Class XI BUSINESS STUDIES

CHAPTER -3 Private, Public and Global Enterprises

IMPORTANT QUESTIONS

MULTIPLE CHOICE QUESTIONS (1 MARKS)

Question 1

Name the type of business enterprise which operates in more than one country

Answer

Multinational company may be defined of a company that has business operations in several countries by having its factories, branches or offices in those countries. But is has its headquarter in one country in which it is incorporated. Examples :- PHILIPS, Coca Cola etc.

Question 2

State different types of public sector enterprises

Answer

Different types of Public sector enterprises are :

1. Departmental undertaking

2. Statutory Corporation

3. Government Companies

Question 3

It is a public sector enterprise in which Govt. holds at least 51% share. Name the company

OR

How much paid up capital should be at least held by a government company?

Answer

According to the section 2(45) of the Companies Act 2013, a government company means any company in which not less than 51 per cent 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 and includes a company which is a subsidiary of a government company.

Question 4

Which type of business enterprise would emerge when two business firms agree to join together to achieve a common purpose and mutual benefit

Answer

When two businesses agree to join together for a common purpose and mutual benefit, it gives rise to a joint venture. Joint venture is the pooling of resources and expertise by two or more businesses, to achieve a particular goal.

Question 5

Mention any two objective of public sector enterprises

Answer

1. To prevent the growth of monopoly and concentration of economic power in a few private hands.

2. To achieve rapid economic development through industrial growth in accordance with the development plans

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Question 6

Which form of public sector bought into existence by a special act of the parliament?

Answer

Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament. The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments. They have the power of the government and considerable amount of operating flexibility of private enterprises

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Question 8

Which committee was formed to reconstruct the sick public units?

Answer

All public sector units were referred to the Board of Industrial and Financial Reconstruction to decide whether a sick unit was to be restructured or closed down. The Board has reconsidered revival and rehabilitation schemes for some cases and winding up for a number of units.

VERY SHORT AND SHORT ANSWER QUESTIONS (2 OR 3 MARKS)

Question 1

Explain any three features of Public Private Partnership

Answer

<u>Features:</u>

- The public partners in PPP are Government entities, i.e., ministries, government departments, municipalities or stateowned enterprises. The private partners can be local or foreign (international) and include businesses or investors with technical or financial expertise relevant to the project
- The government's contribution to PPP is in the form of capital for investment and transfer of assets that support the partnership in addition to social responsibility, environmental awareness and local knowledge.
- The private sector's role in the partnership is to make use of its expertise in operations, managing tasks and innovation to run the business efficiently.

Question 2

How does the govt. maintain regional balance in the country

Answer

- The government is responsible for developing all regions and states in a balanced way and removing regional disparties.
- Attention would be paid to those regions which were lagging behind and public sector industries were deliberately set up
- Four major steel plants were set up in the backward areas to accelerate economic development, provide employment to the workforce and develop ancilliary industries

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Question 3

Identify the form of public sector enterprise in the following cases:

(a) This is the oldest and traditional form of public enterprise.

(b) Special act of the parliament brings this public enterprise into existence.

(c) Minimum 51% of the paid up capital is held by Government

Answer

(a) This is the oldest and traditional form of public enterprise- Departmental Undertaking

- These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself
- They act through the officers of the Government and its employees are Government employees.
- These undertakings may be under the central or the state government and the rules of central/state government are applicable
- Examples of these undertakings are railways and post and telegraph department

(b) Special act of the parliament brings this public enterprise into existence- Statutory Corporations

- Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament
- The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments.
- They have the power of the government and considerable amount of operating flexibility of private enterprises

(c) Minimum 51% of the paid up capital is held by Government- Government Company

- According to the section 2(45) of the Companies Act 2013, a government company means any company in which not less than 51 per cent 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 and includes a company which is a subsidiary of a government company.
- There are certain provisions which are applicable to the appointment/retirement of directors and other managerial personnel
- The shares of the company are purchased in the name of the President of India.
- Since the government is the major shareholder and exercises control over the management of these companies, they are known as government companies

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Question 4

Explain differences between Departmental undertakings and Statutory Corporation

Answer

Point of Distinction	Departmental Undertaking	Statutory Corporation
1. Status	Does not have a separate legal entity.	It is a Separate entity.
2. Establishment	It is established by a Ministry.	It is established by a Special Act of Parliament.
3. Funds	Funds are Provided annually by budget appropriation.	It can raise its own resources.
4. Authority to control	Rests in the hands of the Minister and the concemed Ministry	Parliament has the authority to control the affairs.
5. Management	Managed by government officials and the ministry.	Managed by the Board of Directors
6. Power to borrow	Does not have borrowing power.	Possesses borrowing power.

