Management of Public Enterprise

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.

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.

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

Advantages of Departmental Undertaking

- Such organization allow ruling government body to take control of all the company operations in an efficient manner.

- The Government is accountable for all the finances, effective decisions, marketing strategies, etc. of these enterprises.

- The revenue generated from such enterprises is deposited to the Government treasury, thereby becoming a legitimate source of income for the ruling Government.

- Since departmental undertakings are subject to strict auditing and accounting procedures, there is a comparatively lower chance in misuse of public funds.

Disadvantages of Department Undertakings

With the help of the points discussed below, it is easier to identify the demerits of departmental undertakings –

Lack of Flexibility
Lack of flexibility is a concerning issue in case of workers of departmental undertakings. Such enterprises are required to strictly follow the rules and guidelines of the Parliament. Concerned ministers and top government officials tend to intervene frequently with the work process.

Lack of Motivation
Since, there is a severe lack of competition and purpose for generating higher revenue, employees of departmental undertakings fall prey to reduced motivation for hard work and efficiency. In the case of most Departmental employees are less likely to be rewarded for their value-added performances, and usually, all promotions depend primarily on incentives.

Financial Dependence
Since the primary funding received by departmental undertakings are from budget allocations by the finance sector of a Government, such enterprises are unable to take long-term decisions on business operations. Hence, they are financially dependent on the ruling Government as the revenue generated cannot be used for business funding but needs to be deposited to the National Treasury.

- These allow the government to take control of all operation efficiently.
- These assure public accountability
- The revenue collected by the business is directly credited to the treasury which becomes a source of income for the government
- It has direct authority and guidance of the ministry, therefore, for national security, it is the best kind of undertaking
- It doesn’t have flexibility which is essential for a business to run smoothly

- Employees are not allowed to take an independent decision. Therefore, it leads to a delay in decision making
- They cannot take advantage of business opportunities as they do not want to take a risk in new venture
- Unnecessary political interference
- They are insensitive to customer needs and do not give sufficient services to them

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.

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

Merits of Statutory Corporations

The main advantages of the statutory corporation are:

- Initiative & flexibility: Operations & management of a statutory corporation is done independently, without any government's interference, with its own initiative & flexibility.
- Administrative autonomy: A public corporation is able to manage its affairs with independence & flexibility.
- Quick decisions: A public corporation is relatively free from red-tapism, as there is less file work & less formality to be completed before taking decisions.
- Service motive: The activities of the public corporation are discussed in parliament. This ensures the protection of public interest.
- Efficient staff: The public corporations can have their own rules & regulations regarding remuneration & recruitment of employees. It can provide better facilities & attractive terms of service to staff to secure efficient working from its staff.

- Professional management: Board of directors of statutory corporation consists of business experts & the representatives of various groups such as labor, consumers nominated by the government.
- Easy to raise capital: As such corporations are fully owned by the government, they can easily raise required capital by floating bonds at a low rate of interest. Since these bonds are safe, the public also feels comfortable in subscribing such bonds.

Demerits of Statutory Corporations

- Autonomy on paper only: The autonomy & flexibility of public corporation is only for name's sake. Practically ministers, government officials & political parties often interfere with the working of these operations.
- Lack of initiative: Public corporations do not have to face any competition & are not guided by a profit motive. So the employees do not take initiative to increase the profit & reduce loss. The losses of the public corporation are made good by the government.
- Rigid structure: The objects & powers of public corporations are defined by the act & these can be amended only by amending the statute or the act. Amending the act is a time-consuming & complicated task.
- Clash amongst divergent interests: The government appoints the board of directors & their work is to manage & operate corporations. As there are many members, it is quite possible that their interests may clash. Because of this reason, the smooth functioning of the corporation may be hampered.
- Unfair practices: The governing board of a public corporation may indulge in unfair practices. It may charge an unduly high price to cover up inefficiency.
- Suitability: The public corporation is suitable where the undertakings require:
    - monopoly powers.
    - special powers, defined by the act or statute.
    - regular grants from the government.

- an appropriate combination of public accountability & operational autonomy.

Government Company refers to the company in which 51 percent or more of the paidup 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.

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

Merits of Government companies

The following are some of the advantages or merits of Government Companies.

1. It is easier to form a government company.

2. Government Companies are free to raise finance from private investors, financial institutions and other companies apart from government funding. So they enjoy the capacity to raise capital according to their requirements.

3. It enjoys flexibility and autonomy in functioning. It is run with a commercial outlook and can take decisions to suit the changing needs of the business.

4. It can attract foreign capital and investment, e.g. HMT, BHEL etc.,

5. It is suitable for private and foreign collaboration. Private investors in the government company can get shares out of the share capital.

6. The Articles can be easily altered when compared to alteration of statutes of a corporation.

7. It is relatively free from bureaucratic control.

8. Formation is not as difficult as a statutory corporation which requires a special statute of Parliament or State legislature.

Drawbacks of Government companies

1. Lack of autonomy is a serious drawback of government companies. It is subject to the interference of the Minister and bureaucrats who run the department.

2. There is less freedom and flexibility. It cannot modify its business or change its policies and practices in tune with the changes in the environment.

3. There is no incentive for individual interest and initiative. Employees who run the company are paid a fixed salary. They are not going to benefit if the company does well nor is their pay and benefits affected if the company incurs losses. Therefore employees do not display drive and enthusiasm to make the company successful.

4. Since employees enjoy job security there is no serious attempt to increase efficiency of operations. Further, the top management might be transferred if a new government comes to power. Therefore there is not much interest is putting in dedicated efforts.

5. Due to red-tapism, decisions are delayed. It would not be able to capitalize on new opportunities. Sometimes decisions are de1ayed for fear of making mistakes.

6. Government companies are free from parliamentary scrutiny, budgets audits etc. Therefore there might be a tendency to conduct its business in an inefficient and reckless manner. This might eventually lead the company to losses.

Point of Distinction	**Departmental Undertaking**	**Statutory Corporation**
1. Status	Does not have a separate legal entity.	It is a Separate entity.
2. Establishment	It is established by a Ministry.	It is established by a Special Act of Parliament.
3. Funds	Funds are Provided annually by budget appropriation.	It can raise its own resources.
4. Authority to control	Rests in the hands of the Minister and the concemed Ministry	Parliament has the authority to control the affairs.

5. Management	Managed by government officials and the ministry.	Managed by the Board of Directors
6. Power to borrow	Does not have borrowing power.	Possesses borrowing power.
7. Employees	Employees are govemment servants and service rules are those applicable to government employees.	Employees are recruited by the Corporation. The employees are not government servants.
8. Autonomy	Limited	Considerable
9. Flexibility	Limited	Substantial
10. Suitability	Suitable in industries which are basically monopolies. For e.g. defence, public utilities etc.	Suitable for industrial and commercial undertakings.