

Business Organisation

By: Shikha Talwar

This reference book can be useful for
BBA, MBA, B.Com, BMS, M.Com, BCA, MCA
and many more courses for Various Universities



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Published by:



NEERAJ PUBLICATIONS

(Publishers of Educational Books)

Sales Office : 1507, 1st Floor,

Nai Sarak, Delhi-110 006

E-mail: info@neerajbooks.com

Website: www.neerajbooks.com

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Typesetting by: Competent Computers

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Sample Preview of The Chapter

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BUSINESS ORGANISATION

Basic Concepts and Forms of Business Organisation

1

Nature and Scope of Business

INTRODUCTION.....

Business organisation contains various words like business, commerce, trade, industry etc. All these terms have a definite and proper meaning and in this unit, we will be studying about each one of them. We will get a clear picture about the importance of organisation, role of businessmen in business, objectives of business, classification of business activities and economic and non-economic activities. Coming to business, it means all the activities of production and exchange of goods performed by humans in order to earn profits. Business organisation is defined as a combination of necessary human beings, materials, tools, equipments, working space, apparatus and finance brought together in an effective and systematic correlations accomplish some desired objective. Business can be started by a single person or a group of persons forming a partnership firm or a joint stock company or a cooperative society. A person who carries out all the business activities is called an entrepreneur. He bears the risk of loss as well as profit. Non-corporate forms of organisation consists of sole proprietorship and partnership firms and corporate forms of organisation

consists of company form and cooperative society. The work of business organisation is to bring together all the components of business like capital, energy, raw-materials, machines etc., with a view to earn profit. Businessmen run business in order to achieve the goal of profit.

SUMMARY.....

Human Activities

All the activities that we perform from morning till night are said to be human activities. e.g. children go to school to study, elders work in the office, we wake up in the morning etc. It is of two types:

Economic and Non-economic Activities.

Activities performed by humans out of love, affection, physical requirement etc. They do not earn any money. For e.g. cooking food for children, people going to temple etc.

Economic Activities

Activities performed in order to earn money or livelihood. These activities help a person acquire wealth and earn livelihood. For example—teacher working in a school, doctor treating his patients etc. Economic activities are grouped into:

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(a) Business: Business activity is performed in order to earn profit. One can get profit by producing and exchanging goods and services with money. For example—production of TV sets, soaps, shampoos etc. Businessman is a person who carries on the activities of the business. To run a business, capital is essential

(b) Profession: An activity performed so as to render personalised services of a specific and specialised nature based on professional education, training, knowledge etc. For example—doctors, lawyers, teachers etc. They do not work free of cost but charge a certain amount as fee for the service that they provide. They cannot transfer the ownership interest to others.

(c) Employment: It means activity assigned to a person by the employer under an agreement or rules of service. Employee is the one who gets salary or bonus or allowance for performing the activity. For example—working in a hotel, office or factory. There is a specific motive involved in this and person works in order to earn his livelihood.

Features of Business

There are five features of business:

(1) Dealings in goods and services: It deals with goods and services. Goods are divided into consumer goods like bread, butter and producer goods like tools, machinery etc.

(2) Production and exchange: It is carried with an aim to earn money by producing and exchanging goods and services. Activity in which goods are produced for self consumption is not treated as business. Buyers and sellers are two parties in a business.

(3) Continuity and regularity in dealings: When there is continuity and regularity in An activity, it is said to be business. For example—if a person sells his house, it is not an activity until continuity is maintained in the dealings.

(4) Profit motive: Business is carried out with the aim to earn profit. Profits are important to enable the business grow, survive, expand and get recognition.

(5) Element of risk: Risk is the possibility of incurring loss. Risks are of two types—one whose probability can be calculated and insured like fire,

theft and the other whose probability cannot be calculated and insured like fall in demand, changing fashions etc.

