

I B. COM (I SEMESTER) – UNDER CBCS
PART III – MAJOR CORE -2
BUSINESS ORGANISATION

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Objectives

Total 60 hours

1. To understand business and its role in society.
2. To enable the student to undertake business activities.

Unit I

14 hours

Nature and scope of Business: Concept of Business-human occupations-Profession, Employment and business-Divisions of business-Industry and Commerce-Business system Objectives of business-Essentials of a successful business- Qualities of a good businessman.

Unit II

12 hours

Types of Business organizations: Sole proprietorship- Partnership-Joint Stock company Co-operatives-Nonprofit business organizations under the Societies Act and Trusts-Public sector business units-Public utilities -Unique features of each one and their merits and demerits.

Unit III

10 hours

Partnership: Kinds of firms-Kinds of partners-Basic legal requirement in registration of partnership firm-Comparison with sole proprietorship-Partnership deed and its contents, Rights and duties of partners-Dissolution-Suitability of partnership.

Unit IV

12 hours

Company: Kinds of companies-Private company-Public company-Comparison with partnership firm-Multinational Companies- Meaning-Definition- Advantages-Disadvantages Features- Impact of Multinational Companies in India.

Unit V

12 hours

Co-Operative Organization: Formation of Co-operative organization under the Societies Registration Act and Tamil Nadu Co-operative Societies Act-Management of Cooperative organizations-Co-operatives versus Companies-Cooperatives versus Partnership-Types of Co-operatives-Co-operative Movement in India. Text & Reference books

1. Y.K.Bhushan, Business Organization and Management, Sultan Chand & sons, 2012.
2. C.B.Gupta, Business Organization and Management, Mayr Paperbacks, 2011.
3. S.A.Sherlekar, Modern Business Organization and Management, A System Approach, Himalaya Publications, 2010.

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Unit I

14 hours

Nature and scope of Business: Concept of Business-human occupations-Profession, Employment and business-Divisions of business-Industry and Commerce-Business system- Objectives of business-Essentials of a successful business- Qualities of a good businessman.

1. Define the term Business. How does it differ from Profession?

Meaning of Business :

A business may be defined as an institution organized and operated to provide goods and services to the society with the objective of earning profit. L.R. Dickson has defined business as a form of activity pursued primarily with the object of earning profit for the benefit of those on whose behalf the activity is conducted. “Business involves production and/or exchange of goods and services to earn profits or in a broader sense, to earn a living. Profit is not the sole objective of the business. It may have other objectives like promotion of welfare of the workers and the general public. Business activities include production and distribution of goods and services which can satisfy human wants.

The term business should be used to convey the same meaning as the term trade simply denotes purchase and sale of goods whereas ‘business’ includes all activities from production to distribution of goods and services. It embraces industry, trade and other activities like banking, transport, Insurance and warehousing which facilitates production and distribution of goods and services. According to F.C. Hopper “The whole complex field of commerce and industry which includes the basic industries, processing and manufacturing industries, and the network of ancillary services: distribution, banking, insurance transport and so on, which serve and inter penetrate the world of business as a whole” are called business activities.

Meaning of Profession :

A Profession may be defined as an occupation which involves the rendering of personal services of a specialized nature, based on professional knowledge, education and training such as services rendered by physicians, lawyers, auditors. etc. They collect professional fee from their clients for the services rendered to them. They generally have membership of a professional body which enforces code of conduct among the members of the profession. For instance, Bar Council of India is the professional body which guides and regulates the law profession in India. The professional body also prescribes the nature and type of education and training required to practice the concerned profession.

Distinction Between Business and Profession :

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The terms business and profession are similar in the many aspects. But they are differing from each other as explained in the following paragraphs.

(i) Establishment : A business enterprise comes into existence when an entrepreneur takes a decision to carry on production and/or exchange of goods and services in order to earn profits by satisfying the needs of the customers. The entrepreneur has also to complete all the legal formalities required to bring the particular business entity into existence. On the other hand, the professional firm is established by the decision of a professional (lawyer, chartered accountant, architect, etc) who holds the membership and the certificate of a practice of a professional body.

(ii) Nature of Operations : A business is engaged in the production and distribution of goods and services to satisfy human needs. The practice of profession involves rendering of personalized services of a specialized nature to the clients.

