
UNIT 1 NATURE AND SCOPE OF BUSINESS

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1.0 OBJECTIVES

After studying this Unit, you should be able to:

- identify broad categories of human activities
- describe what is business
- list the features and objectives of business
- classify business activities and their inter-relationship
- explain the nature of business organisation
- explain who is an entrepreneur

1.1 INTRODUCTION

In our day-to-day life, we use words like business, commerce, trade, industry, etc. quite often. These words have a definite meaning in 'Business Organisation'. In this introductory Unit, you will learn the exact connotation of such terms. You will also learn the distinction between economic and non-economic activities,

1.2 HUMAN ACTIVITIES

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

If you closely examine the human activities, you will find that some of these produce economic benefits e.g., working in a factory or in an office or at the farm. Some other activities like brushing teeth, taking breakfast, going to school, playing, cooking food for the family, etc., do not produce any direct economic benefits. Thus, we can classify the human activities into two groups: (1) non-economic activities, and (2) economic activities.

- 1) **Non-economic Activities:** These are the activities which are conducted by the human beings due to love and affection, social obligation, religious obligation, physical requirement, patriotism, etc., but not for earning money. The housewife cooking for the family, children going to school and playing games, people going to a temple or a mosque for prayer, a social worker working for the uplift of the poor, etc., are some such examples. Persons who participate in such activities do not get any direct economic benefit.
- 2) **Economic Activities:** These are activities which are undertaken by human beings for earning money or livelihood. These economic activities are concerned with production, exchange and distribution of goods and services. For example, a doctor working in the hospital, a teacher working in a school, an employee going to his office, a farmer working in the field etc. They are all doing this to earn his or her livelihood or to acquire wealth.

We can further classify these economic activities into three groups: (a) business, (b) profession, and (c) employment. Look at Figure 1.1 for classification of human activities.

- a) **Business:** Any activity carried primarily with the object of earning profit can be called a business activity. This objective of earning profit is achieved by production and/or exchange of want satisfying goods and services. Therefore, we can define business as "any activity concerned with the production and/or exchange of want satisfying goods and services carried with a view of earning profit". Production of soaps, sale of eggs, production of TV sets, transport, etc., are some examples of business. A person who is engaged in business is called a businessman or entrepreneur. Similarly, a firm formed for the purpose of carrying a business activity is called a business enterprise or a business firm. You will learn in detail about business later in this unit.

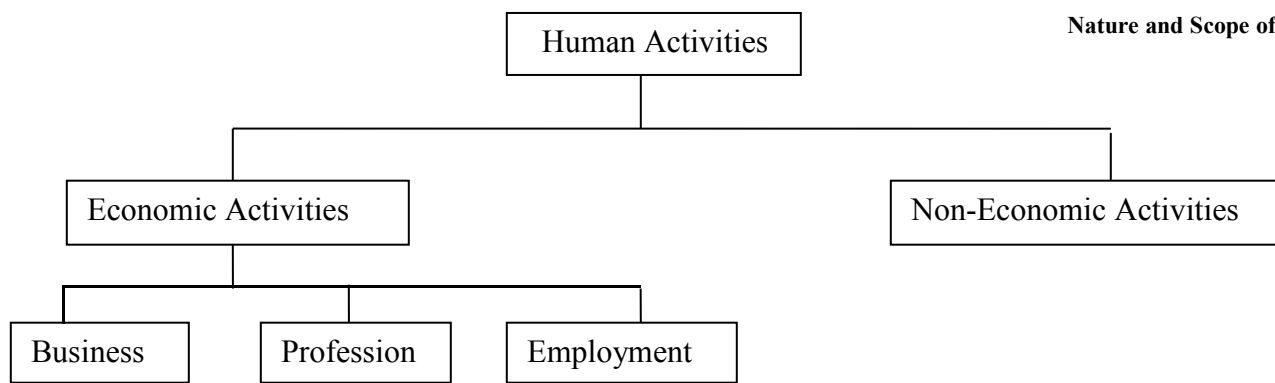


Figure 1.1: Classification of Human Activities

- b) Profession:** An activity which involves the rendering of personalised services of a specialised nature, based on professional knowledge, education and training is called a profession. Services rendered by doctors, lawyers, chartered accountants, etc., come under this category. Generally, for each category of profession, there would be a professional body. For example, Bar Council of India is the professional body of lawyers which guides and regulates the law profession in India. The professional body prescribes the nature and type of educational qualifications and training required to practice the concerned profession. A professional should become the member of concerned professional body and follow the code of conduct prescribed by such body. Professionals charge some fee for the professional service they render.
- c) Employment:** Any activity assigned to a person by the employer under an agreement or rules of service comes under the category of employment. A person who undertakes such activity is called employee. For performing such activity, the employee receives remuneration from the employer in the form of wage or salary, allowance, bonus, etc. The employment is also called 'service'. Working in a factory, office, hotel, college, etc., are a few examples of employment. Even professionally qualified persons also work as employees in various organisations. For example, doctors employed in government/ private hospitals, engineers employed in a factory, etc.

Although business, profession and employment are distinguished from each other, they are also inter-dependent. Business enterprises provide employment to a large number of people in the country. Similarly, professionals like engineers, chartered accountants, cost accountants, management consultants, legal experts, doctors, etc., work with the business firms for tackling complicated technical problems. Thus, business enterprises provide employment opportunities to professionals and general public. At the same time the success of the business is dependent on its employees and professionals working with it.

1.3 BUSINESS

You have learnt that the entire range of economic activities of the human beings could be classified into business, profession and employment. Among these three categories, profession and employment, though important, are outside the scope

of this course. We are primarily concerned with business. So, let us discuss about business in more detail.

1.3.1 Essential Features of Business

You have learnt that business refers to the human activities engaged in production and/or exchange of want satisfying goods and services carried with the intention of earning profits. Now let us study the important characteristics of business. We can list the following five broad features of business.

