Multi National Enterprises

It is a company which carries on business not only in the country of its incorporation but also in one or more other countries. These are huge industrial organizations which extend their industrial and marketing operations through a network of their branches in several countries. They may produce goods or arrange services in one or more countries and sell these in the same or other countries.

Examples: Philips, LG, Hyundai, General Motors, Coca Cola, Nestle, Sony, McDonald 's City Bank, Pepsi Foods, Cadbury, etc.

Features of Multinational Companies

a. <u>Huge capital resources</u>

- These enterprises are characterised by possessing huge financial resources and the ability to raise funds from different sources.
- They are able to tap funds from various sources.
- They may issue equity shares, debentures or bonds to the public.
- They are also in a position to borrow from financial institutions and international banks.
- They enjoy credibility in the capital market. Even investors and banks of the host country are willing to invest in them.

Because of their financial strength they are able to survive under all circumstances.

b. <u>Foreign collaboration:</u>

Global enterprises usually enter into agreements with Indian companies pertaining to the sale of technology, production of goods, use of brand names for the final products, etc. These MNCs

may collaborate with companies in the public and private sector. There are usually various restrictive clauses in the agreement relating to transfer of technology, pricing, dividend payments, tight control by foreign technicians, etc. Big industrial houses wanting to diversify and expand have gained by collaborating with MNCs in terms of patents, resources, foreign exchange etc. But at the same time these foreign collaborations have given rise to the growth of monopolies and concentration of power in few hands.

c. **Advanced Technology**

These enterprises possess technological superiorities in their methods of production. They are able to conform to international standards and quality specifications. This leads to industrial progress of the country in which such corporations operate since they are able to optimally exploit local resources and raw materials. Computerisation and other inventions have come due to the technological advancements provided by MNCs.

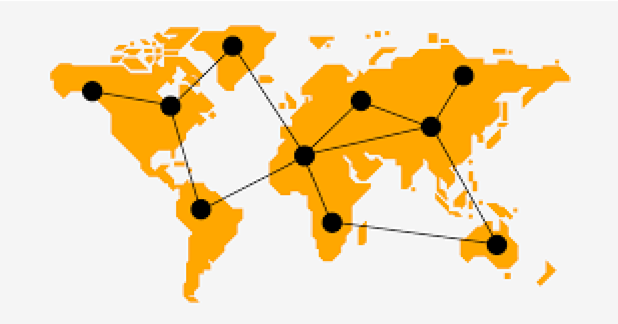
d. **Product innovation:**

These enterprises are characterised by having highly sophisticated research and development departments engaged in the task of developing new products and superior designs of existing products. Qualitative research requires huge investment which only global enterprises can afford.

e. **Marketing strategies**

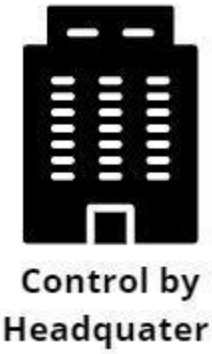
The marketing strategies of global companies are far more effective than other companies. They use aggressive marketing strategies in order to increase their sales in a short period. They possess a more reliable and up-to-date market information system. Their advertising and sales promotion techniques are normally very effective. Since they already have carved out a place for themselves in the global market, and their brands are well-known, selling their products is not a problem.

f. **<u>Expansion of market territory</u>**



Their operations and activities extend beyond the physical boundaries of their own countries. Their international image also builds up and their market territory expands enabling them to become international brands. They operate through a network of subsidiaries, branches and affiliates in host countries. Due to their giant size they occupy a dominant position in the market.

g. **<u>Centralized control</u>**.



They have their headquarters in their home country and exercise control over all branches and subsidiaries. However, this control is limited to the broad policy framework of the parent company. There is no interference in day-to-day operation

So we can conclude that MNCs have played an important role in the Indian economy. They are characterised by their huge size, large number of products, advanced technology, marketing strategies and network of operations all over the world. They do not aim at maximising profits from one or two products but instead spread their branches all over. They have a big impact on the international economy also. Therefore, MNCs are in a position to exercise massive control on the world economy because of their capital resources, latest technology and goodwill. By virtue of this, they are able to sell any product in different countries.

