Unit 3

Public, Private and Multinational Company

CBSE Syllabus

- Public sector and private sector enterprises – Concept
- Forms of public sector enterprises: Departmental Undertakings, Statutory Corporations and Government Company.
- Multinational Company – Feature. Joint ventures, Public private partnership – concept

Learning Outcomes

After going through this unit, the student/ learner would be able to:

- Develop an understanding of Public sector and private sector enterprises
- Identify and explain the features, merits and limitations of different forms of public sector enterprises
- Develop an understanding of multinational company, joint ventures and public private partnership by studying their meaning and features.

Public, Private and Multinational Company

Business Quote To Enhance Enterprising Skills

Whenever an individual decides that success has been attained, progress stops; so keep moving.

Vrinda, a student of class XI, was going through some newspapers. The headlines stared at her face, *"Government plans to disinvest its shares in a few companies."* The next day there was another news item on one public sector company incurring heavy losses and the proposal for closing the same. In contrast to this, she read another item on how some of the companies under the private sector were doing so well.

Vrinda was actually curious to know what these terms like public sector, disinvestment, privatisation meant. She realised that in certain areas there was only the government which operates like the railways and in some areas both the privately owned and government run business were operating. For example, in the heavy industry sector SAIL, BHEL and TISCO, Reliance, Birlas all were there and in the telecom sector, companies like Tata, Reliance, Airtel operate and in airlines Sahara and Jet have recently gained entry. These companies along with the Government-owned companies like MTNL, BSNL, Indian Airlines, Air India. She then started wondering where from companies like Coca cola, Pepsi, Hyundai came? Were they always here or did they operate somewhere else, in some other country. She went to the library and was surprised to know that there was so much information about all these in books, business magazines and newspapers.

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 or big retail organisations run by a company. 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, though our dependence on their postal services, particularly in cities and towns has been greatly reduced. This is because of plenty of private courier services firms operating in bigger towns. 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.

- Some business undertakings/enterprises are owned and managed by the government, called **public sector undertakings/enterprises** (PSUs/PSEs), e.g., Railways, Reserve Bank of India, Posts and Telegraphs Department, Indian Airlines, etc.
- The **private sector** consists of business owned by individuals or a group of individuals, e.g., Reliance Industries, Tata Iron and Steel Company (TISCO), Ranbaxy Laboratories, etc.
- There are businesses which operate in more than one country, known as global enterprises or **Multi-National Corporations** (MNCs), e.g., Coca-Cola, Pepsi, LG, Reebok, Hyundai, etc.
- A **joint venture** is the pooling of resources and expertise by two or more businesses to achieve a particular goal like business expansion or development of new products. For example, Maruti Company of India and Suzuki Company of Japan joined together to form Maruti Suzuki India Ltd.
- **Public Private Partnership (PPP)** means an enterprise in which a project or service is financed and operated through a partnership of Government and private enterprises.

Public Sector and Private Sector Enterprises – Concept

Difference between Private Sector and Public Sector Enterprises

Private Sector Enterprises	Public Sector Enterprises
■ The private sector enterprises are the businesses owned, managed and controlled by individuals or a group of individuals. ■ The various forms of organisation in the private sector are: • Sole Proprietorship • Partnership • Joint Hindu Family Business • Cooperative Societies • Company • Multi-National Corporations (MNCs)	■ The public sector enterprises are various organisations owned and managed by the government. These organisations may either be partly or wholly owned by the central or state government. They may also be a part of the ministry or come into existence by a Special Act of the Parliament. The government, through these enterprises participates in the economic activities of the country. ■ The forms of organisation which a public sector enterprise may take are: • Departmental Undertakings • Statutory Corporations • Government Companies

Features of Public Sector Enterprises (PSEs)

1. The government has a major role to play in the formation of public sector enterprises.

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.

2. Public sector enterprises contribute to the economic development.

They are expected to contribute to the economic development of the country in today's liberalised, competitive world.

3. Public sector 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.

4. 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. The forms of organisation which a public sector enterprise may take are: Departmental Undertakings, Statutory Corporations and Government Companies.
- At the same time, in accordance with general principles, any organisation in the public sector should ensure organisational performance productivity and quality standards.

Top Tip

There are all kinds of business organisations — small or large, industrial or trading, privately owned or government owned existing in our country. These organisations affect our daily economic life and therefore become part of the Indian economy.

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., private sector and public sector.

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.

Departmental Undertakings – Features, Merits and Limitations

- This is the oldest and most traditional form of organising public enterprises.
- These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself.
- The Government functions through these departments and the activities performed by them are an integral part of the functioning of the government.
- They have not been constituted as autonomous or independent institutions and as such are not independent legal entities.
- They act through the officers of the Government and its employees are Government employees.
- These undertakings may be under the central or the state government and the rules of central/state government are applicable. For example, the **Indian Railways** are managed by the Ministry of Railways. **Post and telegraph** services are run as a department, in the Ministry of Communication. The Delhi Milk Scheme, All India Radio, Doordarshan are other examples of departmental undertakings.

