Meaning of public enterprises

MEANING OF PUBLIC ENTERPRISES

As state earlier, the business units owned, managed and controlled by the central, state or local government are termed as public sector enterprises or public enterprises. These are also known as public sector undertakings. A public sector enterprise may be defined as any commercial or industrial undertaking owned and managed by the government with a view to maximize social welfare and uphold the public interest.

Public enterprises consist of nationalized private sector enterprises, such as, banks, Life Insurance Corporation of India and the new enterprises set up by the government such as Hindustan Machine Tools (HMT), Gas Authority of India (GAIL), State Trading Corporation (STC) etc.

CHARACTERISTICS OF PUBLIC ENTERPRISES

Looking at the nature of the public enterprises their basic characteristics can be summarized as follows: A. State control: The public enterprises are financed, owned and managed by the government may be a central or state government.

B. Rendering service: The primary objective of the establishment of public enterprises is to serve the public at large by supplying the essential goods at a reasonable price and creating employment opportunities. C. Government Ownership and Management: The public enterprises are owned and managed by the central or state government, or by the local authority. The government may either wholly own the public enterprises or the ownership may partly be with the government and partly with the private industrialists and the public.

Autonomous or semi-autonomous organization: Public enterprise is an autonomous or semi-autonomous organization because some enterprises work under the direct control of the government and some organizations are established under statutes and companies act. D. Financed from Government Funds: The public enterprises get their capital from Government Funds and the government has to make provision for their capital in its budget, they become financially independent by arrangingfinancefor day-to-day operation. E. Public Welfare: Public enterprises are not guided by profit motive.

Their major focus is on providing the service or commodity at reasonable prices. Take the case of Indian Oil Corporation or Gas Authority of India Limited (GAIL). They provide petroleum and gas at subsidized prices to the public. F. Monopoly Enterprises: In some specific cases private sectors are not allowed and as such the public enterprises enjoy monopoly in operation. G. Public Utility Services: Public sector enterprises concentrate on providing public utility services like transport, electricity, telecommunication etc. H.

PublicAccountability: Public enterprises are governed by public policies formulated by the government and are accountable to the legislature. The state enterprises are liable to the general public for their performances because they are responsible for the nation. I. Excessive Formalities: The government rules and regulations force the public enterprises to observe excessive formalities in their operations. This makes the task of management very sensitive and cumbersome. J. A direct channel for use of Foreignmoney: Sometimes the government receive foreign assistance from industrially advanced countries for the development of industries.

These advances received are spent through public enterprises. K. Agent for implementing government plans: The public enterprises run as per the whims of the government and as such the economic policies and plans of the government are implemented through public enterprises.

DIFFERENCE BETWEEN PRIVATE AND PUBLIC SECTOR ENTERPRISES

By private sector, we mean, economic and social activities undertaken privately by a single individual or group of individuals. They prefer to do business in private sector basically to earn profit.

On the other hand public sector refers to economic and social activities undertaken by public authorities. The enterprises in public sector are set up with the main aim of protecting public interest. Profit earning comes next. Besides the difference in the objective, the enterprises in both these sectors also differ in many other aspects. In this section let us know the differences between the enterprises of public sector and private sector. Basis of difference| Private sector enterprises| Public sector enterprises| Objective| Maximization of profit| Maximize social welfare and ensure alanced economic development| Ownership| Owned by individuals| Owned by Government| Management| Managed by owner and professional managers| Managed by Government| Capital| Raised by owners through loans, private sources and public issues| Raised from government funds and sometimes through public issues| Area of Operation| Operates in all areas with adequate return on investment| Operates in basic and public utility sectors|

FORMS OF ORGANISATION OF PUBLIC ENTERPRISES

There are three different forms of organization used for the public sector enterprises in India.

