

## **STUDY MATERIAL**

### **B.COM.**

#### **CORE THEORY- PAPER – 2 BUSINESS ORGANIZATION – BCM12**

#### **OBJECTIVES:**

1. To enable the students to understand the basic concepts of Business Organization.
2. To make the students to know the functioning of MNC's in India.

#### **UNIT – 1**

Introduction - Business – Meaning – Characteristics - Objectives - Criteria for Success in Modern Business – Classification of Business-Profession - Meaning- Distinction between Business and Profession - Social Responsibility of Business.

#### **UNIT – 2**

Forms of Business Organization Sole Trader, Partnership Firm, Limited Liability Partnership , Cooperative Societies and Joint Stock Company: Definition – Meaning – Characteristics – Advantages – Limitations - One Man Company- Virtual Organization- Private and Public Limited Company – Government Companies – Public Utilities.

#### **UNIT – 3**

Location of Industry - Plant Location: Meaning - Theories of Location - Factors Influencing Location – Plant Layout: Definition - Meaning – Objectives - Characteristics of Good Layout - Size of Firm: Meaning - Concept of Size - Measures of Size.

#### **UNIT-4**

Business Combination -Definition - Meaning – Advantages and Limitations – Types of Combination – Chamber of Commerce: Meaning – Advantages and functions – Trade Associations: Features and functions.

#### **UNIT-5**

Multinational Corporations (MNC's) - Definition - Distinction among IC, MNC, GC and TNC - Characteristics of MNC's-cultural impact of MNC's. Factors contributed for the growth of MNC's – Advantages and Disadvantages of MNC's – Control over MNC's – Organization Design and Structure of MNC, s – Relationship between Headquarters and Subsidiaries – MNC's in India.

#### **TEXT BOOKS**

1. Dinkar Pagare Business Organization & Management Sultan Chand & Sons,i.
2. C.B. Gupta Business Organization & Management Sultan Chand & Sons,New Delhi.

## STUDY MATERIAL

### BUSINESS ORGANISATION – BCM12

#### UNIT – 1

### BUSINESS

#### **Meaning of Business:**

The word ‘business’ literally means ‘a state of being busy’. Every person is engaged in some kind of occupation: a worker works in a factory, a teacher teaches in the class, a clerk does his office work in a office, a farmer does his work in the field, and a salesman is busy in making the sales of the goods. The primary objective of these persons engaged in different works is to earn their livelihood.

All human activities relating to the production of goods or services for satisfying human wants are called ‘Business’.

#### **Human activities may be of two kinds:**

- (i) Economic, and**
- (ii) Non-economic.**

Economic activities are those activities which are related to the production of wealth. Every person is engaged in some kind of work to earn his living. All these activities create utilities.

Non-economic activities are those activities which are in the form of social service etc. These activities are not undertaken with economic objectives. In other words, the element of ‘profit’ is not found in these activities.

#### **Definition of Business:**

**Some of the important definitions of business are given below:**

1. According to L. H. Haney, **“Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling of goods.”**

2. According to Prof. L. R. Dicksey, "Business is a form of activity pursued primarily with the object of earning profits for the benefit of those on whose behalf the activity is conducted."

3. According to Wheeler, Bayard O., "Business is an institution organized and operated to provide goods and services to society under the incentive of private gain."

4. According to Peterson and Plowman, "Business maybe defined as an activity in which different persons exchange something of value, whether goods or services for mutual gain or profit."

5. According to F. C. Hooper, "Business means the whole complex field of commerce and industry, 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."

### **Characteristics of Business:**

1. Business activities are directly or indirectly concerned with the transfer or exchange of goods and services for value.
2. Business consists of dealings in goods and services.
3. Business means exchange of goods and services undertaken continually or at least recurrently.
4. Business is a human activity directed towards the acquisition of wealth.
5. Element of risk that is possibility of loss arising out of the uncertainty that goes with the profit expected from a business activity.

### **Features of Business**

Characteristics or features of the business are discussed in the following points:-

#### **1. Exchange of goods and services**

All business activities are directly or indirectly concerned with the exchange of goods or services for money or money's worth.

## **2. Deals in numerous transactions**

In business, the exchange of goods and services is a regular feature. A businessman regularly deals in several transactions and not just one or two transactions.

## **3. Profit is the main objective**

The business is carried on with a motive to earn a profit. The profit is a reward for the services of a businessman.

## **4. Business skills for economic success**

Anyone cannot run a business. To be a good businessman, one needs to have good business qualities and skills. A businessman needs experience and skill to run a business.