Indian Railways

Features

1. They are **accountable to the ministry** since their management is directly under the concerned ministry.
2. The **funding of these enterprises come directly from the Government Treasury** and are an annual appropriation from the budget of the Government. The revenue earned by these is also paid into the treasury.

3. They are subject to **accounting and audit controls** applicable to other Government activities.
4. 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 Government. They are **headed by Indian Administrative Service (IAS) officers and civil servants** who are transferable from one ministry to another.
5. It is generally considered to be **a major subdivision of the Government department** and is subject to direct control of the ministry.

Merits

Departmental undertakings have certain advantages which are as follows:

1. These undertakings facilitate the Parliament to exercise **effective control over their operations.**
2. These ensure a **high degree of public accountability.**
3. The revenue earned by the enterprise goes directly to the treasury and hence is a **source of income for the Government.**
4. Where **national security** is concerned, this form is most suitable since it is under the direct control and supervision of the concerned ministry.

Limitations

This form of organisation suffers from serious drawbacks, some of which are as follows:

1. Departmental undertakings **fail to provide flexibility**, which is essential for the smooth operation of business.
2. 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 prompt decisions are required.
3. 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.
4. There is **red tapism in day-to-day operations** and no action can be taken unless it goes through the proper channels of authority.
5. There is lot of **political interference** through the ministry.
6. These organisations are usually **insensitive to consumer needs** and do not provide adequate services to them.

Statutory Corporation – Features, Merits and Limitations

- Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament. The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments.
- 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.

The Reserve Bank of India (RBI)

Statutory corporations, therefore, have the power of the government and considerable amount of operating flexibility of private enterprises.

Examples of Statutory Corporations: The Reserve Bank of India (RBI), State Bank of India (SBI), Life Insurance Corporation (LIC), Employees State Insurance Corporation (ESIC), Oil and Natural Gas Corporation (ONGC), etc.

Features

Statutory corporations have certain distinct features, which are discussed as below:

1. 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.
2. 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.
3. A statutory corporation is **a body corporate** and can sue and be sued, enter into contract and acquire property in its own name.
4. 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.
5. 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.
6. 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.

Merits

This form of organisation enjoys certain advantages in its working, which are as follows:

1. They enjoy independence in their functioning and a high degree of operational flexibility. They are **free from undesirable government regulation and control.**
2. Since the funds of these organisations do not come from the central budget, the **government generally does not interfere in their financial matters**, including their income and receipts.
3. 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.
4. 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

This type of organisation suffers from several limitations, which are as follows:

1. In reality, a statutory corporation does not enjoy as much operational flexibility as stated above. All actions are subject to **many rules and regulations.**
2. **Government and political interference** has always been there in major decisions or where huge funds are involved.
3. Where there is dealing with public, **rampant corruption exists.**
4. 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.

Government Company – Features, Merits and Limitations

A government company is established under The Companies Act, 2013 and is registered and governed by the provisions of The Act. A government company may be formed as a private limited company or a public limited company. These are established for purely business purposes and in true spirit compete with companies in the private sector.

According to the **Section 2(45) of the Companies Act 2013**, "*a government company means any company in which not less than 51 per cent of the paid up capital is held by the central government, or by any state government or partly by Central government and partly by one or more State governments and includes a company which is a subsidiary of a government company.*"

Since the government is the major shareholder and exercises control over the management of these companies, they are known as government companies.

All provisions of the Companies Act 2013 are applicable to government companies unless otherwise specified.

The government exercises control over the paid up share capital of a government company.

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

Bharat Heavy Electricals Limited (BHEL)

Examples of Government Companies:

- Bharat Heavy Electricals Limited (BHEL)
- Steel Authority of India Limited (SAIL)
- Hindustan Aeronautics Limited
- Madras Refineries Limited (MRL)
- Hindustan Antibiotics Limited
- Maruti Udyog Limited
- Hindustan Steel Limited
- Bharat Earthmovers Limited (BEML)
- Indian Telephone Industries Limited
- Hindustan Machine Tools (HMT)

Features

1. It is an organisation created under the Companies Act, 2013 or any other previous Company Law.
2. The company can file a suit in a court of law against any third party and be sued.
3. The company can enter into a contract and can acquire property in its own name.
4. The management of the company is regulated by the provisions of the Companies Act, like any other public limited company.
5. The employees of the company are appointed according to their own rules and regulations as contained in the Memorandum and Articles of Association of the company.
6. 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.
7. 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

1. A government company can be **established by fulfilling the requirements of the Indian Companies Act, 2013.** A separate Act in the Parliament is not required.
2. It has a **separate legal entity**, apart from the Government.
3. It **enjoys autonomy** in all management decisions and takes actions according to business prudence.
4. These companies by providing goods and services at reasonable prices are able to control the market and **curb unhealthy business practices.**

Limitations

1. Since the Government is the only shareholder in some of the companies, the provisions of the Companies Act does not have much relevance.
2. It evades constitutional responsibility, which a company financed by the government should have. It is not answerable directly to the Parliament.
3. 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.

