NCERT SOLUTIONS

CLASS - 11th



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Class :11th

Subject : Business Studies

Chapter : 3

Chapter Name : Private, public and global enterprises

Q1 A government company is any company in which the paid up capital held by the government is not less than

(a) 49 per cent

(b) 51 per cent

(c) 50 per cent

(d) 25 per cent

Answer. (b) 51 per cent

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Q2 Centralised control in MNC's implies control exercised by

(a) Branches

(b) Subsidiaries

(c) Headquarters

(d) Parliament

Answer. (c) Headquarters

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Q3 PSE's are organisations owned by

(a) Joint Hindu family

(b) Government

(c) Foreign Companies

(d) Private entrepreneurs

Answer. (b) Government

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Q4 Reconstruction of sick public sector units is taken up by

(a) MOFA

(b) MoU

(c) BIFR

(d) NRF

Answer. (c) BIFR

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Q5 Disinvestments of PSE's implies

(a) Sale of equity shares to private sector/public operations

(b) Closing down operations

(c) Investing in new areas

(d) Buying shares PSE's

Answer. (a) Sale of equity shares to

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Q6 The equity-based joint venture does not include

(a) Cooperative development

(b) Company

(c) Partnership

(d) Limited liability partnership

Answer. (a) Cooperative development

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Q1 Explain the concept of public sector and private sector.

Answer. Private sector enterprises are those enterprises which are managed and controlled by a private individual or a group of individuals. It consists of sole proprietorship, partnership, joint Hindu family, cooperative and company.

On the other hand, the public sector consists of all those enterprises which are owned and managed by the state governments or central government or jointly by central government and one or more state governments. They may also be a part of the ministry or come into existence by a Special Act of the Parliament.

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Q2 State the various types of organisations in the private sector.

Answer. The various types of organisations in the private sector are :

(i) Sole Proprietorship : It refers to the form of organization which is owned, managed and controlled by only one individual who is the sole owner of the business. He is the only risk bearer and the only recipient of profits.
(ii) Partnership : It is the association of two or more persons who combine their resources in a business to share the profits and who mutually carry on the business.
(iii) Joint Hindu Family : It is the form of organization which is owned and managed jointly by the members of the Hindu undivided family. It is governed by the Hindu law.
(iv) Company : It is an artificial person formed by the provisions of the law. It has a separate legal entity distinct from its members, perpetual succession and a common seal through which it operates. It may be a public or a private company.
(v) Multinational Corporations : It refers to a network of large sized organisations which has its area of business extended to more than one country.

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Q3 What are the different kinds of organisations that come under the public sector

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Answer. The forms of organisation which a public enterprise may take are as follows :

(i) Departmental Undertaking : These organisations are those public sector enterprises which are formed as departments of a ministry and are a part or extension of the ministry itself. These can be formed by the central government or state governments. Examples : Railways and ; Post and Telegraph Department.

(ii) Statutory Corporation : Those public sector enterprises which are formed by passing special Act in the Parliament are known as statutory corporations. The Act under which they are formed defines its powers, duties, scope of operation and the functions to be performed by it.

(iii) Government Company : According to the Companies Act 2013, a government company means any company in which at least 51 percent 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. These are established for business purposes only.

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Q4 List the names of some enterprises under the public sector and classify them.

Answer. Some enterprises under the public sector are :

(i) Indian Railways : Departmental Undertaking

(ii) Indian Post and Telegraph : Departmental Undertaking

(iii) Steel Authority of India Limited (SAIL) : Government Company

(iv) Bharat Heavy Electricals Limited (BHEL) : Government Company

(v) Life Insurance Corporation (LIC) of India : Statutory Corporation

(vi) State Trading Corporation : Statutory Corporation

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Q5 Why is the government company form of organisation preferred to other types in the public sector?

Answer. The government company form of organisation is preferred to other types in the public sector because of the following advantages offered by it -

(i) Simple Procedure of Establishment : A government company can be formed by following the simple rules of the Companies Act, 2013. It doesn't require any special Act to be passed in the Parliament nor it requires long legal procedures.
(ii) Working on Business Principles : The government companies are formed purely for carrying out business activities. It is regulated by an independent team of board of directors who are experts in their field.

