

SUBJECT— BUSINESS ORGANISATION

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BY::

ABHISHEK ASHISH (ASSISTANT PROFESSOR)

K . L . S COLLEGE NAWADA

Business Organisation

Business organization deals in various aspects of how a business is organized. By understanding this subject we would be able to learn the various types of business activities.

NATURE AND SCOPE OF BUSINESS

1 INTRODUCTION

In our day-to-day life, we use words like business, commerce, trade, industry, etc. quite often. These words have a definite meaning in 'Business Organisation'.

2 HUMAN ACTIVITIES

All of us participate in various kinds of works from the time we get up from bed in the morning till the time we go to sleep at night. We get up from bed in the morning; brush our teeth, take bath and get breakfast. Then children go to school or college to study, elders go to office or factory or shop or field to work, and housewives work at home. In the evening all of us come back home, take food and sleep. All the activities in which we, thus, participate from morning till night are called 'human activities'.

we can classify the human activities into two groups: (1) non economic activities, and (2) economic activities. .

1 NON-economic activities: These are the activities which are conducted by the human beings due to love and affection, social obligation, religious obligation, physical requirement, patriotism, etc.. but not for earning money.

2 Economic Activities: These are activities which are undertaken by human beings for earning money or livelihood. These economic activities are concerned with production, exchange, and distribution of goods and services.

We can further classify these economic activities into three groups: (a) business, (b) profession, (c) employment.

a) Business: Any activity carried primarily with the object of earning profit can be called business activity. This objective of earning profit is achieved by production and/or exchange of want satisfying goods and services. Therefore, we can define business as any activity concerned with the production and/or exchange of want satisfying goods and services carried with a view of earning profit".

b) Profession: An activity which involves the rendering of personalised services of a specialised nature, based on professional knowledge, education and training is called a profession. Services rendered by doctors, lawyers, chartered accountants, etc., come under this category.

C) Employment: Any activity assigned to a person by the employer under an agreement or rules of service comes under the category of employment. A person who undertakes such activity is called employee. For performing such activity, the employee receives remuneration from the employer in the form of wage or salary, allowance, bonus, etc.

The employment is also called 'service'. Working in a factory, office, hotel, college, etc., are a few examples of employment.

Essential Features of Business

We can list the following five broad features of business.

1 Dealings in goods and services: Business deals with goods and services. The goods may be consumer goods such as sweets, bread, cloth, shoes, etc: They may be producer's goods such as machinery, equipment, etc., which are used to produce further goods for consumption. Business also deals with services such as transport, warehousing, banking, insurance, etc., which are intangible and invisible goods.

2 Production and/or exchange: You can call an economic activity a 'business' only when there is production or transfer or exchange or sale of goods or services for value. If goods are produced for self-consumption or presentation as gift, such activities shall not be treated as business. In a business activity, there must be two parties i.e., a buyer and a seller. Such activity should concern with the transfer of goods or exchange of goods between a buyer and a seller. The goods may be bartered or exchanged for money.

3 Continuity and regularity in dealings: A single transaction shall not be treated as business. An activity is treated as business only when it is undertaken continually or at least recurrently. For example, if a person sells his residential house, it is not considered as business. If he repeatedly buys houses and sells to others, such activity comes under business. But how frequently the transaction should occur depends on the nature of the activity

4 Profit motive: Earning profit is the primary motive of business. This is not to undermine the importance of the element of service in business activity. In fact a business will flourish only when it is able to serve its customers to their

satisfaction. Profits are essential to enable the business to survive, to grow, expand, and to get recognition.

5 Element of risk: In every business, there is a possibility of incurring loss. This possibility of incurring loss is termed as risk. The element of risk exists due to a variety of factors which are outside the control of the business enterprise. There are two kinds of risks. (1) Risks whose probability can be calculated and can be insured. Losses due to fire, floods, theft, etc., are some examples. (2) Risks whose probability cannot be calculated and which cannot be insured against, e.g., changing technology, fall in demand, changing fashions, short supply of raw materials, etc. These risks are to be completely borne by the enterprise.