Objective Type Questions 3.1

1. Match the columns:

(i)	It enjoys maximum autonomy in all management activities.	(a)	Government Company
(ii)	LIC and Air India are the examples of this form of enterprise.	(b)	Statutory Corporation
(iii)	This enterprise is most suitable when national security is concerned.	(c)	Departmental Undertaking

2. A government company is any company in which the paid-up capital held by the government is not less than *(Choose the correct alternative)*
   (a) 49 per cent (b) 51 per cent
   (c) 50 per cent (d) 25 per cent
3. PSEs are organisations owned by *(Choose the correct alternative)*
   (a) Joint Hindu Family Business (b) Government
   (c) Foreign Companies (d) Private entrepreneurs
4. A corporation established under a special law of Parliament *(Choose the correct alternative)*
   (a) Statutory Corporation (b) Departmental undertaking
   (c) Government company (d) Multi-national Corporation
5. Reserve Bank of India has been set up as which type of public enterprise? *(Choose the correct alternative)*
   (a) Statutory Corporation (b) Departmental undertaking
   (c) Government company (d) Multi-national Corporation
6. "Steel Authority of India Limited is a public enterprise." Identify this form of organising public enterprises. *(Choose the correct alternative)*
   (a) Statutory Corporation (b) Departmental undertaking
   (c) Government company (d) Multi-national Corporation
7. The oldest form of organisation of public enterprises *(Choose the correct alternative)*
   (a) Statutory Corporation
   (b) Departmental undertaking
   (c) Government company
   (d) Multi-national Corporation
8. Disinvestments of PSEs implies *(Choose the correct alternative)*
   (a) Sale of equity shares to public
   (b) Investing in new areas
   (c) Buying shares of PSEs
   (d) Closing down private sector/public operations
9. Public enterprises are owned by the public. *True/False? Give reason.*
10. A departmentally run enterprise enjoys corporate status. *True/False? Give reason.*
11. A statutory corporation is a body corporate. *True/False? Give reason.*
12. Reserve Bank of India (RBI) is an example of a Government company. *True/False? Give reason.*
13. A government company enjoys maximum autonomy. *True/False? Give reason.*
14. The government provides funds to departmental undertakings. *True/False? Give reason.*
15. Who heads the departmental undertakings?
16. Why are departmental undertakings accountable to the ministry?

17. Where national security is concerned, which form of public enterprises is most suitable?
18. Why is there red tapism in day-to-day operations of a departmental undertaking?
19. Name the organisation formed by passing a Special Act of the Parliament.
20. Name the company in which at least 51% shares are kept by government.
21. In whose name the shares of a government company are purchased?
22. Name the organisation which is considered as a part of government only.
23. Name the organisation which is formed by passing a special Act of Parliament of State Legislature.

Case Studies

Analysing, Evaluating & Creating Type Questions

Q.1 Once upon a time a round of Election to the five Legislative Assemblies of the country was in progress. The different political parties were putting in the best of their efforts to entice the people through their respective promises to them. There were three main political parties contesting elections in these states. One of the political parties made a promise that if they came into power, they would set up such public sector enterprises in the states which will have the partnership of both the public and the government. However, in these enterprises, the ownership of the government shall not be less than 51%. The setting up of these enterprises is done as per the provisions of the Indian Companies Act, 2013. The financing of these enterprises is done jointly by both, the people and the government. The second political party promised that if they came into power, they would set up such public sector enterprises which will be completely under the ownership of the government. The burden of financing them will not be put on the shoulders of the people, but they will be managed with the general budget. The third political party, which was contesting the elections for the first time, promised that on coming into power they would set up such public sector enterprises which will be fully financed by the government. However, there will be no bar to get loan from the people to set up them. They will be set up as per the special Act passed by the Parliament or the State Legislative Assembly.

On the basis of the above para, identify the type of public sector enterprises to be set up as being promised by the three political parties. Also state any two merits of each of them. (6 marks)

Ans. (a) The first political party promised to set up Government Companies.

Merits:

(i) A government company can be easily established under the Indian Companies Act, 2013. A separate Act in the Parliament is not required.

(ii) It has a separate legal entity, apart from the government. It is free from government regulations.

(b) The second political party promised to set up Departmental Undertakings.

Merits:

(i) Since control is direct and centralised, these undertakings facilitate the Parliament to exercise effective control over their operations.

(ii) These ensure a high degree of public accountability.

(c) The third political party promised to set up Public Corporations/Statutory Corporations.

Merits:

(i) The government does not interfere in their financial matters, including their income and receipts.

(ii) A statutory corporation is relatively free from red tapism and bureaucracy and hence, can take quick decisions.

Q.2 'Indian Railways' is a part of Railway Ministry. It is organised, financed and controlled by Railway Ministry. The finances are allocated from government treasury and whatever revenue it earns is deposited to government treasury only. It is treated as a part of government and even the appointment recruitment and selection of employees is done in the same way as that of civil servant.

