



## Structural Dimensions of Public Enterprise Management – An Analytical Study

Dr. R. Rajeswaran

Member of Senate, T.N. Dr. M.G.R. Medical University, Chennai, India

### ABSTRACT

*Public Enterprises have, are and will play a key role in fostering economic, national and social development in a developing country such as India. Though the country has made several strides in various sectors and is considered to be the outsourcing hub of the world, it is also home to a large segment of children suffering from malnutrition and starvation deaths are still common in some of the backward states. Given this scenario, the private sector alone cannot be expected to fulfill the nation's objectives of balanced social, regional and economic development. The public sector has to play a key role in fulfilling the growth aspirations of the millions for whom eking out a living is still a challenge. Considering the important role played by public enterprises it is important to understand the forms in which they are organised.*

**KEYWORDS:** Public Enterprises, Departmental Undertaking, Public Corporation, Government Company

### Introduction

Public Enterprises have, are and will play a key role in fostering economic, national and social development in a developing country such as India. Even after the passage of several decades in the post-independence era, it is a truism that a large majority of the population (65%) is dependent on agriculture whose share in national income is on a continuous decline (16.4% in 2011-12). A significantly large share of the population lives in rural areas and several government appointed committees have pointed out that more than 60% of the Indian population is below the poverty line. Though the country has made several strides in various sectors and is considered to be the outsourcing hub of the world, it is also home to a large segment of children suffering from malnutrition and starvation deaths are still common in some of the backward states. Given this scenario, the private sector alone cannot be expected to fulfill the nation's objectives of balanced social, regional and economic development. The public sector has to play a key role in fulfilling the growth aspirations of the millions for whom eking out a living is still a challenge. Considering the important role played by public enterprises it is important to understand the forms in which they are organised.

### Need for the Study

Government has no business to be in business has become a fashionable statement of the capitalists. They want all the spheres of human endeavour to be under the control of private enterprise with the role of the government being limited to maintaining the territorial integrity of the country and upkeep of law and order. The Indian government also has been partially embarking on this path considering the number of public sector enterprises which have been listed to disinvestment. Though the communist parties have been crying hoarse that disinvestment is akin to sale of the family silver, the government seems determined in its path. In this scenario there is need for a public discourse on the role played by public enterprises and their indispensability to the nation state. In this discourse, the basic requirement is to have an understanding of the structure of public enterprises.

### Research Methodology

The type of research adopted for the study is Descriptive in nature. The author has made an extensive study of the existing literature with regard to the structural and operational dimensions of public enterprises. Though the focus was on understanding the functioning of the public enterprises in the Indian context, the author had also studied the nuances of public enterprise functioning in the global context. The study relies on secondary data which was sourced from government publications, books and relevant articles appearing in reputed journals.

### Structural Dimensions of Public Enterprises:

Public Enterprises are organised as:

- (i) Departmental Undertakings
- (ii) Government Companies and
- (iii) Public Corporations

### Departmental Undertaking

It is the time tested method of organising State enterprises. The agencies performing similar services are grouped into departments, the departments are joined together and placed under the leadership of a Chief

Executive appointed by the government. A departmental undertaking is under the overall supervision and control of one of the departments of the government. The departmental undertakings are completely funded by the government and their revenue go into the treasury of the government. The budget of the departmental undertakings are discussed and passed by the Parliament. They are managed by civil servants and are subject to accounting and audit control as are applicable to other government departments.e.g. The Integral Coach Factory (ICF) Chittranjan Locomotive Works, Post and Telegraph, Electricity Boards, etc.

### Features

- (a) It is structured as a sub-division of a Central Government department and is subject to its direct control.
- (b) The management of the departmental undertakings is in the hands of civil servants. They are brought over from other departments on deputation and transfers for a specific period of time.
- (c) Departmental undertakings are totally funded by the government and all their income go into the State treasury.
- (d) Since departmental undertakings directly come under some ministry, they are subject to government audits. Their performance is discussed in the parliament and other forums
- (e) They represent the government in the services they provide. They use the insignia of the government.
- (f) They are subject to budgetary control, government audits etc.,
- (g) Recruitment and service conditions of the permanent staff of departmental undertaking are just like those of other civil servants.
- (g) It possesses sovereign immunity of the government. Therefore it cannot be sued without the consent of the government.

### Government Company

Government companies are created by executive action. They are incorporated under the Companies Act, 1956. In a Government company, 51% of the capital is held by the Government while the balance 49% can be subscribed by individuals or institutions. Though Government Companies are registered under the Companies Act, 1956 the Central Government can by a notification in the Official Gazette direct that certain provisions in the Act may not apply to Government Companies or may apply with certain modifications. They are better than Departmental organizations because they enjoy more flexibility. Though the government is the major shareholder, they can access both domestic capital as well as foreign capital.