## **5. Risks and Uncertainties**

Business is subject to risks and uncertainties. Some risks, such as risks of loss due to fire and theft can be insured. There are also uncertainties, such as loss due to change in demand or fall in price cannot be insured and must be borne by the businessman.

## **6. Buyer and Seller**

Every business transaction has a minimum of two parties that is a buyer and a seller. Business is nothing but a contract or an agreement between buyer and seller.

## **7. Connected with production**

The business activity may be connected with the production of goods or services. In this case, it is called as industrial activity. The industry may be primary or secondary.

## **8. Marketing and Distribution of goods**

The business activity may be concerned with marketing or distribution of goods in which case it is called a commercial activity.

## **9. Deals in goods and services**

In business there has to be dealings in goods and service.

Goods may be divided into following two categories:-

**Consumer goods :** Goods which are used by final consumer for consumption are called consumer goods e.g. T.V., Soaps, etc.

**Producer goods :** Goods used by producer for further production are called producers goods e.g. Machinery, equipments, etc. Services are intangible but can be exchanged for value like providing transport, warehousing and insurance services, etc.

## **10. To satisfy human wants**

The businessman also desires to satisfy human wants through the conduct of business. By producing and supplying various commodities, businessmen try to promote consumer's satisfaction.

## **11. Social obligations**

Modern business is service-oriented. Modern businessmen are conscious of their social responsibility. Today's business is service-oriented rather than profit-oriented.

### **Objectives of Business:**

The objectives of business can be studied under the following heads:-

1. Economic Objectives
2. Social Objectives
3. Human or Individual Objectives
4. Multiple Objectives
5. Organic Objectives
6. Micro Level Objectives

7. National Level Objectives

8. Global Objectives.

## **GENERIC OBJECTIVES OF BUSINESS**

### **Objectives of Business – Profitability, Growth, Stability, Efficiency and Survival**

Business means busy in some activities. Business means conducting activities such as – sale, purchase and manufacturing etc for profit and growth. Business is also referred to a particular company, enterprise or corporation.

A business always has some purpose and no doubt the most important purpose of business is achieving profitability and growth.

### **Followings are the some important objectives of business:**

1. **Profitability** – This is one of the most important objectives of business. We normally setup business to achieve profits for its owner or shareholders. But, does it mean that business should somehow, by hook or crook, earn the profit? Our answer is no; it should earn profit by working under rules and regulations or by following ethical practices.

2. **Growth** – Another important objective of business is to achieve growth. The growth should be in terms of increase in profit, revenue, capacity, number of employees and employee prosperity, etc.

3. **Stability** – Stability means continuity of business. An enterprise or business should achieve stability in terms of customer satisfaction, creditworthiness, employee satisfaction etc. A stable organization can easily handle changing dynamics of markets.

4. **Efficiency** – An efficient or aggressive working environment. A business should always try to achieve the best in its field. Efficiency is considered in terms of labor productivity, energy consumption, quality control etc.

**5. Survival** – A business should have the capability to survive markets jolts or shocks. A business should be there with a vision of long-term existence.

Objectives of Business – Economic, Social, Human or Individual and Multiple Objectives

Every business is directed to the achievement of certain objectives.

Objectives refer to the end points towards which all business activities are directed:

Objectives lay down the guidelines for various activities and decide the direction and amount of efforts needed for these activities. Objectives should be feasible and must be expressed in specific terms with a time limit for achievement. For example, the objective of a mobile company can be to increase the mobile users by 10% in 2 years.

**Business Objectives may be FURTHER broadly classified into three categories:**

1. Economic Objectives
2. Social Objectives
3. Human or Individual Objectives

**1. Economic Objectives:**

Business is an economic activity and its objectives are mainly economic in nature.

The main economic objectives are:

**(i) Profit Earning** – Every entrepreneur undertakes business activities primarily to earn profits. No business can survive for long without earning sufficient profits. A business needs profits not only for its existence but also for expansion and diversification.

Profits provide a means of livelihood for the entrepreneur and a reward for bearing the risk.

**(ii) Survival** – Every business aims to ensure that it continues to survive and exist in the future. Survival is possible only when organisation is able to earn enough revenue to cover its costs.

**(iii) Growth** – A business needs to add to its prospects in the long run. For this, the business must grow and expand to survive in the long run.

Growth of a business indicates how well it is able to exploit its potential opportunities. Growth is measured in terms of sales volume, increase in number of employees, market share, number of products, etc.

### **Other Economic Objectives of Business:**

**(i) Creation of Customers** – Creation of customers or demand is essential in order to earn profits. Customers are the focus of all business activities. A business enterprise can exist and grow only when it is able to capture a big market share, i.e. there are enough people to buy the products and services offered by an enterprise.