(iii) Motive : The motivating force behind a business is to earn profits by producing and distributing goods and services to satisfy the needs of the society. But a professional is expected to emphasize the service motive and sense of mission to a greater extent than a businessman. A professional is expected to follow a rigorous code of conduct or ethical behaviour specially provided for the profession.

(iv) Qualifications : No qualification is prescribed by any authority for a business man. In case of profession, specialized knowledge and training are compulsory.

(v) Investment : Almost every business needs some capital. The amount of capital required varies from business to business and it also depends upon the scale of operations. A professional has also to invest some money to establish an office for rendering professional services.

(vi) Reward : A business man earns profit, a professional earns fee and an employee earns salary.

(vii) Transferability of Interest : Transfer of ownership is possible in case of business by following the prescribed formalities. It is not possible to transfer ownership interest in case of a profession or employment.

Discuss the scope of a Business.

Scope of Business: The scope of business is very wide. It includes a large number of activities which may be classified under two broad categories, namely, Industry and Commerce. A description of the activities which come under these two broad categories is given below.

INDUSTRY : The activities of extraction, production, conversion, processing or fabrication of products are described as industry. These products of an industry may fall under any one of the following three categories:

(a) **Consumers Goods** : Goods used by final consumers are called consumers goods. Example of consumer goods Edible Oils, Cloth, Jam, Television, Radio, Scooter, Motor Car, Refrigerator, Cell phone etc. come under this category.

(b) **Capital Goods** : Goods used in the production of other goods are described as producers' goods. Steel produced by steel plant is used for fabrication into a variety of products such as motor cars, scooters, rail Locomotive engines, ships, surgical instruments, blades, etc. Similarly machine tools and machinery used for manufacturing other products also come under this heading. These are also called capital goods.

(c) **Intermediate Goods** : There are certain materials which are the finished products of one Industry and become the intermediate products of other industries. A few examples of this kind are the copper industry, the finished products of which are used in manufacturing Electrical Appliances, Electricity Wires, Toys, Baskets, Containers, and Buckets. Broadly speaking, industrial activities may be classified into primary and secondary which are explained in the following lines.

(i) **Primary Industries** : The following are some of the of primary industries :

(a) **Extractive Industries** : They extract or draw our their products from natural sources such as earth, sea, air. The products of such industries are generally used by manufacturing and construction industries for producing finished goods. Farming, mining, lumbering hunting, fishing, etc., are some of the examples of extractive industries.

(b) **Genetic Industries** : Genetic means parentage or heredity. Genetic industries are engaged in breeding plants, and animals for their use in further reproduction. For breeding plants, the seeds and nursery are typical examples of genetic industries. In addition, the activities of cattle-breeding farms, poultry farms and the hatchery come under the category of genetic industries

(ii) **Secondary Industries** : The following are the elements of secondary industries : (a) **Manufacturing Industries** : These are engaged in producing goods through the creation of what is known as 'form utility' Such industries are engaged in the conversion or transformation of raw materials or semi finished products into finished products. The products of extractive industries generally become the raw-materials of manufacturing industries. Factory production is the outcome of manufacturing industry.

A. Manufacturing industries may take any one of the following forms.

(i) **Analytical** : The basic material is analyzed and separated into a number of products. Oil refining is an example of analytical industry. The crude oil is extracted from beneath the earth and is processed and separated into petrol, diesel, kerosene, gasoline, lubricating oil, etc.

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(ii) Synthetic : Two or more materials are mixed together in the manufacturing operations to obtain some new products. Products like soap, cement, paints, fertilizers, cosmetics are derived from this industry.

(iii) Processing : In this case, raw materials are processed through a series of manufacturing operations making use of analytical and synthetic methods. Textiles, sugar and steel are examples of this category.

(iv) Assembly Line: In assembly line industry, the finished product can be produced only after various components have been made and then brought together for final assembly to be converted into finished products. Production of automobiles, watches, televisions, bicycles, railway wagons, etc., are the typical examples of the industry.

B. Construction Industries : They are concerned with the making of constructing of buildings, bridges, dams, roads, canals, etc. These industries use the products of manufacturing industries such as Iron and Steel, Cement, Lime, Mortar etc., and also the products of extractive industry such as stone, marble, etc. The remarkable feature of these industries is that their products are not sold in the sense of being taken to the markets. They are constructed and fabricated at fixed sites.

