

Chapter 1...

Introduction to Business Administration

Contents ...

- 1.1 Introduction
- 1.2 Business Definition
- 1.3 Characteristics
- 1.4 Objectives of Business
- 1.5 Categorization of Businesses
- 1.6 Scope of Business
- 1.7 Commerce
- 1.8 Trade
- 1.9 Business Administration
- 1.10 Functions of Administration
- 1.11 Management
- 1.12 Characteristics of Management
- 1.13 Functions of Management
- 1.14 Management Concepts
- 1.15 Management Styles
- 1.16 Layers of Management
- 1.17 Organization
- 1.18 Characteristics of Organisation
- 1.19 Principles of Organization
- 1.20 Organizational Activities
 - Points to Remember
 - Questions for Discussion
 - Questions from Previous Examinations

The objectives of this chapter are obtaining clarity about the concept, characteristics, scope and objective of the business activity. The chapter also covers the concept of commerce, trade and aids to trade. To obtain deeper knowledge about the terms commonly used as Administration, Management and Organization.

1.1 INTRODUCTION

The term 'business' is derived from the word 'busy.' Business refers to a set of organised activities for production and exchange of goods and services with an objective to earn profit. Business incorporates the entire human efforts directed towards the production or acquisition of wealth through the process of buying and selling of goods and services.

The term business encompasses industry which undertakes production and commerce which attends to distribution. Business is an economic activity carried out with the objective of a earning livelihood. The success of any business activity lies in professionally attending to the various factors that contribute to the success of the business organization. The key factors in any business activity are:

(a) Administration (b) Management and (c) Organization

1.2 BUSINESS : DEFINITION

A business is an organization where people work together. In a business, people work to make and sell products or services. A business can earn a profit for the products and services it offers. The word business comes from the word busy, and means doing things. It works on a regular basis.

The term "business" also refers to the organized efforts and activities of individuals to produce and sell goods and services for profit. Businesses can be for-profit entities or non-profit organizations. There are various forms of a business, such as a Limited Liability Company (LLC), a sole proprietorship, a corporation, and a partnership etc. Businesses can range from small operations operating in one industry to large operations operating in many industries around the world.

A business is defined as an organization or enterprising entity engaged in commercial, industrial, or professional activities. The term business, also refers to the organized efforts and activities of individuals to produce and sell goods and services for profit.

Definition by **Keith Davis**, "Business may be defined as any form of commercial activity to satisfy the economic wants of people at a profit."

Skinner and Lvancevich defined it as, "Business is the exchange of goods, services or money for mutual benefit or profit."

Generally, a business begins with a business concept (the idea) and a name. e.g. The entrepreneur who wants to start a business, first of all, identifies a few business ideas and then undertakes a survey of each of the ideas and after studying the pros and cons, finally decides his business activity. While surveying, an entrepreneur will also think of identification of location of the proposed business activity. He will have to decide about the name of the business. The business name can be one of the most valuable assets of a firm, careful consideration should be given when choosing it. Businesses operating under fictitious names must be registered with the state.

It is also important to determine the legal structure of the business. Depending on the type of business, it may need to secure permits, adhere to registration requirements, and obtain licenses to legally operate.

1.3 CHARACTERISTICS

Following are the characteristics of any business:

- ❖ **Economic Activity:** Business is primarily an economic function as it involves production and distribution of goods and services for the satisfaction of human wants. However, business is a part of social activity and it reflects the aspirations, values and beliefs of people. Therefore, business may be described as a socio economic function. The primary objective of any business is to earn profits which cannot be ignored. If it is ignored, it is likely to become a sick unit.
- ❖ **Finance:** Every business needs finance to start it. The quantum of finance required depends upon the size of the business. There are two sources of finance: one is bringing in own funds or partly rely on the borrowed fund. The banks and the other term lending institutions do provide requisite finance provided the proposal is technically feasible and economically viable.
- ❖ **Distribution:** The term business envisages that there are two parties i.e. one is buyer and the other is seller. The business may be of either manufacturing or providing service to the needy. Thus, every business involves marketing of the produce or services.
- ❖ **Consumer Satisfaction:** The success of any business is solely depending on the consumer satisfaction. It is said that satisfied

consumer is an asset to the organization. Therefore, every business consumer accords top most priority to meet the requirements of the activity accords top most priority to meet the requirements of the consumer. The marketing people regularly take feedback from the consumers and carry out changes/modification in their product or service if need be.

- ❖ **Profit Objective:** It is already stated that the prime objective of any business activity is to earn profit. Profit is a reward for the risk undertaken. One has to remember that while earning profit the owner should ensure that it is not out of windfall gain. It should be a sustainable activity. Uncertainty of return is also a characteristic of any business. Therefore, the businessmen should be alert all the time.
- ❖ **Sustainability:** Whenever any business activity is started it should be a sustainable activity and not a temporary one. There are business firms which are even over a century old. E.g. PNG Jewellers are in business for over 175 years. This is possible because of the reputation it enjoys.