(i) Name the type of public sector enterprise 'Indian Railways' is.

(ii) What is the status of employees working in Indian Railways?

(iii) How does it get its finance?

(iv) What does it do with its revenue? (6 marks)

Ans. (i) Departmental Undertaking
(ii) They are considered as civil servants or government employees.
(iii) From government treasury.
(iv) It is deposited in the government treasury.

Q.3. Gas authority of India Ltd. (GAIL) is carrying on various projects of energy and power. Majority of its shares are held by the government of India. It was registered under the previous Companies Act. It enjoys all the characteristics of a company. The board of directors are appointed by the government. The Board and shareholders are responsible for the efficient working of the company. The company prepares its annual report and submit to the appropriate authorities.
(a) Name the type of public sector enterprise referred to in the above para.
(b) In whose name does the government buy shares?
(c) State any three features of the type of public sector enterprise identified in part (a) other than those discussed in the above para. **(5 marks)**

Ans. (a) Government Company
(b) President of India
(c) Features of government company:
(i) The company can file a suit in a court of law against any third party and be sued.
(ii) The company can enter into a contract and can acquire property in its own name.
(iii) The government company obtains its funds from government shareholdings and other private shareholders. It is also permitted to raise funds from the capital market.

Multinational Company/Global Enterprises

Multi National Corporations (MNCs) have played an important role in the Indian economy. They have become a common feature of most developing economies in the world.

MNCs are gigantic corporations which have their operations in a number of countries. They are characterised by their huge size, large number of products, advanced technology, marketing strategies and network of operations all over the world.

- Global enterprises thus are huge industrial organisations which extend their industrial and marketing operations through a network of their branches in several countries.
- Their branches are also called Majority Owned Foreign Affiliates (MOFA).
- These enterprises operate in several areas producing multiple products with their business strategy extending over a number of countries.
- They do not aim at maximising profits from one or two products but instead spread their branches all over.

Walmart – World's Richest MNC in 2018

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.

Top 10 Richest MNCs in the World in 2018 by Revenue

Multinational Company	Revenue in 2017 (in billion $)
1. Walmart	$485.9 billion
2. State Grid Corporation of China	$315.2 billion
3. Sinopec Group	$267.5 billion
4. China National Petroleum Corporation	$262.6 billion
5. Toyota Motor	$254.7 billion
6. Volkswagen	$240.3 billion
7. Royal Dutch Shell	$240.0 billion
8. Berkshire Hathway	$223.7 billion
9. Apple Inc.	$215.6 billion
10. Exxon Mobil	$205.0 billion

Features of MNCs

MNCs have distinct features which distinguish them from other private sector companies, public sector companies and public sector enterprises. These are as follows:

1. Expansion of market territory

Their operations and activities extend beyond the physical boundaries of their own countries. 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.

2. Centralised control

They have their headquaters in their home country and exercise control over all branches and subsidiaries. However,there is no interference in day-to-day operations.

3. Huge capital resources

MNCs are characterised by possessing huge financial resources. 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.*

4. 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.

5. Marketing strategies

The marketing strategies of MNCs are far more effective than other companies. They use aggressive marketing strategies– advertising and sales promotion techniques – in order to increase their sales in a short period.

6. Foreign collaboration

MNCs usually enter into agreements with Indian companies in the public and private sector pertaining to the sale of technology, production of goods, use of brand names for the final products, 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.*

7. Product innovation

MNCs are characterised by having highly sophisticated research and development departments engaged in the task of developing new products and superior designs of existing products.

Joint Ventures

When two businesses agree to join together for a common purpose and mutual benefit, it give s rise to a joint venture. These two organisations may be private, government-owned or a foreign company.

A joint venture is the pooling of resources and expertise by two or more businesses, to achieve a particular goal.

Businesses of any size can use joint ventures to strengthen long-term relationships or to collaborate on short term projects.

A joint venture can be flexible depending upon the party's requirements. These need to be clearly stated in a joint venture agreement to avoid conflict at a later stage.

A joint venture may also be the result of an agreement between two businesses in different countries. In this case, there are certain provisions provided by the governments of the two countries, which will have to be adhered to. 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.

It is becoming increasingly common for companies to create joint ventures with other businesses/companies and form strategic alliances with them. The reasons for these alliances may be complementary capabilities and resources such as distribution channels, technology or finance. In this kind of a joint venture, two or more (parent) companies agree to share capital, technology, human resources, risks and rewards in the formation of a new entity, under shared control.

In India, joint venture companies are the best way of doing business. There are no separate laws for these joint ventures. The companies incorporated in India are treated the same as domestic companies.

Types of Joint Ventures

Joint Ventures are of two types: Contractual joint venture and Equity-based joint venture.

1. 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.
(d) The relationship is not a transaction-to-transaction relationship but has a character of relatively longer duration.

2. 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.

The key elements in an Equity-based Joint Venture are:

(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.

Top Tip

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.

