**Industrial Management**

**Chapter One**

**Business & Industry-Conceptualization**

**Business:**

* Buying and selling goods
* Transfer of goods or services
* An organization or economic system where goods and services are exchanged for one another or for money.
* The activity of making, buying, or selling goods or providing services in exchange for money

**What is Business? Meaning**

Human beings are continuously engaged in some activity or other in order to satisfy their unlimited wants. Every day, we come across the word ‘business’ or ‘businessman’ directly or indirectly. Business has become essential part of modern world.

Business is an [economic activity](http://kalyan-city.blogspot.com/2011/03/what-are-economic-activities-types-of.html), which is related with continuous and regular production and distribution of goods and services for satisfying human wants.

All of us need food, clothing and shelter. We also have many other household requirements to be satisfied in our daily lives. We met these requirements from the shopkeeper. The shopkeeper gets from wholesaler. The wholesaler gets from manufacturers. The shopkeeper, the wholesaler, the manufacturer are doing business and therefore they are called as Businessman.

**squareDefinitions of Business**

**Stephenson** defines business as, "The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants."

According to **Dicksee**, "Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted."

**Lewis Henry** defines business as, "Human activity directed towards producing or acquiring wealth through buying and selling of goods."

Thus, the term business means continuous production and distribution of goods and services with the aim of earning profits under uncertain market conditions.

**squareFeatures of Business**

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

1. **Production or acquisition of goods**: Since it is the business of “business” to provide goods to people for a price, it is necessary that there are goods to be supplied. They must therefore be either manufactured or produced or they must be procured so that they can be sold and supplied.
2. **Sale or transfer of title**: Goods which have been produced or procured for sale in return for price enter the realm of business. This activity of selling results in the production and acquisition of wealth. Goods produced or acquired for personal consumption, however, do not fall within the scope of business.
3. **Dealings in goods and services**: Business means dealing in goods and service. The goods may be consumers’ goods, such as cloth, bread, jams, shoes, watches, etc., or producers’ goods, such as machinery and tools. Services consist of those items which are not stored by consumers, such as transport services.
4. **Regularity of dealings**: Regularity and recurring nature of buying and selling which ensures continuity of transactions is a characteristic of business. A single transaction involving buying and selling does not become business. For instance, if a person sells his motor car and makes a profit, it does not amount to business. On the other hand, if he keeps a stock of cars and sells them to customers, he carries on a business.
5. **Profits as reward for service rendered**: Business is an activity by which men make their living, or earn profit. Making profit is an essential characteristic of business. Profit is the biggest stimulus for maintaining the continuity of business. In other words, profit is essential for survival and development. The hope of making a good profit attracts men of ability to business. In fact, profit is, in a sense, a reward for the individual ability or efficiency of the enterpriser and also for the service that he renders to the community.
6. **Uncertainty or risk about future**: Economic activity, because it is activity focuses on the future; and one thing certain about the future is its uncertainty, its risk. It is through risk-taking that any businessman earns his profit. The conduct of industry or business always involves a certain amount of risk and uncertainty of return to the entrepreneur.

**squareTypes of Business**

The process of production and distribution are carried out by lakhs of establishments at work. These business units differ in form of ownership and in the way they are organized for operation. A person, who wishes to start a new business, has many forms of organization to choose from. From the point of view of ownership, there are, in the private sector, four main forms of organization to run a business unit. They are as follows:

1. Individual or sole proprietorship
2. Partnership
3. Joint stock company
4. Cooperative undertaking
5. Joint Hindu Family Firm
6. Public or Government Organizations

**Individual or sole proprietorship**

A sole proprietorship or one-man business is a form of organization in which an individual produces independently with his own capital, skill and intelligence and is entitled to receive all the profits and assumes all the risks of ownership. As this simple definition indicates, where a business undertaking is owned, and controlled by one man, with or without the help of his family members or a few employees, we have one-man business and the owner is commonly called the Sole Proprietor or Sole Trader. It is also known as Individual Proprietorship or Individual Entrepreneurship.