(iii) Efficient Management : These enterprises are more accountable to the general public as its annual report is placed before both the Houses of Parliament. Thus its management is more efficient and effective.
(iv) Competition : These companies compete with the companies in the private sector in order to provide goods and services at competitive prices to the general public.

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Q6 How does the government maintain a regional balance in the country?

Answer. One of the major objectives of planning in India is to develop all the areas of India proportionately. However in the pre-independence period, the industries were concentrated in a few areas. But now they are dispersed over a large part of the country. Indian government has taken up due measures to develop the backward areas and to promote industries in those areas also. Many public sector industries were deliberately set up in those backward regions.

For example, the Bhilai steel plant set up in Madhya Pradesh provided employment to many people in that area along with the efficient utilisation of resources of that area.

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Q7 State the meaning of public private partnership.

Answer. 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.

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Q1 Describe the Industrial Policy 1991, towards the public sector.

Answer. Government of India introduced four major reforms in the public sector in its new Industrial Policy, 1991. Which were as follows :

(i) Dereservation In the 1956, Industrial Policy Resolution, 17 industries were reserved for the public sector. In 1991, only 8 industries were reserved for the public sector, they were restricted to the areas of atomic energy, arms and ammunition, defence, mining, and railways. This meant that the private sector could enter all areas except these eight (now three since 2001) giving competition to public sector.
(ii) Disinvestment of Public Sector Enterprises Disinvestment involves the sale of the equity shares to the private sector and the public. This was done with an aim to raise funds and encourage wider participation of the general public and workers in the ownership of these enterprises. This was expected to result in improved managerial efficiency and financial discipline.
(iii) Policy Regarding Sick Units All public sector units were referred to the Board of Industrial and Financial Reconstruction (BIFR) to decide whether a sick unit was to be restructured or closed down. A National Renewal Fund (NRF) was set up by the government to retrain or redeploy labour retrenched from a sick unit and to provide compensation to public sector employees seeking voluntary retirement,
(iv) Memorandum of Understanding Management of public sector units was granted greater autonomy but held accountable for specified results through signing of Memorandum of Understanding (MoU) between the particular public sector unit and their administrative ministries. Under this system, public sector units were given clear targets and operational autonomy for achieving those targets.

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Q2 What was the role of the public sector before 1991?

Answer. Public sector had a prominent role before 1991 as discussed below
(i) Development of Infrastructure and Heavy Industries At the time of independence, basic infrastructure was not developed and hence industrialisation was difficult due to lack of adequate transportation and communication facilities, fuel and energy, and basic and heavy industries. The private sector did not take initiative to invest in heavy industries and infrastructure due to heavy capital requirements and long gestation periods involved in these projects. Therefore, government took the lead in these projects through public sector enterprises.

(ii) Regional Balance After the inception of planning in 1951, the government started paying special attention to those regions which were lagging behind and public sector industries were deliberately set up in those backward regions. Four major steel plants were set up as public sector units in the backward areas to accelerate economic development, provide employment to the workforce and develop ancillary industries.
(iii) Economies of Scale Average cost of production is lowered when the scale of production is large. But large scale industries require huge capital outlay and hence the public sector had to step in to take advantage of economies of scale. Units of electric power. natural gas, petroleum, etc were set up in public sector as these units required a larger base to function economically which was possible only with government resources and mass production.
(iv) Concentration of Economic Power At the time of independence, there were very few industrial houses which had the required capital
to invest in heavy industries and if public sector units were not established, wealth could get concentrated in a few hands giving rise to monopolistic practices. The public sector ensures that the income and benefits that accrue are shared by a large of number of employees and workers.

(v) Self Reliance One of the major objectives of Five Year Plans WaS self-reliance. It was difficult to import heavy machinery required for a strong industrial base due to shortage of foreign exchange. At that time, public sector companies involved in heavy engineering helped in import substitution. Simultaneously, public sector companies like STC and MMTC played an important role in expanding exports of the country.

