# NCERT Solutions Class 11
# Business Studies
# Chapter 3 Private, Public and Global Enterprises

**Exercises**
**Page. No. 75**
**Multiple Type Questions**

**Question 1: A government company is any company in which the paid-up capital held by the government is not less than**
(a) 49 percent
(b) 51 percent
(c) 50 percent
(d) 25 percent

**Solution:** (b) 51 percent

**Question 2: Centralised control in MNC's implies control exercised by**
**(a) Branches**
**(b) Subsidies**
**(c) Headquarters**
**(d) Parliament**

**Solution:** (c) Headquarters

**Question 3: PSE's are organisations owned by**
**(a) Joint HinduFamily**
**(b) Government**
**(c) Foreign Companies**
**(d) Privateentrepreneurs**

**Solution:** (b) Government

**Question 4: Reconstruction of sick public sector units is taken up by**
**(a) MOFA**
**(b) MoU**
**(c) BIFR**
**(d) NRF**

**Solution:** (c) BIFR

Page No: 76

**Question 5: Disinvestment of PSE' implies**

**(a) Sale of equity shares to private sector/public**
**(b) Closing down operations**
**(c) Investing in new areas**
**(d) Buying shares of PSE's**

**Solution:** (a) Sale of equity shares to private

**Question 6: The equity based joint venture does not include**
**(a) Cooperative development**
**(b) Company**
**(c) Partnership**
**(d) Limited liability partnership**

**Solution: (d) Limited liability partnership**
**Short Answer Questions**

**Question 1: Explain the concept of public sector and private sector?**

**Solution:** Business enterprise owned and managed by individuals or group of individuals with the sole motive of earning profits are known as private sector organisations. The various forms of organisation are sole proprietorship, partnership, joint Hindu family, cooperative and company.
The public sector consists of various organisations owned and managed by the government. These organisations may either be partly or wholly owned by the central or state government. Bharat Heavy Electricals Ltd, Oil India Ltd and Life Insurance Corporation of India are examples of public sector industries.

**Question 2: State the various types of organisations in the private sector.**

**Solution:** The various types of private sector organisations in India are:

**(1) Sole Proprietorship:** It refers to the form of organisation where business is owned, managed and controlled by a single individual who bears all the risks and enjoys the whole profit.

**(2) Partnership:** It is defined as an association of two or more persons who agree to carry the business together and share the profit as well as bear risks collectively.

**(3) Joint Hindu Family:**

The business is owned and carried on by the member of a hindu undivided family which is governed by the hindu law.

**(4) Cooperative Societies:** Cooperative society is a voluntary association of persons, who join together with the motive of welfare of members.

**(5) Joint Stock Company:** A company is an association of persons formed for carrying out business activities and has a legal status independent of its members.

**Question 3: What are the different kinds of organisations that come under the public sector?**

**Solution:** The following are the various forms of public sector organisations:

**(1) Departmental Undertaking:** These enterprises are established as departments of the ministry and are considered as part or an extension of the ministry itself. These undertakings may be under the central or the state government. Examples: Railways and post and telegraph department.

**(2) Statutory Corporation:** These are public enterprises brought into existence by a special act of the parliament, which defines its powers and functions., it is a financially independent corporate body created by the legislature and has a clear control over a specified area or a particular type of commercial activity.

**(3) Government Companies:** According to the Indian companies act, 1956, a government company means any company in which at least 51% of the paid up catital is held by the central government, or by any state government or partly by one or more state governments. These are established purely for business purposes.

**Question 4: List the name of some enterprises under the public sector and classify them.**

**Solution: (1)** Indian Railways - Departmental undertakings.
**(2)** Air India - Statutory Corporation.
**(3)** ONGC (Oil and Natural Gas Corporation)- Government company.
**(4)** Indian Post and Telegraphs - Departmental undertakings.
**(5)** LIC (Life Insurance Company)- Statutory Corporation.