- 1) **Dealings in goods and services:** Business deals with goods and services. The goods may be consumer goods such as sweets, bread, cloth, shoes, etc: They may be producer's goods such as machinery, equipment, etc., which are used to produce further goods for consumption. Business also deals with services such as transport, warehousing, banking, insurance, etc., which are intangible and invisible goods.
- 2) **Production and/or exchange:** You can call an economic activity a 'business' only when there is production or transfer or exchange or sale of goods or services for value. If goods are produced for self-consumption or presentation as gift, such activities shall not be treated as business. In a business activity, there must be two parties i.e., a buyer and a seller. Such activity should concern with the transfer of goods or exchange of goods between a buyer and a seller. The goods may be bartered or exchanged for money.
- 3) **Continuity and regularity in dealings:** A single transaction shall not be treated as business. An activity is treated as business only when it is undertaken continually or at least recurrently. For example, if a person sells his residential house, it is not considered as business. If he repeatedly buys houses and sells to others, such activity comes under business. But how frequently the transaction should occur depends on the nature of the activity. For example, a ship building company takes a long time to manufacture and sell a ship. At the same time, a vegetable vendor purchases vegetables from the market in the morning and sells out to his customers by evening. But both these activities are treated as business.
- 4) **Profit motive:** Earning profit is the primary motive of business. This is not to undermine the importance of the element of service in business activity. In fact a business will flourish only when it is able to serve its customers to their satisfaction. Profits are essential to enable the business to survive, to grow, expand, and to get recognition.
- 5) **Element of risk:** In every business, there is a possibility of incurring loss. This possibility of incurring loss is termed as risk. The element of risk exists due to a variety of factors which are outside the control of the business enterprise. There are two kinds of risks. (1) Risks whose probability can be calculated and can be insured. Losses due to fire, floods, theft, etc., are some examples. (2) Risks whose probability cannot be calculated and which cannot be insured against, e.g., changing technology, fall in demand, changing fashions, short supply of raw materials, etc. These risks are to be completely born by the enterprise.

1.3.2 Objectives of Business

You have learnt that the primary objective of business is to earn profit. Although profit plays an important role as a criterion of success, business may not exist for long with the sole objective of earning profit. As stated by Henry Ford, “business is not mere money chasing but it also should aim at serving the community”. According to Urwick, “profit can no more be the objective of a business than eating is the objective of living”. Thus, serving the community is regarded as another important objective of business. In fact, some authors regard ‘service to community’ as the major objective of business and state that this provides the main justification for the existence of business as an important human activity. Therefore, while profit is necessary for the businessman to stay in business, he ought to aim at something more for its survival and growth.

The objectives of business could be listed under three broad headings: (1) economic objectives, (2) social objectives, and (3) human objectives.

Economic Objectives: Basically being an economic activity, primary objectives of business are economic. Some of the main economic objectives are:

- 1) Earning of satisfactory profits.
- 2) Exploring new markets and creation of more customers.
- 3) Growth and expansion of business operations of the firm
- 4) Making innovations and improvements in goods and services so that customers get improved and more economic goods and services.

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

- 1) Providing more and more employment opportunities to the people in the country
- 2) Supply of quality goods to the community
- 3) Providing goods at reasonable price
- 4) Ensure fair returns to investors
- 5) Avoidance of profiteering and unfair practices.
- 6) Production of goods in accordance with national interests and priorities.

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

- 1) Fair deal to employees in terms of wages and incentives.
- 2) Providing better working conditions and environment to the employees.
- 3) Provide job satisfaction.
- 4) Provide the employees more and more promotional/growth opportunities.

1.3.3 **Classification of Business**

You just recollect what we have stated about business. We stated that business is concerned with production and/or exchange of goods and services with the intention of earning profit. It states that business is concerned with two aspects i.e. production and exchange. Based on this, we may classify business activities into two categories. In the first category we can group all the business activities relating to production. Similarly, all the activities relating to exchange may be grouped under the second category. The first category is known as industry’, while the second category is called ‘commerce’.

Check Your Progress A

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

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- 2) What is business?

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- 3) What is profession?

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- 4) What is employment?

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5) Classify the following activities into business, profession and employment.

Nature and Scope of Business

Activity	Classification
i) Selling vegetables.
ii) A person working in a medical shop as salesman
iii) A doctor working in a government hospital
iv) A Chartered accountant started private practice
v) Manufacture of biscuits
vi) Lawyer started private practice
vii) Transporting of goods.

6) State whether the following statements are True or False

i) The sole objective of business is earning profit	.....
ii) Profession is a non-economic activity	.....
iii) Employment is an economic activity	.....
iv) There is no element of risk in business	.....
v) Business is concerned only with the exchange of goods and services	.....
vi) Industry is a part of business activity	.....
vii) Industry and commerce together constitute Business activity	.....
viii) An activity is treated as business when it is undertaken continuously or recurrently	.....
ix) In case of profession, ownership interest can be transferred to others	.....
x) Activities taken up for earning money or livelihood are called economic activities	.....
xi) Father teaching his daughter is an economic activity	.....

1.4 INDUSTRY

As you have learnt, industry refers to that part of business activities which is concerned with the production of want satisfying goods/services through utilisation of available material resources. Industry utilises the natural resources and brings them into the form useful for final consumption or further use. It means that the industrial activity aims at ensuring the supply of goods in that form which suits the objects, needs and convenience of the persons expected to use them. Thus, industry creates form utility to goods. For example, farms, factories, mines, etc., make available a wide range of goods. These goods cater to the needs and convenience of the people. In a nut shell, the activities of human beings engaged in extraction, production, processing, construction and fabrication of products come under industry.

