

- **Performance of Government Companies** Like the private sector companies, the government companies also aim at profitability and value creation. But they focus much more on non-financial and social objectives. A very few government companies make profits and declare dividend. In 2002–03, 81 companies, out of 118 profit making companies paid about 36 percent of their net profits as dividends.
- **Finance Function in Government Companies** The organization of finance function of the government companies is evolving over the years, and it has become now a specialized function with a decentralized structure in case of multi-divisional and multi-product companies. The scope of finance function in the government companies is as extended as in the case of the private sector companies. It includes the funds management, budgeting, cost control, assets management and security etc.
- **Investment Decisions of Government Companies** The basic principle of value creation governs the investment decisions of the government companies. But these companies also use economic return and the social impact criteria in

choosing projects. The authority for investment expenditure goes beyond the management of the company. Government departments and ministries play important role in authorizing investment expenditures beyond certain specified limits. Most government companies are dependent on the government funding for financing their expansion and growth. The government funding is available either as equity or debt. Hence, the issue of capital structure is considered redundant as the source of the debt and equity is the same, that is, the tax payer's money allocated by the government.

- **Current Assets in Government Companies** Government companies have huge investment in current assets. Hence, working capital management assumes for greater importance. A number of companies (e.g., BHEL, NTPC) have well-established policies and practices of managing working capital. However, a large number of companies have inadequate working capital management. The Boards of the companies hardly discuss the working capital management issues and lay down policies and procedures.

- **Financial Controls in Government Companies** are more stringent than in the private sector companies. They are subjected to internal audit, statutory audit and audit by controller and Auditor General. An additional feature of performance evaluation and control in government companies is Memorandum of Understanding (MoU). Performance budgeting and zero-base-budgeting (ZBB) are special budgeting control tools used by government companies.
- **Memorandum of Understanding (MoU)** is a performance contract between the government and the company management. It specifies the performance targets as well as explicitly states the autonomy and accountability of management in meeting financial and non-financial objectives and targets. The emphasis is only reducing the close control of the government and the day-to-day interference in the management of companies.
- **Performance Budgeting** is a flexible system of aligning organizational mission, goals and objectives with budgeted funds and expected results. It takes a comprehensive, policy oriented approach, rather than a short term mechanical approach of preparing budgets.

- **Programme Budgeting** Performance budgeting may be extended to each specific programmes, and it is referred to Programme budgeting.
- **Zero-base budgeting** is based on the notion that each activity or Programme and its funding must be justified each time afresh.