**Question 5: Why is the government company form of organisation preferred to other types in public sector?**

**Solution:** The reasons that the government-company form of organisation is preferred over the other forms in the public sector:
**(1)** Separate entity: Government company can sue and be sued by third party. It can hold property in its name and enter into contracts.
**(2)** A government company enjoys financial and administrative autonomy.
**(3)** It faces no undue interference by the department concerned in its operations.

**(4)** It provides goods and services at reasonable rates and at the same time also ensures safe marketing activities.
**(5)** It is registered or incorporated under Companies Act.

**Question 6: How does the government maintain a regional balance in the country?**

**Solution:** The government maintain regional balance in the country by paying particular attention to those regions which were lagging behind and public sector industries were deliberately set up. This helps in creating employment opportunities and facilitate the economic development and growth of rural and backward areas. At the same time, government prevent the mushrooming growth of private sector units in already advanced areas.

**Question 7: State the meaning of public private partnership.**

**Solution:** Public-Private Partnership refers to the involvement of private sector in the Govt, projects aimed at public benefit in the form of management expertise and monetary contribution. The following are the main features of PPP :
**(1)** PPPs are related to high priority Govt, planned projects.

(2) PPP’s main objective is to combine the skills, expertise and experience of both public and private sectors to deliver high quality services.
(3) PPPs divide the risk between public and private sector.
(4) The Govt, remains accountable for the quality and costs of the services.
(5) PPPs are used in the Govt, projects aimed at public benefit.
(6) PPPs projects lead to faster implementation and reduced life cycle.

**Long Answer Questions**

**Question 1: Describe the industrial policy 1991, towards the public sector?**

**Solution:** The industrial policy 1991, towards the public sector are:
**(1)** Reduction in number of industries reserved for public sector: In 1956 resolution on industrial policy, 17 industries were reserved for the public sector. This number was reduced to 8 in 1991 industrial policy. In 2001, a review of the policy was done and only 3 industries are now reserved for public sector. Now, only atomic energy, arms and rail transport are reserved for public sector.

**(2)** Disinvestment of shares of the selected public sector enterprises (PSEs): Disinvestment involves the sale of the equity shares to the private sector and the public. The objective was to raise resources and encourage wider participation of the general public and workers in the ownership of these enterprises. The government had taken a decision to withdraw from the industrial sector and reduce its equity in all undertakings. It was expected that this would lead to improving managerial performance and ensuring financial discipline.
**(3)** Policy Regarding Sick Units: The sick PSUs were to be treated on the same basis as private companies. A sick PSU was referred to BIFR which had to decide if the PSU was to be revived or shut down. There was huge resentment among the workers of companies which had to be shut down. But the government formulated suitable policies for rehabilitation and financial compensation of those workers.
**(4)** Memorandum of Understanding: Fresh MOUs were signed between the management and the concerned ministries. These MOUs provided greater autonomy to the management and clear cut objectives so that performance could be improved.

**Question 2: What was the role of the public sector before 1991?**

**Solution:** The role of public sector before 1991 were:

**(1) Development of Infrastructure**: Infrastructure such as communication, transport, energy supply and banking are the basic prerequisites for industrial development. The private sector did not show any initiative to invest in heavy industries or develop it in any manner as they did not have trained personnel or finances to immediately establish heavy industries which was the requirement of the economy. Therefore, it was only the public sector that could mobilise the huge amount of investment required. Hence, this sector was assigned the role of developing infrastructure.

**(2) Maintaining Regional Balance**: During the 1960s and 1970s, India faced acute regional disparities in development. Some regions were comparatively much better developed than other regions. The regional disparities impeded the nation's growth and development. In order to bring about regional balance, public sector enterprises (PSEs) were set up in backward and rural areas. These PSEs not only provided employment but also encouraged the development of supporting industries such as banking, transportation in these areas.