**(ii) Innovation** – Innovation refers to introduction of new ideas or new methods of production. Innovation plays a crucial role in increasing the competitive strength and improving the image of business enterprise in the mind of customers.

**(iii) Optimum Utilisation of Resources** – Resources available with the business are generally limited. So, every business enterprise aims to make best possible use of physical, financial and human resources. This objective can be achieved through – (a) Employing efficient and competent work force; (b) Making full use of installed machinery; (c) Minimizing wastage of materials.

### **2. Social Objectives:**

Social objectives refer to the objectives, which are desired to be achieved for the benefit of the society. Business makes use of scarce resources of the society. So, society expects something in return for its welfare. Social objective deals with fulfilling obligations towards the society.

Some of the major social objectives are:

**(i) Supply of Quality products at Fair Prices** – The business should ensure that there is a regular supply of useful products with fair quality and at reasonable prices. Supply of adulterated goods, inferior quality goods, unusable or harmful products are detrimental to the survival of business. It must be noted that customer is now more educated and quality conscious and expects value for his money spent.

**(ii) Avoidance of Unfair Trade Practices** – Business enterprise should not indulge in anti-social and unfair trade practices like black marketing, hoarding, adulteration, etc. Such practices are not only illegal but also hamper the image of business community. So, every business organisation should aim to avoid such undesirable activities.

**(iii) Generation of Employment Opportunities** – Every business enterprise should create sufficient employment opportunities without any discrimination as to caste, religion, sex, etc.

In India, unemployment is a serious problem and the business community can play a dominant role in solving this problem.

**(iv) Protection of Environment** – Business enterprise should take all reasonable steps to check and protect environment. It must make proper arrangement for disposal of effluents, smoke, wastes, etc. in order to avoid various types of pollution.

**(v) Community Service** – Many business organisations engage in various community services, like setting up schools, charitable dispensaries, donating money for social and religious activities, etc. Fulfillment of this objective helps to improve the reputation and public image of business.

**(vi) Welfare of Employees** – No business can succeed without the contribution of its employees. Thus, business should aim to provide fair wages and reasonable working and living conditions to workers.

### **3. Human or Individual Objectives:**

Human or individual objectives refer to the objectives related to the individual needs of the employees of an organisation. As employees are one of the most valuable resources for an organisation, satisfaction of their objectives is very important.

Individual objectives include the following objectives:

- (i) To provide healthy and safe working conditions.
- (ii) To pay fair and competitive salaries and perks.
- (iii) To provide opportunities for personal growth and development of employees.
- (iv) To provide reasonable security of service.
- (v) To provide various financial and non-financial incentives in order to motivate the workers.
- (vi) To encourage employees to take initiative and participation in management.

### **Multiple Objectives of Business:**

In this competitive world, management of a business must set 'Multiple Objectives' for its long-term survival and growth. Peter F Drucker has suggested eight key areas, where objectives of a business enterprise must be set.

They are as follows:

#### **(i) Market Standing:**

Market standing refers to the position of an enterprise in relation to its competitors. For example, position of 'Airtel' in relation to 'Vodafone'. A business enterprise must aim to increase its market standing by offering good quality products at reasonable prices and serving them better than competitors.

#### **(ii) Innovation:**

In this competitive world, innovations are very important for a business enterprise to flourish. For example, Videocon introduced LED TV with inbuilt DTH facility. There are two kinds of innovation in every business – (a) Innovation in product or service; and (b) Innovation in various skills and activities needed to supply them.

**(iii) Productivity:**

Productivity is calculated by comparing the value of outputs with the value of inputs. It is used as a measure of efficiency. Every business enterprise must aim to achieve greater productivity through best possible use of available resources.

**(iv) Physical and Financial Resources:**

All business enterprises require physical resources (like plant, machinery, etc.) and financial resources (i.e. funds) in order to produce and supply goods and services to its customers. Every business enterprise must aim to acquire these resources according to its requirements and must use them efficiently.

**(v) Earning Profits:**

Earning profits on the capital employed is the main objective of every business enterprise. Every business aims to earn a reasonable profit in order to survive and grow in this competing world.

**(vi) Manager Performance and Development:**

All business enterprises need managers to conduct and coordinate business activity. So, every business enterprise must actively work for development of manager's performance. Therefore, manager performance and development is an important objective.

**(vii) Worker Performance and Attitude:**

Worker's performance and attitudes directly influence the productivity and profitability of every enterprise. So, every business enterprise must aim to improve performance of the workers and to develop positive attitude among them.

