UNIT 17 FORMS OF ORGANISATION IN PUBLIC ENTERPRISES

Structure

17.0 OBJECTIVES

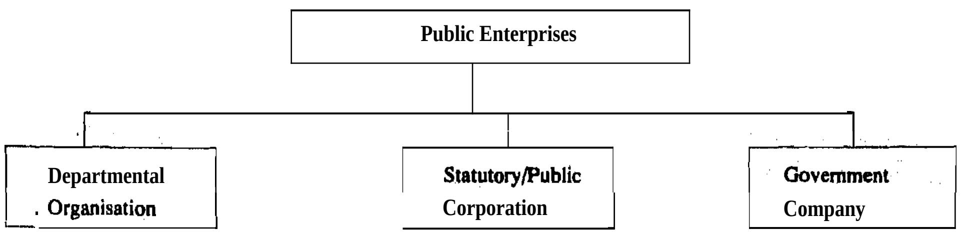
After studying this unit, you should be'able to:

- describe various forms of organisation in public enterprises
- describe the features of each form of organisation
- explain the merits of each form of organisation
- evaluate the suitability of each form of organisation.

17.1 INTRODUCTION

In Unit 16 you have studied the meaning, objectives, features, merits and limitations of. public enterprises. But, what are the forms of organisation in public enterprises? Are the forms of organisation in public enterprises same as private enterprises? As you know (Unit 2) the business enterprises promoted by private entrepreneurs are organised in any of the following three forms: 1) sole proprietorship, 2) partnership, and 3) joint stock company. But, the forms of organisation in public enterprises are different. In the case of public enterprises there are three forms of organisation: 1) departmental organisation, 2) public corporation, and 3) government company. Look at Figure 17.1 for the forms of organisation in public enterprises. In this unit we shall discuss about the features, merits and limitations of each of these three forms of organisation and evaluate which form is suitable under a given situation.

Figure 17.1
Forms of Organisation In Public Enterprises



17.2 DEPARTMENTAL ORGANISATION

Departmental form of organisation is the oldest form of organising public enterprises. Under this form of organisation, business activities of the undertakings are conducted under the overall control of one of the departments of the government. In other words, when a public enterprise is organised, financed and controlled in much the same way as any other government department. it is known as 'departmental form of organisation.' This form of organisation is generally, chosen for such undertakings which are important from the view point of public interest and national interest. This form is suitable for most of the undertakings which are not run on pure commercial principles. Departmental form of organisation, generally, is suitable under the following situations:

i) Where the basic purpose of an enterprise is to procure revenue for the government.

ii) Where the government desires to have firm control over service sectors keeping in view public interest (e.g., posts and telegraph, broadcasting, etc).

iii) Where maintenance of secrecy is regarded as a matter of strategic importance (e.g. atomic energy, defence industries, etc.).

iv) Where projects are in earlier stage of initial planning and require constant efforts and continuous funds that can be provided only by the government.

However, the latest trend seems to favour the participation of private enterprises even in defence industries. For instance, the Bharat Electronics Ltd., which is a stale owned undertaking, is given a company form of management. A part of the telecommunication services was converted into two joint stock companies in 1981. One of them is called the Videsh Sanchar Nigam Ltd., which is responsible for the overseas telecommunication service; the other is the Mahanagar Telephone Nigam Ltd., which is responsible for telephone systems in Bombay and Delhi.

17.2.1 Features

The main features of departmental form of organisation are as follows:

1) Overall control rests with the minister: Under this form of organisation, overall responsibility of management rests with the minister under whose ministry the undertaking functions. The minister, in turn, delegates authority downwards to the various levels of the organisation. Thus, the line type of authority relationship is represented between executives at different levels. In some cases, to manage the day-to-day operations, the government may appoint a Board. The examples of such Boards are the Railway Board, the Postal Services Board, the Telecommunications Board, etc. However, in this form of organisation, the overall responsibility rests with the minister and the minister is answerable to the legislature for the efficient operation of the undertaking.

2) Employees are the **civil servants:** The employees in the case of departmental organisation are civil servants. For example, Union Public Service Commission (UPSC) is responsible for the recruitment of gazetted personnel in railways and postal services (which are departmental organisations) as it is for administrative and police service. The terms and conditions of service of the employees are also the same as for the other government employees.

3) **Financed through** budget appropriations: The finances of a departmental form of organisation are not independent of the government. They are financed out of the government treasury through the annual budget appropriations and its revenues are paid into the treasury. For example, railways and postal (they are departmental organisations) budgets form part of the government budget.

4) Accounting and auditing systems: This form of organisation is subject to budget, accounting and audit controls. For this purpose, the undertaking is treated on par with other government organisations.

5) Sovereign **immunity:** Being an integral part of the government, it enjoys the sovereign immunity of the state: Therefore, it cannot be sued without the consent of the government.

17.2.2 Merits

You have learnt about the meaning and features of departmental form of organisation. Now let us discuss about the merits of this form of organisation.

1) Maximum degree of government control : This form of organisation lends itself to the maximum degree of government control. Therefore, government can met its social obligations very effectively.

2) Limited scope to misuse public funds: As you know, departmental undertakings are managed by the concerned ministry. Hence, the accountability of the enterprise to Parliament is complete. You have also learnt that these undertakings are treated on par with other government departments for purposes of budgeting, accounting and auditing. Therefore, the danger of misuse of the public funds is reduced. In the words of Krishna Menon's Committee 'the accountability of departmental undertakings to Parliament is complete, their management being under the ministry concerned'.

