

Reading Materials
XI Business Studies
Public Enterprises

Public enterprises: These are the organizations set up in the public sector. These are owned, managed and controlled by the government or local authorities. These are also known as public undertakings or public sector undertaking. Indian Railways, LIC and State Trading Corporations are all examples of Public Enterprises.

The various forms of Public Enterprises are as under:

- a. Departmental Organization
- b. Public / Statutory Organization
- c. Government Company

The above types are now discussed in details

- A. **Departmental Organization:** It is the oldest and traditional pattern of public enterprises. It is also a technique of nationalizing industries. It is the organization which is presided by the chair of the minister of the respective ministry who is responsible for the cabinet and parliament and the administration of the department vests in the senior public civil servant and financial control is made through the Government. In other words, this type of organization means a system of state enterprise which is financed and controlled like any other government department. Such an enterprise is financed by the treasury and its receipts are also paid into government treasury. Auditing of accounts and recruitment of employees of these departments are made on the same principles and in the same manner as in any government department. Such an enterprise is usually responsible for its working to the head of the department which has created it. The minister, who is a public man, is accountable to the Parliament for the activities of such an enterprise.

Characteristics: The main characteristics of departmental organization may be summarized as under:

- **Financial Administration:** Financial administration of departmental Organization is made through the Government Exchequer and revenue from such enterprise is also credited to the Government Exchequer.
- **Accounts and Audit:** The budget, accounts and audit of such enterprises are made according to the other departments of the Government.
- **Recruitment:** The employees of these enterprises are generally appointed by the public servants.
- **Organization and control:** The entire organization and control of such enterprises is generally made like the sub department of the central department.

- **Sovereign immunity of the state:** Departmental undertakings have sovereign immunity of the state and no suit can be filed on these enterprises without the permission of the government.

Departmental Organizations in India:

The following are the few examples of public enterprises in India which are operated in the form of departmental organizations: (i) Railways, (ii) Posts and Telegraphs, (i) Akashvani, (iv) Vividh Bharti and Commercial Broadcasting, (v) Doordarshan, (vi) Overseas News Service, (vii) Currency Note Press and many more.

B. Public corporation: It refers to such corporations which are established with a view to achieve certain objective under the ownership of public through a special act. At present, it is the significant and notable pattern of the country and it is so much popular that it is being certainly adopted by each and every country in any form, in other words, acting as a single legal personality. Although, these enjoy governmental powers and yet possess initiative and flexibility so that essential and imperative changes may be made easily in public enterprises. Public corporation is a healthy combination of freedom and boldness along with tendency of escapism quite common in government enterprise. A public corporation is usually owned by the State which creates it and defines its scope, field of activity, area of operation, powers, privileges and immunities of its members. Public corporations are governed by a board consisting of a Chairman and Directors. In the Board of Directors there are the representatives of the Government as well as experts, consumers and many non-official members.

Characteristics of Public Corporation: The main characteristics of public corporation may be summarized as below:

- **Wholly owned by the Government:** The ownership of the public corporation is in the hands of Government.
- **Incorporated under Special Act:** Public corporation is established under a Special Act which defines its scope, field of activity, area of operation, powers, privileges and immunities.
- **Separate legal entity:** Public corporation has its separate legal entity and contractual capacity. It can sue and be sued in its own name.
- **Service motive:** Service motive is the main objective and to earn profit is the secondary objective of the public corporation.
- **Policies:** The policies of public corporation are chalked out by the Government.
- **Management by board:** The management of public corporation is made by the Board of Directors.

- **Independent financial system:** Public corporation avails larger autonomy in the matters of finance and management.
- **Recruitment of personnel:** The rules regarding the recruitment of employees are defined in its Act.
- **Accounts and audit:** The budget, accounts and auditing of public corporation are made according to the provisions of Companies Act.

Advantages of Public Corporation: The following are the advantages of Public Corporation:

- Coordination is formed between the public corporation and government.
- It gets the benefits of both public and private sector.
- It has freedom of financial and managerial experts.
- Public corporation gets the advantages of services of experts and specialists.

Disadvantages of Public Corporation: The following are the disadvantages of public corporation:

- Autonomy of public corporation is restricted due to provisions of its Act.
- Change in law hinders its desired development.
- Government control and delay in decisions are injurious to the industry.
- Lack of self-private services is found in public corporation.

Public Corporations in India: The following are the few examples of Public Enterprises in India which are operated in the form of Public Corporations: (i) Reserve Bank of India (RBI), (ii) Food Corporation of India (FCI), (iii) Industrial Development Bank of India (IDBI), (iv) Industrial Finance Corporation of India (IFCI), (v) Life Insurance Corporation of India (LIC), (vi) General Insurance Corporation of India (GIC), (vii) State Bank of India (SBI), and so on.

- C. **Government Company:** It means a company which purchases at least 51 percent of the share capital of another company and the managerial functions are performed by the Board of Directors which is mostly appointed by the government. It is a better technique of nationalizing the industry. The capital of such an organization is financed by the government. The affairs are run by a Board of Directors whose members are appointed by the Government. These are created by an Act and there is a specific Memorandum and Articles of Association which specifies its method of working. An attempt is made to appoint such persons on the Board of Directors who represent one department or the other which is directly concerned with the working of the company.

Characteristics of Government Company: The following are the features of Government Company:

- **Majority Contribution:** The central government or state government or both have at least 51% of paid up capital of a Government Company.
- **Incorporation:** The incorporation of Government Company is made under the Companies Act. The liability of the shareholders of these companies is limited.
- **Management:** The management of Government Company is made by its Board of Directors.

- **Accounts and audit:** The accounts and audit functions are performed according to Companies Act.
- **Recruitment:** The recruitment of employees is made according to the rules framed by the Board of Directors. The employees of Government Companies are not considered as government servant.

Advantages of Government Company: The following are the advantages of Government Company:

- There is no need for Specific Act for the incorporation of a Government Company.
- There is sufficient autonomy and flexibility in the administration of a Government Company.
- There is a wide scope of earning in a Government Company.
- There is adjustment of private and public interest because participation of Private Sector in share capital of the government company is possible.

Disadvantages of Government Company: The following are the disadvantages of Government Company:

- There is laxity in the management of the government companies because in most cases, Departmental Secretaries are appointed and they do not take proper interest in the management of the Government Companies.
- There is a problem of secrecy.
- Fraud in relation to constituent is observed.
- There is a possibility of misutilisation of funds.