There is another explanation for industry. Under this second explanation, industry means a group of factories usually specialising in a particular product line. For example, all the factories which produce fertilizer are collectively called fertiliser industry. Similarly, all automobile factories together constitute automobile industry. But, in the present context, this approach is not relevant. We adopt the first approach.

1.4.1 Classification of Industry

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

- 1) On the basis of the nature of activity
 - a) Extractive industries
 - b) Genetic industries
 - c) Manufacturing industries
 - d) Construction industries
- 2) On the basis of the nature of goods produced
 - a) Consumer goods industries
 - b) Producer goods industries
- 3) On the basis of the level of investment
 - a) Heavy industries
 - b) Light industries
- 4) On the basis of size of the activity
 - a) Small scale industries
 - b) Large scale industries
- 5) On the basis of area of operations
 - a) Regional industries
 - b) National industries
 - c) Multinational industries

Since the theme of the discussion in this Unit is centred around human activity, the classification based on the nature of activity is more appropriate for us. So, let us discuss about the first classification in detail.

- a) **Extractive Industries:** Activities engaged in the discovery and extraction of natural resources like minerals, animals, plants, trees, etc., from the surface or beneath the surface of the earth or air or water come under this category. Extractive industries are also called exhaustive industries because with every attempt there is a depletion of resources and this wealth exhausts. Mining, farming, quarrying, hunting, fishing, etc., come under this category.
- b) **Genetic Industries:** Activities which are concerned with reproducing and multiplying plants and animals with the objective of earning profit from their sale come under this category. Examples are nurseries which multiply and sell plants, poultry farms, cattle breeding farms, fish culture, etc.

There is one important difference between an extractive industry and a genetic industry. In the case of extractive industry, man cannot add to the wealth which he withdraws from the earth, sea, and air. However, in the case of genetic industry, man not only adds to the growth but also reproduces the nature made goods.

- c) **Manufacturing Industries:** These types of industries are engaged in the conversion or transformation of raw-materials and semi-finished materials into finished products. Generally, the products of extractive industries become raw-materials for manufacturing industries.' In other words, manufacturing industries create '**form utility**' to the products of extractive industries. Cement industry, sugar industry, cotton textile industry, iron and steel industry, fertilizer industry, etc., are some examples for manufacturing industries.
- d) **Construction Industries:** These industries are engaged in the construction activities like the construction of buildings, bridges, dams, roads, canals, railway lines, etc. These industries consume the products of manufacturing industries (e.g., bricks, cement, iron and steel) and extractive industries (e.g., quarries, wood). The products of construction industries are immovable. They are erected, built or fabricated at a fixed site.

Look at Figure 1.2 for classification of industries with some examples.

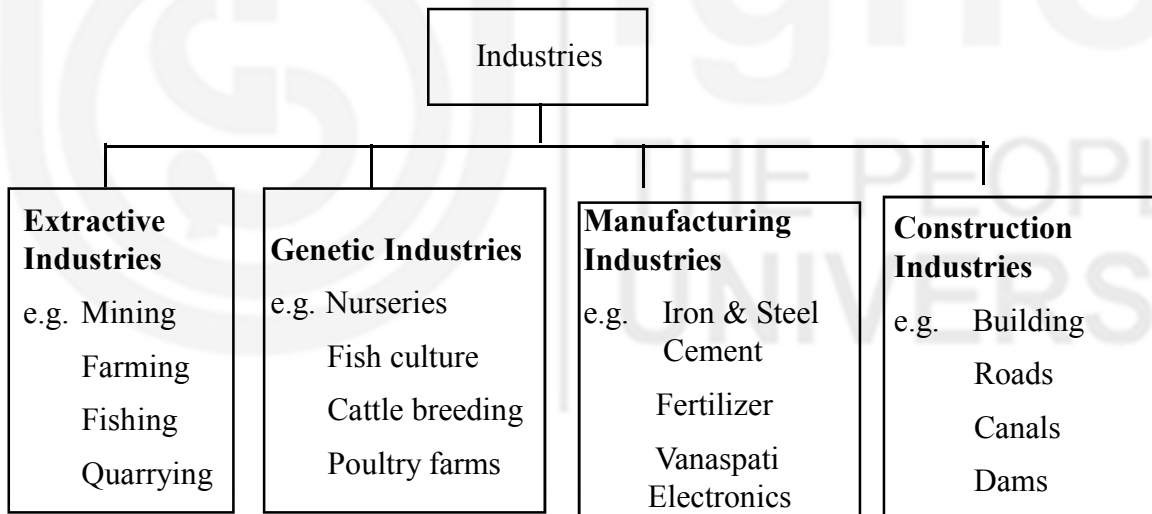


Figure 1.2: Classification of Industries Based on the Nature of the Activity

When we talk of the nature of activity, we can also include the Service Industry. These are the industries which do not produce any tangible products but provides a service like tourism industry, entertainment industry etc.

Check Your Progress B

- 1) Distinguish between business and industry.

