



# PUBLIC & PRIVATE SECTOR ORGANISATIONS

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# INTRODUCTION

## PUBLIC SECTOR ORGANISATION

PUBLIC SECTOR UNDERTAKINGS (**PSUs**) ARE A MAJOR PART OF THE INDIAN ECONOMY THAT COMPRISES PUBLIC SERVICES AND ENTERPRISES AND THEY PROVIDE SERVICES THAT BENEFIT THE ENTIRE SOCIETY. THIS PRESENTATION DISCUSSES THE OBJECTIVES OF SETTING UP PSUs, THEIR ROLE IN THE SOCIETY, PROBLEMS, AND REFORMS UNDERTAKEN BY THEM

## PRIVATE SECTOR ORGANISATION

- THE PRIVATE SECTOR CONSTITUTES THE SEGMENT OF THE ECONOMY OWNED, MANAGED AND CONTROLLED BY INDIVIDUALS AND ORGANIZATIONS SEEKING TO GENERATE PROFIT. COMPANIES IN THE PRIVATE SECTOR ARE USUALLY FREE FROM STATE OWNERSHIP OR CONTROL. HOWEVER, SOMETIMES THE PRIVATE SECTOR CAN COLLABORATE WITH THE GOVERNMENT IN A PUBLIC-PRIVATE PARTNERSHIP TO JOINTLY DELIVER A SERVICE OR BUSINESS VENTURE TO A COMMUNITY. A PRIVATE SECTOR COMPANY CAN COME TO EXISTENCE THROUGH THE PRIVATIZATION OF A PUBLIC ORGANIZATION OR THROUGH A NEW ENTERPRISE BY PRIVATE INDIVIDUALS.

## Public sector

Provides public goods

Not affected by recession

Gov't jobs to protect environment

Helps reduce inequality in society

## Private sector

Profit incentive to be efficient

Entrepreneurs create jobs where needed

Less bureaucracy and scope for corruption

Doesn't require taxes to fund

Public vs Private sector



# MAJOR CLASSIFICATION

## PUBLIC SECTOR ORGANISATION

1. DEPARTMENTAL UNDERTAKING – DIRECTLY MANAGED BY CONCERNED MINISTRY OR DEPARTMENT. (E.G. RAILWAYS, POSTS, ETC.)
2. NON-DEPARTMENTAL UNDERTAKING – PSU<sub>s</sub> (E.G. HPCL, IOCL, ETC.)
3. FINANCIAL INSTITUTION (E.G. SBI, UTI, LIC, ETC.)

## PRIVATE SECTOR ORGANISATION

- SOLE PROPRIETORSHIPS
- PARTNERSHIPS
- SMALL AND MID-SIZED BUSINESSES
- LARGE CORPORATIONS AND MULTINATIONALS
- PROFESSIONAL AND TRADE ASSOCIATIONS
- TRADE UNIONS

# OBJECTIVES

## PUBLIC SECTOR ORGANISATION

1. TO CREATE AN INDUSTRIAL BASE IN THE COUNTRY
2. TO GENERATE EMPLOYMENT OPPORTUNITIES
3. TO DEVELOP AND PROVIDE FOR BASIC INFRASTRUCTURE IN THE COUNTRY
4. TO PROVIDE RESOURCES TO THE GOVERNMENT
5. TO PROMOTE EXPORTS AND REDUCE IMPORTS
6. TO REDUCE INEQUALITIES AND ACCELERATE THE ECONOMIC GROWTH AND DEVELOPMENT OF A COUNTRY.

## PRIVATE SECTOR ORGANIZATION

- PROFIT GENERATION
- EXPANSION OF BUSINESS VENTURES
- COMPLEMENTING THE GOVERNMENT IN ITS EFFORTS TO PROVIDE INFRASTRUCTURE AND SERVICES
- PROVIDING A STRONG BASE TO THE INFLOW OF FDI.
- INCREASED INFLOW OF FDI IMPROVES THE FINANCIAL STRENGTH OF THE ECONOMY.

# ROLE IN THE UPLIFTMENT OF SOCIETY

## PUBLIC SECTOR ORGANISATION

- PUBLIC GOOD
- PROVIDES BASIC LEVEL OF INFRASTRUCTURE AND FACILITIES TO THE CITIZENS
- MERIT GOODS AND POSITIVE EXTERNALITIES
- PUBLIC SECTOR & CAPITAL FORMATION
- CREATION OF EMPLOYMENT OPPORTUNITIES
- DEVELOPMENT OF DIFFERENT REGIONS
- UPLIFTMENT OF RESEARCH AND DEVELOPMENT

