

Principles of organization, Public sector enterprises

The principles of organization that can facilitate smooth functioning of organization are as follows:

- **Unity of objectives:** There should be unity of objective for each member of the organization so that all collective efforts can be concentrated on the set goals. The objectives of organization should be well understood and formulated so that every member is familiar with it.
- **Division of work and specialization:** The division of total work is done as to confine every individual to the performance of a single job. It facilitates specialization in the organization and enhances efficiency and quality. Every area of specialization should be interconnected to the total integrated system by means of coordinating together of all activities done in all departments.
- **Definition of job:** There should be appropriate defining of every position in relation to other positions in the organization. The overlapping of functions should be avoided. It can be done by assigning duties and responsibilities to every position and its relationships with other positions in the organization.
- **Separation of line and staff functions:** Line functions are those functions that help in accomplishing the main objectives of the company. These line functions should be separated from staff activities. The functions other than line functions are staff functions.
- **Chain of Command and Scalar Principle:** According to this scalar principle, the line of authority from top level to bottom level of organization should be clearly defined. This authority refers to the right to decide direct and coordinate. The structure of the organization should facilitate delegation of authority. The clarity is completely achieved through delegation by steps or levels from the top position to the operating level of the organization. It is also referred to as chain of command.
- **Parity of Authority and Responsibility or Principle of Correspondence:** The responsibility delivered to every employee should be accompanied with its corresponding authority. Every subordinate should have sufficient authority to perform responsibilities entrusted to him. It will make himself reliant and can help him in taking quiet decisions without concerning higher departments or authorities.
- **Unity of command:** Every subordinate should report to his assigned superiors or boss. It will avoid state of confusion, chaos, conflicts and lack of action in the organization.

- **Unity of Direction:** The unity of direction states that group of activities with a common goal should be managed by one person. It encourages one head and one plan of action for a common objective of different activities.
- **Exception principle:** The exception principle states that high level of managers should attend to exceptional matters only. The higher level of managers should deal with problems that concerns with unusual matter and policy decisions. The routine decisions should be referred to lower level of managers.

- **Span of supervision:** It refers to the number of persons that a manager or supervisor can direct or control. Every manager is confined with restricted numbers of subordinates so that he can direct them efficiently within the limits of available time and ability. The number of persons is dependent on the nature of job and the desired frequency of intensity of supervision required in the organization.
- **Principle of Balance:** The principle of balance states that there should be proper balance between various parts of the organization. No function should be given undue importance at the cost of other functions. This balance should also be maintained between centralization and decentralization, span of supervision and lines of communication and authority allocated to department and personnel at various levels.

- **Communication:** The objectives of organization desires good communication network. The two way communication between superiors and subordinates helps in uniting organization into working as effectively operating system.
- **Flexibility:** The flexibility in organizational structure helps in adapting to changes in the nature of the business as well as changes corresponding to technological innovations.

- **Continuity:** The continuity in efficient performance of organization can be achieved by adapting to new changes that takes place inside or outside the organization. It will help organization to survive and excel for longer duration of time.

Public sector enterprises

We have learnt about various forms of business organisations, which primarily relate to private enterprises. Traditionally, business activities were left mainly to individual and private organisations, and the government was taking care of only the essential services such

as railways, electricity supply, postal services etc. But, it was observed that private sector did not take interest in areas where the gestation period was long, investment was heavy and the profit margin was low; such as machine building, infrastructure, oil exploration, etc. Not only that, industries were also concentrated in some regions that had certain natural advantages like availability of raw materials, skilled labour, nearness to market. This led to regional imbalances. Hence, the government while regulating the business activities of private enterprises went in for direct participation in business and set up public enterprises in areas like coal industry, oil industry, machine building, steel manufacturing, finance and banking, insurance etc. These units are not only owned by central, state or local government but also managed and controlled by them and are termed as Public Sector Enterprises. In this chapter, you will learn about the nature and characteristics of public enterprises and the forms of their organization.

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) and 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:

- **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. In any case the control, management and ownership remain primarily with the government. For example, National Thermal Power Corporation (NTPC) is an industrial organization established by the Central Government and part of its share capital is provided by the public. So is the case with Oil and Natural Gas Corporation Ltd. (ONGC).
- **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.

- **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.
- **Public Utility Services:** Public sector enterprises concentrate on providing public utility services like transport, electricity, telecommunication etc.
- **Public Accountability:** Public enterprises are governed by public policies formulated by the government and are accountable to the legislature.
- **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.

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

- (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 organisations 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 organisations 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**

Example: Posts & Telegraph, Railways, All India Radio (AIR), DoorDarshan (TV), Ordnance Factories

- **Statutory Corporations**

Example: Food Corporation of India, Industrial Finance Corporation of India, Life Insurance Corporation of India, Unit Trust of India , State Trading Corporation

- **Government Companies**

Example: Hindustan Machine, Tools Limited, Steel Authority of India Limited, Hindustan Shipyard Limited.