Examples of Joint Ventures:

1. **AVI Oil India Pvt. Ltd.**
   Date of establishment: 4 November, 1993
   Joint Venture Holders: Balmer Lawrie & Co. Ltd., NYCO SA, France.
   Areas of operation: Mineral based lubricating oil, defence and civil aviation uses, greases.
2. **Green Gas Ltd.**
   Date of establishment: 7 October, 2005
   Joint Venture Holders: GAIL (India) Ltd. and IOCL
   Areas of operations: Providing safe and reliable natural gas to customers.
3. **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/Benefits

1.Increased resources and capacity

Joining hands with another or teaming up adds to existing resources and capacity enabling the joint venture company to grow and expand more quickly and efficiently.

2. Access to new markets and distribution networks

When a business enters into a joint venture with a partner from another country, it opens up a vast growing market. 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. They can also take advantage of the established distribution channels i.e, the retail outlets in different local markets. Otherwise, establishing their own retail outlets may prove to be very expensive.

3. 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.

4. 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.

Specially foreign partners can come up with innovative products because of new ideas and technology.

5. 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, 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.

6. 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.

Public Private Partnership (PPP)

The Public Private Partnership model allocates tasks, obligations and risks among the public and private partners in an optimal manner.

- 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.
- PPP also includes NGOs and/or community based organisations who are the stakeholders directly affected by the project.

PPP is defined as a relationship between public and private entities in the context of infrastructure and other services.

Under the PPP model, public sector plays an important role and ensures that the social obligations are fulfilled and sector reforms and public investment are successfully met.

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,
- housing, and
- billing and other information technology systems.

DO YOU KNOW?

PPP Model

Features

- Contract with the private party to design and build public facility.
- Facility is financed and owned by the public sector.
- Key driver is the transfer of design and construction risk.

Application

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

Strengths

- Transfer of design and construction risk.
- Potential to accelerate project.

Weaknesses

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

Example: 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.

Kundli Manesar Expressway

Objective Type Questions 3.2

1. Centralised control in MNCs implies control exercised by *(Choose the correct alternative)*
   (a) Branches (b) Subsidiaries
   (c) Headquarters (d) Parliament
2. The equity-based joint venture does not include *(Choose the correct alternative)*
   (a) Cooperative development (b) Company
   (c) Partnership (d) Limited liability partnership
3. Name the company formed as a result of partnership between two companies.
4. Name the company which operates in more than one country.
5. What is that enterprise called in which a project or service is financed and operated through a partnership of government and private enter-prises?
6. Which enterprise is formed when two or more firms join together for a common purpose and mutual benefits?

Case Studies

Analysing, Evaluating & Creating Type Questions

Q.1 Amko Ltd., an American company is manufacturing a high quality products, which is very popular in America. The company is searching for the possibilities of exporting its product to foreign countries. After a thorough search on the internet it arrived at the conclusion that India can be a good market for its products. But the company is unaware of the distribution system in India. Now the company is looking for such a company which is already established in India and has a strong distribution system. Once again it searched on the internet and found that there was an Indian company named 'Surya Ltd.' which was facing severe financial constraints, but it had a very strong distribution system. Amko Ltd. negotiated with Surya Ltd., and both the companies made an agreement to jointly run their businesses. In this way the American company, with the help of Surya Ltd., got a good experience of entering the foreign markets.

(a) Identify the type of business enterprise formed by merging Surya Ltd. with Amko Ltd.

(b) State any four features of such a business enterprise. (5 marks)

Ans. (a) Joint Venture

(b) FEATURES:

(i) Increased resources and capacity: Joint venture adds to existing resources and capacity enabling the company to grow and expand more quickly and efficiently.

(ii) Access to new markets and distribution networks: When a business enters into joint venture, it can access new markets. They can also take advantage of the established distribution channels, i.e., the retail outlets in different local markets.

(iii) Access to technology: Advanced techniques of production leads to superior quality of products and reduced cost of production. It saves a lot of time, energy and investment because they do not have to develop their own technology.

(iv) Innovation: Joint ventures allow business to come up with new and innovative products for the market because of new ideas and technology of foreign partners.

Q.2 Max Ltd., a foreign company, started its business in a under-developed country. The size of the business is quite large. The company has plenty of resources. It employs thousands of people in the under-developed country. The raw materials used by the company are readily available here. However, since there was not demand for these raw materials here, the producers were unable to get the best price for it. Due to this reason, the producers were discouraged. Some local businessmen used to act arbitrarily earlier, but now they have corrected themselves. The reason for their becoming better is competition with the foreign company. Now their arbitrary approach has ended altogether. Max Ltd. is using completely the latest technology in its various business activities. As a result, the local people also have got the opportunity to learn the new technology. Because of using the modern technology and doing production at a large scale, the company's cost of production is very low. Because of its huge size and status, the company occupied a dominant position in the market and took over some domestic firms.

(a) Which type of business enterprise is referred to in the above para?

(b) State any three features of the enterprise identified in (a) by quoting the lines from the above para. (4 marks)

Ans. (a) Multinational Company

(b) Features:

(i) Expansion of market territory/International operations
An MNC has production, marketing and other facilities in several countries. It operates through a network of subsidiaries and branches in host countries. It owns and controls assets in foreign countries.
"Max Ltd., a foreign company, started its business in a under-developed country."