**Definition:** According to Section 617 of the companies Act, 1956, "Government company means any company in which not less than fifty-one percent of the paid up share capital is held by the Central Government or by any State Government or governments, or partly by the Central government and partly by one or more State governments and includes a company which is a subsidiary of a company thus defined."

HMT, Hindustan Steel Limited, Hindustan Copper Limited, Hindustan Insecticides Ltd., Hindustan Photo Films Ltd., Hindustan Machine Tools Ltd., (HMT) Hindustan Antibiotics Ltd., Hindustan Cables Ltd., Hindustan Shipyard Ltd etc.

### Features

- (a) It is governed by the provisions of the Companies Act, 1956.
- (b) The whole of the capital or 51% or more is owned by the government.

- (c) Its employees excluding those on deputation are not civil servants.
  - (d) The Government Company employs its own staff, and they do not become the employees of the government
  - (e) Its personnel policies are subject to its Articles of Association.
  - (f) In case it is fully owned by the government, government provides the funding and it derives income from sales of its goods and services.
  - (g) In case it is partly funded by the government, it derives funds from the government as well as its shareholders.
  - (h) The government companies are managed by the Board of Directors. All or a majority of directors are appointed by the Government depending on the shareholding pattern.
  - (i) It is a body corporate and can enter into contracts in its own name. It has perpetual succession and can buy and dispose of property in its own name.
  - (j) It can sue and be sued in its own name.
  - (k) The Memorandum and Articles of Association lays down its objectives, scope of activities and rules of internal management. These are prepared by the Government, and once prepared they cannot be changed without proper permission from the Company Law authorities.
  - (l) It is generally exempt from many of the accounts and audit laws. Constant parliamentary scrutiny, budgetary, administrative and legislative controls are absent.
  - (m) The Annual Report of the government company has to be presented to the State Legislature or the Parliament.
- (c) It is formed and operated basically with a service motive. Profits are only a secondary consideration.
  - (d) It is under State ownership. The day to day decisions are taken by the management of the corporation whereas major policy decisions are taken by the government.
  - (e) It enjoys immunity from parliamentary enquiry into its day-to-day working as distinct from matters of policy.
  - (f) It has a separate legal entity. Therefore, it can sue and be sued in its own name.
  - (g) It enjoys perpetual succession.
  - (h) It has the power to acquire, hold or dispose of property.
  - (i) It is not subject to the strict budgetary and audit controls as in the case of government companies.
  - (j) Though public corporations enjoy financial and operational autonomy, they are fully accountable to the Parliament or the State Legislature. Their accounts are audited by the Comptroller and Auditor General (CAG) and the audit report can be discussed in the Parliament or the State Legislature.
  - (k) It is created with a corpus or capital fund. All receipts are credited to the fund and payments are made from it. It can generate its own funds from its operating surplus and market borrowings.
  - (l) It is managed by the Directors appointed by the Government.
  - (m) The employees are not civil servants but may be on deputation from the government.

### Public Corporations

Public Corporation is a body corporate created by an Act of Parliament or Legislature and is an autonomous enterprise created by law to carry on assigned activities. Since created by a Statute, they are also called as Statutory Corporations. The Statute defines their power, role, responsibility and functions.

The capital of the public corporations is wholly subscribed by the government and it is answerable to Parliament. They are set up with the objective of carrying out a specific type of commercial activity. The powers and functions of public corporations are clearly defined and they are financially independent. These organisations are formed for administering nationalised industries or undertakings. Many service organisations of the government are set up in the form of corporations. LIC, ONGC, Air India, Indian Airlines, State Bank of India, Reserve Bank of India (RBI), Employees State Insurance Corporation (ESIC) etc.

### Features

- (a) It is a statutory corporation.
- (b) The powers, role, responsibilities and functions of the corporation are defined by the statute through which it was created.

### Conclusion

The public sector in Indian has a chequered history. It had played a key role in ensuring the balanced development of the various sectors of the economy. Since the private sector was quite small and did not have the wherewithal to enter into sectors such as the core sector, it was the public sector which ensured that the nation's industrial development was placed on the firm footing. The first Prime Minister of Independent India, Jawaharlal Nehru envisaged the prime role of the public sector in the country's development and his vision was that the public sector should operate and manage the commanding heights of the economy.

The public sector in spite of several constraints in decision making and functioning has contributed greatly to the nations' growth. Even with limited budgets, many of them have proved to be extremely capable not only on the national scale but also on the global scale. Though some of them are loss making and have been a drag on the exchequer, it needs to be understood that had they enjoyed the operational freedom on private enterprises, they would also have been successful. The panacea for sick public enterprises is not privatization but serious measures for turnaround management.