### **(viii) Social Responsibility:**

Every business is a part of society as it makes use of scarce resources of the society. So, it must meet the expectations of the society. Social responsibility refers to the obligation of business firms to contribute resources for solving social problems and work in a socially desirable manner.

## **CRITERIA FOR SUCCESS IN MODERN BUSINESS**

Modern business has become complex and complicated. The improvements in technology and changing consumer preferences are creating more challenges for the businessman. All aspects of an enterprise, i.e., production, financing, organisation and marketing should be properly arranged and co-ordinated to make a business successful.

### **Some Criteria for the success of business areas under:**

#### **1. Setting Objectives:**

The setting up of business objectives is the first thing to be done by the management. One must know as to what is to be done. Only after deciding the objective, the ways and the means will be determined to achieve the objectives. If it is a producing business, the nature of product to be produced, whether to produce the whole product or part of it should be decided. In case of service business the nature and type of service to be provided should be decided. It is not only the management which should be conversant with the business objectives but every person in the concern should know the aims and goals of the business.

#### **2. Proper Planning:**

After determining, the objectives, the work should be planned in all its perspectives. Planning involves forecasting and laying down the course of action. It involves planning for both present and future. What is to be achieved and how it is to be achieved is of

primary significance for the present. Future is always uncertain and the estimation of future happenings is very difficult. In planning for the future, an effort is made to estimate the future uncertainties and determine the possible course of action for the coming period. Thus, planning also helps the management to prepare itself for facing the uncertainties of tomorrow.

### **3. Sound Organisation:**

Organisation is an arrangement by which tasks are assigned to employees so that their individual efforts contribute effectively to the achievement of clearly defined purposes. The duties and responsibilities of all persons are defined and they should know what they are to do.

An effective organisation system is essential for the success of a business. Firstly, a decision should be taken about the form of ownership, i.e., sole trade, partnership, Joint Stock Company. Then a suitable internal organisation should be developed. No work should be left unassigned. The supervisors and subordinates should know their roles in the business.

### **4. Proper Financial Planning:**

The requirements of finance and its possible sources should be decided at the time of starting the enterprise. The purpose of financial planning is to make sure that adequate funds are raised at the minimum of cost. The required capital should be made available at all times; otherwise, it will hamper the work. The scarcity of capital and too much of it both will be bad for the concern.

The availability of excess capital may tempt the management to spend more money on inventory and on fixed assets. A proper plan is necessary for providing funds for the present needs and future developmental plans.

**A financial plan will determine:**

- a) The needs of capital,
- b) Sources for collecting funds, and
- c) Administration of capital structure.

**5. Location and layout of Plant:**

One of the important decisions to be made by the management at the time of starting a concern is regarding the location of the plant. The plant should be located at a place where all factors of production are available at lowest costs. The aim of reaching an optimum point will be achieved only if the place of location of the businesses is suitable. Raw materials, labour, power and markets for the finished products should be available near the place of location.

After deciding about location, a decision is made about layout of the plant. The setting up of the machinery and equipment should be systematic so that the flow of production should be smooth and uninterrupted. The office building and warehouse etc., should be located near the factory. Proper layout will enable the economical use of available space. Proper location and layout of the business are necessary for the success of a business.

**6. Marketing System:**

The marketing aspects of a business are more important than even production. There is no use of producing a thing if it cannot be sold. Marketing management is essential for earning profits. Management should decide about the channels of distribution. Whether to sell directly to consumers or to sell through wholesalers? It should be decided after taking into consideration various aspects of goods.

**7. Research:**

In the changing technological world, it is essential to use latest devices for production and marketing of goods. Change is the essence of business. Every day, new production methods are found. Consumers' needs and preferences should be taken into consideration

in devising production and marketing policies. Research and development should be given due place in the business.

One can compete with changing business world only through research programmes. If attention is not given to research work then it will become difficult to stay in business for a large period. So, research activities are necessary for the success of an enterprise.

### **8. Dynamic leadership:**

The success of an enterprise will depend upon the efficiency of its management. The task of management is to plan, organize, co-ordinate and direct various activities for achieving business objectives. This will be possible only if the leadership is dynamic. The operation managing the concern should have foresight, initiative, courage and aptitude for a change. These qualities are necessary in the leadership to take the concern on the road of progress.

### **S.M.A.R.T to prepare success criteria for company**

Success criteria (goals, objectives) of every strategy should follow **S.M.A.R.T**. This means that managers or company owners should check if their business goals are:

**Specific** - The goals must be specific and well-defined. This will allow employees to get acquainted with the results expected from them by employers. A well-designed goal will allow you to focus more energy on achieving it. An example of such an action may be achieving a 60% increase in revenues in the new year.