(ii) Giant size and huge capital resources
MNCs possess huge capital resources. 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.
"The size of the business is quite large. The company has plenty of resources. It employs the thousands of people in the under-developed country."

(iii) Sophisticated/Advanced technology
Generally, a multi-national corporation has at its command advanced technology so as to provide world class products and services.
"Max Ltd. is using completely the latest technology in its various business activities."

Q.3 The Government planned to begin a Road Project. The Government needed management specialists and financial help to complete it. The Government contacted the private sector to fulfil this requirement. Now, this project will be completed jointly by both the public sector and private sector.

(a) Identify the form of enterprise and state its importance.

(b) Give any three features of such enterprises. (4 marks)

Ans. (a) Public Private Partnership (PPP)
This type of enterprise helps in speeding up projects, and completing them in the minimum time period.

(b) FEATURES:

(i) Pertaining to high priority projects: PPP pertains to high priority projects that are aimed at creating public goods like in the infrastructure sector.

(ii) Suitable for big projects (Capital Intensive and Heavy Industries): PPP is suitable for big projects whose gestation period is very long.

(iii) Public welfare: PPP is used in the government projects targeted at public welfare, e.g. Delhi Metro Railway Corporation.

RECAP

Private Sector vs Public Sector Enterprises

Private sector enterprises are owned, managed and controlled by individuals or a group of individuals. Their main objective is to earn profit.

Public sector enterprises are owned, managed and controlled by the government. The forms of organisation which a public enterprise may take are departmental undertakings, statutory corporations and government companies.

Departmental Undertakings

This is the oldest and most traditional form of organising public enterprises. The Government functions through these departments. *Examples:* Posts and Telegraphs, Indian Railways, etc.

Merits

1. Effective control
2. High degree of public accountability
3. Source of income for the Government
4. National security

Limitations

1. Fail to provide flexibility
2. Delay in decision-making
3. Unable to take advantage of business opportunities
4. Red tapism
5. Political interference

Statutory Corporation

Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament. Examples: Indian Airlines, LIC, RBI, etc.

Merits

1. Free from undesirable government regulations
2. Government does not interfere in their financial matters
3. Free from red tapism and bureaucracy
4. Protection of public interest.

Limitations

1. Rules and regulations
2. Corruption
3. Government and political interference
4. Curbs the freedom of the corporation

Government Company

A government company means any company in which not less than 51 per cent of the paid-up capital is held by the Central government or state government or both. Examples: HMT, BHEL, etc.

Merits

1. Easily established
2. Separate legal entity
3. Enjoys autonomy
4. Curbs unhealthy business practices

Limitations

1. Government is the only major shareholder
2. Not directly accountable to the Parliament

Global Enterprises (Multi-National Corporations)

A multi-national company (MNC) may be defined as a company that operates in several countries. Examples: Walmart, Toyota Motor, Volkswagen, Apple Inc., etc.

Features/Benefits

1. Huge capital resources
2. Centralised control
3. Expansion of market territory
4. Advanced technology
5. Product innovation
6. Marketing strategies
7. Foreign collaboration

Joint Ventures

When two businesses agree to join together for a common purpose and mutual benefit, it give s rise to a joint venture. These two organisations may be private, government-owned or a foreign company.

A joint venture is the pooling of resources and expertise by two or more businesses, to achieve a particular goal.

Joint Ventures are of two types: Contractual joint venture and Equity-based joint venture.

1. <u>Contractual Joint Venture (CJV)</u>: 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.
2. <u>Equity-based Joint Venture (EJV)</u>: 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.

Examples of Joint Ventures:

1. AVI Oil India Pvt. Ltd.
   Joint Venture Holders: Balmer Lawrie & Co. Ltd., NYCO SA, France.
2. Delhi Aviation Fuel Facility Pvt. Ltd.
   Joint Venture Holders: BPCL and DIAL

Features/Benefits

1. Increased resources and capacity
2. Access to new markets and distribution networks
3. Access to technology
4. Innovation
5. Low cost of production
6. Established brand name

Public Private Partnership (PPP)

PPP is defined as a relationship between public and private entities in the context of infrastructure and other services. Under the PPP model, public sector plays an important role and ensures that the social obligations are fulfilled and sector reforms and public investment are successfully met.

Sectors in which PPPs have been completed worldwide include: Power generation and distribution, water and sanitation, hospitals, school buildings and teaching facilities, railways, roads, etc.

Features

- Contract with the private party to design and build public facility.
- Facility is financed and owned by the public sector.
- Key driver is the transfer of design and construction risk.

Application

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

Example: 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.

Key Terms

Private sector enterprises are the businesses owned, managed and controlled by individuals or a group of individuals.

Public sector enterprises are various organisations owned and managed by the government.

Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament. The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments.