Question 5

Discuss some features of MNC's which distinguish MNC's from public sector co. and public sector enterprises

Answer

- Huge capital resources:
    - They possess huge financial resources and the ability to raise funds from different sources.
    - They are able to tap funds from various sources.
    - They may issue equity shares, debentures or bonds to the public.
    - They are also in a position to borrow from financial institutions and international banks.
    - They enjoy credibility in the capital market

- Foreign collaboration:
    - They enter into agreements with Indian companies pertaining to the sale of technology, production of goods, use of brand names for the final products, etc.
    - They may collaborate with companies in the public and private sector.
    - There are usually various restrictive clauses in the agreement relating to transfer of technology, pricing, dividend payments, tight control by foreign technicians, etc.
    - foreign collaborations have given rise to the growth of monopolies and concentration of power in few hands

- Advanced technology:
    - These enterprises possess technological superiorities in their methods of production.
    - They are able to conform to international standards and quality specifications.
    - This leads to industrial progress of the country in which such corporations operate since they are able to optimally exploit local resources and raw materials

- Product innovation:
    - These enterprises are characterised by having highly sophisticated research and development departments engaged in the task of developing new products and superior designs of existing products.
    - Qualitative research requires huge investment which only global enterprises can afford

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Question 6

Write three important steps of forming a joint venture

Answer

Three important steps of forming a joint venture are as follows:

1.Two parties, (individuals or companies), incorporate a company in India. Business of one party is transferred to the company and as consideration for such transfer, shares are issued by the company and subscribed by that party. The other party subscribes for the shares in cash.

2.The above two parties subscribe to the shares of the joint venture company in agreed proportion, in cash, and start a new business.

3.Promoter shareholder of an existing Indian company and a third party, who/which may be individual/company, one of them non-resident or both residents, collaborate to jointly carry on the business of that company and its shares are taken by the said third party through payment in cash.

LONG ANSWER QUESTIONS (5 OR 6 MARKS)

Question 1

Define Joint Venture and explain its major benefits

Answer

Joint Venture

- When two businesses agree to join together for a common purpose and mutual benefit, it gives rise to a joint venture.
- Joint venture is the pooling of resources and expertise by two or more businesses, to achieve a particular goal.
- The risks and rewards of the business are also shared. The reasons behind the joint venture often include business expansion, development of new products or moving into new markets, particularly in another country
- Examples of Joint Ventures are AVI Oil India Pvt. Ltd., Green Gas Ltd etc
- A joint venture must be based on a memorandum of understanding signed by both the parties, highlighting the basis of a joint venture agreement.
- Negotiations and terms must take into account the cultural and legal background of the parties.
- The joint venture agreement must also state that all necessary governmental approvals and licences will be obtained within a specified period

Benefits are as follows:

- Teaming up adds to existing resources and capacity enabling the joint venture company to grow and expand more quickly and efficiently
- When a business enters into a joint venture with a partner from another country, it opens up a vast growing market
- They have Access to Advance technology. Advanced techniques of production leading to superior quality products saves a lot of time, energy and investment as they do not have to develop their own technology.

- Joint ventures allow business to come up with something new and creative for the same market. Especially foreign partners can come up with innovative products because of new ideas and technology
- International corporations invest in India, they benefit immensely due to the lower cost of production. They are able to get quality products for their global requirements
- One of the parties benefits from the other's goodwill which has already been established in the market.

Question 2

It is a public enterprise established under Indian Companies Act and conducts business in competition with companies in private sector.

(a) Identify the type of public enterprise.

(b) What is the minimum investment Govt. has to make in such companies.