COMMERCE

The term commerce refers to the process of buying and selling-wholesale; retail, import, export, enter port trade and all those activities which facilitate or assist in such buying and selling such as storing, grading, packaging, financing, transporting, insuring, communicating, warehousing, etc. The main functions of commerce is to remove the hindrance of (i) persons through trade; (ii) place through transportation, insurance and packaging; (iii) time through warehousing and storage; and (iv) knowledge through salesmanship, advertising, etc., arising in connection with the distribution of goods and services until they reach the consumers.

A BRIEF DESCRIPTION OF THESE HINDRANCES IS GIVEN BELOW:

Hindrances of persons: Buyers and sellers of goods and services are not always found at the same place so that contact between them is hindered by distance. Commerce helps to remove this hindrance between persons by means of trade. Trade as part of commerce therefore plays a major role in establishing contact between sellers and buyers.

Hindrance of Exchange: With money as the medium of exchange, payment for goods and services is made possible through institutions such as the banks. In this way, banks as part of commerce act to remove the hindrance of exchange and enable buyers to procure goods, especially by extending their own credit.

Hindrances of place: The goods may be produced at one place and the demand for them may be greatest at a different place where they are not produced. This barrier of distance is removed by commerce through the different means of transport and the goods are carried from one place to another.

Added to direct movement of goods from the points of production to the points of consumption are the services of insurance to cover the risk of loss and packing to protect goods against damage and pilferage.

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Hindrances of Time: Goods are often produced in anticipation of demand. They must therefore be stored in a safe place to be released as and when demanded. The function of storing and preservation is performed by warehouses. The warehouses remove the hindrances of time by balancing the time lag between production and consumption, and so create time utility. Insurance comes into play where goods are stored in warehouses and cover the risk of loss or damage through theft or fire.

Hindrances of Information: Selling of products is today the most important problem that a manufacturer has to solve. His product may be the best, but unless the prospective buyer knows about them they remain unsold. Advertising and personal salesmanship help to remove this hindrance of the lack of knowledge or information by bringing to the notice of the people the advantages of buying the goods and services offered

THE CONCEPT OF COMMERCE includes two types namely: (i) Trade and (ii) Aids to trade which are explained in the following paragraphs.

(i) **Trade :** The term trade refers to the sale, transfer or exchange of goods and services and constitutes the central activity around which the ancillary functions like Banking, Transportation, Insurance, Packaging, Warehousing and Advertising cluster. Trade may be classified into two broad categories as follows:

Types of Trade: Trade may be (a) Internal or domestic, or it may be (b) External, Foreign or International. Internal trade may in turn, be (i) wholesale trade or (ii) retail trade. Foreign trade would be (i) import trade and (ii) export trade.

Internal trade, also known as home trade or domestic trade, comprises of buying and selling of goods within the bounds of a country. It may be wholesale or retail trade. Wholesale trade relates to purchase of goods in large quantities from producers and growers and their resale to retailers in small lots. It serves as a link between the manufacturers or producers and retailers who sell them to the ultimate consumers. Retail trade is the last link in the economic chain whereby human wants are satisfied. The retailer assembles at a convenient place, his shop or stores, various types of products from numerous sources and supplies these in small quantities to consumers.

Foreign trade refers to buying of goods from or selling commodities to traders doing business in foreign lands. Foreign or international trade is normally wholesale trade and takes the form of import or export, or it may be entreport trade. By import trade we mean buying goods from suppliers in foreign lands and by export trade selling to buyers in foreign countries. Entreport trade consists of importing foreign produced goods merely with the object of re-exporting them.

(a) **Internal or Domestic Trade:** It consists of buying and selling of goods within the boundaries of a country and the payment for the same is made in national currency either directly or through the banking system. Internal trade may be further sub-classified into wholesale trade and retail trade.

(b) **International or Foreign Trade:** It refers to the exchange of goods and services between two or more countries. International trade involves the use of foreign currency (called foreign exchange) ensuring the payment of the price of the exported goods and services to the

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domestic exporters in domestic currency, and for making payment of the price of the imported goods and services to the foreign exporter in that country's national currency (foreign exchange). To facilitate this payment, involving exchange transactions, a highly developed system of international banking under the overall control and supervision of the central bank of the concerned country (Reserve Bank of India in our case) is involved.