**Partnership**

An association of individuals competent to contract who agree to carry on a lawful business in common with the object of sharing profit is a partnership. Section 4 of the Partnership Act, 1932 defines Partnership as “The relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all.” This definition brings out the following five characteristics of partnership:

1. Contractual relationship
2. Plurality of persons
3. Existence of business
4. Sharing of profits
5. Mutual agency

**Joint Hindu Family Firm**

In Indian sub-continent, we have family business in the form of Joint Hindu Family Firms, which are in essence individual entrepreneurs possessing almost all the merits and limitations. The Hindu law says, an undivided family is the normal condition of Hindu society, and the Joint Hindu Family consists of all persons lineally descended from a common ancestor and includes their wives and unmarried daughters. Within this joint family there is a narrower body which includes only those persons who acquire by birth an interest in the joint or coparcenary property. The business belonging to a joint family is ordinarily managed by the father or other senior member for the time being of the family .he is called ***Karta*** or manager. The Karta, as head of the family, has control over the income and expenditure and he is the custodian of the surplus, if any. The other members cannot question his judgment in running the business; their only remedy is to demand partition. On the other hand, he is liable to make good to them their shares of all sums which he has misappropriated or which he has spent for purposes other than those in which the joint family is interested. The manager has an implied authority to borrow money for family business, but the other members will be liable only to the extent of their share in the joint family property. He has general power to carry on the business or shut it down as an individual proprietor may do.

**Joint stock company**

A company is a voluntary association of persons, recognized by law, having a distinctive name, a common seal, formed to carry on business for profit, with capital divisible into transferable shares, limited liability, a corporate body and perpetual succession. An analysis of this definition will bring out the following distinctive characteristics of a company:

1. Creation of law
2. Distinct legal entity
3. Limited liability of members
4. Perpetual succession
5. Common seal
6. Divorce between ownership and management

**The Cooperative organization**

A co-operative organization is a voluntary association with unrestricted membership, and collectively owned funds, organized on democratic principle of equality by persons of moderate means and incomes, who join together to supply their needs and wants through mutual action, in which the motive of production and distribution is service rather than profit.

**Industry-Meaning**

The processes of extraction, production, conversion, processing or fabrication of products are described as industry. These products of industry are sold either for further transformation into finished goods or for ultimate consumption. Goods used by final consumers are called consumers’ goods, and those used in the production of other goods are described as producers’ goods. An enterprise manufacturing motor cars, cloth, jams, and edible oils produces consumers’ goods. A steel mill may make steel for further fabrication into variety of articles, such as surgical instruments, blades, etc., or an engineering concern may manufacture machine tools and machinery to be used for manufacturing other products. These are producers’ goods or capital goods.