Objectives of Business

the primary objective of business is to earn profit. Although profit plays an important role as a criterion of success, business may not exist for long with the sole objective of earning profit. As stated by Henry Ford, "business is not mere money chasing but it also should aim at serving the community". According to Urwick, "profit can no more be the objective of a business than eating is the objective of living". Thus, serving the community is regarded as another important objective of business

Nature and Scope of Business

Basic Concepts and Forms of Economic Objectives: Basically being an economic
Some of the main economic objectives are :

1 Earning of satisfactory profits.

2 Exploring new markets and creation of more customers.

3 Growth and expansion of business operations of the firm.

4 Making innovations and improvements in goods and services so that customers get improved and more economic goods and services.

Social Objectives: Business, being a part of the society, has obligations towards the society also. Some major social objectives are :

1 Providing more and more employment opportunities to the people in the country.

2 Supply of quality goods to the community.

3 Providing goods at reasonable prices.

4 Ensure fair returns to investors.

5 avoidance of profiteering and unfair practices.

6 Production of goods in accordance with national interests and priorities.

Human Objectives: Business activity is, generally, carried out through employees who are human beings. In fact, the efficiency and the success of the business enterprise depends on the motivation and ability of its employees. Therefore, business must also have some human objectives to safeguard the interests of its employees. Some of the major human objectives are :

1 Fair deal to employees in terms of wages and incentives.

2 Providing better working conditions and environment to the employees.

3 Provide job satisfaction.

4 Provide the employees more and more' promotional/growth opportunities.

INDUSTRY

industry refers to that part of business activities which is concerned with the production of want satisfying goods through utilisation of available material resources.

Industry utilises the natural resources and brings them into the form useful for final consumption or further use. It means that the industrial activity aims at ensuring the supply of goods in that form which suits the objects, needs and convenience of the persons expected to use them. Thus, industry creates form utility to goods

Classification of Industry

There are various approaches of classifying industries. All these approaches are listed below.

1 On the basis of the nature of activity

a) Extractive industries

b) Genetic industries

c) Manufacturing industries

d) Construction industries

2 On the basis of the nature of goods produced

a) Consumer goods industries

b) Producer goods industries

3 On the basis of the level of investment

a) Heavy industries

b) Light industries

4 On the basis of size of the activity

- a) Small scale industries
- b) Large scale industries
- 5 On the basis of area of operations
- a) Regional industries
- b) National industries
- C) Multinational industries

a) Extractive Industries: Activities engaged in the discovery and extraction of natural resources like minerals, animals, plants, trees, etc., from the surface or beneath the surface of the earth or air or water come under this category. Extractive industries are also called exhaustive industries because with every attempt there is a depletion of resources and this wealth exhausts. Mining, farming, quarrying, hunting, fishing, etc., come under this category.

b) Genetic Industries: Activities which are concerned with reproducing and multiplying plants and animals with the objective to get profit from their sale come under this category. Examples are nurseries which multiply and sell plants, poultry farms, cattle breeding farms, fish culture, etc.

There is one important difference between an extractive industry and a generic industry.

C) Manufacturing Industries: These types of industries are engaged in the conversion or transformation of raw-materials and semi-finished materials into finished products.

d) Construction Industries: These industries are engaged in the construction activities like the construction of buildings, bridges, dams, roads, canals, railway lines, etc.

COMMERCE

the business activities are classified into: 1) industry, and 2) commerce.

Industrial activities are concerned with the production of want satisfying goods and services. Unless these goods and services are made available to those who need them, they may not fulfil their objectives i.e., satisfying human wants. Therefore, the goods produced by the industries should be made available to the consumers at right place, right time, right quantity, right price and in right manner. Here comes the activity of commerce to fulfil all these requirements. **All the activities which establish link between the producers of goods and consumers of these goods, and maintain a smooth and uninterrupted flow of goods between them come under commerce.**

we can classify the whole range of commerce activities into two categories :

- 1) Trade-activities of purchase and sale.
- 2) Aids to Trade- activities which facilitate the smooth and uninterrupted flow of goods.