Government company means any company in which not less than 51 per cent of the paid up capital is held by the central government, or by any state government or partly by Central government and partly by one or more State governments and includes a company which is a subsidiary of a government company.

Multi National Corporations (MNCs) are gigantic corporations which have their operations in a number of countries. They are characterised by their huge size, large number of products, advanced technology, marketing strategies and network of operations all over the world.

Joint venture is the pooling of resources and expertise by two or more businesses, to achieve a particular goal.

Public Private Partnership (PPP) is defined as a relationship between public and private entities in the context of infrastructure and other services.

Self Assessment Test 1

Public, Private and Multinational Company

***Time allowed* : 1 hour** ***Maximum Marks* : 25**

Q.1 LIC is the example of ____________. *(Choose the correct alternative)* (1 mark)

(a) Departmental undertaking (b) Statutory corporation

(c) Government Company (d) Private company

Q.2 Which of the following is a Government Company? *(Choose the correct alternative)* (1 mark)

(a) Hindustan Steel Ltd. (b) Tata Steel Ltd.

(c) Jindal Steel Ltd. (d) All of these

Q.3 Which of the following is related to a specific ministry? *(Choose the correct alternative)* (1 mark)

(a) Indian Railway (b) FCI

(c) Coal India (d) BHEL

Q.4 Which of the following is not an MNC? *(Choose the correct alternative)* (1 mark)

(a) Ranbaxy (b) Infosys

(c) Brook Bond (d) Asian Paint

Q.5 Differentiate between private sector and public sector enterprises. (3 marks)

Q.6 To overcome the difficulties faced by public in public transport system, the government of India started the METRO project in which the government involved private sector participation to get the benefits of efficiency of private sector. The project was great success as lakhs of people are enjoying the metro service to move from one place to other.

(a) Identify the type of enterprise mentioned in above para.

(b) Give any two features of the type of enterprise identified in (a) (3 marks)

Q.7 Name the enterprise which is the result of partnership between two companies. Why do two companies join together to work as one enterprise? Give three reasons. (4 marks)

Q.8 Name the organisation which is formed by passing a special Act of Parliament or State Legislature. Give features of such enterprise. (5 marks)

Q.9 Explain any three merits as well as three limitations of a departmental undertaking. (6 marks)

Self Assessment Test 2

Public, Private and Multinational Company

***Time allowed* : 1 hour** ***Maximum Marks* : 25**

Q.1 Who works to uplift the sick industries of Public Sector? *(Choose the correct alternative)* (1 mark)

(a) MOFA (b) MOU

(c) BIFR (d) NRF

Q.2 Government holds minimum __________ paid up Capital of a government company.
(Choose the correct alternative) (1 mark)

(a) 49% (b) 50%

(c) 51% (d) 26%

Q.3 When two business enterprises work together for a particular purpose that is called ________.
(Choose the correct alternative) (1 mark)

(a) Partnership (b) Joint venture

(c) Company (d) Joint Hindu Family Business

Q.4 Which of the following is created by Special Act of Parliament or State Legislature?
(Choose the correct alternative) (1 mark)

(a) Departmental Undertaking (b) Statutory Corporation

(c) Government company (d) Private company

Q.5 What do you understand by departmental undertaking? Give any four examples of departmental undertakings in India. (3 marks)

Q.6 Identify following enterprises to which form of public enterprises they are related and also write 20 words for each.

(a) Indian Railways

(b) Reserve Bank of India

(c) Bharat Heavy Electricals Ltd. (3 marks)

Q.7 With enactment of the LIC Act, 1956, an autonomous body, Life Insurance Corporation of India was formed. The act defines its powers, duties and functions. It has a separate legal entity. It is fully owned by government. It has independent financial policy and can raise funds by borrowing from public and government. However it is not subject to any budgetary accounting or audit control like Railways. It's annual report is presented in parliament every year.

(a) Name the type of public sector enterprise referred to in the above para.

(b) State any three features of the public sector enterprise identified in (a). (4 marks)

Q.8 Food Corporation of India (FCI) was established through special Act passed in Parliament in 1964 with the objective to create buffer stocks of foods like wheat, rice etc. for emergency situations like drought, flood famine etc.

(i) Which type of public sector enterprise is discussed above ?

(ii) Does such enterprises have separate legal entity ?

(iii) Who provided initial capital to such enterprises ?

(iv) Write any two demerits of such organization. (5 marks)

Q.9 Explain briefly the following features of a multinational company:

(a) Huge capital resources

(b) Foreign collaboration

(c) Expansion of market territory (6 marks)

Self Assessment Test 3

Chapter 1: Evolution and Fundamentals of Business
Chapter 2: Forms of Business Organisations
Chapter 3: Public, Private and Multinational Company

Time allowed **: 1 hr. 30 min.** ***Maximum Marks*** **: 40**

Q.1 Which of the following has no separate legal entity? *(Choose the correct alternative)* (1 mark)

(a) Departmental Undertaking (b) Statutory Corporation
(c) Govt. company (d) Private company

Q.2 How many industries are reserved for public sector? *(Choose the correct alternative)* (1 mark)

(a) 3 (b) 4
(c) 8 (d) 17

Q.3 Prakash, a farmer went to the market and exchanged his rice with pulses. Is it an economic activity ? (1 mark)

Q.4 Ms. Meena is a lecturer in a college. She gets ₹72,000 p.m. as remuneration. Mr. Kunal is a farmer producing 20 quintals of wheat for his own consumption and 2,000 quintals for sale. Ms. Kirti, a journalist in an agency, teaches slum children after her office hours. She doesn't charge anything from them. This gives her psychological and mental satisfaction.