**Industry-Types**

1. **Primary Industry**
   1. **Extractive industries:** These industries are engaged in supplying commodities which are extracted or raised from the earth, sea and air with comparatively little help from man. The products of such industries are generally used by manufacturing and construction industries for fabricating finished goods. Fishing, mining, fruit gathering, agriculture and afforestation are some of the examples of extractive industries.
   2. **Genetic industries:** These are industries which, though dependent upon nature, require a greater application of human skill in their production. The enterprises engaged in agriculture, forestry and fish culture are examples of genetic industries. Though agriculture is dependent upon the nature and quality of the soil and climatic conditions, yet success in this line will very much depend upon the application of human skill and knowledge. Intensive cultivation is possible with greater amount of capital and larger number of workers. Similarly, cultivation of forests is necessary for securing supply of timber for various purposes.
2. **Secondary Industry**
   1. **Manufacturing industries:** Manufacturing industries are concerned with the working of raw materials or partly finished materials into finished products. Manufacturing processes are carried on chiefly in factory enterprises and constitute a very large part of the total business activities. Among the manufacturing industries we may mention iron and steel works, spinning and weaving mills, flour mills, the making of machinery, etc.
      1. **Continuous industry:** It is an industry in which all the material is received at one point, from which successive operations turn it into a finished product. Yarn spinning, paper and pottery manufacture are examples.
      2. **Assembly industry:** In an assembly industry the finished product can be produced only after various components have been made and then brought together for final operations, such as manufacture of shoes and automobiles.
      3. **Analytical industry:** In this type of continuous industry, the basic material is analyzed and separated into several parts so that the final product emerges separate and distinct from the mass of original material. All refining industries, such as oil and by-products of coke, are of this nature. The crude mineral oil is analyzed and separated into kerosene, diesel oil, lubricating oil, and the final product petrol.
      4. **Synthetic industry:** In this type of continuous industry various ingredients are brought together and combined in the manufacturing process to produce a new product. Paper manufacture, yarn spinning, paint making soap making are example of this type.
      5. **Assembly industries with similar components:** Here the components are similar and go through similar operations, as in clothing industry.
      6. **Assembly industries with dissimilar components:** In this type the components are dissimilar and go through unlike processes, as in automobile industry.
   2. **Construction industries:** These are concerned with the making or constructing of buildings, bridges, dams, roads, canals, etc. The process of laying out, fitting and connecting materials which have been already prepared is involved in these industries.
   3. **Service enterprises:** Business provides not only goods but also services. At every point in the economic system an infinite variety of services are furnished, e.g., domestic services, financial and aesthetic services to individuals and to business enterprises. When a person goes to a cinema, or takes out an insurance policy on his life, he receives nothing material in return for his money but a piece of paper. A cinema house or an insurance company is nonetheless a business concern. What each of them provides cannot be classified as goods; they are rather opportunities-an opportunity to save money and make provision for a wife and family after death. Generally, such things are termed services. Hotels provide accommodation, railways and airplanes means of getting from one place to another. Shipping companies also cater for health by means of holiday cruises. All of the provide services.

**Business Environment:**

The combination of internal and external factors that influence a company’s operating situation. The business environment can include factors such as: clients and; its competition and owners; improvements in technology; laws and government activities; and market, social and economic trends.

The business environmental factors may be classified into different types. There are broadly two types of environment that affects the organization, internal environment and external environment

**Inland/Internal Environment:**

Environment which lies within the origin is known as internal environment. Internal factors are generally regarded as controllable factors

Internal environment includes internal factors of the business. It includes plans and policies, human resource, financial resource, corporate image, plant and machinery, labor-management relationship, promoter’s vision etc. The components of internal environment are controllable.

**The following are the factors of internal environment:**

#### 1. Plans & Policies:

The plans and policies of the firm should be properly framed taking into consideration the objectives and resources of the firm. Proper plans and policies help the firm to accomplish its objectives.

The higher authority must analyze the internal environment to foresee the changes and frame appropriate policies well in time.

For example: the personnel policy in respect of promotion should be based on merit rather than seniority.

#### 2. Human Resource:

The survival and success of the firm largely depends on the quality of human resources. The social behavior of the employees greatly affects the working of the business. The characteristics of human resource like skill, quality, morale, commitment can contribute to the success of the organization.

If the employees of the organization are skillful and committed, it can take the firm to a great height. Neglecting the human resource by the management can hamper the success of the organization.

#### 3. Financial Resources:

Capital is the lifeblood of every business. Finance relates to money. A firm needs adequate funds to meet its working capital and fixed capital requirements. There is a need to have proper management of working capital and fixed capital.

Financial factors like financial policies, financial status (position) and capital structure ‘a/so influence the internal environment of a firm affecting its performance- If the firm enjoys sufficient financial resource, it can spend on research and promotional activities.

#### 4. Corporate Image:

A firm should develop, maintain and enhance a good corporate image in the minds of employees, investors, customers etc. Poor corporate image is a weakness of the firm.

Constant research and development activities should be undertaken by the firm to enhance the quality of the brand. This helps in creating a corporate image and strengthens the standard of the firm in the market.

#### 5. Plant and Machinery:

Plant and machinery is the internal part of the business firm. If the machines are obsolete or outdated, they should be replaced by a new one, or that adversely affects the business firm.

#### 6. Labor and Management Relationship:

There should be smooth labor and management relationship. The management should understand the problems of their workers and gain confidence in them. The labors should be motivated by providing with monetary and non-monetary incentives (benefits).