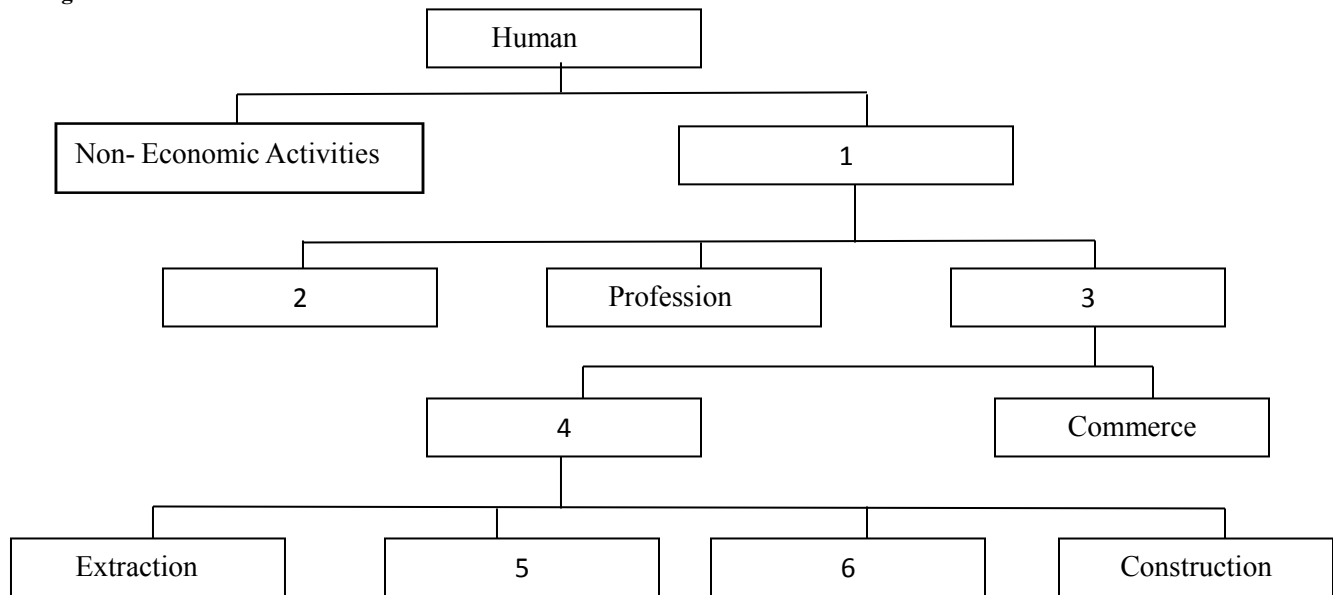
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2) Fill in the blank columns.



3) To which category of industry the following activities belong:

Activities	Category of Industry
i) Fishing in the sea
ii) Raising coal from a mine
iii) Weaving of cloth
iv) Construction of a dam
v) Preparing of wooden furniture
vi) Cattle breeding
vii) Development of railway track
viii) Producing rail engine

1.5 COMMERCE

You have learnt that the business activities are classified into: 1) industry, and 2) commerce. You also learnt that the industrial activities are concerned with the production of want satisfying goods and services. Unless these goods and services are made available to those who need them, they may not fulfil their objectives i.e., satisfying human wants. Therefore, the goods produced by the industries should be made available to the consumers at right place right time, right quantity, right price and in right manner. Here comes the activity of commerce to fulfil all these requirements. **All the activities which establish link between the producers of goods and consumers of these goods, and maintain a smooth and uninterrupted flow of goods between them come under commerce.**

A smooth and uninterrupted flow of goods and services from producer to consumer is beset with many barriers and hindrances. For instance, goods produced by one may be consumed by another. In such a case, unless the producer and consumer identify each other, there is no scope for exchange of goods between them. This is the **hindrance of person**. Similarly, for buying a product,

consumers should have the knowledge about the existence of that product, its features, etc. Therefore, there is a need to provide such information to the consumers. This is the **hindrance of knowledge**. The **hindrance of time** arises out of the time gap between the time of production and the time of consumption. In many cases goods are produced at one place while they are consumed at another place. So, the goods should be carried from the place of production to the place of consumption. This gives rise for the **hindrance of place**. Commerce eliminates all these hindrances and facilitates the exchange of goods between producers and consumers. Later, in this section, you will learn in detail how these hindrances are eliminated through various business activities which form part of commerce.

In a nutshell, commerce is mainly concerned with the purchase and sale of goods, and also embraces all those functions which are essential for maintaining smooth and uninterrupted flow of goods and services between the buyers and sellers. Thus, there are two main aspects in commerce: i) purchase and sale of goods, and ii) activities essential for the smooth and uninterrupted flow of goods. Therefore, we can classify the whole range of commerce activities into two categories:

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

1.5.1 Trade

You have already learnt that the human activities engaged in buying and selling of goods and services come under trade. Therefore, trade includes sale, transfer or exchange of goods and services with the intention of earning profit. The objective of trade is to make goods available to those persons who need them and are willing to pay for them. Thus, trade plays a major role in establishing contact between the producers and the consumers and eliminates the hindrance of person.

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

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

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

- a) **Wholesale Trade:** Buying and selling in relatively larger quantities is called wholesale trade. A person who is involved in wholesale trade is called wholesaler.
- b) **Retail Trade:** This refers to buying and selling in relatively smaller quantities. A person engaged in retail trade is called a retailer.

Let us now discuss in some detail how these wholesalers and retailers operate and eliminate the hindrance of person. A wholesale trader buys goods in large quantities from the manufacturers and sells in relatively smaller quantities to the retailers. Thus, the wholesale traders constitute a link between the producers on the one hand and the retailers on the other hand. Retailers who buy goods from the wholesalers, sell them in smaller quantities to the consumers. Thus, retail traders establish link between wholesale traders on the one hand and consumers on the other. Thus, the wholesalers and retailers establish a link between the producers and consumers and eliminate the hindrance of person. However, sometimes producers may take the services of only either wholesalers or retailers, or may establish a direct link with the consumers. The whole chain of traders/middlemen operating in between producer and consumer is referred to as 'channel of distribution'.

- 2) **External trade:** This is also called 'foreign trade' or 'international trade'. When the trade takes place across the boundaries of a country, you can call such trade as external trade. In other words, external trade refers to the trade between nations. This trade could be in the form of exchange of one commodity for another or for money.

We can classify foreign trade into three categories: a) import trade, b) export trade, and c) re-export trade.