3) Governmental control over economic activities: It provides an opportunity for the government to secure absolute control of economic activities. The government can freely use departmental undertakings as instruments of its social and economic policy.

4) Multiplies economic progress: The surplus coming from departmental undertakings increases the revenue of the government. Thus, this surplus can be utilised for the economic progress of the nation and the welfare of the masses.

5) Responsible to Parliament: A departmental enterprise is responsible to Parliament even for its day-to-day operations. It is not possible for a departmental enterprise to claim certain privileges from Parliamentary scrutiny. For example, if members of Parliament ask questions regarding the appointment or dismissal or promotion of a particular employee, or regarding a particular sale or purchase transaction, it is a matter of day-to-day operations. Such a question can be allowed to be asked of a departmental enterprise but not of a statutory corporation or a government company.

17.2.3 Limitations

Departmental form of organisation suffer from the following limitations:

1) Bureaucracy and red-tapism: You know that the staff of these departmental undertakings are the civil servants. So it is too close to the bureaucratic system of the government where much importance is attached to rules, regulations and precedents for every decision. Therefore, scope for initiative is limited. Normally a business enterprise needs much flexibility and quickness in decision making which you do not find in the departmental form.

2) Suffers from political instability: These undertakings are generally at the mercy of the political party which is in power. The fate of departmental undertakings also depends on the balance of power between the ruling party and the opposition. Hence there is even a possibility of victimising such undertakings because of political changes and political instability. Thus, these undertakings are subject to political changes and attacks motivated by political considerations.

3) Excessive parliamentary control: You have learnt that the departmental undertakings are completely answerable to Parliament even for their day-to-day operations. As a result there is less scope for any initiative and skill in the departmental organisation. Every detail relating to their working are scrutinised and question in Parliament and outside. This causes delay in making vital decisions relating to the organisation.

4) Lack of professional expertise: These undertakings, as you know, are managed by civil servants who often lack business acumen. They are selected and trained altogether for a different purpose. Regid adherence to formalities and procedures causes delays in decision making which is quite opposed to business principles. Besides, there is no bar on transfers of these officers. This hampers their understanding commitment and responsibility.

5) Absence of competition and profit motive: Departmental undertakings are run with the objective of service motive. So, the commercial principles which are necessary for their very success are neglected. Further, due to lack of competition there is little incentive to improve their operational efficiency.

6) Financial constraints: You know that these undertakings are financed through annual budget appropriations made by the legislature and its revenues are paid into the treasury. They are not allowed to raise finances on their own and depend completely on the government. As a result, sometimes, these undertakings suffer due to shortage of funds. Further, these enterprises do not have much flexibility in financial matters, as they are subject to budget, accounting and audit controls.

Check Your Progress A

1) What are the forms of organisation in public enterprises?

....

....

....

2) What is a departmental form of organisation in public enterprises?

....

....

....

3) State whether each of the following statements are True or False.

i) Under departmental form of organisation overall control rests with the managing director.

ii) A public enterprise organised under departmental form can raise the capital by public issue of shares.

iii) The staff working under departmental form of organisation are the civil servants.

iv) In departmental form of organisation, individuals are not allowed to subscribe to the capital.

v) Departmental form is suitable when the enterprise is working with profit motive.

vi) Departmental form of organisation is not suitable where maintenance of secrecy is regarded as a matter of strategic importance.

vii) Departmental form of organisation suffers from red-tapism and bureaucracy.

viii) Personnel working in departmental undertakings are not subject to transfer.

17.3 PUBLIC CORPORATION

Public corporation is a corporate body created by the Parliament or State Legislature as the case may be, by a special Act which defines its powers. duties, functions, immunities and the pattern of management. Public corporation is also known as statutory corporation. The capital is wholly subscribed by the government. It is managed by the management committee constituted according to the provisions of the Act. It is answerable to the Parliament or State Legislature as the case may be.

As stated by Roosevelt, public corporation is an organisation which is clothed with the power of the government but is possessed of the flexibility of private enterprise. Herbet Morrison views a public corporation as a combination of public ownership, public accountability and business management for public ends. Thus the public corporation device is an attempt to combine public interest with the flexibility of operation most prominently found in a company form of orgartisation working in the private sector.' Normally, the public corporations are constituted for any of the following purposes:

i) To transfer the business of a nationalised undertaking to the corporation.

ii) To facilitate the acquisition of undertakings belonging to an existing company.

iii) To promote, develop and operate certain schemes.

iv) To extend certain social services and utility-services.

v) To provide for regulation and control of the working and operations of an institution or for other matters connected therewith or incidental thereto.

The development of the public corporation is largely a post-independence phenomenon. The first public corporation was the Damodar Valley Corporation which was established under a Parliament Act in 1948. It is a multi-purpose river project. In the same year, the government set up the Industrial Finance Corporation of India to provide finance for industries in the private sector. In 1953 when the Indian Airlines and Air India were set up, the Air Corporations Act was passed. In 1955 the State Bank of India was established through the State Bank of India Act and the Life Insurance Corporation of India was set up through the Life Insurance Corporation Act of 1956. Thus, we find that whenever the government wants to undertake a commercial activity, it goes to Parliament and gets approval to set up a distinct entity.