**Measurable**- Each manager should specify exact criteria that will measure the progress in achieving each planned goal. If these goals cannot be measured, it is difficult to assess the effectiveness of employees' work in their implementation.

**Attainable**- Success in your activities can also be achieved if the planned goals are realistic for the company to realize. The best goals require people involved in the project to develop to realize them. Employees may not be able to achieve overly ambitious goals or ignore those that are not difficult to achieve.

**Relevant-** Each developed goal should be individually matched to the company's situation. It should be between the current situation and the one in which we would like to be in the future. If they do, the efforts of you and your employees to drive their goals will guide the company in the right direction.

**Time bound-** This means setting deadlines for each objective. Dates will increase the effectiveness of employees' work. They know how to focus the necessary attention and help them determine the priorities of their activities.

If the company sets these criteria for its goals, they will increase the chances of successfully completing them. When implementing SMART goals, you should regularly check results in order to achieve them. If it is an important aspect it is necessary to introduce the necessary changes for your business. It is an essential tool for the company's success.

## **CLASSIFICATION OF BUSINESS**

### **1. Economic Activities**

Activities which are undertaken by people with the object of earning money are known as economic activities. e.g., production of goods in a factory, distribution of goods by a wholesaler or retailer.

### **2. Types of Economic**

Economic activities can be divided into three categories

Business

Profession

Employment

### **3. Non-Economic Activities:**

The activities which are undertaken by an individual with a motive of getting psychological satisfaction are known as non-economic activities e.g., going to temple, charily, social service etc.

#### **4. Concept of Business:**

Business is a wide term. It includes all occupations in which people are busy in earning income either by production or purchase and sale or exchange of goods and services to satisfy the needs of other people with the main objective of earning profit.

**According to Lewis H Honey.** “Business is a human activities directed towards producing or acquiring wealth through buying and selling goods”.

#### **Classification of Business Activities**

Various business activities may be classified into two broad categories

**(A) INDUSTRY: Industry** refers to an activity which converts raw material into useful products. Industry includes activities related to production and processing as well as activities related to rearing and reproduction of animals 01’ other living species. Industries may be divided into three broad categories namely primary, secondary and tertiary.

**(a) Primary Industry** These includes all those industries which are concerned with extraction of natural resources and reproduction of living species.

**These industries can further be classified into two categories**

##### **I. Extractive Industries**

##### **II. Genetic Industry**

**(b) Secondary Industry** The secondary Industry makes use of products which arc extracted and produced by primary industry as their raw materials and produce finished products. e.g., meaning of iron ore is done in primary industry but steel manufacturing is done in secondary Industry.

## **There are two kinds of Secondary Industry**

**Manufacturing Industries** These industries are engaged in the process of conversion of raw materials or semi- finished goods in to finished products.

**Construction Industry** These industry are concerned with the construction of buildings, dams. roads etc.

**Tertiary Or Service Industry** It is concerned with providing services with facilitate a smooth flow of goods and services. The various types of services provided by Tertiary Industry are Transport, Banking, Insurance, Warehousirrs, Advertising.

**(B) COMMERCE:** Commerce refers to all those activities which help directly or indirectly in the distribution of goods to the ultimate consumer.

### **(a) Functions of Commerce**

1. Helps in Removing the Hindrance of persons.
2. Helps in Removing the Hindrance of place.
3. Helps in Removing the Hindrance of time.
4. Helps in Removing the Hindrance of Exchange.
5. Helps in Removing the Hindrance of Risk.

### **(b) Classification of Commerce**

#### **Trade**

**Trade:** Trade is an integral part of commerce. It refers to buying and selling of goods and services.

**Trade can be classified into two types**

(i) **Internal Trade** Internal Trade refers to buying and selling of goods or services within the geographical boundaries of a country. It is also known as Home Trade.

The internal trade is of two types.

- I. Whole sale trade
- II. Retail trade

(ii) **External Trade** It refers to the buying and selling of goods and services beyond the geographical limits of the country. It is also known as trade between two or more countries.

**External trade is of following types**

- I. Export trade
- II. Import trade
- III. Entrepot trade

**Aids or Auxiliaries to Trade**

**Transport and Communication** Transport refers to the movement of goods from one place to another. Communication helps in exchange of information between producers, consumers and traders etc.

**Banking and Finance** Bank and financial institutions provide credit facility, loan etc. to provide finance for smooth flow of business activities.

**Insurance** Businessmen have to bear various types of risks, Insurance provides protection from some kinds of risk such as a risk of loss due to fire, theft, accident etc.

**Ware Housing** Ware housing helps businessmen to overcome the problem of storage. Ware houses are constructed keeping in mind the nature of goods.