These are (1) Departmental Undertaking; (2) Statutory (or Public) Corporation, and (3) Government Company. Departmental Undertaking form of organization is primarily used for provision of essential services such as railways, postal services, broadcasting etc. Such organizations function under the overall control of a ministry of the Government and are financed and controlled in the same way as any other government department. This form is considered suitable for activities where the government desires to have control over them in view of the public interest.

Statutory Corporation (or public corporation) refers to a corporate body created by the Parliament or State Legislature by a special Act which defines its powers, functions and pattern of management. Statutory Corporation is also known as public corporation. Its capital is wholly provided by the government. Examples of such organizations are Life Insurance Corporation of India, State Trading Corporation etc. Government Company refers to the company in which 51 percent or more of the paid up capital is held by the government.

It is registered under the Companies Act and is fully governed by the provisions of the Act. Most business units owned and managed by government fall in this category.

DEPARTMENTAL UNDERTAKINGS

Departmental undertakings are the oldest among the public enterprises. A departmental undertaking is organized, 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.

FEATURES OF DEPARTMENTAL UNDERTAKINGS

The main features of departmental undertakings are as follows:

- It is established by the government and its overall control rests with the minister.
- It is a part of the government and is managed like any other government department.
- It is financed through government funds.
- It is subject to budgetary, accounting and audit control.
- Its policy is laid down by the government and it is accountable to the legislature.

MERITS OF DEPARTMENTAL UNDERTAKINGS

The following are the merits of departmental undertakings:-

- Fulfillment of Social Objectives: The government has total control over these undertakings. As such it can fulfill its social and economic objectives. For example, opening of post offices in far off places, broadcasting and telecasting programmes, which may lead to the social, economic and intellectual development of the people are the social objectives that the departmental undertakings try to fulfill.

- Responsible to Legislature: Questions may be asked about the working of departmental undertaking in the parliament and the concerned minister has to satisfy the public with his replies. As such they cannot take any step, which may harm the interest of any particular group of public. These undertakings are responsible to the public through the parliament.
- Control Over Economic Activities: It helps the government to exercise control over the specialized economic activities and can act as instrument of making social and economic policy.
- Contribution to Government Revenue: The surplus, if any, of the departmental undertakings belong to the government. This leads to increase in government income. Similarly, if there is deficiency, it is to be met by the government.
- Little Scope for Misuse of Funds: Since such undertakings are subject to budgetary accounting and audit control, the possibilities of misuse of their funds are considerably reduced.

LIMITATIONS OF DEPARTMENTAL UNDERTAKINGS

Departmental undertakings suffer from the following limitations:

- The Influence of Bureaucracy: On account of government control, a departmental undertaking suffers from all the ills of bureaucratic functioning. 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. On account of these reasons some difficulties come in the way of working of departmental undertakings.

- Excessive Parliamentary Control: On account of the Parliamentary control difficulties come in the way of day-to-day administration. This is also because questions are repeatedly asked in the parliament about the working of the undertaking.
- Lack of Professional Expertise: The administrative officers who manage the affairs of the departmental undertakings do not generally have the business experience as well as expertise. Hence, these undertakings are not managed in a professional manner and suffer from deficiency leading to excessive drainage of public funds.
- Lack of 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.
- Inefficient Functioning: Such organizations suffer from inefficiency on account of incompetent staff and lack of adequate incentives to improve efficiency of the employees.

STATUTORY CORPORATIONS

The Statutory Corporation (or Public Corporation) refers to such organizations which are incorporated under the special Acts of the Parliament/State Legislative Assemblies.

Its management pattern, its powers and functions, the area of activity, rules and regulations for its employees and its relationship with government departments, etc. are specified in the concerned Act. Examples of statutory corporations are State Bank of India, Life Insurance Corporation of India, Industrial Finance Corporation of India, etc. It may be noted that more than one corporation can also be established under the same Act. State Electricity Boards and State Financial Corporation fall in this category.