Some of these corporations may be slightly exploitative in nature and concentrate more on selling consumer goods and luxury items which are not always desirable for developing countries

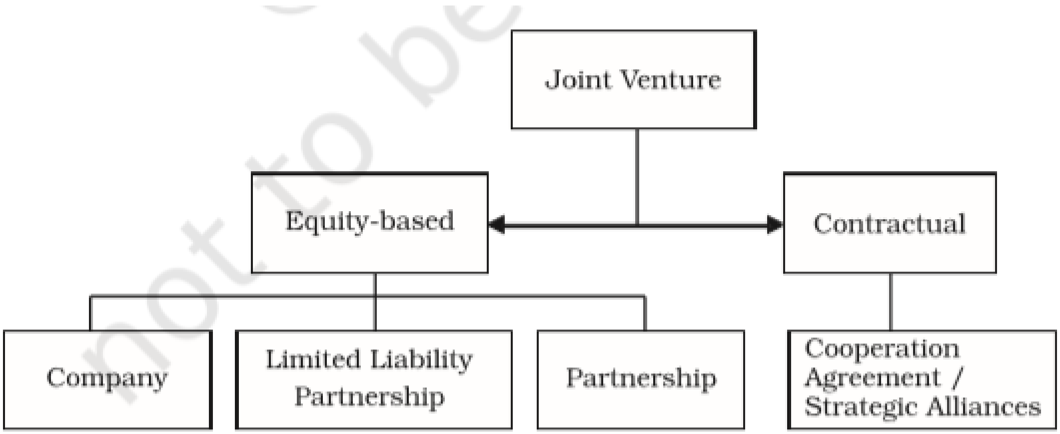
Joint Ventures: Pooling of resources and expertise by two or more businesses, to achieve a particular goal. The risks and rewards of the business are also shared. The reasons behind the joint venture often include business expansion, development of new products or moving into new markets, particularly in another country.

Examples:

- Hero Cycle of India and Honda Motors Co. of Japan jointly established Hero Honda.
- Similarly, Suzuki Motors of Japan and Govt. of India come together to form Maruti Udyog
- Tata AIG General Insurance Company Limited is an Indian general insurance company. Which is a joint venture between the Tata Group and the American International Group (AIG).
- Tata Starbucks Limited, is a 50:50 joint venture company, owned by Tata Global Beverages and Starbucks Corporation

Types of Joint Ventures

Joint Ventures are of two types — Contractual joint venture Equity-based joint venture



Types of Joint venture (Source NCERT book, page 74)

I. **Contractual Joint Venture (CJV)**: In a contractual joint venture, a new jointly-owned entity is not created. There is only an agreement to work together. The parties do not share ownership of the business but exercise some elements of control in the joint venture.

A typical example of a contractual joint venture is a franchisee relationship. In such a relationship the key elements are:

a) Two or more parties have a common intention – of running a business venture;
b) Each party brings some inputs;
c) Both parties exercise some control on the business venture; and
d) The relationship is not a transaction-to-transaction relationship but has a character of relatively longer duration.

II. **Equity-based Joint Venture (EJV)**: An equity joint venture agreement is one in which a separate business entity, jointly owned by two or more parties, is formed in accordance with the agreement of the parties. The key operative factor in such case is joint ownership by two or more parties.

The form of business entity may vary — company, partnership firm, trusts, limited liability partnership firms, venture capital funds, etc.

a) There is an agreement to either create a new entity or for one of the parties to join into ownership of an existing entity;
b) Shared ownership by the parties involved;
c) Shared management of the jointly owned entity;
d) Shared responsibilities regarding capital investment and other financing arrangements;
e) Shared profits and losses according to the agreement.

A joint venture must be based on a memorandum of understanding signed by both the parties, highlighting the basis of a joint venture agreement. The terms should be thoroughly discussed and negotiated to avoid any legal complications at a later stage. Negotiations and terms must take into account the cultural and legal background of the parties. The joint venture agreement must also state that all necessary governmental approvals and licences will be obtained within a specified period.

Benefits:

a. <u>Increased resources and capacity</u>

In a joint venture the resources and capacity of two or more firms are combined which enables it to grow quickly and efficiently. The new business pools in financial and human resources and is able to face market challenges and take advantage of new opportunities.

b. Access to new markets and distribution networks

A foreign co. gain access to the vast Indian market by entering into a joint venture with Indian Co. It can also take advantage of the well established distribution system of local firms. For example, when foreign companies form joint venture companies in India they gain access to the vast Indian market. Their products which have reached saturation point in their home markets can be easily sold in new markets.

c. Access to technology

Technology is a major factor for most businesses to enter into joint ventures. Advanced techniques of production leading to superior quality products saves a lot of time, energy and investment as they do not have to develop their own technology. Technology also adds to efficiency and effectiveness, thus leading to reduction in costs.

d. Innovation

The markets are increasingly becoming more demanding in terms of new and innovative products. Joint ventures allow business to come up with something new and creative for the same market. Especially foreign partners can come up with innovative products because of new ideas and technology.

