

Current scenario- Public sector enterprises, Forms of organization of enterprises, Importance of public sector enterprises

Current scenario- Public sector enterprises

Public sector enterprises occupy an important place in the Indian economy. At the time of independence, the Indian economy was basically agrarian with a weak industrial base. There were very few public sector enterprises in our country. The Indian Railways, the Posts and Telegraphs, the Port Trust, Government Salt Factories were the prominent public sector enterprises. After getting independence, the government felt that if the country needs to speed up its economic growth, then state's intervention in all sectors of the economy is inevitable. At the commencement of the first five-year plan (1.4.1951) Government's investment was Rs. 29 crore in five central public sector enterprises. Now it has increased to Rs. 3,93,057 crores in 239 enterprises as on 31 March 2006. The public sector enterprises have been making substantial contribution to augment the resource of central government. During 2004-05 their contribution to the central exchequer was Rs. 1,10,599 crores. There is no doubt that public enterprises have played a significant role in the Indian economy. But the overall performance of most of the public sector enterprises is not satisfactory. The rate of return on capital investment is very low. Most of them suffer from the limitations already discussed in the earlier sections. To improve the performance of the public enterprise, Government of India has taken several measures. On 24 July 1991 the Government of India announced its Industrial policy to improve the performance and portfolio of public sector enterprises. The new economic policies also emphasized on liberalization, privatization and globalization of Indian economy. The role of public sector was redefined. In July 1997, Government identified nine central public sector enterprises as 'Navaratnas'. They are BHEL, BPCL, GAIL, HPCL, IOC, MTNL, NTPC, ONGC, SAIL. These public sector enterprises have been given autonomy for capital investment, to enter into joint ventures, to raise capital from domestic and international market etc. In October 1997, the Government granted enhanced autonomy and delegation of financial power to some other profit making public sector enterprises and categorized them as 'Miniratnas'. Presently there are 45 Miniratna Public Sector Enterprises functioning in India. The Government has taken every step to revive and restructure the public sector enterprises to improve their performance, productivity and profitability. Major emphasis has been laid on the sick and chronically loss making enterprises, which are capable of being revived.

These enterprises are referred to Board for Industrial and Financial Reconstruction (BIFR) to prepare appropriate revival or rehabilitation package. The government has set up a Board for Reconstruction of Public Sector Enterprises (BRPSE), which considers and advises the Government on the proposal of restructuring/ revival of sick and loss making units including the proposal for disinvestment or closure or sale. BRPSE has made recommendations in respect of 31 central public sector enterprises so far and out of them the Government has approved revival plan of 15 cases till 30 March 2006.

Forms of organization of enterprises

Administration- business organization

1. Sole proprietorship

One single person is managing the entire business. Following things required for registering the enterprise

- Bank account on the name of enterprise
- Application for license to City Corporation
- Full address and proof of address and PAN number are required
- Local self government will issue the license for establishing enterprise.
- License is also issued based on building bylaws (National Building Code) and Zoning regulation.

Eg: there should be open area between two buildings dimension of building, fire safety regulation etc.

Zoning regulation- commercial zone, residential zone, industrial zone, green belt zone (no construction)

2. Partnership

When more than one person is involved, partnerships are created. If there is a legal conflict against a partnership, one has to sue the individual partner become bankrupt then creditors of that partner could sue all other partners even if debt is unrelated with the partners.

When one partner leaves/dies the partnership the whole deal of partnership needs to be reconstituted.

Deed: Responsibilities and rights of individual partners and other terms and conditions. It is a registered document. In the case of partnership, liability is unlimited (i.e. repayment of loan debt doesn't only depends on individual investment but also on individual assets).

