

Business Organisation and Management

By: Harish Arora

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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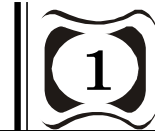
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BUSINESS ORGANISATION AND MANAGEMENT



Introduction to Business

INTRODUCTION

Business means activities engaged in production and/or exchange of goods and services to satisfy human needs which are performed to earn profits. Generally, activities done by people are classified as economic and non-economic activities. By doing economic activities, we earn our living and in performing non-economic activities, the focus is not on earning anything but these are done out of love, compassion, sympathy, etc. Economic activities can be classified into three broad sectors: primary, secondary and tertiary sectors. All economic activities can be further classified under business, profession and employment. Business cannot exist with the only purpose of earning profit for a long time. Serving the society is another important objective of business which justifies the existence of business as an important human activity. Industry includes activities concerned with production, conversion, processing or extraction of resources into useful goods which can satisfy human wants.

CHAPTER AT A GLANCE

HUMAN ACTIVITIES

Human beings perform various activities to satisfy their needs, at home or in the park or at office, etc. These are called human activities. Some activities are done for enjoyment, routine, etc. while a number of activities are done for the purpose of earning livelihood or for getting some economic advantages. All human activities can be divided into non-economic activities and economic activities.

Non-Economic Activities

Non economic activities include activities performed for mental satisfaction, social or religious obligations, love and affection, or to satisfy our sentiments, etc., but, not for getting monetary gains. Like, cooking of food by mother for the family does

not generally involve any monetary benefit arising to her. Economic activities are performed to earn money, for example a teacher teaches in a school or a person works in a bank or a driver runs a cab or a farmer works in the field, all for earning their respective livelihoods. The difference between economic and non economic activities can be done under headings such as its motive, the result of the activities, its assessment in terms of money and its contribution to the National Income of the country.

Economic Activities

Economic activities can be classified into three broad sectors:

Sector of Economic Activities

- Primary (extracting materials from nature for other producing goods, examples farming, mining, fishery, etc.).
- Secondary Sector (goods produced from materials extracted by the primary sector);
- Tertiary Sector (or service sector) including activities relating to providing services in their respective fields.

BUSINESS, PROFESSION AND EMPLOYMENT

All economic activities can be further classified under business, profession and employment.

Business: Business activities are performed in order to earn profit by producing, selling, exchanging commodities and services which satisfy human wants and needs. For example production, selling and distribution of sugar is a business. The person who performs this activity is known as a businessman and the firm/company that undertake these activities are known as business enterprises or business firms.

Profession: Profession means any activity in which a specialized service/advice is provided by one or more persons which does not include production, selling or distribution of commodities and services. The person(s) who are engaged in a profession are called

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professionals who charge fee for the services provided by them. In order to become a professional, the person must acquire specific educational qualifications and training. For example, doctors, engineers, architects, chartered accountants, lawyers, etc. are professionals in their respective fields of operations.

Employment

When an activity is given by an employer to another person as per an agreement, it is called employment (or service). The person who assigns the work is called employer and the person who works is called employee. The employee receives salaries/wages from the employer as per the agreement. People performing activities in banks, telephone companies, factories, schools are some examples of employment. The contract between the employer and the employee provides the basis of the relation between the employer and employees. The remuneration of the employees may be on per piece basis, per hour basis, per day/week/month basis or it may be a specific amount of money payable as per the contract.

Comparison Among Business, Profession and Employment

Business, profession and employment can be compared with each other on the basis of the procedure to start, qualifications needed, its purpose, the type of work to be performed, the risks involved, its rewards, transferability and the existence of a Code of Conduct.

BUSINESS

Business includes activities relating to purchase/production and the sale of goods and services. This economic activity relates to continuous and regular production and distribution of goods and services for satisfying human wants. Business is carried out with a motive to earn profit and, therefore, social services without any profit motive do not come under business activities. A good business benefits the proprietors, employees, community at large, the Government in the form of taxes and above all to the consumer.

Some Essential Features of Business are:

- Business deals with goods and services;
- An activity is called business activity when it is done on a regular basis.
- Main purpose of business should be to earn profits.
- For a business activity, there should be production, transfer, exchange or sale of goods/services in order to get its value.
- Every business has the risk of having losses.