Objectives of Business

These are three different objectives of business:-

(1) Economic Objectives: It includes earning of profits, exploring new markets and creating more customers, growth and expansion of business operations of the firm and making innovations and improvement in goods and services.

(2) Social Objectives: It includes supply of quality goods to the community, providing goods at reasonable prices, ensure fair returns to investors, avoidance of profiteering and unfair practices and providing more employment opportunities to the people in the country.

(3) Human Objectives: It includes fair deal to employees in terms of wages and incentives, provide job satisfaction, providing better working conditions and environment to the employees and provide the employees more growth opportunities.

Classification of Business

Business has got two aspects i.e. production and exchange. In industry, activities are related to production and in commerce, activities are related to exchange.

Industry: It is a part of business activities that works in order to produce want satisfying goods with the help of material resources available readily. Its main purpose is to use the natural resources and bring them into a useful form. E.g.—farms, etc. factories Industries etc. are classified as:

- (a) On the basis of nature of goods produced, Consumer goods and producer goods.
- (b) On the basis of level of investment, Heavy and light industries.
- (c) On the basis of activity size, Small scale and large scale industries.
- (d) On the basis of area of operations, Regional, national and multinational.
- (e) On the basis of nature of activity.

Extractive Industries: These are engaged in the discovery and extraction of natural resources like minerals, plants, animals etc. from surface or beneath the earth's surface or air, water etc. For example mining, fishing etc.

Genetic Industries: These are concerned with reproducing and multiplying of plants and animals in order to earn profit from their sale, For example—nurseries, fish culture, poultry farms etc.

Manufacturing Industries: These are engaged in the conversion or transformation of raw materials and semi-finished materials into finished products. E.g.—iron and steel, cement, fertilizers etc.

Construction Industries: These industries perform various activities like construction of bridges, dams, roads, canals etc. E.g.—buildings, roads, dams etc.

Commerce

It helps in making goods available to consumers at right place, time, quantity, price and manner. All the activities fall under commerce that form link between producers of goods and consumers of these goods and maintain a smooth and uninterrupted flow of goods between them. Its two main aspects are purchase and sale of goods and activities important for smooth and uninterrupted flow of goods. Commerce is of two types:

Trade: It works with the objective of making goods available to those persons who need them and are willing to pay for them. Trader is the one who is engaged in trade. Trade is of two types:

(A) Internal trade: When the trade takes place within the boundaries of the country, it is called internal trade. It is of two types:

(a) Wholesale trade: In such a trade, buying and selling takes place in larger quantities. Wholesaler is involved in wholesale trade.

(b) Retail trade: In such a trade, buying and selling takes place in smaller quantities. Retailer is involved in retail trade.

(B) External trade: This trade takes place across the boundaries of a country or between nations. It is of three types:

(a) Import trade: In such a trade, a country buys goods from another country,

(b) Export trade: In such a trade, a country sells goods to another country,

(c) Re-export trade: In such a trade, goods are imported from one country and the same are exported to another country.

Aids To Trade

It involves all types of human activities which help in eliminating the hindrances and facilitating the flow of goods from producers to consumers. It is divided into five categories:

(1) Transportation: It helps in eliminating the hindrance of place and creates place utility to goods. It is of three types—land, air and water.

(2) Warehousing: It means to preserve the goods so that they can be made available as and when required. It eliminates hindrance of time and provides time utility of goods.

(3) Insurance: To overcome the risk of theft, fire etc, business should be insured by paying a certain amount of premium of the insurance policy.

(4) Advertising: It can introduce new products to consumers easily. Advertising can be done with the help of T.V., radio, newspapers, wall posters etc.

(5) Banking: Business cannot run if banks are unavailable. Banks provide money to those who require it to run the business smoothly.

Business Organisation

Organisation is the arranging or combining of resources to achieve an economic aim—either with the resources available to achieve the maximum profit or to achieve a given aim with the least possible expenditure of resources. It is divided into four types on the basis of ownership—sole proprietorship, partnership firm, company and cooperative society.