- a) **Import Trade:** when a country buys goods from another country, it is called 'import trade'. For example, India bought machinery from the USA. This is an import trade for India.
- b) **Export Trade:** when a country sells goods to another country, it is called 'Export Trade'. For example, India sells leather goods to Russia, and tea to USA. For India such selling of goods shall be termed as 'Export trade'.
- c) **Re-export Trade:** This is also called 'entrepot trade'. When the goods are imported from one country and the same are exported to another country, such trade is called 're-export trade'. Re-export is done by those countries which have ports that are conveniently situated to serve as distributing points for neighboring countries. Such countries import large quantities of goods and re-export the same to the neighboring countries.

1.5.2 Aids to Trade

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

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

Transportation can be of three types:

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

- 2) **Warehousing:** Goods may not be consumed immediately after production. Normally there will be time gap between production and consumption. This is the hindrance of time. Therefore, goods once produced should be preserved properly till they are consumed. Particularly, perishable goods like milk, meat, vegetables, flowers, etc., should be preserved very carefully. Otherwise, they get spoiled and become useless. For this reason warehousing is recognised as yet another aid to trade. Warehousing refers to preservation of goods to make them available as and when needed by consumers. Thus, warehousing eliminates the hindrance of time and provides time utility to goods.
- 3) **Insurance:** The goods may be destroyed while in production process, or in transit due to accidents, or in storage due to fire or theft, etc. The businessmen would like to cover these risks. Insurance companies come to their rescue in this regard. They undertake to compensate the loss suffered due to such risks. For this purpose, the business has to take an ‘insurance policy’ and pay a certain amount regularly, called ‘premium’. Thus, insurance eliminates the hindrance of risk.
- 4) **Advertising:** Exchange of goods is possible only when the consumers have the knowledge about the existence of a product. This is the hindrance of knowledge. This hindrance is eliminated through advertising. Through advertisement, producers communicate all information “about their goods to the prospective consumers’ and create in them a strong desire to buy the product. Thus, advertising facilitates the flow of goods between producers and consumers by bringing the knowledge about the products to the consumers. Advertising is done through TV, radio, newspapers, magazines, hoardings, wall posters, etc.
- 5) **Banking:** Banking facilitates the flow of goods by removing the hindrance of finance and credit. Now-a-days we cannot think of business without banks. To start the business or to run it smoothly we require money. Banks supply money. A bank is an organisation which accepts deposits of money from the public, withdrawal on demand or otherwise, and lends the same to those who need it. Banks also provide many services required for the business activity.

Look at Figure 1.3 for classification and sub-classification of commerce.

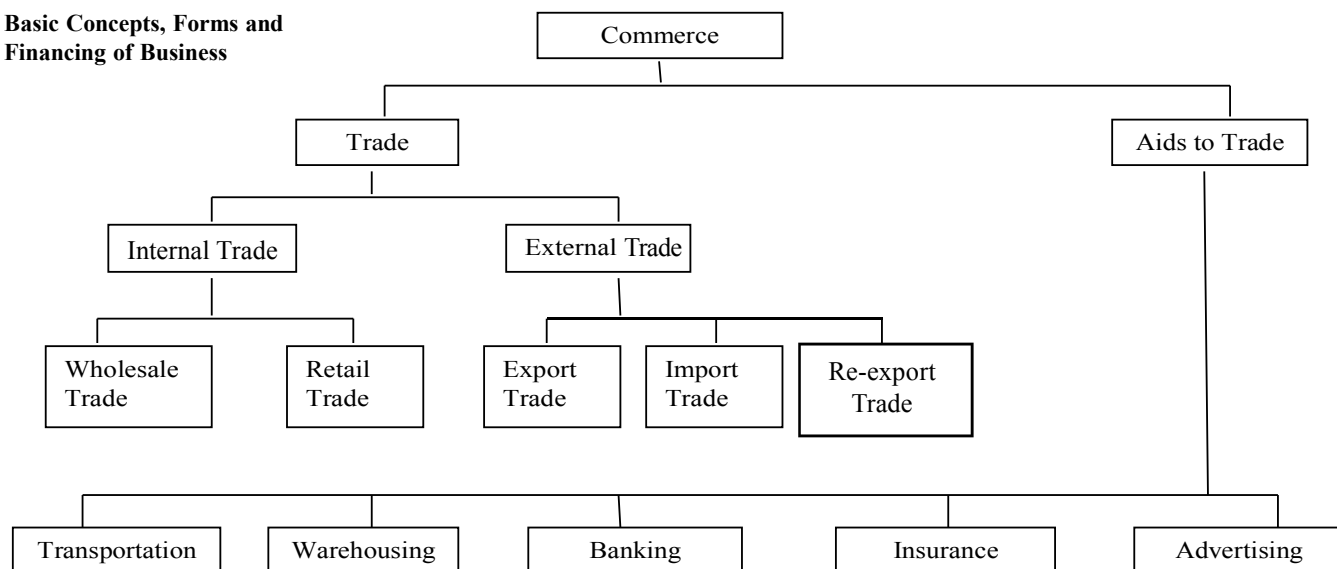


Figure 1.3: Classification of Commerce

Check Your Progress C

1) What is the difference between commerce and industry?

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2) What is the difference between internal trade and external trade?

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3) How is trade different from commerce?

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4) A list of hindrances are given below. State the names of the business activities which eliminate them

Hindrance	Name of the Business Activity
i) Hindrance of distance
ii) Hindrance of time
iii) Hindrance of risk

- iv) Hindrance of finance
- v) Hindrance of knowledge
- vi) Hindrance of person

5) State whether the following statements are True or False.