International trade is carried on mostly in larger quantities both on Government account and on private account involving both individuals and business houses.

1.6.2 (ii) Auxiliary to Trade or Aids to Trade : As mentioned above, there are certain functions such as banking, transportation, insurance, warehousing, advertising, etc. which constitute the main auxiliary functions helping trade-internal and international. These auxiliary functions have been briefly discussed hereunder:

(a) Banking: Banks provide a device through which payments for goods bought and sold are made thereby facilitating the purchase and sale of goods on credit. Banks serve the useful economic function of collecting the savings of the people and business houses and making them available to those who may profitably use them. Thus, banks may be regarded as traders in money and credit.

(b) Transportation : Transport performs the function of carrying goods from producers to wholesalers, retailers, and finally customers. It provides the wheels of commerce. It has linked all parts of the world by facilitating international trade.

(c) Warehousing: There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouse. Storage creates time utility and removes the hindrance of time in trade. It performs the useful function of holding the goods for the period they move from one point to another. Thus, warehousing discharges the function of storing the goods both for manufacturers and traders for such time till they decide to move the goods from one point to another.

(d) Insurance: Insurance provides a cover against the loss of goods in the process of transit and storage. An insurance company performs a useful service of compensating for the loss arising from the damage caused to goods through fire, pilferage, thief and the hazards of sea, transportation and thus protects the traders from the fear of loss of goods. It charges insurance premium for the risk covered.

(e) Advertising : Advertising performs the function of bridging the information gap about the availability and uses of goods between traders and consumers. In the absence of advertising, goods would not have been sold to a widely scattered market and customers would not have come to know about many of the new products because of the paucity of time, physical-spatial distance, etc.

1.7 FUNCTIONS OF BUSINESS :

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In order to achieve its objectives, a business enterprise performs many functions which may be broadly grouped under the following headings: Production, Marketing, Finance and Personnel. In big business organisations, there are separate departments to look after these functional areas. It may be noted that these functions are interdependent and inter-related. For instance, production department depends upon marketing department to sell its output and marketing departments depends upon production department for the products of required quality to satisfy its customers. Thus, there must be proper integration of various functional areas of business to achieve its objectives. This can be achieved by the management of the enterprise by effective planning, organization, direction and control. The important functions of a business are briefly discussed below.

(i) Production Function: It is concerned with the transformation of inputs like manpower, materials, machinery, capital, information and energy into specified outputs as demanded by the society. The production department is entrusted with so many activities such as production planning and control, quality control, procurement of materials and storage of materials.

(ii) Marketing Function: It is concerned with distribution of goods and services produced by the production department. It can perform this function efficiently only if it is able to satisfy the needs of the customers. For this purpose, the marketing department guides the production department in product planning and development. It fixes the prices of various products produced by the business. It promotes the sale of goods through advertisement and sales promotion devices such as distribution of samples and novelty items, holding contests, organizing displays and exhibitions, etc.

(iii) Finance Function : It deals with arrangement of sufficient capital for the smooth running of business. It also tries to ensure that there is proper utilization of resources. It takes many important decisions such as sources of finance, investment of funds in productive ventures, and levels of inventory of various items.

(iv) Personnel Function : This function is concerned with finding suitable employees, giving them training, fixing their remuneration and motivating them. The quality of human resource working in the enterprise is a critical factor in the achievement of business objectives. Therefore it is necessary that the work force is highly motivated and satisfied with the terms and conditions of service offered by the enterprise.

THE BUSINESS SYSTEM

What is Business?

The ordinary meaning of the word business is busyness, i.e., any activity in which a man is busy. A man may be busy in two kinds of activities: economic and non-economic. An economic activity denotes work or effort directed towards the production of wealth. In other words, economic activity is aimed at profit. Economic activity of a man is called business. Business, therefore, means the production or purchase of goods with a view to sell them at profit. Besides, if services are rendered on payment to others, they shall be included in business. Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling of goods and services.