3. Cooperatives

In India cooperatives is in state list but cooperative can be multistate subject. Eg: CAMPCO (Central Area Marketing and Processing Cooperative Limited). It is under Kerala and Karnataka states which work under federal act. Cooperative society can be registered under the state cooperative societies act, Indian cooperative society act-1959. Federal act is a multi unit cooperative society's act which is under central government. Cooperative society is owned by the partners and works for the benefit of partners. Cooperatives are divided into worker owned business and customer owned business Cooperatives can give loan to its members but not to non members one person can become member of cooperative society based on the following:

- The person should be residing in the area of that cooperative society
- The person should not be member of any other cooperative society

Features of cooperatives

- Open and voluntary membership
- Principle of democratic control
- Equitable distribution of surplus
- Patronage dividend- refers to the dividend for the business done by the individual partners.

In agricultural and cooperative society, government is also shareholder and one nominee from the government will be the executive member of the cooperative society and audit can be organized by the government periodically to check the account. Money lenders can't be member of agricultural credit cooperative society because the mandate of agricultural credit cooperative society is that the person who has same work as that of credit cooperative society can't be a member of the credit cooperative society. Souharda cooperation- no government involvement, private cooperatives.

4. Companies

Company is a legal personality with distinct legal status

- Limited liability (loss or profit is only paid from the share and not from their assets)
- Transferrable shares- shares can be transferred from one person to another person

Legal personality- one has to sue the company in case of legal conflict but they can't sue the individual shareholder.

It has originated in early 18th and 19th century. It is a legal person and liability is limited

- Private limited companies- a minimum of 7 persons along with promoters (who originally contribute for the company) sign and applied to registrar of companies' office (Chennai). If a member wants quit then his share can't be sold to non member, it can be sold only to other members.
- Public limited companies- first the members contribute their share to start the company, if a person wants to quit he can sell his share in a stock market (he should have his share certificate). As a share holder person gets two types of income. (annual dividend and capital appreciation)
- Non profit companies- these are also registered under the companies act (section 6.25 companies' act 1956). These are exempted from the taxes to be paid for income. Social organisations, NGOs etc go for nonprofit organizations.

Importance of public sector enterprises

You know that all enterprises in our country are not public enterprises. There is mixed economy in our country and the private as well as the public sector contribute to the development of our economy. However, there are only some selected areas in which the government establishes its enterprises for a balanced development of the economy and promote public welfare. There are several areas where huge investment of capital is necessary but the margin of profit is either meager or it can be obtained only after a long period as in case of generation and supply of electricity, machine building, construction of dams, etc. The private businessmen hesitate to establish their enterprises in these areas but they cannot be neglected in public interest. As such these enterprises are established and run by the government. Similarly the public enterprises also help in balanced regional development by promoting industries in every part of the country. For example, with the establishment of Bhilai Steel Plant in Madhya Pradesh, several new small industries have come up in that state. Industrial progress is of utmost importance for the development of the country and for this, it is necessary that some basic industries like oil, coal, gas, iron, steel, production of heavy electrical goods, etc., are to be fully developed. Public enterprises give impetus to the development of these basic industries and also help in the development of the private sector with their products and services. There are some industries which require heavy capital investment on account of technical reasons. Electricity, power, production of gas, heavy machinery tools, production of telephone etc., are such industries. The development of public enterprises also prevents concentration of economic power in the hands of an individual, or a group of individuals. Not only is that, in our country economic inequalities increasing. Poor are becoming poorer and the rich more rich. The public enterprises can help in reducing inequalities with the help of various policies like utilizing the earned profits in public welfare activities and by selling raw material to the small scale industries at lower prices. It is also necessary for the economic progress of the country that industries which can decrease imports and increase exports are only promoted. Public enterprises also ensure promotion of such industries.

There is an old belief that the benefits derived from the nature should be made available to all without any distinction. The public enterprises ensure that land, oil, coal, gas, water, electricity and other necessary resources are made available to all at fair prices. The security of the country is supreme. There should be no compromise in ensuring this. The production of fighter aeroplanes, arms and ammunition etc, connected with the security of the country is put under the domain of Public Enterprises for the purpose. Thus, public welfare planned economic development of the country, regional balance, import substitution and checking concentration of economic powers are the major goals.