- i) Trade is concerned with buying and selling of goods. True ☐ False ☐
- ii) A person who buys and sells in smaller quantities is called wholesaler. True ☐ False ☐
- iii) When goods are sold in another country, it is called export trade. True ☐ False ☐
- iv) Activities which facilitate buying and selling come under aids to trade. True ☐ False ☐
- v) Import trade refers to buying goods in one country and selling the same in another country. True ☐ False ☐
- vi) Internal trade refers to buying and selling within the national boundaries. True ☐ False ☐
- vii) Retailer establishes link between wholesaler and consumer. True ☐ False ☐
- viii) External trade is also called home trade. True ☐ False ☐

1.6 RELATIONSHIP BETWEEN TRADE, INDUSTRY AND COMMERCE

You have learnt that business is concerned with production and/or exchange of 'want satisfying' goods and services with the intention of earning profit. Further, you have also learnt that the production aspect of business activities comes under 'Industry' while the exchange aspect comes under 'Commerce'. Commerce again has two main aspects- Trade (activities of purchase and sale) and Aids to Trade (activities which facilitate the smooth flow of goods). All these branches and sub-branches of business activity are closely related to one another and any one of them cannot function in isolation.

Industry makes available the goods and services ready for selling and distribution but commerce more particularly 'trade' enables industry to function through purchase of material required for production. This supporting role of commerce continues in the after-production stage also through sale of the finished products. Commerce is the link between the producer of goods and services and the consumers of these goods and services. Commerce thus serves as the backbone of industry while industry provides the base for commerce to operate. If you recollect, we have also mentioned that a smooth and uninterrupted flow of goods and services from producer to consumer is beset with many barriers and hindrances and that a major aspect of commerce is the elimination of these barriers and hindrances through various activities called 'Aids to Trade' which include transportation, warehousing, insurance, advertising etc. Thus all of them-industry, commerce, trade and aid to trade are part of the whole business system, supplementing and supporting each other for seamless production and delivery of goods and services.

1.7 ORGANISATION

You have learnt what is a business activity and various types of business activities like industry, trade, transportation, banking, etc and their relationship. Whatever business activity you may take up, you have to bring together various resources like capital, machinery, raw-materials, labour, technicians, etc. Mere presence or availability of these resources is not enough. Such resources are to be put in action in a systematic way to achieve its objective.

For example, take the case of textile production. First you get some land and construct buildings, buy machinery and install them in the buildings, employ labour and technicians to work on the machinery, buy raw-materials (cotton, dyes, etc.), process the raw-materials in the factory and produce the cloth. Once cloth is produced, it is to be sold to consumers through wholesale and retail dealers. Thus, to produce cloth you have to assemble resources such as factory, cotton, dyes, labour, wholesalers, retailers, etc. But simple presence of these resources may not achieve the purpose. We have to put these resources together in action very systematically and coordinate their activities. Then only it is possible to produce the cloth, distribute it to consumers and get profits. This is true with any business activity.

A business activity becomes a reality only when efforts are made to bring the required resources together, put them at work systematically, and coordinate their activities properly. This is referred to as business organisation.

In the opinion of J. W. Shulze, “organisation is a combination of necessary beings, materials, tools, equipment, working space apparatus and finance brought together in a systematic and effective correlation to accomplish some desired objective”.

Oliver Sheldon defined it as “the process of combining the work which individuals and groups have to perform with the facilities necessary for its execution so that they provide the best channels for efficient, systematic, positive and coordinated application of the available effort”.

As viewed by F. J. Wright, “organisation is the arranging or combining of resources to achieve an economic aim – either with the resources available to achieve the maximum result or profit, or to achieve a given aim with the least possible expenditure of resources.”

Thus, business organisation means bringing together various components of business such as workforce, raw materials, machines, capital, energy etc. putting them on work systematically, and coordinating and controlling their activities effectively to achieve the objective of earning profit.

Forms of Business Organisation: Business may be owned and managed by a single man, or a group of persons forming a partnership firm or as a joint stock company or even as a cooperative society.

Thus, on the basis of ownership and management, we can classify business organisation into four groups.

1) Sole proprietorship

- 2) Partnership firm
- 3) Company
- 4) Cooperative society

The first two categories (sole proprietorship and partnership form) may be called non-corporate forms of organisations. The remaining two categories (company form and cooperative society) may be called as corporate forms of organisation. About these forms of organisation, you will study in details in Unit 2 and 3.

1.8 ENTREPRENEUR

You know that the business is carried with the primary objective of earning profits. You also know that setting up of the business to achieve this objective requires bringing together various resources, coordinating them and controlling all activities. This has to be done by somebody who may conceive the idea of doing a particular type of business, mobilize the resources and bring the organisation into existence. Such person who does all this is called an entrepreneur. He is the one who also bears the risk of the business. You know that although each enterprise is started with the objective of earning profit but the possibility of loss cannot be ruled out. Thus, the entrepreneur is the person who conceives the business idea, brings the organisation into existence, carries on the business activity and is prepared to bear the risk of loss.

1.8.1 Characteristics of an Entrepreneur

If you read business history, you will come across the names of many persons who may be called entrepreneurs. Rockefeller and Henry Ford of the United States, Karl Benz and Gottfried Daimler of Germany, Soichiro Honda of Japan, are well known names of entrepreneurs, who started industrial organisations and made fortunes. In our country, J. N. Tata, G. D. Birla, Kirloskar and others have set up successful manufacturing industries. Small business firms have often succeeded because of the part played by entrepreneurs. It may be useful to know whether they had anything common as regards their personal characteristics. It has been found that there are certain elements in the character of entrepreneurs which are usually prominent in them.

- 1) **Independence:** Many entrepreneurs who started their businesses resisted being pigeonholed or following routine habits. In fact, entrepreneurs become frustrated when they have to follow someone else's directions. They have to be the boss. They like to be in control. They find it difficult to work under the direction of others.
- 2) **Hard Work:** Willingness to work – and work hard – is an outstanding trait of entrepreneurs. You can bet that the successful business owner has paid with tedious, sweat-filled hours, emotional stress, and perseverance. Most likely the business verged on failure many times in the beginning, but the owner simply would not let it die. A successful entrepreneur described his early experiences that they worked endless, twelve hour days and sometimes seven days a week. You might say it was his whole life.
- 3) **Desire to Achieve Goals:** They have a strong desire to overcome problems and setting up successful business ventures which eventually give adequate

profits. They considered profit as a measure of their achievement and performance rather than making money alone.