It may be noted that it is not necessary that each corporation will have an Act of its own. More than one statutory corporation can also be established under the same act of the legislature. For example, the State Electricity Boards have been established in most of the states under the Electricity (Supply) Act of 1948. Similarly, most of the States have State Financial Corporations set up under the State Financial Corporations Act of 1951.

17.3.1 Features

You have studied what a public corporation is. Now let us discuss about the main features of the public corporations.

1) **Created by a special Act of legislature:** Public corporation is an autonomous corporate body created by a special Act of a legislature as the case may be. The Act defines the powers, duties, privileges, immunities, relationship to the government department, etc.

2) **It is a corporate body:** A corporation, like a joint stock company (Unit 2), is a legal entity. It means that a corporation is an 'artificial person' which exists in the eyes of law. Like a living being, it can enter into contracts and can transact any business under its own name. Since it does not have physical existence, it operates through its agents, which is its Board of Directors.

3) **Owned by the State:** It is Fully owned by the state and the capital is wholly subscribed by the state.

4) **Managed by a Board of Directors:** It is managed by a Board of Directors constituted according to the provisions of the Act. The members of the Board represent various interests and are appointed by the concerned public authority.

5) **Answerable to legislature:** Public corporation is answerable to legislature (Parliament/ State Assembly) which creates it. The way the corporation would be held accountable is mentioned in the Act. Parliament is not expected to interfere in its day-to-day working. But it can discuss matters of policy and the overall performance of the corporation. Sometimes, however, questions are asked and answered on the floor of the house even though they relate to the day-to-day functioning of a corporation. You may ask why this happens. Parliament in a democracy is supreme and it is not possible to curtail its freedom. Further, when public enterprises are mismanaged. Parliament cannot be stopped from enquiring into their performance even though it may involve infringement of a principle agreed to by Parliament itself.

6) **Relation with the government:** Even though a statutory corporation is owned by the government, it does not operate as a wing or part of the government. The legal relationship and channels of communication between the government and the corporation are laid down in the Act of its incorporation. For example, the Life Insurance Corporation which is a statutory corporation, would be guided on matters of policy involving public interest as per the directions issued in writing by the Central Government. Thus, the relationship with the government is formal and clear.

In practice, however, there is a lot of informal dealing with the statutory corporations. An example would clarify as to how this happens. Suppose the government wants the Indian Airlines to operate a service between Delhi and Imphal which is not being run by the Indian Airlines because it is uneconomical. Now, under the Air Corporation Act, the government can ask the Indian Airlines to run a service by issuing a written directive. But the government will only suggest the Airlines to undertake such service. If there is a formal order by the government, it may have to meet the loss, if any, suffered by the Indian Airlines in carrying out its orders. In many matters, therefore, the government prefers to remain informal and get things done without owning the responsibility for its actions.

7) **Own staffing system:** Although a corporation is owned and managed by the government, its employees are not government servants. The employees are recruited, remunerated and governed by the rules and regulations laid down by the corporation. Their pay and benefits are also different from those of the government servants. Thus, the corporation can have the necessary freedom in regard to its employees in running its business. However, the government closely regulates the terms and conditions of employment of corporations, but that is mainly to maintain uniformity in the pay and benefits received by the employees of the various corporations.

8) **Financial independence:** A major source of autonomy of a statutory corporation is its independence in respect of its finances. Unlike departmental form of organisation, a public corporation is not subject to the budget, accounting and audit controls. The corporation shall have its own funds and all receipts of the corporation'shall be credited thereto and payments shall be made therefrom. Once the funds are given to a corporation, it manages them on its own. It does not have to go to the Parliament to get its budget approved. A corporation can also borrow money within and outside the country after getting approval from the government.

17.3.2 Merits

Public corporation strikes a mid-way between departmentally run public undertakings and the privately owned and managed corporate bodies. It absorbs some of the salient desirable features of both of them to fetch the best of both forms. At the same time, it eliminates some of their major weaknesses also. Let us discuss about the merits of a public' corporation form of organisation.

1) **Initiative and flexibility:** As it is an autonomous corporate body set up under an Act of legislature, it manages its affairs independently with its own initiative and flexibility. It experiments in new lines, exercises initiative in business affairs and enjoys the operational flexibility as in private enterprises.

2) **Avoids red-tapism:** The evils of red-tapism and bureaucracy associated with departmental form of organisation are avoided. Business functions cannot be carried out efficiently in a government set-up, which is marked by rules, regulations and procedures. Compared with a departmental organisation a public corporation can take quick decisions and prompt actions on any matter affecting its business.

3) **Easy to raise capital:** Public corporations are government owned statutory bodies. They can easily raise required capital on their own whenever needed by floating bonds at relatively lower rates of interest. Public also comes forward to subscribe to such bonds since they are safe.

4) **Protects public interest:** As you know, compared to a departmental organisation, a public corporation is relatively free from political interference, parliamentary enquiry and departmental checks and controls. Although it has a considerable degree of administrative autonomy, its policies are subject to Parliamentary control. Thus, it ensures protection of public interests. Further, the Board of Directors of the public corporations consists of persons from various fields such as business experts and the representatives of special interests like labour, consumers, etc., who are nominated by the government. Thus, exploitation of any class at the cost of another is ruled out.

5) **Works with service motive:** Public corporation avoids the defects of profiteering, exploitation, illegitimate speculation, etc., which are often associated with private

enterprises. A public corporation works primarily with service motive and profit earning is only a secondary consideration. Though it works efficiently to show good results in the form of 'surplus,' such surplus must not be the result of exploitation. The surpluses generated by the public corporations are used for the good of the consumers and the community.

