

Study on Role of Private Sector Enterprises in Indian Economy

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Abstract – Private sector enterprises have come to occupy a significant position in the Indian economy. They have helped in capital formation, reduction in concentration of economic power and removal of regional imbalances. They have been acting as a model employer, producing wide variety of products, developing necessary skills and technical know-how, reducing imports and increasing exports, and encouraging ancillary industries and generating surpluses for further development of economy. Serious gaps in the economy particularly in the fields of heavy industry such as manufacturing of steels, heavy machine tools, heavy electrical equipment, exploration and refining of oil, chemicals, fertilizers and indigenous production of defence equipment have been overcome through private enterprises. Thus, private sector enterprises have great economic importance for a developing country like India.

Key Words – Private, Economy, Enterprises, Employer

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1. INTRODUCTION

Indian economy is a mixed economy, in which, both private and public sector exist. Private sector is that sector in which enterprises are owned, managed and controlled by individual or a group of individuals. The primary motive of such enterprises is earning more and more profits and the social and human objectives are secondary, whereas public sector enterprises are owned, managed and controlled by the government. These enterprises are made for the welfare of society; their primary motive is not to earn profits, but the overall socio-economic development of the country.

Since its inception, Private enterprises have acted as an instrument for self-reliant economic growth of India in order to develop industry, diversify public economy and overcome economic backwardness and prevent the growth of unaccountable monopoly power.

Private enterprises have come to occupy a significant position in the Indian economy. They have helped in capital formation, reduction in concentration of economic power and removal of regional imbalances. They have been acting as a model employer, producing wide variety of products, developing necessary skills and technical know-how, reducing imports and increasing exports, and encouraging ancillary industries and generating

surpluses for further development of economy. Serious gaps in the economy particularly in the fields of heavy industry such as manufacturing of steels, heavy machine tools, heavy electrical equipment, exploration and refining of oil, chemicals, fertilizers and indigenous production of defence equipment have been overcome through private enterprises. Thus, private sector enterprises have great economic importance for a developing country like India.

2. ROLE OF PRIVATE SECTOR ENTERPRISES IN THE INDIAN ECONOMY

The private sector enterprises certainly had a very important role to play in the development of this vast and popular developing economy characterized by dearth of capital, entrepreneurship and technology.

- At the time of independence, the country had organized industrial operations mainly in textiles, coal mining, and railway and ordnance factories. Consequently, production of basic raw material was very low. The production of steel was barely one million tons, and that of aluminum was hardly 4,000 tons, while the installed capacity of power generation was less than 2500 MW consisting wholly of small- size imported sets. Some chemical factories

and other traditional industries for making salt batteries, soap, safety matches, sugar, vanaspati etc. however, existed. Basic industries for manufacturing machine tools, industrial machinery, power generation equipment and transportation equipment were either absent or were in their infancy.

- Without these, further industrial development cannot take place. Our country lacked both capital and technology, and our people were largely untrained in industrial skills. Our national resources needed large-scale exploration and exploitation. It is in this context that the strategy of industrial development was formulated and the long and steady route to develop indigenous capabilities and self-reliance in capital goods manufacture was adopted in preference to increase production of consumer goods.

3. NEED AND IMPORTANCE OF PRIVATE SECTOR ENTERPRISES

Private sector in a developing economy is essential for the proper and effective implementation of economic planning. Without private sector the targets and objectives of planning cannot be fully realized.

The importance of private sector in Indian economy over the last 15 years has been tremendous. The opening up of Indian economy has led to free inflow of foreign direct investment (FDI) along with modern cutting-edge technology, which increased the importance of private sector in Indian economy considerably.

Previously, the Indian market were ruled by the government enterprises but the scene in Indian market changed as soon as the markets were opened for investments. This saw the rise of the Indian private sector companies, which prioritized customer's need and speedy service. This further fueled competition amongst same industry players and even in government organizations.

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The late 1990s and the period thereafter witnessed investments in sector like manufacturing, infrastructure, agriculture products and most importantly in Information technology and telecommunication. The present trend shows a marked increase in investment in areas covering pharmaceutical, biotechnology, semiconductor,

contract research and product research and development.

The importance of private sector in Indian economy has been very commendable in generating employment and thus eliminating poverty. Further, it also effected the following -

- Increased quality of life
- Increased access to essential items
- Increased production opportunities
- Lowered prices of essential items
- Increased value of human capital
- Improved social life of the middle-class Indian
- Decreased the percentage of people living below the poverty line in India
- Changed the age-old perception of poor agriculture-based country to a rising manufacturing-based country
- Effected increased research and development activity and spending
- Effected better higher education facilities especially in technical fields
- Ensured fair competition amongst market players
- Dissolved the concept of monopoly and thus neutralized market manipulation practices

The importance of private sector in Indian economy can be witnessed from the tremendous growth of Indian BPOs, Indian software companies, Indian private banks and financial service companies. The manufacturing industry of India is flooded with private Indian companies and in fact they dominate the said industry. Manufacturing companies covering sectors like automobile, chemicals, textiles, agri-foods, computer hardware, telecommunication equipment, and petrochemical products were the main driver of growth.

The Indian BPO sector is more concentrated with rendering services to overseas clients. The KPO sector is engaged in delivering knowledge based high-end services to clients. It was estimated, that out of the total US \$ 15 billion KPO service business around US \$ 12 billion of business would be outsourced to India by the end of 2010.

Therefore, private sector is necessary for every country, especially for developing countries like India. Private sector helps in overall development of all fields of an economy.

Private sector enterprises play an important role in ensuring balanced economic growth. Prof. Nurkse and other economists have shown, the desirability of balanced economic growth in underdeveloped countries. Government alone cannot take an overall view of the economy and make investment in different industries, so as to increase production and income in the various sectors. The process of development requires that there must be some balance between agriculture and industry, between consumer goods and capital goods industries and so on, and this can be achieved only through private enterprises working under a well-conceived plan. Private enterprises have a role to play in the development process. The doctrine of planned unbalanced growth requires and investment must take place in certain specific fields, which generate maximum external economies so that the growth in general is quickened. But, even such planned, unbalanced growth can be ensured only if private enterprises play an active part in the process of economic development. In less developed countries, the 'depressed zone' can be activated through agents under the strict observation and control of the public authority.

Most private businesses monitor their sales, marketing, and supply chain strategies. However, the companies with the best governance and risk management also regularly evaluate their capital and financial plans, understanding and thinking ahead about their needs for liquidity, their mix of different types of funding, and the eventual need to return money to their investors.

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