- 4) **Foresight and Dynamic Outlook:** Basically, these people have wide knowledge about business environment i.e., market, consumer attitude, technological development, etc. Further, they are dynamic in forecasting business uncertainties and risks; accordingly, they take quick and sound decisions.
- 5) **Open-mindedness:** They are intelligent in predicting changes in business environment. However, they never resist changes because they know that they cannot stop it. Therefore, they are habituated to open-mindedness even though sometimes they lose crores of rupees due to changes in consumer tastes which ultimately forced them to change their technology, etc.
- 6) **Optimistic Outlook:** They are generally inclined to believe that present problems are of a temporary nature and conditions will be more favourable in due course. Entrepreneurs are always eager to achieve their goals in the best possible manner, to get outstanding results which they can be proud of.
- 7) **Working Relationship:** The success of a business mostly depends upon its workers first and then their links with other business undertakings. Most of the successful business entrepreneurs have had harmonious relationships with others. This builds up their reputation in the market.
- 8) **Good Organisers:** They are good at bringing together different types of resources needed for starting a business and making it operationally efficient. They can convince people about the prospects of business, get their cooperation, raise funds, procure machinery, arrange supply of materials, select right type of employees and coordinate various activities relating to the business.
- 9) **Innovative Aptitude:** Most of the successful entrepreneurs have innovative aptitude. They spend part of their income on research and innovative activities so that they offer suitable product to meet the demands of consumers. Some of our industrialists like Tata, Birla, Kirloskar, etc. have established their own research centres.

1.9 LET US SUM UP

The whole range of human activities can be classified into: 1) economic activities, and 2) non-economic activities. Economic activities are further divided into: 1) business, 2) profession, and 3) employment. Business is concerned with production and/or exchange of goods and services carried with the primary objective of earning profits. Activities concerned with the rendering of personalised services of a specialised nature come under profession. Employment refers to the activity assigned to a person by the employer under an agreement or rules of service.

The main features of business activity are: 1) dealings in goods and services, 2) production and/or exchange, 3) regularity in dealings, 4) profit motive, 5) element of risk, and 6) enterprise. Besides earning profit, the business also serves certain economic, social, and human objectives.

Business activities are classified into: 1) industry, and 2) commerce. Industrial activities are classified into four categories: 1) extractive industries, 2) genetic industries, 3) manufacturing industries, and 4) construction industries.

Commerce is classified into: 1) trade, and 2) aids to trade. Activities concerned with buying and selling come under trade. Activities which facilitate buying and selling, and maintain smooth flow of goods and services come under aids to trade. These are: 1) transportation, 2) warehousing, 3) banking, 4) insurance, and 5) advertising. Figure 1.4 gives complete classification of human activities.

Organisation makes the business proposition into a reality. It brings together required components, puts them on work systematically, and coordinates and controls their activities effectively to achieve the objective of earning profit. There are four basic forms of business organisation: 1) sole proprietorship, 2) partnership, 3) company, and 4) cooperative society. All business starts with an idea. A person who conceives the idea of doing a particular type of business, mobilize the resources and bring the organisation into existence is called an entrepreneur. Certain common elements in the character of entrepreneurs include independence, hard work, desire to achieve goals, open-mindedness, optimistic outlook etc.