Better Labor- Management relationship helps in increasing the morale of the employees and motivates them to put efforts in the business. Such strong relationship enhances organizations development.

#### 7. Promoters vision:

The promoter should have far sight vision to forecast opportunities and threats in the business so that the opportunities are properly grabbed and threats are diffused off in time.

### External Environment:

To run the business successfully, it is necessary to understand the environment with in which the business operates. Business environment j is a set of external factors that affects the business decisions.

The environment, which lies outside the organization, is known as external | environment. External factors are unpredictable and uncontrollable. They are beyond the control of the company.

#### Definition of external environment:

According to William Glueck and Jauck, “In environment there are several factors which constantly bring opportunities and threats to the business firm. It includes social, economic, technological and political conditions”.

**External environment is further classified as:**

I. Micro Environment

II. Macro Environment

#### I. Micro Environment:

Micro environment is also known as operating environment. It consists’ of company’s immediate environment that affect its performance. It includes customers, suppliers, intermediaries, competitors etc. The micro environment consist the elements that directly affects the company.

According to Philip Kotler, “Micro environment consist of the factors in the company’s immediate environment which affects the performance of the business unit. These include suppliers, market intermediaries, competitors, customers and the public”.

**1. The customers:**

Consumer is the king of the market. They are the centers of the business. They are one of the most important factors in the external environment. Customer satisfaction has become more challenging due to globalization.

Nowadays, consumer expectations are high. Therefore the firm must keep in mind the customer’s expectations, their requirements and accordingly make market decisions. The success of the business depends upon identifying the needs, wants, likes and dislikes of the customers and meeting with their satisfaction.

Businesses have different classes of customers like wholesale customers, retail customers, industrial customer’s foreign customers etc. To enhance growth, it is necessary for the business firm to identify the needs of these customers and should undertake research and developmental activities.

**2. The competitors:**

The company has to identify its competitor’s activities. Information must be collected about competitors in respect of their prices, products, and promotion and distribution strategies. World is becoming a global market.

Business firm has to face tremendous competition not only from Bangladeshi business firm but also from foreign firms. To achieve growth and success they have to monitor various activities of their competitors.

Liberalization, privatization and globalization have promoted competition that has created threats to domestic units. The business must understand the strategies framed by the competitors to respond in an effective manner.

**3. The Suppliers:**

Suppliers supply raw material, machines, equipment’s and other supplies. The company has to keep a watch over prices and quality of materials and machines supplied. It also has to maintain good relations with the suppliers.

It is necessary to have reliable source of supply for the smooth working of the firm. Uncertain supplies compel the firm to maintain high inventories resulting into increase in the cost. The business should not only rely on the single supplier but also have relations with multiple suppliers.

**4. Society:**

Society affects company’s decisions. The expectation of the society from the business is increasing. Therefore the business firm maintains public relations department to handle complaints, grievances and suggestions from general public. The members of the society include:

i. Financial institutions

ii. Shareholders

iii. Government

iv. Employees

v. General public

**5. Marketing intermediaries:**

Market intermediaries include agents and brokers who help the business firm to find the customers. They help the firm to promote and distribute the goods to the final consumers.

They are the link between the firm and the final customers. Market intermediaries include wholesalers, retailers, advertising firm, media, transport agencies, banks, financial institutions etc. They assist the company in promoting and targeting its product to the right market.

#### II. Macro Environment:

The macro environment consists of the larger societal factors that affect the working of a firm. Macro environment is also known as general environment. The macro factors are generally uncontrollable.

**The macro environment factors are briefly discussed as follows:**

**Definition of Macro Environment:**

According to Philip Kotler, “Macro environment create forces that creates opportunities and pose threats to the business unit. It includes economic, demographic, natural, technological, political, political and cultural environments.”

**Macro Factor:**

Demographic Economic Technological Cultural Political Natural Legal

**1. Demographic Environment:**

Demographic Environment relates to the human population with reference to its size, education, sex ratio, age, occupation, income, status etc. Business deals with people so they have to study in detail the various components of demographic environment.