Production of wheat by Mr. Kunal for his own consumption refers to which human activity and why ? (1 mark)

Q.5 In a cooperative society the principle followed is (1 mark)

(a) One share one vote (b) One man one vote
(c) No vote (d) Multiple votes

Q.6 What do you understand by statutory corporations? Give any four examples of statutory corporations in India. (3 marks)

Q.7 Mr. Singh is in 'lighting' business for the past 15 years. To help his friend, Mr Yadav, a beginner he projected himself as a partner before Mohd. Abdul, a wholesale dealer of fancy lights. Mohd. Abdul gave Mr. Yadav the stock without asking for payment and gave him credit limit of one month. Will Mr. Singh be liable to Md. Abdul if Mr. Yadav does not pay him on time ? Classify Mr. Singh's role here along with an explanation. (3 marks)

Q.8 Sony Ltd. is a leader in electronics. It is registered in a company and has its business operations in many countries of world. Its headquarter is in Japan (Tokyo). To manage its branches and subsidiaries in different countries, the company employs trained and professional managers. They always make use of latest technology to remain leader in electronics.

(a) Name the type of enterprise mentioned in the above para.
(b) State any three features of such enterprises. (4 marks)

Q.9 Imran, Manpreet, Joseph and Priyanka have been classmates in Class X. After their exams are over they happen to meet at a common friend Ruchika's house. Just when they are sharing their experiences of examination days, Ruchika's father, Mr. Raghuraj Chaudhury intervenes and asks about their well-being. He also enquires from each one of them about their career plans. But none of them has a definite reply. Mr. Raghuraj. who himself is a businessman suggests to them that they can opt for business as a promising and challenging career. Joseph gets excited by the idea and says, "Yes, business is really good for making lots of money even more than is possible by becoming an engineer or a doctor." Mr. Raghuraj says "Let me tell you, young man, there is a lot more to business than merely money?"

Do you agree with Mr. Raghu Raj Chaudahry's statement? What according to you are other objectives of business? (4 marks)

Q.10 "No business is risk free." In the light of this statement, explain the concept of business risk and its any three causes. (4 marks)

Q.11 It is a public sector enterprises in which Govt. of India held 80% of paid up share capital and it is registered as per company Act, 1956. It deals in manufacturing of Engineering goods and compete with private sector enterprises in order to achieve higher profits.

(i) Which type of public sector enterprise is discussed above?

(ii) Are the employees of such organization considered as Civil Employees ?

(iii) Write any one characteristic of such organization.

(iv) Write any two limitations of such organization. (5 marks)

Q.12 Name the enterprises that operate in several countries. Explain their characteristics. (6 marks)

Q.13 Aarti is a sole proprietor. Over the past 15 years, her business has grown from operating a neighbourhood shop selling Kurtis, bags, cosmetics etc. to a retail chain with four branches in the branches, she is thinking to form a company to manage the business better. She also wants to grow further.

(a) Explain two merits of Aarti remaining a sole proprietor.

(b) Explain two advantages of a joint stock company.

(c) If she wishes to grow further then which of the two options is better? (6 marks)

Check List to Objective Type Questions

Objective Type Questions 3.1

1. (i) – (a), (ii) - (b), (iii) - (c)
2. (b)
3. PSEs are organisations owned by
3. (b)
4. (a)
5. (a)
6. (c)
7. (b)
8. (a)
9. False: Public sector enterprises are owned, managed and controlled by the government.
10. False: They are established as departments of the ministry, e.g., Indian Railways.
11. True: A statutory corporation can sue and be sued, enter into contract and acquire property in its own name.
12. False: RBI is an example of a statutory corporation.
13. True: It enjoys maximum autonomy in all management decisions and actions. There is no undue departmental interference in the working of a government company.
14. True: The funding of departmental undertakings come directly from the Government Treasury. The revenue earned by these is also paid into the treasury.
15. Departmental undertakings are headed by government employees, IAS officers and civil servants.
16. Because their management is directly under the concerned ministry.
17. Departmental undertakings, because they are under the direct control and supervision of the ministry.
18. Because of bureaucrats' control, no action can be taken unless it goes through the proper channels of authority.
19. Statutory company
20. Government company
21. The President of India
22. Departmental undertaking.
23. Statutory Corporation

Objective Type Questions 3.2

1. (c)
2. (a)
3. Joint venture
4. Multi-national company/Global enterprise.
5. Public Private Partnership (PPP)
6. Joint Venture