6) **Secures working efficiency:** It secures greater working efficiency by providing better amenities and more attractive terms of service to its employees which in turn; reduces the labour problems.

7) **Secures benefits of large scale economies:** Economies of large scale operations are realised by the virtue of increased size and scale of the business. Further, it is easy to reap considerable economies in management by affecting the integration of several companies under this form. For example, giant government undertakings organised as autonomous units such as, banking, insurance, transport, etc., can secure better management and staff with comparatively lesser costs.

17.3.3 Limitations

You have learnt about the merits of public corporation form of organisation. This form of organisation also suffers from certain limitations.

1) **Less autonomy:** Compared to departmental form, public corporations enjoy more autonomy. But, in practice, the autonomy of public corporation is closely and systematically controlled by the government even in matters where they are supposed to have freedom. For example, the Food Corporation of India and the Electricity Boards in various States (these are statutory corporations) are of important to the government and to the public at large. But, the Central and State Governments often find it difficult to allow them the freedom which they are entitled to as per their Acts.

2) **Inflexibility:** A public corporation is set up by a special Act of legislature. Any change in the objects and powers of the corporation requires an amendment in the Act by the legislature. This tends to make a corporation inflexible and insensitive to changing situations.

3) **Clash amongst divergent interests:** As you know, the corporations are owned by the government and are managed by a Board of Directors appointed by the govemment. When the Board of Directors represent different interests there may be clash of interests. This in turn, may hamper the smooth functioning of the corporation. Sometimes, the directors may abuse their autonomy and authority by indulging in undesirable practices. This would defeat the social objectives of public corporation.

4) **Ignores commercial principles:** Public corporations do not have to face any competition. They are neither guided by profit motive nor haunted by the fear of loss. Therefore, there is a possibility of ignoring commercial principles in their working. This may ultimately lead to inefficiency and losses to the corporation. The losses, thus arising are met by the govemment through subsidies.

5) **Excessive public accountability:** You know that the public corporations work with the service motive rather than profit motive. This public accountability of the corporation sometimes acts as a stumbling block in the operational efficiency of the enterprise.

Check Your Progress B

1) What is a public corporation?

....

....

....

....

2) List the features of a public corporation.

....

....

....

3) Fill in the blanks.

i) For public corporation capital is fully subscribed by **...............**

ii) Public corporation is created by a ....

iii) Public corporation is managed by ....

4) State whether each of the following statements are True or False.

i) Members of the Board of Directors of a public corporation are elected by the public.

ii) Capital of public corporation is partly subscribed by the private entrepreneurs.

iii) Public corporations can raise required capital on their own.

iv) The employees of a public corporation are government servants.

v) The budget of the public corporation is to be approved by Parliament every year.

vi) Members of the Board of Directors of a public corporation are nominated by the concerned public authority.

17.4 GOVERNMENT COMPANY

According to the Indian Companies Act. **a government company is a company in which 51 per cent or more of the total paid-up capital is held by the central government or any state government or by many state governments or partly central government and partly by one or more state governments. Any company which is subsidiary of such a company is also considered a government company.** Thus a government company is an enterprise wherein government is a predominant shareholder having the bulk of controlling interests, Government company is registered under Indian Companies Act. When the government applied to the Registrar of Joint Stock Companies for setting up a new company, it has to follow all the rules and procedures as are applicable to private persons. Just because the government is getting a company registered it does not get any concession in regard to the formal requirements. You have studied about the formalities and procedure of registration of a company in Unit 4.

Of late, we come across mixed-ownership companies wherein capital is jointly held by the state and private (Indian or foreign) interests. A government company in which both the government and private (enterprises/individuals) are shareholders, is known as a **mixed-ownership company.** The Government of India has registered and organised a large number of its commercial and industrial undertakings mostly as private limited companies even though their control and regulation actually rests with the government by virtue of its owning majority of shares. But why does the government do like that'? Government, normally, establishes the company form of organisation for the following reasons.

1) **Public interest :** Government sometimes acquires shares of the existing private enterprises when they are unprofitable or have become insolvent or are in financial crisis. Government acquires such companies in the interests of the country. Eastern Shipping Corporation and Hindustan Shipyard Ltd., are examples of the companies taken over by the Government of India.

2) **Mixed-ownership :** Sometimes, in order to secure capital, technical knowhow, expert guidance, etc., the government may be desirous of starting an enterprise in association with private entrepreneurs. In such situations, the government may set up mixed-ownership companies. The examples of mixed-ownership companies are Hindustan Machine Tools, Hindustan Shipyard Ltd., Heavy Engineering Corporation, Hindustan Cables, etc.

3) **Industrial promotion :** In order to encourage industrial promotion, sometimes, government may establish some companies. Such companies are not directly connected with any manufacturing activity, but they are expected to bring out commercially

feasible projects to be eventually established in private or public sectors. National Industrial Development Corporation, and National Small Industries Corporation are some examples in this category.

4) **Promotion of trade or commerce :** Government may also establish some companies to promote trade or commerce. State Trading Corporation, Export Credit & Guarantee Corporation (ECGC), etc., are some examples.

5) **Lack of incentive :** The private entrepreneur does not come forward to establish enterprises because of certain risks such as longer gestation period, heavy investment outlay, lack of profit in the initial years of its formation, etc. In such cases the government may establish government companies.