Demographic environment differs from country to country. Demographic factors like size of the population, age composition, density of population, rural-urban distribution, family size, income level, status etc. have significant implications on business.

For example: If the population is large, then the demand for goods and services will be more. It will have favorable effect on the business. In the same way educational level is also an important factor affecting business.

**2. Economic Environment:**

i. Economic environment consists of economic factors that influence the functioning of a business unit. These factors include economic system, economic policies, trade cycle, economic resources, gross national product, corporate profits, inflation rate, employment, balance of payments, interest rates, consumer income etc. Economic environment is dynamic and complex in nature

A business firm closely interacts with economic environment that consist of:

a. Economic conditions in the market i.e. demand and supply factors

b. Economic policies of the government: monetary policy, fiscal policy, industrial policy, trade policy, foreign investment policy etc.

ii. Economic system prevailing in the country also affects the business growth. Every country has different economic system. The economic system includes capitalism, socialism, and mixed economy. Business depends upon economic environment for their inputs and also for market. Changes in the economic factors can adversely affect the working of a business firm.

**Some Aspects of Economic Environment:**

1. Role of Private and Public sector
2. Rate of growth of GDP, GNP, and Per Capita Income
3. Rate of Saving and Investment
4. Balance of Trade
5. Balance of Payment
6. Transport and Communication System
7. Money Supply in the Economy
8. International Debt

**3. Technological Environment:**

Technology has brought about far reaching changes in the methods of production, quality of goods, productivity, and packaging. There is a constant technological development-taking place.

The business firm must constantly monitor the changes in the technological environment, which may have a considerable impact on the working of a business. It also indicates the pace of research and development and progress made in introducing modern technology in production.

Technology provides capital intensive but cost effective alternative to traditional labor-intensive methods. In a competitive business environment technology is the key to development. Technology helps to run the business better and faster.

**Some Aspects of Technological Environment:**

1. Various Innovations and Inventions.
2. Scientific Improvements.
3. Developments in IT sector
4. Import and Export of Technology.
5. Technological Advances in Computers

**4. Cultural Environment:**

Culture involves knowledge, values, belief, morals, laws, customs, traditions etc. Culture passes from one generation to another through institutions like family, schools, and colleges. Business is an integral part of the social system.

Society is largely influenced by the culture and in turn culture influence the business firm. Culture shapes the attitude and behavior of the society. Any change in the cultural factor affects the business in large. Business should be organized and governed, taking into consideration various values and norms of the society.

**5. Political Environment:**

The political environment in a country influences the legislations and government rules and regulations under which a firm operates.

Political environment means influence exerted by:

**a. Legislature:** This includes parliament, legislative assemblies. They are the law making bodies that frame rules and regulations.

**b. Executives:** They include government beurocracy who implements the decision.

**c. The Judiciary:** It includes Supreme Court, High Court who sees whether the decisions taken and implemented by the executive are within the constitutional framework. They are also known as dispute settlement bodies.

Legislature, executives and judiciary are the important pillars of political environment. A stable progressive and healthy political environment is very necessary for the growth and development of business.

**Some Aspects of Political Environment:**

1. Present political system
2. Constitution of the country
3. Profile of political leaders
4. Government intervention in business
5. Foreign policy of government
6. Values and ideology of political parties

**6. Natural Environment:**

Resource availability like land, water and mineral is the fundamental factor in the development of business organization. It includes natural resources, weather, climatic conditions, port facilities, topographical factors such as soil, sea, rivers, rainfall etc.

Every business unit must look for these factors before choosing the location for their business.

The natural environment largely determines the functioning of a business firm. Natural environment has a great influence on the working of a business. The business organization should consider the natural factors before starting their operations.

Natural calamities like flood, drought, cyclone, Tsunami etc. can also affect the business environment.

**7. Legal Environment:**

The state sets the formal rules, laws and regulations for the country’s operational system. It creates a framework of rules and regulations within which a business has to operate. The business should have complete knowledge of laws and policies to run the business effectively.