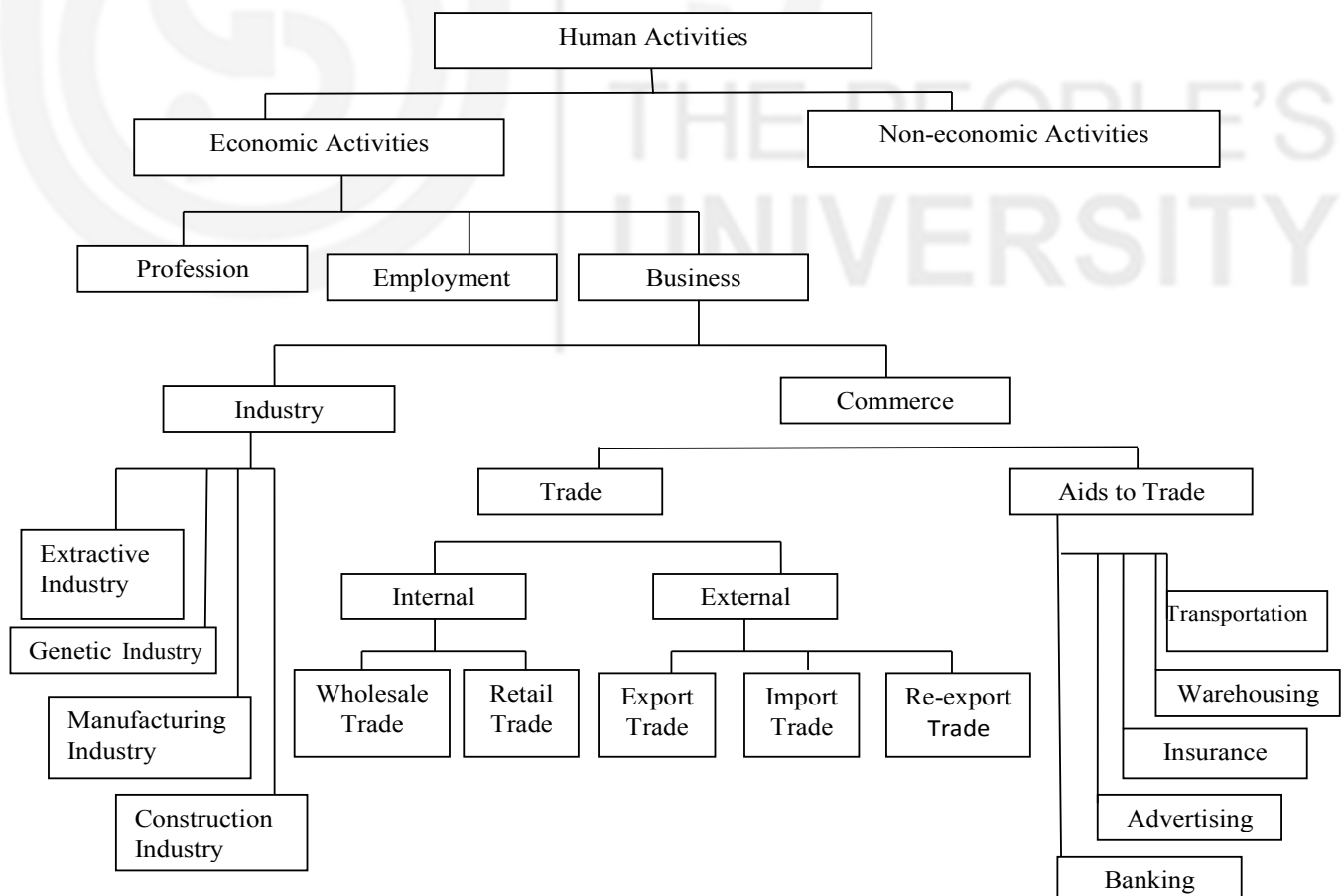


Figure 1.4: Classification of Human Activities

1.10 KEY WORDS

Advertising: An activity by which the product and its qualities are made known to the public for stimulating demand.

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

Banking: An activity of mobilising money deposits from public and giving loans to the needy.

Business: An activity of production and/or exchange of want satisfying goods and services carried with the primary intention of earning profits.

Business Organisation: Bringing together various components of business such as workforce, raw-materials, machines, capital, energy, etc., putting them on work systematically, and coordinating and controlling their activities to achieve the objectives of business.

Commerce: Activities related to purchases and sales of goods, and those concerned with maintaining a smooth and uninterrupted flow of goods and services between buyers and sellers.

Construction Industry: Industry engaged in the construction of buildings, bridges, roads, dams, canals, railway lines, etc.

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 organisation 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.

Extractive Industry: Industry engaged in the discovery and extraction of natural resources like minerals, animals, plants, trees, etc. from the surface or beneath the surface of earth or air or water.

Genetic Industry: Industry engaged in reproduction and multiplication of plants and animals with the objective of earning profit from their sale.

Import Trade: Buying goods from another country.

Industry: Activities engaged in the production of goods and services by utilising available material resources.

Insurance: Covering risk of loss arising from events like fire, accident, etc., by paying certain premium to insurance company.

Internal Trade: Purchase and sale of goods and services within the boundaries of a country.

Manufacturing Industry: Industry concerned with the conversion or transformation of raw-materials and semi-finished goods into finished products.

Nature and Scope of Business

Non-Economic Activities: Activities which are undertaken by human beings due to love and affection, social obligation, religious obligation, patriotism, physical requirement, etc., but not for earning money.

Profession: Activity which involves the rendering of personalised services of a specialised nature based on professional knowledge, education, and training.

Re-export Trade: Importing goods from one country and exporting the same to another country. It is also called entrepot trade.

Retail Trade: Buying goods from wholesalers in large quantities and selling these in small quantities to consumers.

Trade: Activities concerned with the buying and selling of goods and services.

Transportation: Activities engaged in the moving of goods from one place to another.

Warehousing: Activities engaged in the preservation of goods to make them available as and when needed by consumers.

Wholesale Trade: Buying goods from producers in large quantities and selling them to retailers in smaller quantities.

1.11 SOME USEFUL BOOKS

Bhushan, Y.K., 1987, *Fundamentals of Business Organisation and Management*, Sultan Chand: New Delhi. (Part One, Chapters 1 & 2)

Ramesh M.S., 1985, *Principles and Practice of Modern Business Organisation, Administration & Management*, Kalyani Publishers: New Delhi. (Volume 1, Chapters 1, 2&3)

Singh, B.P., and T.N. Chhabra, 1988, *Business Organisation and Management*, Kitab Mahal: Allahabad. (Part One, Chapters 1, 2 & 3).

1.12 ANSWERS TO CHECK YOUR PROGRESS

- A) 5 (i) Business (ii) Employment (iii) Employment (iv) Profession (v) Business (vi) Profession (vii) Business
- 6 (i) False (ii) False (iii) True (iv) False (v) False (vi) True (vii) True (viii) True (ix) False (x) True (xi) False
- B) 2 (1) Economic Activities (2) Employment (3) Business (4) Industry (5) Genetic (6) Manufacturing
- 3 (i) Extractive (ii) Extractive (iii) Manufacture (iv) Construction (v) Manufacture (vi) Genetic (vii) Construction (viii) Manufacture
- C) 4 (i) Transportation (ii) Storage (iii) Insurance (iv) Banking (v) Advertising (vi) Trade
- 5 (i)-True (ii) False (iii) True, (iv) True (v) False (vi) True (vii) True (viii) False

1.13 QUESTIONS FOR PRACTICE

- 1) What is business? Explain its features and objectives.
- 2) Is business different from profession and employment? Discuss.
- 3) What is industry? Explain its classification with illustrations.
- 4) What do you understand by commerce? Briefly explain the classification of commerce with suitable examples.
- 5) What do you understand by organisation? What are the basic forms of business organisation?

Note: These questions will help you to understand the unit better. Try to write answers for them. But, do not send your answers to the University. These are for your practice only.