17.4.1 Features

The basic features of a government company are the same as those of a statutory corporation. However, there is one major difference i.e., an act of legislature (central/state) is necessary for establishing a statutory corporation while a government company does not require it. This difference has some constitutional implications. You would learn about the distinction between public corporation and government company in this unit later. The other features of the government company are about the same as those of the statutory corporation. Now we shall discuss the features of government company in detail.

1) **Created under Indian Companies Act :** Government company is a corporate body created under the Indian Companies Act, 1956, like any other joint stock company in the private sector. With regard to registration, memorandum, articles, meetings, capital structure, accounts, audit, etc., it is governed by the provisions of the Companies Act. But the government has the authority to exclude or modify certain provisions of the Companies Act by special notifications duly approved by the legislature.

2) **It is a corporate body :** A government company is a legal entity. It is an 'artificial person' which exists in the eyes of law. Like a living being it can file a suit in a court of law or be sued, can enter into contract and acquire property in its own name.

3) **Scope for private participation in the capital :** A government company may be wholly or partly owned by the government. In any case, the share of the government is not less than 51%. In case it is partly owned by the government, the private persons (individuals as well as corporate bodies) can also participate in the capital. Thus, there is scope for the private sector to participate in the capital.

4) **Managed by a Board of Directors :** It is managed by the Board of Directors. All the directors or the majority of them, depending on the extent of private participation, are appointed by the government. While constituting the Board the government may give representation to various interests like technocrats, labour, consumers, foreign collaborators, etc.

5) **Enjoys financial independence :** Government company can use and reuse the revenue derived from the sale of its goods and services. If necessary, it can borrow money from the financial institutions and the general public.

6) **Independent staffing :** Its employees are not civil servants. They are appointed by the company on its own terms and conditions. It regulates its personnel policies according to its Articles of Association.

7) **Independent accounting and auditing system :** It is exempted from the accounting and audit laws and procedures applicable to government departments. Its accounting practices are more akin to those of commercial enterprises and its auditors are chartered accountants appointed by the government on the advice of the CAG.

8) **Annual reports :** Its annual reports and accounts alongwith the audit reports are to be presented to the legislature, as per the Companies Act.

17.4.2 Distinction Between Government and Non-government Companies

There are certain differences between a govemment companies and other joint stock companies called 'non-government companies'. They are as follows:

1) **Paid-up capital :** In the case of a government company not less than 51% of the paid-up share capital is held by the central govemment or by the state government or jointly by the central or one or more state governments. There can be any combination of the shares owned by the central and state governments. But the total paid-up capital owned by one or more governments should be 51% or more, to make it a government company. It may be noted that there are a few government companies which have private participation in the equity. In the case of non-government companies, major share of the paid-up capital is held by the private individual.

2) **Auditor appointment :** The auditor of a government company is appointed by the government on the advice of the Comptroller and Auditor General of India (CAG). He is also empowered to direct the auditor about the manner and method of auditing. Sometimes, the CAG himself carries out the audit of government companies under the Companies Act. The Auditor of a non-government company is appointed .by the General Body of the company.

3) **Annual reports :** The annual reports alongwith audit reports of government companies are laid before Parliament if it is a central government company, and before the state legislature in case of a state government company. In case of a non-government company, the audit reports are laid before its General Body.

4) **Provisions of the Companies Act :** Central government has the power to exempt any provision of the Companies Act from applying to a government company except the provisions regarding audit. But, central government has nothing to do with regard to the provisions of the Companies Act relating to a non-government company.

17.4.3 Merits

You have learnt about the meaning and features of government company form of organisation in public enterprises. Now let us discuss about the merits of this form of organisation.

1) **Easy to form :** Most of the public enterprises in India are in the form of joint stock companies. The main reason for this is the ease with which the government can form a company. Whenever the need arises to take up a new activity, the governrnent can float a new company. It can avoid all the problems of getting a bill passed by the legislature, as is required when a statutory corporation is to be set up.

2) **Easy to bring changes in the constitution :** Government favours this form because it is easy to bring changes in the constitution through amendments to Articles. Most of the government companies are fully-owned by the government. As the sole shareholder, the government has all the right to amend the Articles of Association of the company and pass resolution in the meeting, when the need arises.

3) **Facilitates taking over a running enterprise :** This fonn facilitates taking over a running enterprise by the government after securing a majority interest in the equity of the company. For example, after acquiring the equity of the Burmah-shell group of companies, the government changed their name to Bharat Petroleum Corporation Ltd., which now operates as a government company. In the same way, dozens of private sector companies which were taken over by the government are running as government companies, with or without a change in name.

4) **Facilitates private participation :** This form of organisation facilitates private participation in the equity of public enterprises. If the government wants. it can easily do so by selling a part of the equity of a government company to the public at large.

5) **Easy to transfer ownership :** This form is also helpful in disposing of a public enterprise easily. Once the price at which the shares are to be transferred is decided, the transfer of ownership becomes easy by selling the shares to the private party.

6) **More autonomy :** It has almost all the advantages available in the public corporation form of organisation. It has its own charter, autonomy of operations, self-sufficiency in finance, freedom in personnel matters, etc.

7) **Flexibility in operations :** As you know, the employees of the government company are not the civil servants. So, the evils of red-tapism and bureaucracy associated with departmental form of organisation are avoided. This enables a government company to take decisions and prompt actions on any matter affecting its business.