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The term business includes trade, commerce and industry. The process of buying and selling of goods, is called Trade. Such an activity may be carried on within a country when it is called home or domestic trade. It may be called foreign or international trade when it is carried on between two different countries. To help trade, some facilities such as storing, grading, financing, transporting and insuring are needed, these are called Commerce. Industry implies all those processes, which are responsible for the extraction and production of goods which are sold for either ultimate consumption or for further production. So, we may say that Business = Industry + Trade + Commerce. We shall discuss the various components of business at the end of this lesson.

Business Provides Services. There are service enterprises, which provide services like domestic services and financial services, etc., to individuals and business enterprises. Take the example of cinemas or hotels, they render services to the community at large. As observed by Urwick and Hunt, “A business is any enterprise which makes, distributes or provides any article or service which other members of the community need and are willing to pay for that.” How Business differs from profession?

You have already noticed that a business enterprise may provide services but there are many individuals and firms that may also render services. These individuals or firms are a body of professional people, such as doctors, lawyers, engineers, etc. who may render one or the other useful services. But professional services are not business even when they are rendered in return for money. A professional like a doctor or lawyer renders a personal service of gaining intimate knowledge of a particular individual. On the other hand, a businessman is not concerned with the need of particular individuals in a general way. A human need begins to interest him only when it is widespread and general. It is when a need becomes a general and ripens or matures into demand that it comes within the scope of business.

Business is a social activity. All parts of society are related with it in one way or the other and contribute in its success directly or indirectly. The society provides inputs to business in the form of men, machines, materials, money etc., and expects useful goods and services from it at reasonable rates and adequate wages for its employees and correct taxes for the State. A business house cannot afford to ignore its social responsibility. For example, if a business house fails to please its employees, it leads to employees’ unrest causing disruption in its normal functioning and the existence of a large number of such irresponsible business houses may become the cause of national unrest.

Motives for Business

Following factors provide motives to business:

1. Ambition to earn profits
2. Psychological factors
3. Ambition to provide service

These factors are now discussed vis-à-vis the motives they provide.

1. Profit Motive: Personal gain is one of the supreme motivating forces. Business is that sphere of a man’s activity where the amount of effort determines the size of profit. It is needless to say that greater personal effort brings in greater monetary reward. This single factor has resulted in the establishment, running and expansion of business by individuals or group of individuals.

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2. Psychological Factors: It is an old saying that a man does not live by bread alone. It is equally true in business. An entrepreneur may not work solely for amassing fortune. He may be guided by the ambition to build up a business empire. The biographer of William Lever, the founder of Lever Bros, Charles Wilson quotes Lever, who once said “My happiness is my business”. To grow and become big and to find an industrial empire has been valid psychological factors for business.

3. Service Motive: It is also a great motivating force. Many people are motivated to render some service to their community. Henry Ford, the founder of Ford Motors stated that “Money chasing is not business”. In our country Jamsedji Tata built a steel plant with a great missionary zeal. Business have been founded with service as their motive.

What is Organisation?

This has been defined in a variety of ways by various authorities on the subject. The essence of the various definition is best reflected in the definition given by Haney. He defines organisation as a “harmonious adjustment of specialized parts for the accomplishment of some common purpose”. In simple words, organisation is putting together of men, material and machines to achieve the defined goals. Through organisation there is cohesion, which result in efficient functioning of an enterprise and resulting into profits to the enterprise, more wages to its employees and lower cost of goods to the consumer. Thus, the economic gains of such an enterprise are more and social costs are less.

Explain the main characteristics of Business in the modern world.

Features of Business

The common features of a business can be given below:

(a) Dealing in goods and services for value: Business provides goods and services to society. The goods may be for consumption or for production. The first type of goods are called as consumer goods, e.g., clothes, shoes, fans, sugar etc. and the second type of goods are called as capital goods, e.g., plant and machinery. These goods and services are meant for sale. The goods and services produced for personal consumption are not within the scope of business. So, when a person repairs his own scooter, it is not business but when he opens a repair workshop that becomes business.

(b) Recurring nature of transactions: A single transaction of sale or purchase or any dealing casually does not amount to a business transaction though it might have resulted into profits. A transaction comes under business only when it occurs at regular intervals or it is recurring in nature. For example, where a person sells his scooter that is not business. But if he opens a garage and keeps a stock of scooters for sale that would constitute business.

(c) To earn Profits: Business is a human activity directed towards earning wealth. Profit is essential for the livelihood of the entrepreneur as well as survival and expansion of the business.