**Advertising** Practically it is impossible for a manufacturer and trader to contact each and every customer. Advertisement helps to overcome this problem.

## **RISKS IN BUSINESS**

**Definition:** By the term ‘business risk’ we mean the uncertainty with respect to firm’s operations. It is a type of systematic risk wherein there is a volatility associated with the future income or earnings arising from events, circumstances, conditions, action, or inactions that hinders the attainment of goals and objectives and carry out the strategies.

Business risk refers to the anticipation that the firm may earn lower than expected profits or even suffer losses, because of the uncertainties inherent in the business such as competition, change in customer tastes and preferences, input cost, change in government policies, and so forth. It may impede the business ability to provide returns on the investment.

1. Business risk arises due to uncertainties
2. Risk is an integral part of every business
3. Degree of risk depends upon the nature and size of business
4. Profit is the reward for bearing the risk

### **Causes of Business Risk**

**Natural Causes** The natural causes are such type of uncertain factors that human being cannot make any preparation against.

**Human Causes** Human Causes are related to a chance of loss due to human beings or employees of the organization.

**Economic Causes** Economic Causes are related to a chance of loss due to change in market condition.

**Other Causes** These are unforeseen events like political disturbances, mechanical failures such as the bursting the boiler.

## Factors Influencing Business Risk

Business risk emerges out of competition, market conditions, product mix, etc. The two primary factors that result in business risk are:

**Internal Risk:** The risks that emerge as a result of the events occurring within the organization is termed as an internal risk. These risks can be predicted as the possibility of their incidence, and so, they are controllable in nature. They arise due to factors like strikes & lockouts by a trade union, accidents in the factory, negligence of workers, failure of the machine, technological obsolescence, damages to the goods, fire outbreak, etc.

**External Risk:** The risk arising as a result of the events external to the firm and so the firm's management has no control over it. So, these cannot be forecasted easily. It may arise due to price fluctuations, changes in customer taste, earthquake, floods, changes in government regulations, riots, etc.

**Strategic Risk:** The risks related to the business strategies, plans and tactics, as there is uncertainty with respect to their successful implementation, it is called a strategic risk.

**Financial Risk:** The risk added to the shareholders, when the company uses debt financing along with equity, is termed as a financial risk.

**Operational Risk:** When the company fails in performing day to day operations properly, then operational risk arises.

**Compliance Risk:** Such risks are related to the need of the firm to adhere to government rules, regulations and policies.

**Reputation Risk:** The reputation risk arises due to any of the previous business risks or by negative publicity with respect to a misleading advertisement, lawsuit etc.

Apart from those given above, there are some other risks related to natural calamities like floods, earthquake, droughts, etc. which also affects the business at large.

## **STARTING A BUSINESS - BASIC FACTORS**

1. Selection of line of business
2. Size of the firm
3. Choice of form of ownership
4. Location of business enterprises
5. Financing the proposition
6. Physical facilities
7. Plant layout
8. Competent and Committed worked force
9. Tax planning
10. Launching the enterprise

## **DISTINCTION BETWEEN BUSINESS AND PROFESSION -**

### **Profession:**

The term 'Profession' stands for an occupation which requires some specialised study and training, and the purpose of which is generally to provide skilled services and guidance in lieu of a definite fee or remuneration. A profession is a calling and implies acquisition of a fond of knowledge, range skills and their application in service of humanity. They services rendered by a professional may be direct as will the case of teachers and doctors or indirect as is in the case of teacher educators i.e. teacher of a teacher.

### **The following are the common characteristics of a profession:**

- (i) It demands possession of a body of specialised knowledge and extended practical training.
- (ii) It renders an essential social service.
- (iii) It demands continuous in service training of its members.
- (iv) It has a clearly defined membership of a particular group with a view to safeguarding the interests of the profession.
- (v) It involves a code of ethics.
- vi) It sets up its own professional organization.
- (vii) It assures its members a professional career.
- (viii) It has a truth and loyalty.
- (ix) It has a transparency of work.
- (x) It gives instantaneous results

## **Differences between Business and Profession**

The points of difference between business and profession are given below.

### **1. Difference in Educational Qualifications**

The professional should have the specified academic qualifications to practice the profession, whereas the businessman is not expected to have such specified academic qualifications.

### **2. Mode of establishment:**

A business enterprise is established when an entrepreneur takes a decision to carry on some business activity. In a profession, on the other hand, the membership or enrollment of a recognised professional association or institution is essential. In order to take up employment, a person has to enter into a contract of service.