17.4.4 Limitations

The government company form of organisation suffers from the following limitations:

1) **Evades constitutional responsiblity :** The government company can be created without specific approval of Parliament. Parliament does not discuss the reasons for setting up a government company or its constitution. Thus it evades constitutional reponsibility.

2) **Government interference :** Being the sole shareholder in most cases, the government can revise the Memorandum and Articles of Association of a government company, whenever necessary. Thus, the constitution of a government company can be altered without any public discussion but public scrutiny is necessary in the case of a statutory corporation. This may affect the autonomy of the company.

3) **Fear of piiblic accountability :** The directors and chief executives of a government company always have the fear of public accountability. As a result, they may not take the initiative in breaking new ground and in entering into new areas of activities.

4) **Public criticism :** The performance of a government company is shown in the annual reports of the ministry concerned. These annual reports are placed before the Parliament or State Legislature as the case may be. As such, they become public documents exposing the enterprise to the glare of public criticism.

5) **Lack of professional management :** As you know, the directors of a government company are mostly appointed by the government. So, these enterprises fail to achieve business efficiency found in similar enterprises in the private sector.

Check Your Progress C

1) What is a government company?

....

....

....

....

....

2) Fill in the blanks.

   i) The auditors of a government company are appointed by the .... on the advice of the ....

   ii) To become a government company, the minimum percentage of the paid-up capital to be held by the government is ....

   iii) Most of the public enterprises in India are organised in the form of ....

   iv) Government company is created under the .... Act.

   v) Government company is managed by a ....

3) State whether the following statements are True or False.

   i) The General Insurance Corporation of India is a government company.

   ii) The government company is a corporate body.

   iii) The government has the right to run a government company as it likes.

iv) All the funds of government companies are always provided by the government,

v) A government company is free to employ persons according to its requirements without any reference to government.

vi) A company with 51% or more shares owned by the government is a government company.

vii) The government can exempt government companies from the application of some of the provisions of the Companies Act.

17.5 COMPARISON OF THE FORMS OF ORGANISATION

We have already discussed the features and limitations of each of the three forms of organisations i.e., departmental organisation, statutory corporation, and government company. Now let us compare the features of these three forms and evaluate which form is suitable in a given situation. Look at Table 17.1 which summarises the features of all the three forms.

Table 17.1
Comparative Study of the Three Forms of Organisation in Public Enterprises

S.No.	Basis	Departmental Organisation	Public Corporation	Government Company
1)	Formation	Created by the government and attached to a particular ministry	Comes into existence by a special Act of legislature.	Formed by ministry under the Companies Act.
2)	Legal Status	No separate legal status.	It is a separate legal entity.	It is a separate legal entity.
3)	Management	Managed by the concerned ministry of the government.	Managed by the Board of Directors nominated by the government.	Managed by the Board of Directors consisting of members nominated by the government plus the elected shareholders.
4)	Capital	Provided wholly by the governnient out of budgetary appropriation.	Fully subscribed by the government.	Minimum of 51% by tlie government.
5)	Scope for Private Participation	No scope for private participation.	No scope for private participation.	Scope for private (national/ international) participation in its share capital and hence in its affairs too.
6)	Operational Autonomy	Least or no autonomy. Works as a part and parcel of the government.	Works as an autonomous body within the provisions of tlie Act. Enjoys considerable degree of autonorny as there is no government interference in day-to-day affairs.	Runs on commercial principles like a private enterprisr and enjoys higher degree of freedom from govemment interference.
7)	Flexibility	Subject to government control completely. Subject to budget, accounting and audit procedures of the government.	Subject to some restrictions by the government. Not subject to budget, audit and accounting procedures of the govt.	More freedom from government control. Not subject to audit budget and accounting procedures of the governnlent.
8)	Public Accountability	Concerned Minister is accountable to the legislature.	Accountable to the public through legislature.	Government and the concerned ministry is accountable to the public.
9)	Operating Finance and Borrowing Powers	Budgetary allocation only. No powers to borrow. Its revenues are paid into the treasury.	Makes own arrangements and enjoys borrowing powers. It has authority to use its revenues.	Makes own arrangements and enjoys borrowing powers. It has the authority to use tlie revenue.
10)	Staffing and Terms of Service	Employees are the civil servants and governed by civil service code.	Employees are not civil servants. Employees governed by its own contract of service.	Employees are not civil servants. Employees governed by its own contract of service.

The comparison of the features of the three forms of organisation clearly shows that the accountability to legislature and the government control are maximum in departmental organisation and minimum in government company. In the matters of staffing, financing and day-to-day operations, the departmental organisation has the least autonomy while the company form enjoys the maximum autonomy. Similarly, departmental form of organisation is the least flexible while company form enjoys the maximum flexibility. The main features of the public corporation and government company are about the same. There is hardly any difference in the working of these two forms of organisation. For example, the Life Insurance Corporation of India is a statutory corporation, but the General Insurance Corporation of India is a govemment company. But both of them function alike in respect of their working and management.

The main difference, however, is that the public corporation is established by a special Act of legislature while the government company is incorporated under the Companies Act without referring to legislature. There is scope for private participation in capital and management in the case of government company whereas there is no such scope in a public corporation. Then the company form of organisation is able to evade parliamentary control.