Objectives of Business

The primary objective of business is to earn profit. But business cannot exist with the only purpose of

earning profit for a long time. Serving the society is another important objective of business which justifies the existence of business as an important human activity. Objectives of business are:

Economic Objectives: such as earning profits, expansion and growth of business operations, regular improvements/modifications in products/services to satisfy consumers.

Social Objectives: such as providing employment opportunities to people, to earn reasonable profits for the owners, not to get engaged in unfair business practices, to keep the interest of the country at the top, providing quality goods/services to the society at reasonable prices and to protect environment.

Human Objectives: like its responsibility towards employees in various ways such as by giving appropriate wages/salaries/increments to enable them to improve their standard of living, by providing a grievance redressal system, providing them proper working conditions, ensuring that they are satisfied with their jobs and by putting in place suitable career growth opportunities.

INDUSTRY

Industry includes activities concerned with production, conversion, processing or extraction of resources into useful goods which can satisfy human wants. All activities concerned with extraction, production, processing etc. of goods can be called as industries. Industry provides Form Utility to the goods, like, flour mills convert wheat into flour for use by the households and hotels, etc. The word Industry has another meaning which includes group of a number of factories that are engaged in producing goods of a particular line, like, for example, all factories producing cars and two wheelers are collectively known as automobile industry. It is seen that the classification based on nature of activities is more appropriate here and the same has been discussed as under:

Extractive Industries: Activities carried on in the field of extraction or exhaustion of natural resources like minerals, animals, plants, trees, etc., from the earth or air or water are called extractive industries. Examples: Farming, Mining, Fishing, etc.

Genetic Industries: Reproducing/multiplying activities of plants and animals carried on to earn profit are called genetic industries. *Examples:* nurseries, poultry farms, cattle breeding farms, fish culture, etc. It should be noticed that in case of extractive industry, man cannot add to the wealth drawn from the nature but as regards genetic industry, man adds to growth and also reproduces natural goods.

Manufacturing Industries: Industries which are engaged in conversion of raw materials/and semi-finished items into finished products are called manufacturing industries. Products of extractive industries generally are the raw-materials for manufacturing industries which create form utility to it. Examples: Sugar industry, cotton textile industry, iron and steel industry, etc.

Construction Industries: These industries are engaged in construction activities using the products of manufacturing/extractive industries. Examples: Building construction, bridges, dams, roads, etc. Its products are immovable and are built at a fixed place.

COMMERCE

Commerce means exchange of goods and services between business entities. It relates to sale/purchase of commodities and includes all the activities that are concerned with ensuring an uninterrupted flow of the goods and services between its sellers and buyers. Commerce helps in making available the required commodities in the right quantity, at the right place and at the right time. Therefore, commerce includes in its ambit, all such activities that are essential for providing a smooth and uninterrupted link between producers of goods and its consumers.

Trade: Trade is concerned with making the goods available to the consumers/others who require these goods and are also prepared to pay for buying them. Trade links buyers of goods with its sellers/producers and the person who trades is called a trader. Trade is broadly of the following two types:

Internal trade means trading activities undertaken within the national boundaries of a country. Both, the seller and the buyer, are in the same country and the selling/buying takes place in the same country and generally payment is made in the currency of the home country. Internal trade (also known as inland trade or domestic trade) can be further classified as wholesale and retail trade on the basis of scale of operations. Wholesale trade involves buying/selling of goods in large quantities and the seller is called wholesaler.

Aids to Trade: Aids to Trade are those activities which help in maintaining a smooth and uninterrupted flow of goods from the producers to consumers. These activities which facilitate trade are also called auxiliaries to trade. The different activities that can be brought under aids to trade are given as under:

- **Transportation:** It removes the hindrance of place and also creates utility by providing the right goods at the right place, at the right time. Transport can be land transportation (railway and road transport), air transport (airplane) and water transport (by ship/boat).

- **Insurance:** It covers the risks of loss by fire, theft, etc. By taking an insurance policy from an Insurance company, the businessmen can cover these risks by paying a premium. This way, the hindrance of risk can be reduced.
- **Warehousing:** It reduces the hurdle of time because goods produced may not be consumed but after some time and these must be properly kept protected till the time these are sent to the market.
- **Banking:** The sector has played a significant role in the development of the economy by collecting small savings from the Indian households and lending the same to eligible entrepreneurs for producing goods and services. There are public sector banks, private banks and foreign banks operating in India.
- **Advertising:** It removes the hindrance of information by communicating the consumers knowledge of the products and other information intended to be provided by its producers.