FEATURES OF STATUTORY CORPORATIONS

The main features of Statutory Corporations are as follows:

- It is incorporated under a special Act of Parliament or State Legislative Assembly.
- It is an autonomous body and is free from government control inrespectof its internal management. However, it is accountable to parliament and state legislature.
- It has a separate legal existence. Its capital is wholly provided by the government.
- It is managed by Board of Directors, which is composed of individuals who are trained and experienced in business management. The members of the board of Directors are nominated by the government.
- It is supposed to be self-sufficient in financial matters. However, in case of necessity it may take loan and/or seek assistance from the government.
- The employees of these enterprises are recruited as per their own requirement by following the terms and conditions of recruitment decided by the Board.

MERITS OF STATUTORY CORPORATIONS

Statutory Corporation as a form of organization for public enterprises has certain advantages that can be summarized as follows:

- Expert Management: It has the advantages of both the departmental and private undertakings. These enterprises are run on business principles under the guidance of expert and experienced Directors.
- Internal Autonomy: Government has no direct interference in the day-to-day management of these corporations. Decisions can be taken promptly without any hindrance.
- Responsible to Parliament: Statutory organizations are responsible to Parliament. Their activities are watched by the press and the public. As such they have to maintain a high level of efficiency and accountability.
- Flexibility: As these are independent in matters of management and finance, they enjoy adequate flexibility in their operation. This helps in ensuring good performance and operational results.
- Promotion of National Interests: Statutory Corporations protect and promote national interests. The government is authorized to give policy directions to the statutory corporations under the provisions of the Acts governing them.
- Easy to Raise Funds: Being government owned statutory bodies, they can easily get the required funds by issuing bonds etc.

LIMITATIONS OF STATUTORY CORPORATIONS

Having studied the merits of statutory corporations we may now look to its limitations also. The following limitations are observed in statutory corporations.

- Government Interference: It is true that the greatest advantage of statutory corporation is its independence and flexibility, but it is found only on paper. In reality, there is excessive government interference in most of the matters.
- Rigidity: The amendments to their activities and rights can be made only by the Parliament. This results in several impediments in business of the corporations to respond to the changing conditions and take bold decisions.
- Ignoring Commercial Approach: The statutory corporations usually face little competition and lackmotivationfor good performance. Hence, they suffer from ignorance of commercial principles in managing their affairs.

MERITS OF GOVERNMENT COMPANIES

The merits of government company form of organizing a public enterprise are as follows:

- Simple Procedure of Establishment: A government company, as compared to other public enterprises, can be easily formed as there is no need to get a bill passed by the parliament or state legislature. It can be formed simply by following the procedure laid down by the Companies Act.

- Efficient Working on Business Lines: The government company can be run on business principles. It is fully independent in financial and administrative matters. Its Board of Directors usually consists of some professionals and independent persons of repute.
- Efficient Management: As the Annual Report of the government company is placed before both the house of Parliament for discussion, its management is cautious in carrying out its activities and ensures efficiency in managing the business.
- Healthy Competition: These companies usually offer a healthy competition to private sector and thus, ensure availability of goods and services at reasonable prices without compromising on the quality.

LIMITATIONS OF GOVERNMENT COMPANIES

The government companies suffer from the following limitations:

- Lack of Initiative: The management of government companies always have the fear of public accountability. As a result, they lack initiative in taking right decisions at the right time. Moreover, some directors may not take real interest in business for fear of public criticism.
- Lack of Business Experience: In practice, the management of these companies is generally put into the hands of administrative service officers who often lack experience in managing the business organisation on professional lines. So, in most cases, they fail to achieve the required efficiency levels.
- Change in Policies and Management: The policies and management of these companies generally keep on changing with the change of government.

Frequent change of rules, policies and procedures leads to an unhealthy situation of the business enterprises.

IMPORTANCE OF PUBLIC SECTOR ENTERPRISES

- Balanced Regional Development
- Boost the basic industries of an economy.
- Concentrate on public welfare activities.
- Promote exports
- Price control of essential goods
- Limit the influence of private monopoly.
- Ensure security of the country.
- Minimize the economic inequalities.