From this relative assessment of the features of these three forms of organisation, it should be obvious that company form of organisation is best suited to industrial and commercial undertakings, while statutory corporations should be preferred in the case of public utility undertakings. To run efficiently the Industrial and commercial enterprises must have maximum autonomy of management and manned by professional managers so as to ensure their functioning on business lines. For such enterprises, it is essential that there is least interference from the Ministry or Parliament in their day-to-day affairs. Besides, there should be adequate flexibility with regard to formulation of policy and strategy. With the company form of organisation, these requirements are substantially fulfilled because of the juristic entity of companies and there being no need for getting parliamentary approval for changes in strategy or policies. On the other hand, public utilities are best organised as statutory corporation in view of their monopoly character and the necessity of strict regulation of their rates by government.

You will observe that various government organisations often include in their names the words like 'corporation' (State Trading Corporation of India Ltd.), 'company' (Hindustan Photofilms Manufacturing Company Ltd.), 'authority' (Steel Authority of India Ltd.), and Commission (Oil and Natural Gas Commission). But, there are no legal implications of this. They do not necessarily indicate the form in which they are organised. For example, the word 'corporation' is used as a part of the names of both the statutory corporations and the government companies. The Life Insurance Corporation of India is a statutory corporation but the General Insurance Corporation of India is a government company. It is, therefore, not possible to distinguish between a statutory corporation and a govemment company on the basis of the words used in their names.

To some extent, we can distinguish between a statutory corporation and a government company with the word 'limited'. Normally, the government company carries the word 'limited' as a part of its name. But there are some exceptions even in this case. If a government company is registered under Section 25 of the Companies Act it need not use the word 'limited' as port of its name because such companies are established for cultural social or non-commercial purposes only. They do not pay dividends to its members and should apply their income mainly to promote specific objectives. There are four central government companies in this category. They are: i) National Research Development Corporation. ii) Indian Dairy Corporation. iii) Trade Fair Authority of India, and iv) Artificial Limb Manufacturing Corporation of India. These companies do not use the word limited in their names. even though they have been incorporated under the Companies Act.

Check Your Progress D

1) Fill in the blanks.
   i) .... is created by a special Act of legislature and .... is incorporated under Companies Act.
   ii) .... form is closer to bureaucratic system compared to the other forms,
   iii) The scope for private participation in the capital is there in .... form.
   iv) .... form of organisation is subject to budget, accounting and audit procedures of the government.
2) State whether the following statements are True or False.
   i) For all practical purposes there is no difference between a statutory corporation and a government company.

ii) Both the statutory corporation and the government company are corporate bodies.

iii) Compared to other forms of organisation, departmental organisation has more financial autonomy.

iv) The words 'corporation' and 'company' in the name of a public enterprise can indicate different forms of organisation.

v) Operational autonomy is more in the case of statutory corporation compared to departmental organisation.

17.6 LET US SUM UP

There are three forms of organisations in public enterprises: 1) departmental organisation, 2) statutory corporation, and 3) government company.

Under the departmental form of organisation, the enterprise is organised, financed and controlled in the same way as any other government department. The overall control rests with the concerned minister and the minister is answerable to the legislature for its efficient operations. It is financed through annual budget appropriations made by the legislature and its revenues are paid into the treasury. It is subject to budget accounting and audit controls as applicable to other government departments. Employees of this organisation are civil servants.

Departmental organisation has certain advantages. Since its accountability to legislature is complete, government gets maximum degree of control over the operations of these enterprises. Therefore, there is limited scope to misuse public funds, The government can use departmental undertakings as instruments of its social and economic policy. The surpluses coming from these undertakings can be utilised by the government for the economic progress of the nation. These undertakings suffer from bureaucracy and red-tapism, extensive legislative control, political instabilities, lack of professional expertise, lack of flexibility and autonomy in financial matters, and absence of competition and profit motive.

Public corporation is a corporate body created by the Parliament or a State Legislature by a special Act which defines its powers, duties, functions, immunities, and the pattern of management. It is also called 'statutory corporation'. Public corporation is fully owned by the state and the capital is wholly subscribed by the state. It enjoys financial autonomy. It is managed by a Board of Directors nominated by the government. Its employees are not the civil servants. Public corporation is answerable to the legislature which creates it. But the legislature is not expected to interfere in its day-to-day operations.

Public corporation form of organisation has certain merits. Being an autonomous corporate body, it can manage its affairs independently with initiative and flexibility, and can also avoid red-tapism. Since it has financial independence, it can easily raise capital whenever needed. As it works with service motive and answerable to legislature, it protects the public interest and avoids the defects of profiteering, exploitation, illegitimate speculation, etc. It can secure working efficiency and economies of scale. Public corporations suffer from excessive government interference,.inflexibility in policy matters, clash of interest among Board members, excessive public accountability and lack of commercialism.

Government company is a corporate body registered under Indian Companies Act in which not less than 51% of the paid-up share capital is held by the central government or any state government or by several state governments or partly by the central government and partly by one or more state governments. Any company which is a subsidiary of such a company is also considered a government company. For establishing a government company, the government need not go to the legislature. In this form of organisation there is scope for private participation in the capital as well as management. It is managed by the Board of Directors consisting of members nominated by the government and the elected members of the private shareholders, if any. It has financial autonomy and independent staffing system. It is free from auditing, accounting and budgetary controls applicable to departmental organisations.

The major advantage of the government company is that: while taking care of all the disadvantages of the departmental form, it provides all the benefits of the public corporation. It is easy to form and also easy to bring changes in its constitution whenever needed. There is scope for private participation in capita1 and management. It facilitates taking over a running enterprise by the government or transferring the ownership to private enterpreneurs. Being autonomous in financial, staffing and accounting aspects, government company has more operational flexibility. The major limitation of this form of organisation is that it evades parliamentary probe. It also suffers from lack of professional management, government interference, fear of public accountability among top executives, and so on.