### **3. Nature of work:**

A business exists to provide goods and services to satisfy human wants. On the other hand, a professional renders personalised service of a specialised nature to his clients. An employee performs the work assigned by the employer under the contract of service.

### **4. Difference in Expert in the Field**

The businessman need not have expertise knowledge in his field of business. On the other hand, the professional must be an expert in his profession.

### **5. Difference in Personal Attention**

The businessman can appoint anybody to manage the affairs of his business. The professional, on the other hand, has to perform the duties personally.

### **6. Difference in Name of the Reward**

The reward for business is known as profit. The reward for profession is called as fee.

### **7. Difference in Code of Conduct and Ethics**

There is no rigorous code of conduct and ethics to be followed by a businessman. The professional, on the other hand is expected to follow code of conduct and ethics.

### **8. Difference in Governing Body**

Anybody or association does not govern the businessman. He may or may not be a member of any trade association. On the other hand, the association to which he belongs governs the professional.

### **9. Difference in Motive**

The primary motive of a businessman is profit. The basic motive of a professional is service, and profit is only secondary.

### **Employment**

In this class of occupations, a person has to work under an agreement or rules of service and perform such work as may be assigned to him by the employer. Remuneration for such work takes the form of wages or salaries and allowances. Sometimes people belonging to professions take up employment with the Government or private agencies. Firms employ chartered accountants and hospitals engage doctors and nurses in regular service.

### **Inter-Relationship of Business, Profession and Employment:**

Although business as an activity is distinguished from profession and employment mainly on account of factors of investment and risk, yet one cannot forget the important role played by professional experts and employees in the success of modern business.

Professionals of various types like consulting engineers, chartered accountants, cost accountants, management consultants, legal experts, doctors, architects and the like are retained by business firms for tackling a variety of complicated technical problems that go with modern large-scale business.

Besides, because large business firms employ a large number of specialists and expert knowledge in the conduct of modern business, management of business is becoming a professional job. As an economic institution of recognized importance, business provides employment to a large number of persons in the country.

The prosperity of a business concern depends not merely on the foresight and the resources of businessmen, but is equally determined by availability of the right type of employees with positive attitude towards work. Thus, while business provides opportunities for employment, the employees provide the organized and devoted effort which is essential for any business house to make the best of its investment.

## **SOCIAL RESPONSIBILITY OF BUSINESS**

### **1. Social Responsibility**

Social responsibility is the obligation of businessmen towards the society. Businessmen must review the impact of their decisions and actions on the other sections of the society. According to **Peter F Druker**, “Social responsibility requires managers to consider whether their action is likely to promote the public good, to advance the basic beliefs of our society, to contribute to its stability, strength and harmony.”

### **2. Need for Social Responsibilities**

A businessman must perform social responsibilities because of the following reason

- (i) Self interest
- (ii) Better environment for business
- (iii) Public image
- (iv) Avoidance of government interference
- (v) Social power
- (vi) Resources used for moral justification
- (vii) Contribution to social problems

### **3. The Case against Social Responsibility**

Some experts criticise the concept of social responsibility, some of the arguments given against social responsibilities are given below

- (i) Motive of earning profit
- (ii) Lack of social skill
- (iii) Social responsibility involves cost
- (iv) Dilution of basic goal of business
- (v) Business are not moral agents
- (vi) Reduction in competitiveness

### **4. Reality of Social Responsibility**

After learning the case for and against social responsibilities, we can conclude that business is no longer a mere economic institution but it is also a social institution and businessmen are the trustees of different social groups. The main reasons and factors which have forced businessmen to consider their responsibilities towards society

- (i) Threat of public regulation
- (ii) Pressure of labour movements
- (iii) Impact of consumer consciousness
- (iv) Development of social standard for business
- (v) Relationship between social interest and business interest
- (vi) Development of professional managerial Class

### **5. Kinds of Social Responsibilities**

#### **(i) Economic Responsibility**

In an economic responsibility, business is expected to produce goods and services that are beneficial for society and society which wants and sell them at a profit.

#### **(ii) Legal Responsibility**

Every business enterprise is expected to operate within the legal frame work of our society. A law abiding enterprise gets no interference of government and is considered as a socially responsible enterprise.

**(iii) Ethical Responsibilities**

Ethics is much more than law, while behaving ethically businessmen should not be involved in adulteration, black marketing, etc.

**(iv) Discretionary Responsibilities**

This responsibility is purely voluntary. This includes contribution in charity. Participation in social service projects, setting up educational and training institutions etc helping people affected by flood, earthquake etc.

**6. Social Responsibility towards Different Interest Groups**

**(i) Responsibilities towards Consumers**

- Production of safe items by maintaining quality standards
- Being truthful in advertising
- To follow fair trade practices.