**(3) Economies of Scale**: Large-scale industries, such as natural gas and petroleum, enjoy economies of scale (benefits derived from them are greater when operated on a large scale). In the years just after independence, the private sector was not big enough to operate these largescale industries because they required huge capital investments. Operating these industries on
a small-scale was not an option as this would have caused losses. Hence, the public sector was required to start and operate these industries.

**(4) Import Substitution and Exports**: Attaining self-sufficiency was one of the important objectives of India's economic planning. The aim was to restrict imports and at the same time to maximize exports. Thus, PSEs were established to manufacture heavy machinery and engineering goods domestically, which would restrict imports. Simultaneously, with the aim of expanding exports, PSEs such as the Metals and Minerals Trading Corporation of India (MMTC) and the State Trading Corporation (STC) were established.

**(5) Check Over Concentration of Economic Power**: The public sector acts as a check over the private sector. In the private sector, only few industrial houses who were willing to invest in heavy industries due to this wealth gets concentrated in a few hands. This gives rise to inequalities in income. Therefore, The public sector is able to set large industries which requires heavy investment and thus the income and benefits that accrue are shared by a large of number of employees and workers.

**Question 3: Can the public sector companies compete with the private sector in terms of profits and efficiency? Give reasons for your answer**

**Solution:** It is very difficult for a public sector companies compete with the private sector in terms of profits and efficiency because:
**(1) Difference in Objective**: The prime objective of a private company is to make profit while public sector companies have social welfare as the prime objective and hence they cannot be completely profit oriented.
**(2) 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.
**(3) 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.

**(4) 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.

**Question 4: Why are global enterprises considered superior to other business organisations?**

**Solution:** The global enterprises are considered superior to other business organisations because:
**(1) Huge Capital Resources:** MNCs have huge resources as they are capable of generating capital from all over the world. As they have goodwill, they can also borrow from international banks and from a large number of investors who are willing to invest in them for huge returns.
**(2) Foreign Collaborations:** MNCs generally enter the market with the help of local private companies. This is mainly because of the restrictions imposed on them by the government and also to take advantage of the brand image of the Indian company.
**(3) Advanced Technology:** These companies invest huge amounts in research and development of technology. Thus, new technology helps them to increase their efficiency and attain a superior position in the market.
**(4) Product Innovation:** Multinational corporations have refined research and development centres for the

innovation of new products. This helps them to sustain in the market and retain their large consumer base.

**(5) Marketing Strategies:** The marketing strategies of global companies are far more effective than other companies. They use aggressive marketing strategies in order to increase their sales in a short period. They posses a more reliable and up-to-date market information system also their advertising and sales promotion techniques are normally very effective.

**(6) Expansion of Market Territory:** Their operations and activities extend beyond the physical boundaries of their own countries. Their international image also builds up and their market territory expands enabling them to become international brands.

**(7) Centralised Control:** They have their headquarters in their home country and exercise control over all branches and subsidiaries. However, this control is limited to the broad policy framework of the parent company. There is no interference in day-to-day operations.

**Question 5: What are the benefits of entering into joint ventures?**

**Solution:** The benefits of entering into joint ventures are:

**(1) Increased Resources and Capacity:** In a joint venture, the resources and operational capacities of the individual business are pooled. A joint venture is able to expand and grow better than an individual business enterprise.

**(2) Access to New Markets and Distribution Networks:** Entering into a joint venture with an enterprise located in another region widens the market base for each of the individual enterprises.

**(3) Access to Technology:** Through a joint venture, a company can acquire new and modern technology more easily with less investment and less time and effort compared with the technology that individual enterprises may be able to acquire working independently.

**(4) Innovation:** A joint venture, especially with a foreign partner, gives a company access to new ideas and technology which help in the innovation of new products. These new products enable businesses to sustain in today's complex and competitive market.

**(5) Low Cost of Production:** The costs of raw material and labour, etc., are very low in India compared to other countries. Thus, international corporations that enter into joint ventures with Indian companies reap huge benefits.

**(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.