MICRO, SMALL AND MEDIUM SIZE ENTERPRISES

Micro, Small and Medium Enterprises (MSME) sector has been going on as a vibrant and dynamic sector of Indian economy, particularly during last few years and the sector not only provides employment opportunities at comparatively lower capital cost than the large industries but also helps in more industrialization of the backward areas of the country. The MSME Ministry formulates rules and laws relating to MSME enterprises in India and such enterprises (both in manufacturing and service sector) can get their MSME Registration under the MSMED Act. Government of India notified the Micro, Small and Medium Enterprises Development Act (MSMED Act) in 2006 for addressing policy issues affecting Micro, Small and Medium Enterprises, its coverage and ceiling on investment, etc.

Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first Schedule to the Industries, Development and Regulation Act, 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The manufacturing enterprises are defined in terms of investment in plant and machinery.

Service Enterprises: The enterprises engage in providing or rendering of services and are defined in terms of investment in equipments.

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In respect of manufacturing enterprises, the three enterprises have been defined as under:

Manufacturing Enterprises-Investment in Plant and Machinery

Description	In Rupees	In USD
Micro Enterprises	Upto 25 lacs	Upto \$ 62500
Small Enterprises	Above Rs. 25 lacs and upto Rs. 5 crore	Above \$ 62500 and upto \$ 1.25 million
Medium Enterprises	Above Rs. 5 crore and upto Rs. 10 crore	Above \$ 1.25 million and upto \$ 2.5 million

In case of service enterprises, these enterprises have been classified on the basis of investment in equipments (original cost excluding land, building and furniture/fittings, etc.) as given here under:

Service Enterprises-Investment in Equipments

Description	In Rupees	In USD
Micro Enterprises	Upto 10 lacs	Upto \$ 25000
Small Enterprises	Above Rs. **10 lacs and upto Rs. 2 crore	Above \$ 25000 and upto \$ 0.5 million
Medium Enterprises	Above Rs. 2 crore and upto Rs. 5 crore	Above \$ 1.25 million and upto \$ 2.5 million

Benefits of Registration as MSME or Udyog Aadhar: Registration under MSME is though not compulsory, yet, after its registration under the Act, the enterprise can take several benefits that are provided under the Act. Manufacturing as well as Service enterprises both are eligible to benefit from the provisions. Government of India, in its endeavour to promote the growth of MSME enterprises, provides several concessions/financial help exclusively for the units registered under the Act. Such enterprises also have to get Udyog Aadhar Registration. Some of the benefits which are available to a registered MSME enterprise, include low interest overdrafts, loan on easy terms, electricity concessions, Government procurement, Tax Rebates under the Act and MSME conciliation Centre.

CHECK YOUR PROGRESS

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

Ans. An economic activity is performed to earn money, for example a teacher teaches in a school or a farmer works in the field, for earning their livelihoods, i.e. to earn money. The main purpose of performing economic activities is to earn money. On the other hand, non-economic activities are not performed for earning money and these include activities performed for mental satisfaction, acts done due to social or religious obligations, love and affection, or to satisfy our feelings/sentiments, etc., but, not for getting any monetary gains. Cooking of food by mother for the family does not generally involve any monetary benefit arising to her.

Q. 2. What is Business?

Ans. Business means all such activities that relate to purchase/production and the sale of goods and services in order to earn profit. This economic activity relates to regular production/distribution of goods and services for satisfying human wants. Since, business is carried out with a motive to earn profit, therefore, social services without any profit motive cannot be called business activities. A good business provides benefits to its proprietors, employees, community at large, the Government and the consumers.

Q. 3. What is Profession?

Ans. Profession includes activities of specialized skill/nature which are provided by one or more skilled/trained persons but these do not include production, selling or distribution of commodities and services. The persons who are engaged in a profession are called professionals and they charge a fee for the services provided by them. For becoming a professional, the person must acquire specific educational qualifications and training required to perform the activities. For example, doctors, engineers, architects, chartered accountants, lawyers, etc. are professionals in their respective fields of operations. The main motive of professionals is service, although, they also charge their fee for providing their services.

Q. 4. What is Employment?

Ans. Employment involves the assignment of work by the employer to his employees under an agreement/contract of employment and the employees are paid salaries/wages for performing such work for the employer. The person who assigns the work is called