**(ii) Responsibilities towards Employee**

- Providing fair compensation and benefits
- Providing good and safe working conditions
- To give them opportunities to participate in decision making

**(iii) Responsibilities towards the Owners / Shareholders / Investors**

- To ensure safety of investment
- To ensure fair and regular return on investment
- To ensure appreciation of investment by proper utilization of resources

**(iv) Responsibilities towards the Government**

- To abide by rules, regulations and laws
- To pay taxes and duties on time
- To help in solving social problem

#### **(v) Responsibilities towards the Community**

- To protect the environment from all types of pollution
- (b) To provide more employment opportunities
- (c) To help the weaker section of the society

#### **(vi) Responsibilities towards Suppliers**

- To ensure regular payment to the supplier
- To adopt fair dealing with the suppliers
- (To protect and assist small scale suppliers by placing order with them

### **7. Business and Environment Protection**

#### **(i) Causes of Environmental Pollution**

- Environment pollution arises due to the following causes
- Air pollution
- Water pollution
- Land pollution

#### **(ii) Need for Pollution Control**

The main reasons to control the pollution are as follows

- To ensure safety
- Economic losses
- To maintain the natural beauty
- To ensure healthy life
- To lead a comfortable life

### **8. Role of Business in Environmental Protection**

The businessmen should take following steps to control and check environmental pollution

- Making use of eco-friendly techniques of production
- Recycling industrial waste

- Treating the waste through technologies before discharging them into water or dumping in the land
- Make use of eco-marks by producing eco-friendly products

**9. Business Ethics** It refers to the set of moral values or standards or norms which govern the activities of a businessman. Ethics defines what is right and what is wrong.

### **10. Elements of Business Ethics**

Some of the basic elements of business ethics while running business enterprises are

- Top management commitment
- Publication of a 'code'
- Establishment of compliance mechanism
- Involving employees at all levels
- Measuring result

### **KEY WORDS**

**Aids to Trade:** Activities which facilitate the smooth and uninterrupted flow of goods and services from producers to consumers.

**.Business Organization:** Bringing together various components of business such as Commerce

**Economic Activities:** Activities which are undertaken by human beings for earning money or livelihood.

**Employment:** Activity of working with an employer under agreement or rules of service.

**Entrepreneur:** A person, who conceives the business idea, brings the organization into existence, carries on the business activity, and is prepared to bear the risk of loss.

**Export Trade:** Selling goods in another country.

**External Trade:** Purchase and sale of goods and services across the boundaries of a country.

### **Questions**

1. What do you mean by Business?
2. List out the economic objectives of business
3. What are requisites of the successful business?
4. Explain the objectives of Business.
5. Discuss the functions of business.
6. What is industry? Explain its classification with illustrations.
7. What is the difference between commerce and industry?
8. Explain the Inter-Relationship of Business, Profession and Employment?
9. Explain the Significance of Social Responsibility of Business

### MCQ – Questions

1. Which of the following is not an economic activity?
  - A. Production
  - B. Social service
  - C. Professional
  - D. Trading in goods

**Answer B**

2. Which option is not a business activity?
  - A. Production of goods
  - B. Transportation
  - C. Exchange of goods
  - D. Work in a factory for wages

**Answer D**

3. Which of the following is the characteristic of a business?
  - A. Production
  - B. Exchange or sale
  - C. Risk element
  - D. All the above

**Answer D**

4. Oil refinery and sugar mill are classified under which industries?

- A. Primary
- B. Secondary
- C. Tertiary
- D. None of the above

**Answer B**

5. Identify the activity which does not support trade?

- A. Banking
- B. Warehousing
- C. Insurance
- D. Mining

**Answer D**

6. In which occupation people get salary or wages in return for their work?

- A. Employment
- B. Business
- C. Profession
- D. None of the above

**Answer A**

7. Which item does not cause any business risk?

- A. Breakdown of machinery
- B. Efficient management
- C. Riot
- D. Changing government policy

**Answer D**

8. In which business, the support service activities are categorized?

- A. Commercial industries
- B. Primary industries
- C. Secondary industries

D. Tertiary industries

**Answer D**

9. In business, why it is essential to make a profit?

- A. It provides a return to investors.
- B. It provides funds for future extension
- C. It increases the reputation of a company
- D. All the above

**Answer D**

10. Which of the following is a false statement?

- A. The scope of commerce is narrower than business.
- B. Commerce includes trade and auxiliaries to trade.
- C. Foreign trade is purchase and sale by the traders of the same country.
- D. Traders serve as a link between producers and consumers.