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Q3 Can the public sector companies compete with the private sector in terms of profits and efficiency? Give reasons for your answer.

Answer. It is difficult though not impossible for the public sector companies to compete with the private sector in terms of profits and efficiency due to following reasons

(i) Difference in Objective Private sector firms operate with the objective of profit maximisation while public sector companies have social welfare as the prime objective and hence they cannot be completely profit oriented.
(ii) Difference in Ownership The government is the sole or major shareholder in public sector companies. The management and administration of these companies therefore rests in the

hands of the government which may not make economically sound policies due to political considerations.
(iii) Difference in Management Public sector companies are managed by government officials who may not be professionally trained while private sector companies are run and managed by professional managers. This leads to higher efficiency in private sector.
(iv) Difference in Area of Operation Private sector operates in all areas with adequate return on investment while public sector operates mainly in basic and public utility sectors where returns are not very high.

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Q4 Why are global enterprises considered superior to other business organisations?

Answer. Global enterprises are large industrial organisations which extend their industrial and marketing operations through a network of their branches or subsidiaries in several countries. These enterprises are Considered superior to other private sector companies and public sector enterprises because of certain features which are as follows

(i) Availability of Funds These enterprises can survive in crises and register higher growth as they possess huge financial resources as they have the ability to raise funds from different sources such as equity shares, debentures or bonds. They are also in a position to borrow from financial institutions and international banks as they have high credibility.
(ii) Diversification of Risk Global enterprises usually operate in different countries and enter into joint ventures with domestic firms of the host country. Thus, losses in one country may be compensated by profits in another country. Risk is also shared by the domestic partner in case of joint venture.
(iii) Advanced Technology Global enterprises conform to international standards and quality specifications as they possess superior technologies and methods of production.
(iv) Research and Development(R&D) High quality research involves huge expenditure which only global enterprises can afford. Therefore, these enterprises have highly sophisticated research and development departments which regularly come up with product as well as process innovations making these firms globally competitive.
(v) Marketing Strategies Global companies use aggressive marketing strategies in order to increase their sales. Their market information systems are reliable and up-to-date leading to effective advertising and sales promotion. They manage their brands effectively as they have a global brand equity.
(vi) Wider Market Access The operations and marketing of global companies extend to many countries in which they operate through a network of subsidiaries, branches and affiliates. Due to this they enjoy a far wider market access than domestic firms.

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Q5 What are the benefits of entering into joint ventures ?

Answer. When two businesses agree to join together for a common purpose and mutual benefit, it gives rise to a joint venture. The major benefits of joint ventures are as follows

(i) Increased Resources and Capacity When two firms come together, it enables the joint venture company to grow and expand more quickly and efficiently as the new business pools in financial and human resources. It is able to face market challenges and capitalise new opportunities more effectively.
(ii) Access to New Markets and Distribution Networks When foreign companies form joint venture with companies in a host country, they gain access to the market of host country. They can also take advantage of the established distribution channels i.e., the wholesale and retail outlets in different local markets which may be very expensive for them otherwise.
(iii) Access to Technology Most businesses enter into joint ventures to get access to an advanced technology which IS not possible or economically feasible to be developed on their own. Technology adds to efficiency and effectiveness, thus leading to reduction in costs and superior quality products.
(iv) Innovation Products become outdated after sometime and demand for them starts falling. Consumers have become more demanding in terms of new and innovative products. Joint ventures enable companies to come up with innovative products because of new ideas and technology acquired from the partner In the joint venture.
(v) Low Cost of Production When international corporations invest in developing countries through joint ventures. they are able to benefit from low cost of raw materials and labour The international partner is
thus able to produce the products of required quality and specification at a much lower cost than what is prevailing In the home country
(vi) Established Brand Name When two businesses enter into a joint venture one of the parties benefits from the other's goodwill already established in the market. In such cases, there is a ready market waiting for the product to be launched which saves expenditure on marketing activities otherwise required to launch a new product.

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