(c) In whose name shares of this type of company are purchased.

(d) Explain any two advantages and limitations of such companies.

Answer

a) It is a Government Company. According to the section 2(45) of the Companies Act 2013, a government company means any company in which not less than 51 per cent 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 and includes a company which is a subsidiary of a government company

b) Minimum investment of 51% of paid up capital is to be made by central government, or by any state government or partly by Central government and partly by one or more State governments and includes a company which is a subsidiary of a government company

c) The shares of the company are purchased in the name of the President of India.

d) Advantages are as follows:

- It has a separate legal entity, apart from the Government;
- It enjoys autonomy in all management decisions and takes actions according to business prudence

Limitations are as follows:

- The Government is the only shareholder in some of the companies, the provisions of the Companies Act does not have much relevance
- It evades constitutional responsibility, which a company financed by the government should have

Question 3

Explain merits and three limitations of Departmental undertaking

Answer

Merits:

- It facilitates the Parliament to exercise effective control over their operations high degree of public accountability
- The revenue earned by the enterprise goes directly to the treasury and hence is a source of income for the Government
- Where national security is concerned, this form is most suitable since it is under the direct control and supervision of the concerned Ministry

Limitations:

- No flexibility, which is essential for the smooth operation of business
- The employees or heads of departments of such undertakings are not allowed to take independent decisions, without the approval of the ministry concerned
- The bureaucrat’s over-cautious and conservative approval does not allow them to take risky ventures
- No action can be taken unless it goes through the proper channels of authority
- Lot of political interference through the ministry
- These organisations are usually insensitive to consumer needs and do not provide adequate services to them

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Question 4

Write the main features of multinational companies

Answer

Features:

- Huge capital resources:
    - They possess huge financial resources and the ability to raise funds from different sources.
    - They are able to tap funds from various sources.
    - They may issue equity shares, debentures or bonds to the public.
    - They are also in a position to borrow from financial institutions and international banks.

    - They enjoy credibility in the capital market

- Foreign collaboration:
    - They enter into agreements with Indian companies pertaining to the sale of technology, production of goods, use of brand names for the final products, etc.
    - They may collaborate with companies in the public and private sector.
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- Advanced technology:
    - These enterprises possess technological superiorities in their methods of production.
    - They are able to conform to international standards and quality specifications.
    - This leads to industrial progress of the country in which such corporations operate since they are able to optimally exploit local resources and raw materials

- Product innovation:
    - These enterprises are characterised by having highly sophisticated research and development departments engaged in the task of developing new products and superior designs of existing products.
    - Qualitative research requires huge investment which only global enterprises can afford

- Marketing strategies:
    - 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.
    - They already have carved out a place for themselves in the global market, and their brands are well-known, selling their products is not a problem.

- 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.
    - They operate through a network of subsidiaries, branches and affiliates in host countries. Due to their giant size they occupy a dominant position in the market.

- Centralised control:
    - They have their headquaters in their home country and exercise control over all branches and subsidiaries.

- This control is limited to the broad policy framework of the parent company.
- There is no interference in day to day operations

Question 5

Which public sector act through the officers of the government & its employees are government employee? Discuss some of its features.

Answer

Departmental Undertakings

- These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself
- They act through the officers of the Government and its employees are Government employees.
- These undertakings may be under the central or the state government and the rules of central/state government are applicable
- Examples of these undertakings are railways and post and telegraph department

Features:

- The funding of these enterprises come directly from the Government Treasury and are an annual appropriation from the budget of the Government
- Subject to accounting and audit controls applicable to other Government activities
- The employees of the enterprise are Government servants and their recruitment and conditions of service are the same under government
- It is a major subdivision of the Government department and is subject to direct control of the ministry
- They are accountable to the ministry

Question 6

What was the role of public sector before 1991?

Answer

- Indian economy consists of both privately owned and government owned business enterprises
- The private sector consists of business owned by individuals or a group of individuals
- 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. They may also be a part of the ministry or come into existence by a Special Act of the Parliament
- In the Industrial Policy Resolution 1948, the Government of India had specified the approach towards development of the industrial sector.