Entrepreneur: He is the one who performs all the business activities. He himself bears the risk of loss and nobody can bear the loss on his behalf. His work is to conceive the business idea, bring the organisation into existence, carry on the business activity and prepare himself to bear the risk of loss.

CHECK YOUR PROGRESS

Q. 1. (a) What is the main distinction between the economic activity and non-economic activity?

Ans. Activities performed by humans from morning till night are said to be human activities. Some activities give us benefits like by working in an office, one can earn a good amount. Some other activities like going to office, school, cooking food etc, do not provide any direct benefit. Human activities are grouped into:

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- (a) Economic activities, and
- (b) Non-economic activities.

(a) Economic Activities: All the activities performed by human beings with an aim to earn money or livelihood is termed as economic activities. People undertake such activities because they want to acquire wealth and earn livelihood. For example—a teacher working in a school, an employee working in an office, a doctor treating his patients etc. These activities are carried out with a view to produce exchange and distribute goods and services. Economic activities are further grouped into:

- (1) Business;
- (2) Profession, and
- (3) Employment.

(b) Non-Economic Activities: Human beings perform these activities because of love, affection, physical requirement etc, but do not earn any money. People do not get any benefit by performing these activities. For example—children going to school, mother cooking food for her children and family, people going to a temple for prayer etc.

Q. 2. What is Business?

Ans. If someone performs an activity in order to earn profit, it is called a business activity. A person can earn profit by producing and exchanging goods and services with money. For example—production of TV sets, soaps, shampoos, transport etc. A person who carries on the activities of the business is called a businessman or entrepreneur. In the same way, a firm that is set up for the purpose of carrying a business activity is called a business, firm or enterprise, Business can be started off by any individual or group of individuals. Many legal formalities such as registration etc, are to be fulfilled. To start a business, specific qualifications are not required. Business is concerned with only production and exchange of goods and services. Capital investment is necessary. But actual amount depends on the kind of business to be started. It is mainly set up to earn profit i.e. business is a profit oriented activity. Where there is profit, loss also exists. Risk of loss is there in carrying out a business. One can transfer his business to others, only by following required legal formalities. The person in a business works to get profit as the reward. Business activities

can be classified into two heads i.e. industry—activities related to production and commerce—activities related to exchange of goods and services.

Q. 3. What is Profession?

Ans. Profession is an activity that is performed in order to render personalised services of a specific and specialised nature based on professional education, training, knowledge etc. For example—doctors, lawyers, teachers, accountants, bankers etc. A professional body always exist for each type of profession. It is the professional body that provides information about the nature and type of educational qualifications and training needed in order to practice the concerned profession. For instance, Bar Council of India is said to be the professional body of lawyers whose work is to guide and regulate the law profession in India. It is the duty of the professional to become the member of his professional body and should follow the code of conduct prescribed by that body. Professionals do not work free of cost. They charge some fee for the service that they render. For the establishment of office and equipment, some amount of capital is needed. Though they charge some fee but they work to render services i.e. service is their main motive. As the reward, the professionals get the professional fee. They cannot transfer the ownership interest to others. For example—if the husband is a doctor, he cannot ask his wife to check his patients. Risk is involved but of not getting enough fee to meet the expenditure on establishment.

Q. 4. What is Employment?

Ans. Employment means any activity assigned to a person by the employer under an agreement or rules of service. Employee is a person who performs such activity. The employee is paid remuneration by the employer, for performing such activity, in the form of salary, bonus, allowance etc. Service is the other name given to the employment. For example—working in a hotel, factory, office, college etc. In many organisations, professionally qualified persons also work as employees. Doctors are employed in private or government hospitals, engineers in a factory, chartered accountants in offices, teachers are employed in schools etc. Specific qualifications are needed in some cases and not required in some other cases. Capital is not required as the person gets the salary in return. Person has to perform the work that