(d) Increase in Utility: Business activities create utility in one form or the other. Manufacturers convert raw materials into finished products: whole salers, retailers and transporters etc. help in their distribution. Thus each one of them increases the utility of goods.

(e) Risk element: Business is full of risks. Profits do not depend solely on efforts of entrepreneur. Certain other forces may intervene over which a business man had no direct control. These factors may be changes in consumer tastes and fashions; changes in technology, strikes; power failures; loss by fire and theft etc. Some of these risks can be passed on to others

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by means of insurance while some risks have to be borne by businessman. Most of the business decisions relate to future and future is full of uncertainties. It is because of these uncertainties that business is also called as an adventure.

OR

Nature of Business : A business enterprise has the following characteristics :

- (i) **Dealing in Goods and Services** : The first basic characteristic of a business is that it deals in goods and services. Goods produced or exchanged may be consumer goods such as bread, rice, cloth, etc., or capital goods such as machines, tools, etc.,. The consumer goods are meant for direct consumption either immediately or after undergoing some processes, whereas the capital goods are meant for being used for the purpose of further production. Capital goods are also known as producer's goods. Services include supply of electricity, gas, water and finance, insurance, transportation, warehousing, etc.
- (ii) **Production and Exchange**: Every business is concerned with production and exchange of goods and services for value (prices). Thus, goods produced or purchased for personal consumption (or) for presenting to others as gifts do not constitute business because there is no sale or transfer for value involved. If, for example 'A' buys a T.V. Set in Tokyo to be gifted to his brother on his return to New Delhi, it will not amount to business. But if the same person realize the price of the T.V. Set, it will come under the scope of business in a limited way provided the other conditions are also satisfied which are given below.
- (iii) **Regularity and Continuity in Dealings** : One sale transaction cannot strictly constitute a business. A sale of a product can be called a business if it is undertaken frequently. If other essential characteristics of business are present and the production of goods or rendering of services for a price is undertaken regularly and continuously, this activity will be called a business.
- (iv) **Uncertainty or Risk** : Business activities, as we have formed some definite ideas about it by now, carry an element of uncertainty or risk. It is true that the element of risk is present in almost all economic activities in a small or great measure. But it is certainly more significantly present in business activities. Risk involves the possibility of loss or what may be called uncertainty of return on investment made in the business due to a variety of factors over which the business enterprise has practically no control.
- (v) **Profit Motive** : Human-beings are engaged in business primarily with a view to earn profits and acquire wealth. This is not in any way reduce the importance of service motive in business. As a matter of fact, there is a positive relationship between proper and satisfactory services to the customers and to the society and the extent of profit. Normally, better services are accompanied by higher profits, but it may not always be so. Profit motive is also accepted as a desirable objective even for the Government enterprises engaged in business. It is called surplus instead of Profit in case of Government enterprises.

QUALITIES OF A SUCCESSFUL BUSINESSMAN

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A successful businessman is an asset to a nation. He helps to discover new processes, products and uses of goods. And he helps in the creation of income and wealth for a nation. He produces or markets those goods and services which are needed most by the people. These functions require talent to direct and to lead people who shall be working towards the common purpose. In other words, a businessman must possess some qualities. These have been summed up as under:

1. Time Sense: A business cannot accomplish anything without time sense. This implies that he should take decisions carefully since one decision may affect other decisions in his business.

2. Alertness: Without this quality, a businessman can not hope to go far. He should know the changing pattern of demand, changes in technology and what his rivals are doing. All this he can know only if he is alert.

3. Honesty: Honesty creates a permanent market for a businessman. A businessman cannot hope to survive in business unless he depicts true quality of his products before the buyers.

4. Ability to Cooperate: A businessman must have the ability to cooperate and adjust with persons with whom he deals, especially his customers. He must realize that he too could be wrong and he should make amends.

5. Dependability: In order to permit smooth functioning of the organisation which a businessman has evolved, it is necessary to make the organisation dependable at all times, all people in the organisation know their functions and thus dependability is ensured.

6. Energy: Mental and physical energy on the part of the businessman would make the business a success. Vigour always inspires confidence.

7. Character: No other single factor may build business so much as this single factor alone may. Character lends value and credence to ability to cooperate, dependability and alertness. In simple words the character builds business.