Trade

trade includes sale, transfer or exchange of goods and services with the intention of earning profit. The objective of trade is to make goods available to those persons who need them and are willing to pay for them. Thus, trade plays 'a major role in establishing contact between the producers and the consumers and eliminates the hindrance of person.

A person who is engaged in trade is called 'trader' or 'middleman'. Various traders operate in between producers and consumers and remove the hindrance of person. We can classify trade into two broad categories: 1) internal trade, and 2) external trade.

1 Internal Trade: When the trade takes place within the boundaries of the country, you can call it 'internal trade'. It means that both buying and selling should take place within the country. Payment for the same is generally made in national currency. This internal trade is also termed as inland trade or national trade or home trade or domestic trade.

On the basis of the scale of operations, we can classify internal trade into: a) wholesale -trade, and b) retail trade.

a) wholesale: Buying and selling in relatively larger quantities is called wholesale trade. A person who is involved in wholesale trade is called wholesaler.

b) Retail Trade: This refers to buying and selling in relatively smaller quantities. A person engaged in retail trade is called a retailer.

2 External Trade: This is also called 'foreign trade' or 'international trade'. When the trade takes place across the boundaries of a country, you can call such trade as external trade. In other words, external trade refers to the trade between nations. This 'could be in the form of exchange of one commodity for another or for money. We can classify foreign trade into three categories: a) import trade, b) export trade, and c) re-export trade.

a) Import Trade: when a country buys goods from another country, it is called 'import trade'. For example, India bought machinery from the USA. This is an import trade for India.

b) Export Trade: When a country sells goods to another country, it is called 'Export Trade'.

c) Re-export Trade: This is also called 'entrepot trade', Where the goods are imported from one country and the same are exported to another country, such trade is called re-export trade'. Re-export is done by those countries which have

ports that are conveniently situated to serve as distributing points for neighbouring countries.

Aids to Trade

Activities which facilitate the trade are called 'aids to trade'. Thus, all human activities which eliminate the hindrances and facilitate the flow of goods from producers to consumers come under aids to trade. They are also called 'auxiliaries to trade'. The whole range of activities coming under aids to trade may be classified into five categories: 1) transportation, 2) warehousing, 3) insurance, 4) advertising, and 5) banking.

1 Transportation: Generally, all the goods are not consumed at the same place where they are produced. Therefore, goods are to be moved from the place of production to the place where they are demanded. The activity which is concerned with such movement of goods is called 'transportation'. Thus, transportation eliminates the hindrance of place and creates place utility to goods.

Transportation can be of three types:

- a) Land transportation - road, rail
- b) Air transportation-aeroplane
- c) Water transportation-boat, ship

2 Warehousing: Goods may not be consumed immediately after production. Normally there will be time gap between production and consumption. This is the hindrance of time. Therefore, goods once produced should be preserved properly till they are consumed. Particularly, perishable goods like milk, meat, vegetables, flowers, etc., should be preserved very carefully. Otherwise, they get spoiled and become useless

3 Insurance: The goods may be destroyed while in production process, or in transit due to accidents, or in storage due to fire or theft, etc. The businessmen would like to cover these risks. Insurance companies come to their rescue in this regard. They undertake to compensate the loss suffered due to such risks. For this purpose, the business has to take an 'insurance policy' and pay a certain amount regularly, called 'premium'. Thus, insurance eliminates the hindrance of risk.

4 Advertising: Exchange of goods is possible only when the consumers have the knowledge about the existence of a product. This is the hindrance of knowledge. This hindrance is eliminated through advertising. Through advertisement, producers communicate all information about their goods to the prospective consumers and create in them a strong desire to buy the product. Thus, advertising

facilitates the flow of goods between producers and consumers by bringing the knowledge about the products to the consumers. Advertising is done through TV, radio, newspapers, magazines, hoardings, wallposters, etc.

5 Banking: Banking facilitates the flow of goods by removing the hindrance of finance and credit. Now-a-days we cannot think of business without banks. To start the business or to run it smoothly we require money. Banks supply money. A bank is an organization which accepts deposits of money from the public, withdrawal on demand or otherwise, and lends the same to those who need it. Banks also provide many services required for the business activity.