The relative assessment of the features of all the three forms indicates that the departmental form of organisation is suitable for such undertakings which are very important from the view point of public interest and national interest. The company form of organisation is best suited for commercial and industrial undertakings, while public. corporations should be preferred for public utility, undertakings.

17.7 KEY WORDS

Autonomy : In the context of public enterprise, autonomy refers to the management's independence in policy-making and execution of policies without political interference.

Corporate Body : An organisation having a legal entity created by an Act of the legislature, or by registration under the Companies Act.

Departmental Organisation : A form of organisation where a public enterprise is organised, financed and controlled in the same way as the govemment department.

Government Company : A company registered under the Indian Companies Act in which not less than 51% of the paid-up share capital is held by the central govemment or any state government or partly by the central government and partly by the one or more state governments.

Mixed-Ownership Company : An enterprise where capital is jointly held by the government and private interests (Indian or foreign).

Public Accountability : Answerability of public enterprises to the public through Parliament or stare legislature as the case may be.

Public Corporation : An autonomous corporate body created by a special Act of Parliament or state legislature with defined functions and powers.

The Comptroller and **Auditor-general of India :** An authority under the Constitution of India to ensure thorough audit of accounts of government organisations.

17.8 SOME USEFUL BOOKS

Administrative Reforms Commission, 1967. ***Report of the Study Team on Public Sector Undertakings,*** Government of India: New Delhi. (Chapter 2).

Bhushan, Y.K. 1987. ***Fundamentals of Business Organisation & Management,*** Sultan Chand: New Delhi (Part Nine, Chapter 5).

Ghosh, P.K., 1982. ***Public Enterprises in India,*** Book World: Calcutta (Chapter 3).

Ramesh M.S., 1985. ***Principles and Practice of Modern Business Organisation, Administration and Management,*** Kalyani Publishers: New Delhi (Volume 1, Chapter 8).

Singh, B.P., arid T.N. Chhabra, 1988. ***Business Organisation and Management,*** Kitab Mahal: Allahabad (Section Eight, Chapter 43).

17.9 ANSWERS TO CHECK YOUR PROGRESS

A 3) i) False ii) False iii) True iv) True v) True vi) False vii) True viii) False

B 3) i) Government ii) Special Act of legislature iii) Board of Directors

4) i) False ii) False iii) True iv) False v) False vi) True

C 2) i) Government, the Comptroller and Auditor-General of India
ii) 51%
iii) Joint stock companies
iv) Indian companies
v) Board of Directors
3) i) True ii) True iii) False iv) False v) True vi) True vii) True

D 1) i) Statutory corporation, government company
ii) Departmental organisation
iii) Government company
iv) Departmental
2) i) True ii) True iii) False iv) False v) True

17.10 TERMINAL QUESTIONS

1 What are the forms of organisation in public enterprises? Explain the features of each form.

2 What is a statutory corporation? Explain its features, merits and limitations.

3 What is a government company? List the differences between a government company and a non-government company.

4 What are the main features of the government company? How are they different from those of the statutory corporation?

5 What is a government company? Explain its features, merits and limitations.

6 What is a departmental form of organisation? Give the main features of this form of organisation and comment on the lack of its popularity.

7 Compare the company form of organisntion with the statutory corporation. Which of the two would you recommend for managing public enterprises and why?

Note: These Questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.

UNIT 18 PUBLIC UTILITIES

Structure

18.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning and features of public utilities
- describe the forms of organisation and management of public utilities
- explain the pricing and sales policies of public utilities
- justify the need for control and regulation of public utilities.

18.1 INTRODUCTION

In our day-to-day life, directly or indirectly, we require a number of essential services. In the cities you have tap-water. Similarly various means of transport help you in undertaking your journey everyday. You need. electricity for lighting, air-conditioning, etc. Electricity is also used for running factories, trams, railways, irrigating crops, etc. Have you ever thought how they are provided? All these services are called public utility services and the organisations which provide these services are known as public utility undertakings. In this unit we shall discuss the meaning, features, forms of organisation, management, pricing policies and sales policies of public utility undertakings, We shall also discuss about the need for state regulation and control of public utilities.

18.2 WHAT IS A PUBLIC UTILITY?

Water, gas, electricity, transport, communication, etc., are needed by the public in their daily life. Whenever there is any interruption in the supply of such goods or services, the normal life of people is disturbed. Suppose, if the water-taps go dry, you do not gel water. To fetch water you have to go to nearby wells or hand-pumps. In this process you may get late for your office or place of work. Similarly, If the electricity supply or transport services are not available, public life and activities are severely upset. Therefore, these services have a great significance to the community. Hence they are termed as essential services or indispensable necessities, The business enterprises established basically to provide efficient and uninterrupted supply of the goods that are absolutely indispensable for a civilised community are referred to as public utility organisations. We can say that the public utilities are clothed with public interests. Thus, public utilities are the business undertakings engaged in supplying essential goods and/or services of daily necessity for the general public. The institutions which undertake certain essential services like the supply of gas, water, electricity, urban transport, etc., are examples of public utility undertakings. All the public utility undertakings have an obligation to supply the essential goods and services to everyone in the community without any discrimination at reasonable prices.