8. Ability to lead: A successful business must have basic leadership quality to lead his co-workers. Leadership quality is cultivated.

9. Education and Training: A sound education and proper training in the conduct of business would certainly make businessman more successful.

From our discussion we can conclude that the term business is very exhaustive in scope. The variety of activities included in the scope of business have one feature common and that is the goods produced are to be sold and that too for making profit. Therefore, goods produced for personal consumption do not fall within the scope of business.

The regularity and recurring nature of buying and selling transactions is another important characteristic of business. A single transaction does not constitute business. For example if I sell my study table to you and make some profit in this transaction, it does not amount to business. If I maintain a stock of furniture and sell it to customers, it will amount to business.

Profit is the main stimulus for promoting and continuing a business. It is essential for its survival and development. But for the continuous existence of a business, it must fulfill its social responsibilities.

Another characteristic of business is that the profit earned by business does not depend only on the efforts of the entrepreneur but also on many other factors not wholly under his control.

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Business is full of uncertainties, hence full of risk and because of this reason it is sometimes described as an adventure.

Requisites of a successful business

A successful business must bring a compromise between the conflicting objectives of providing goods and services to consumers and social responsibilities. That a business may have started purely as an economic venture for maximum profits may soon take on social and political dimensions. To achieve its different objectives a business system should continuously strive to fulfill the following requisites:

1. Before establishing any business both long range and short range objectives should be established.
2. Planning should be given due importance. To plan is to propose a forward programming for guiding the future functioning of an enterprise.
3. Proper location and layout of the plant and suitable size of the firm contribute substantially to the success of a business system.
4. The organisation must be clearly defined. It should be adequately manned with competent personnel.
5. It must have an up-to-date knowledge of the latest developments in the field of technology.
6. Research in all aspects of business, e.g., product research for ensuring success in the long run.
7. Last but not the least is the requisite of efficient management.

BUSINESS SYSTEM

The objective of this lesson is to introduce to the students the broad spectrum of Business System rather than its detailed exposition. The study of business system shall be restricted to its panoramic perspective, rather than to a close up. In simple words, system means an assemblage or combination of things or parts forming a complex or unitary whole. It is an establishment or arrangement of parts for achieving the desired objectives. A system may comprise of different sub-systems and it may itself be a part of another broader system. All these are inseparably related with each other like the gear in a machine and has to operate in a coordinated way to achieve the planned objectives. For a clear understanding of a system, it is necessary to know the interrelationships of sub-systems in order to find out how they are interrelated. When the study of a phenomenon is undertaken in this manner, it is called a 'systems analysis' or a systems approach'.

The meaning of the term 'system' can be best understood by taking the example of human body system which in itself consists of various sub-systems like digestive system, respiratory system, nerves system etc. These sub-systems have further sub-parts. All sub-systems of the human body system must function in a closely coordinated way. The interrelated sub-systems form a unitary whole i.e., a human being who is himself a part of the environment and the society in which he lives.

A sub-system, in our context, may be defined as a departmental activity within the framework of a functional activity. Respective departments set their objectives within the framework of

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functional objectives and accordingly this may be defined as sub-objectives. Like a human body system, a business system too consists of various sub-systems like production, financing, marketing, personnel etc. which operate in unison to make the unitary whole i.e. a business system. These sub-systems may have further sub-systems. For example, personnel sub-system is divided into other sub-systems like selection, training, remuneration, promotion etc. The success of any business system as a unitary whole depends on the close coordination of these sub-systems.

Another way of distinguishing sub-systems is according to activities and accordingly each business may have the following sub-systems :

- (a) A decision making sub-system to produce plans and shape the activities of the enterprise as a whole.
- (b) A processing sub-system which procures information, materials, energy etc. and converts these into salable products.
- (c) An information handling sub-system specially concerned with the use of accounting data.
- (d) A control sub-system to ensure that actual performance is according to plans.
- (e) A memory sub-system to store information and make it available as and when required.
- (f) A sensory sub-system to measure significant changes in both, the system and its environment.

A business house as a system is a part of the broader system i.e. the industry to which it belongs and the industry is a part of the entire industrial set up and that industrial set up is a part of the national economic situation. Thus, there is a chain of complicated relationships each affecting the other.

