

SUBJECT— BUSINESS ORGANISATION

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SETTING UP A BUSINESS ENTERPRISE

The process of setting up a business enterprise is known as promotion and the persons who carry out this process are called promoters.

Promotion of a business enterprise involves several decisions. Promotion of a new business enterprise is like the birth of a child. The person who has a business idea and takes steps to launch a business enterprise is known as an entrepreneur.

Entrepreneurial Decisions in Setting up a Business Enterprise

An entrepreneur has to take the following decisions in order to establish an enterprise.

1. Selection of line of business: The entrepreneur has to decide the type of business in terms of manufacturing, trading or service. Then he has to select the types of goods and services he will produce and distribute. He should then analyse and estimate the profitability of the proposed business on the basis of operating costs and sales revenue. Marketing research should be carried out to find out the number of customers and their needs. Decisions regarding product design, pricing policy, marketing and distribution channels should be made.

The selected line of business must be such that the expected rate of return must be fair keeping in view the risks involved and the amount of investment required in the enterprise.

Also, the degree of risk must be such which is acceptable to the entrepreneur. The selected line of business must also be technically feasible i.e. it should be possible for the promoter to arrange for the required finance, technology, labour, material etc.

2. Size of the unit: Decision regarding size of the unit is very important. The optimum size is one at which the average cost per unit is minimum. The entrepreneur should aim at the optimum size keeping in view the nature of the product, technique of production, the extent of market, availability of finance, competence of management etc. Large scale operations offer the advantages of economies of scale but require huge capital investment. When risk involved is high or a new idea is to be tried, it is advisable to start the business on a small scale and gradually increase the size. However, the initial size of the business can also be large provided the entrepreneur is willing to assume the risks associated with it.

3. Location of business: The location of a business is a very important decision because once the site is selected, it is very difficult to change it. An unfavourable location restricts the growth of business and also leads to higher costs. The objective of location decision is to find out the optimum location so that the per unit cost of production and distribution is the lowest.

The location decision involves decisions regarding the selection of the region and selection of the site. The region is selected on the basis of access to raw materials, availability of labour, transportation facilities, banking facilities etc. The selection of site requires a consideration of cost of land, soil and surface, development costs etc.

4. Choice of form of ownership: A business organisation may be organized in the form of a sole proprietorship, partnership and joint stock company. The choice of the form of ownership depends on several factors such as nature and size of business, degree of risk involved, capital requirements, managerial requirements etc. A good form of ownership should be easy to form and simple to operate. The choice of the form of organisation is very important as it determines the authority and liability of owners, division of profits, continuity of business, transferability of interest etc.

5. Financial planning: The entrepreneur has to make available sufficient amount of capital for the initiation and continuation of the business. Capital is required for investment in fixed assets like land, building, machines and equipment and current assets like supplies, material etc. Capital is also required for meeting day-to-day expenses of business. An entrepreneur while doing the financial planning will have to take decisions in the following areas.

- a. Determination of the total amount of capital required for business
- b. Deciding the form and composition of securities which are to be issued to raise the estimated capital
- c. Administration of funds

6. Provision of physical facilities: This decision requires the selection of machines, equipments, building, plants and other physical facilities. Decisions in this area depend upon a number of factors such as the nature of business (manufacturing, trading or service), size of the firm (large, medium or small), process of production (capital-intensive or labourintensive) and availability of funds. In selection of machines and equipment, factors such as relative costs and productivity, availability of repair and maintenance services and spare parts, skills of workers required to run such machines and equipment should also be considered.

7. Plant layout: Plant layout refers to the arrangement of physical facilities (like machines) in the plant. Machinery and equipment should be placed in such a way that it permits materials to move through the necessary operations (from one machine to another) rapidly and in the most direct way possible. The layout should also be flexible enough to adapt itself to the changing conditions of business. A good layout helps in avoiding back-handling of materials

and removing other bottlenecks and delays in the production process.

8. Personnel: At the next stage, the entrepreneur must estimate the number (quantity) and the type (quality) of people to perform different jobs. This is estimated with the help of manpower planning or human resource planning. After this, the procurement, development and motivation of the required managers and workers becomes necessary. People with required skills, experience and aptitude must be recruited and selected.

9. Procedural formalities: In almost every type of business, some procedural formalities have to be observed while starting a new enterprise. In case of a sole proprietorship or partnership, there are practically no procedural formalities. Registration of a partnership firm is not necessary. But a joint stock company is exposed to greater procedural formalities both at the time of incorporation and during its life. Registration of a company is necessary. For registration, many documents have to be prepared and the required fee deposited with the Registrar of Companies. A public company has also to secure a Certificate of Commencement of Business before it can start its operations.

10. Launching the enterprise: At this stage, the promoter arranges for the acquisition of necessary resources like men, material, machinery, money and managerial ability. After arranging for the necessary resources, he develops an organisation structure and divides work among the personnel. Various departments like production, finance, marketing, personnel etc. are created and their working coordinated to achieve organisational objectives.