- The Industrial Policy Resolution, 1956 had also laid down certain objectives for the public sector to follow so as to accelerate the rate of growth and industrialization
- The 1991 industrial policy was radically different from all the earlier policies where the government was deliberating disinvestment of public sector and allowing greater freedom to the private sector.
- At the same time, foreign direct investment was invited from business houses outside India.
- Thus, public sector units, private sector enterprises and global enterprises coexisting in the Indian economy.

Question 7

Describe the industrial policy 1991, towards the public sector

Answer

Four major reforms in the public sector in its new industrial policy in 1991were made:

- In the 1956 resolution on Industrial policy, 17 industries were reserved for the public sector. In 1991, only 8 industries were reserved for the public sector, they were restricted to atomic energy, arms and communication, mining, and railways. In 2001, only three industries were reserved exclusively for the public sector. These are atomic energy, arms and rail transport
- 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
- All public sector units were referred to the Board of Industrial and Financial Reconstruction to decide whether a sick unit was to be restructured or closed down. The Board has reconsidered revival and rehabilitation schemes for some cases and winding up for a number of units.
- Improvement of performance through a MoU system by which managements are to be granted greater autonomy but held accountable for specified results. Under this system, public sector units were given clear targets and operational autonomy for achieving those targets

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Question 8

What are the benefits available for two businesses agree to join together for a common purpose and mutual benefit?

Answer

Joint Ventures

- When two businesses agree to join together for a common purpose and mutual benefit, it gives rise to a joint venture.
- Joint venture is the pooling of resources and expertise by two or more businesses, to achieve a particular goal.
- The risks and rewards of the business are also shared. The reasons behind the joint venture often include business expansion, development of new products or moving into new markets, particularly in another country
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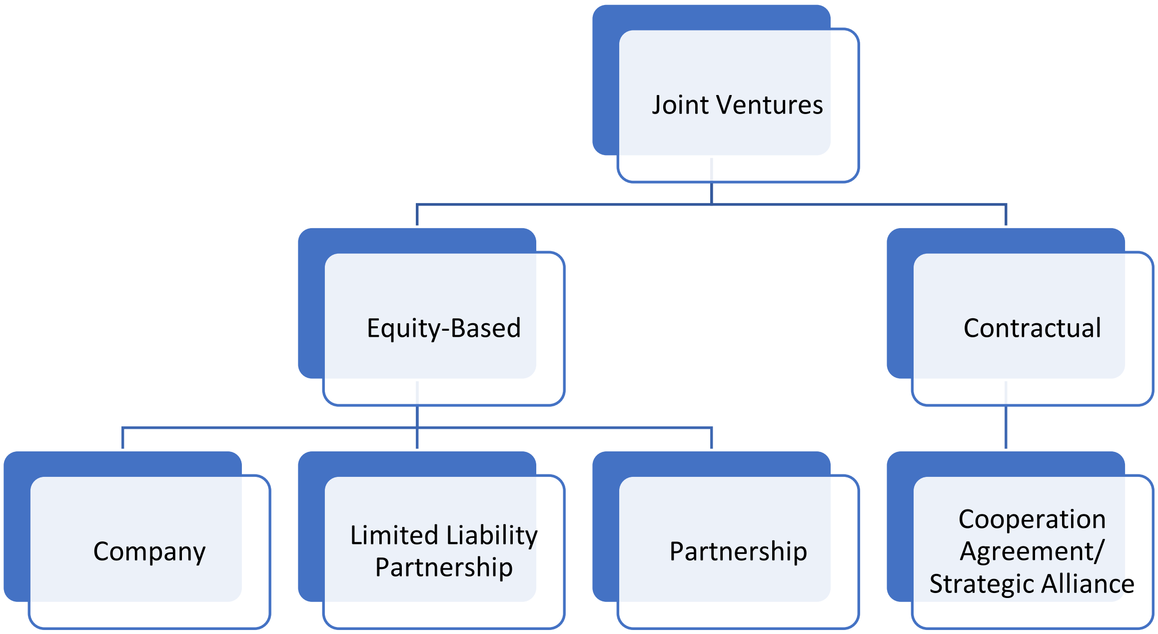

<u>Benefits:</u>

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