A business can be regarded, from the angle of the system approach as an entity or a system functioning in the social, economic and political environment of the country or even the world. The use of the 'system' theory in the study of a business enterprise is really quite complicated because it is difficult to know where to draw a line of distinction that separates a firm as a unique entity from its environment. Present day business cannot function in vacuum. It has to take a serious note of the social, political and economic environment in which it functions. It has the social responsibility and unless it proves its commercial viability and its concern towards the interest of consumers, employees, creditors and the society in general, it simply cannot survive for long. When undertaking the study of a business system, we are concerned not only with the structure of the business system but also with its environment because these environmental factors have a direct bearing on the smooth functioning of a business system and its environment.

EXPLAIN IN DETAIL, HOW THE ENVIRONMENT AFFECTS A BUSINESS SYSTEM.

The environment may be:

1. Economic environment—As already stated in this lesson that, no business exists in a vacuum and cannot independently control its destiny, as it is subjected to external influences over which it has no direct control. A business must suitably react to these external influences

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in order to survive. A business firm belongs to a particular industry: manufacturing, banking, insurance, mining and so on. These industries are the essential element of national economic system. The national economic system cannot exist in isolation either, as it is an integral part of the world economic system. Both national and international economic forces influence the demand for the product of a particular business. Production programmes of business firms are affected by these economic forces and the production programmes in turn determine the resources required in the shape of raw materials. The availability of these resources is also dependent on political, economic and social circumstances prevailing within the countries supplying raw materials.

Demand affects the level of employment at home and abroad. Increase in demand at home for consumer goods creates additional demand for new plant and machinery, in order to expand its production which may be purchased from home capital goods industry or from abroad. It may create balance of payment problems, if purchased from abroad which have to be financed either by additional exports or by loans from international financial institutions.

2. Technological environment—The demand for a product is affected by the technological changes. Consumers respond to technological changes and demand for products incorporating the latest technology. A business must be quick to respond to these technological developments. Examples of this include transistorised radios and changeover from metal products to plastic or fiberglass products. A business can retain its share of production or increase only by quick response to technological developments and for this market research is a must.

3. Financial environment—A business unit cannot remain unaffected by the financial environment existing in the country. For instance, the economic crisis in a country may be reflected in the financial position of those business houses who have to suffer from deficiency of liquid funds. Economic crisis, leading to lower level of demand cause fall in production which in turn leads to increase in fixed cost per unit thus reducing profit margin of per unit sold. Even where a business can obtain some short-term finance in the form of loans, the interest rate is quite high which further increases the financial overhead burden.

4. Sociological environment—The employees of today are developing a new sociological outlook. The present-day employees cannot be effectively controlled in an autocratic fashion. They want to participate in the management process. This calls for democratic approach in management and for that management has to change its traditional approach towards the personnel or labour.

5. Legislative environment—A large number of government legislations like the Companies Act, the Industries Development and Regulation Act, Income Tax Act, Sales Tax Act etc. affect the activities of business.

From the above discussion it is clear that a business manager has not only to integrate the men, machine, material, information and money into the business system but he has also to coordinate these with the environment in which these exist. A business system has to adapt to the changes in environment like the change in the economic policy, change in demand, and other political and social changes. Above all this, he has to take into account the international market situation.

Business system is an open system because it recognizes the existence of external environment which affects its performance and which in turn is also affected by the business system. It is not at all a closed system which is a self-contained unit completely detached from its external

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environment. Like a human body system, which constantly adjusts itself to the external environment, an open system too is characterised by its capacity of self repair.

Business Organisation is the hub or the central part of any business system. It has the usual features of a system:—

1. Plans—objectives, policies, procedures etc.
2. Inputs—men, machine, material, money etc.
3. Processing—activities concerning producing, financing, marketing, personnel, etc.
4. Output—goods and services to society.
5. Feedback—alteration and modification of plans and activities if needed. See Figure No. 2

Plans

Inputs

Processing

Output

1. Define the term Business. How does it differ from Profession?
2. Explain the main characteristics of Business in the modern world.
3. Discuss the scope of a Business.
4. What is meant by trade? What are its types?
5. What are the ancillary functions of a trade ?
6. Briefly explain the important functions of a business .
7. Write short notes on a. Categories of goods.
b.Primary Industries
c.Secondary Industries d. Commerce

References

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