## PRIVATE SECTOR ORGANISATION

- TO MAXIMISE PROFIT AND GENERATE WEALTH FOR INDIVIDUALS, THEREBY POTENTIALLY IMPROVING ECONOMIC STATUS OF THE COUNTRY
- REDUCE BUDGETARY DEFICIT AS IT CURTAILS THE GOVT'S PUBLIC EXPENDITURE.
- RELATIVELY FREE FROM POPULIST AGENDA AND SOLELY MOTIVATED BY ORGANISATION'S OWN OBJECTIVES
- HELPS TO INCREASE CAPITAL FORMATION WITHIN THE COUNTRY & DRIVES INNOVATION
- CREATION OF JOB OPPORTUNITIES AND HIGHER LEVEL OF INCOME
- PROFIT EARNED BY THEM ADDED HUGE SURPLUSES TO RAISE ADDITIONAL RESOURCES TO ENHANCE ECONOMIC GROWTH. THIS WILL EVENTUALLY INCREASE THE NET NATIONAL PRODUCT AT FACTOR COST AND REAL PER CAPITA INCOME OF THE COUNTRY. THE ADDITIONAL RISE IN GROSS NATIONAL PRODUCT HELPS THE ECONOMY TO OVERCOME THE PROBLEM OF VICIOUS CIRCLE OF POVERTY.
- HELP TO REDUCE THE ABSOLUTE MONOPOLY POWER OF SEVERAL PUBLIC SECTOR UNITS.
- CREATE A FRIENDLY COMPETITIVE ENVIRONMENT WITHIN THE COUNTRY AND SIMULTANEOUSLY IMPROVE THE PRODUCTIVITY OF INDUSTRIAL UNITS.

# CHALLENGES

## PUBLIC SECTOR ORGANISATION

- SOMETIMES MAY LEAD TO INAPPROPRIATE INVESTMENT/COMMERCIAL DECISIONS DUE TO RED TAPISM
- IMPROPER PRICING POLICY
- EXCESSIVE OVERHEAD COST
- LACK OF AUTONOMY & ACCOUNTABILITY
- OVERSTAFFING
- TRADE UNIONISM
- UNDER UTILIZATION OF CAPACITY

## PRIVATE SECTOR ORGANISATION

- PROFIT DRIVEN.
- CONCENTRATES ON LOW INVESTMENT AND HIGH PROFIT INDUSTRIES LIKE CONSUMER GOODS.
- DOES NOT GIVE ATTENTION FOR INFRASTRUCTURAL DEVELOPMENT OF THE COUNTRY.
- MONOPOLISTIC TENDENCY
- RISE IN BALANCE OF TRADE DEFICIENCY FREQUENTLY IMPORTS TECHNOLOGIES FROM THE INTERNATIONAL MARKETS. THESE HIGH-COST MACHINERIES AND TOOLS LEAD TO HUGE DEFICIT IN INDIA'S BALANCE OF TRADE (BOT).
- SHORTAGE OF RESOURCES INCLUDING FINANCE

# RISK FACTOR IN PUBLIC VERSUS PRIVATE ORGANIZATIONS

## PUBLIC SECTOR

- Bottlenecks in decision making process – *Red Tapism* – decision making not strictly as per commercial/business considerations but as per protocol following conservative approach
- Decision making may be driven by populist agendas at times as opposed to actual need of the hour
- Political instability due to changes in government
- Operations not necessarily driven by viability/profitability of the organization but by populist/political considerations potentially leading to creation of inefficiencies – E.G., Air india's precarious financial situation
- Fear of audit, vigilance enquiry leading to non-exercise of discretion by officials even when intentions are honest
- Lack of ownership/motivation in officials at times due to lack of incentive/punishment in performance

## PRIVATE SECTOR

- Regulatory Uncertainty – unanticipated changes in regulatory, legal, environmental or taxation regime
- Unanticipated adverse changes to the economy, recession, inflation, etc.
- Business risks – insolvency due to non-payment of dues from creditors/customers
- Adverse impact of competition from rivals – abuse of dominant position/ predatory pricing by rivals – E.g., telecom sector
- Unanticipated/unplanned claims from the government towards taxes, duties or other levies – E.g., AGR case, Vodafone retrospective tax case
- Corruption/unfair trade practices by employees while doing business, obtaining contracts
- Employee strike, trade unionism



# MOTIVATION IN PUBLIC AND PRIVATE ORGANIZATIONS

## PUBLIC SECTOR

- Service to the general public – Sense of satisfaction of doing public good
- Carrying out basic public functions and providing at least fundamental level of facilities and services to the citizens
- Carrying out objectives and promises made by the government
- Creating employment opportunities for the citizens
- Improving infrastructure and overall status of the relevant area
- Ensuring viability and self-sustainability of the organization so as to ensure that the organization does not require the exchequer to bail it out

## PRIVATE SECTOR

- Profit generation
- Wealth creation for the promoters and shareholders – wealth creation for other stakeholders, such as employees etc., may be ancillary
- Optimising efficiencies in business so as to minimize costs and maximise profits
- Employment generation
- Some private sector organisations may also be motivated with spirit of public service and contribute in social welfare schemes, including through CSR expenditure
- Image building for the organization as well as the promoters

# DISINVESTMENT

- **DISINVESTMENT** MEANS SALE OR LIQUIDATION OF ASSETS BY THE GOVERNMENT.
- NEED : REDUCE THE FISCAL BURDEN, TO INCREASE NON-TAX REVENUE, INFRASTRUCTURE DEVELOPMENT
- SUCCESS : HINDUSTAN ZINC
- FAILURE : AIR INDIA

# CHALLENGES

- PROPER VALUATION
- CRONY CAPITALISM
- FISCAL DEFICIT
- PRIVATE MONOPOLIES
- UNEMPLOYMENT

# SUGGESTION

- THIRD PARTY VALUATION
- FAIR AND TRANSPARENT BIDDING
- SECTOR-SPECIFIC POLICY
- ACTIVE REGULATION



The background is a light gray gradient with several realistic water droplets of various sizes scattered around the edges. The droplets have highlights and shadows, giving them a three-dimensional appearance.

*Thank  
you*