e. Low cost of production

Raw material and labour are comparatively cheap in developing countries so if one partner is from developing country they can be benefitted by the low cost of production. When international corporations invest in India, they benefit immensely due to the lower cost of production. They are able to get quality products for their global requirements. India is becoming an important global source and extremely competitive in many products. There are many reasons for this, low cost of raw materials and labour, technically qualified workforce; management professionals, excellent manpower in different cadres like lawyers, chartered accountants, engineers, and scientists. The international partner thus, gets the products of required quality and specifications at a much lower cost than what is prevailing in the home country.

f. Established brand name

When two businesses enter into a joint venture one of the parties benefits from the other's goodwill which has already been established in the market. If the joint venture is in India and with an Indian company, the Indian company does not have to spend time or money in

developing a brand name for the product or even a distribution system. There is a ready market waiting for the product to be launched. A lot of investment is saved in the process.
So we can conclude that business can achieve unexpected gains through joint ventures with a partner. Joint ventures can prove to be extremely beneficial for both parties involved. One party may have strong potential for growth and innovative ideas, but is still likely to benefit from entering into a joint venture because it enhances its capacity, resources and technical expertise

Public Private Partnership

Public Private Partnership means an enterprise in which a project or service is financed and operated through a partnership of government and private enterprises. PPP is the long term partnership between public and private sectors.
PPP describes a government service or a private business venture which is funded and operated though partnership of government and one or more private sector companies.
The public partners in PPP are Government entities, i.e., ministries, government departments, municipalities or state owned enterprises. The private partners can be local or foreign (international) and include businesses or investors with technical or financial expertise relevant to the project.
The government's contribution to PPP is in the form of capital for investment and transfer of assets that support the partnership in addition to social responsibility, environmental awareness and local knowledge. The private sector's role in the partnership is to make use of its expertise in operations, managing tasks and innovation to run the business efficiently.
Sectors in which PPPs have been completed worldwide include power generation and distribution, water and sanitation, refuse disposal, pipelines, hospitals, school buildings and teaching facilities, stadiums, air traffic control, prisons, railways, roads, billing and other information technology systems, and housing.
For example, a hospital building constructed by a private developer and then leased to Government Hospital Authorities. In such cases, the private company provides housekeeping and other non-medical services while medical services are looked after by the hospital authorities.
Some real life examples:

- The Rajiv Gandhi Super-Specialty Hospital in Raichur Karnataka is a joint venture of the Government of Karnataka and the Apollo hospitals Group
- Kundli Manesar Expressway Ltd.: In this 135 km expressway, land has been provided by the government and surface has been laid out by the company

- AVI Oil India Pvt. Ltd. Date of establishment: 4 November, 1993 Joint Venture Holders: Balmer Lawrie & Co. Ltd., NYCO SA, France. Areas of operation: Mineralbased lubricating oil, defence and civil aviation uses, greases.
- Green Gas Ltd. Date of establishment: 7 October, 2005 Joint Venture Holders: GAIL (India) Ltd. and IOCLAreas of operations: Providing safe and reliable natural gas to customers.
- Delhi Aviation Fuel Facility Pvt. Ltd. Date of establishment: 28 March, 2010 Joint Venture Holders: BPCL and DIAL Areas of operations: Construction, management, maintenance, developing, designing. The company is formed with a joint venture between Delhi International Airport Ltd. and Airport Authority of India with the view of maintenance, designing and modernisation.

Features of PPP:

a. **Contract Between the Public Sector and a Private Party**: It is a contract in which the private party bears a public service and bears financial, technical and operational risk.

b. **Cost of Using Service**: In most cases, cost of using the services is borne by the users of such service and not the tax payers. However, sometimes, the government may wholly or partially bear the cost of providing such services.

c. **Provision of Capital Services**: For projects aimed at creating public goods in the Infrastructure sector, the Government may provide capital Subsidy in the form of a onetime Grant to make it more attractive for the private sector. Additional concessions in the form of tax breaks or a fixed amount as guaranteed annual revenue may also be provided.

d. **Pertaining to High Priority Projects and Public Welfare**: These type of enterprises are suitable for high priority projects, especially in the infrastructure sector, e.g. Delhi Metro Rail Corporation.

e. **Sharing of Revenue**: It is an arrangement in which government and the Private enterprise agree to share the revenues in an agreed ratio

f. **Problem with PPP**: The main problem in these type of enterprise is that the private investors obtained a Rate of Return that was higher than the government even though most of the income risk is borne by the government.

PPP Model

Application

1. Suited to capital projects with small operating requirement.
2. Suited to capital projects where the public sector wishes to retain the operating responsibility.

Strengths

1. Transfer of design and construction risk.
2. Potential to accelerate project.

Weaknesses

1. Conflict between parties may arise on environmental considerations
2. Does not attract private finance easily.