- ❖ **Growth and Development:** We are in a dynamic world and every organization need to register growth according to the changing times. Continuing the same illustration of PNG Jewellers, it will be worthwhile to observe that over the past few years they have established several branches at strategic centres and achieved business growth. If you stop your expansion / development it is likely that in course of time the unit may vanish.

- ❖ **Creation of Utilities:** The business should ensure that they go on to create their products utility as per the demand of their customers. Customers expectation are ever increasing and for that purpose the businessmen should always be on their toes to add to their products utilities to remain in the stiff business competition.

- ❖ **Regularity:** The business activity should be on a continuing basis. If it is occasional then it is difficult to have continued customers patronage. Some business items may be seasonal but the businessman ensures that the business activity is continued and all seasonal products are made available to achieve regularity and there are uninterrupted dealings with the customers. There should be multiple products and services available in the shop which will ensure continuity through out the year.

1.4 OBJECTIVES OF BUSINESS

Objectives represent the purpose for which an organisation has been started. Objectives guide and govern the actions and behaviour of businessmen.

According to **William F. Glueck**, "Objectives are those ends which the organisation seeks to achieve through its existence and operations." Some organizations put the objectives as goals to be achieved.

It is generally believed that a business has a single objective. That is, to make profit. But it cannot be the only objective of business. While pursuing the objective of earning profit, business units do keep the interest of their owners in view. However, any business unit cannot ignore the interests of its employees, customers, the community, as well as the interests of society as a whole.

Economic Objectives:

Economic objectives of business refer to the objective of earning profit and also other objectives that are necessary to be pursued to achieve the profit objective, which includes creation of customers, regular innovations and best possible use of available resources.

- ❖ **Profit Earning:** Profit is the lifeblood of business, without which no business can survive in a competitive market. In fact, profit making is the primary objective for which a business unit is brought into existence. Profits must be earned to ensure the survival of business, its growth and expansion over time.

Profits help businessmen not only to earn their living but also to expand their business activities by reinvesting a part of the profits. In order to achieve this primary objective, certain other objectives are also necessary to be pursued by business, which are as follows:

- ❖ **Creation of Customers:** A business unit cannot survive unless there are customers to buy the products and services. Again, a businessman can earn profits only when he/she provides quality goods and services at a reasonable price. For this it needs to attract more customers for its existing as well as new products. This is achieved with the help of various marketing activities.

- ❖ **Regular Innovations:** Innovation means changes, which bring about improvement in products, process of production and distribution of goods. Business units, through innovation, are able to reduce cost by

adopting better methods of production and also increase their sales by attracting more customers because of improved products. Reduction in cost and increase in sales gives more profit to the businessmen. Use of power looms in place of handlooms, use of tractors in place of hand implements in farms etc. are all the results of innovation.

- ❖ **Best Possible Use of Resources:** As we all know, to run any business we must have sufficient capital or funds. The amount of capital may be used to buy machinery, raw materials, employ men and have cash to meet day to day expenses. Thus, business activities require various resources like men, materials, money and machines. The availability of these resources is usually limited. Thus, every business should try to make the best possible use of these resources at the same time to employ efficient workers. Making full use of machines and minimizing wastage of raw materials, can achieve this objective.

Social Objectives:

- ❖ Social objective are those objectives of business, which are desired to be achieved for the benefit of the society. Since business operates in a society by utilizing its scarce resources, the society expects something in return for its welfare. No activity of the business should be aimed at giving any kind of trouble to the society.
- ❖ If business activities lead to socially harmful effects, there is bound to be public reaction against the business sooner or later. Social objectives of business include production and supply of quality goods and services, adoption of fair trade practices and contribution to the general welfare of society and provision of welfare amenities.
- ❖ **Production and Supply of Quality Goods and Services:** Since the business utilizes the various resources of the society, the society expects to get quality goods and services from the business, the objective of business should be to produce better quality goods and supply them at the right time and at a right price. It is not desirable on the part of the businessman to supply adulterated or inferior goods which cause injuries to the customers.

They should charge the price according to the quality of the goods and services provided to the society. Again, the customers also expect timely supply of all their requirements. So, it is important for every business to supply those goods and services on a regular basis.

- ❖ **Adoption of Fair Trade Practices:** In every society, activities such as hoarding, black marketing and overcharging are considered undesirable. Besides, misleading advertisements often give a false impression about the quality of products. Such advertisements deceive the customers and the businessmen use them for the sake of making large profits.

This is an unfair trade practice. The business unit must not create artificial scarcity of essential goods or raise prices for the sake of earning more profits. All these activities earn a bad name and even sometimes make the businessmen liable for penalty and even imprisonment under the law. Therefore, the objective of business should be to adopt fair trade practices for the welfare of the consumers as well as the society.

- ❖ **Contribution to the General Welfare of the Society:** Business units should work for the general welfare and upliftment of the society. This is possible through running of schools and colleges, better education, opening of vocational training centres to train the people to earn their livelihood, establishing hospitals for medical facilities and providing recreational facilities for the general public like parks, sports complexes etc.

Human Objectives:

- Human objectives refer to the objectives aimed at the well being as well as fulfilment of expectations of employees as also of people who are disabled, handicapped and deprived of proper education and training. The human objectives of business may thus include economic well being of the employees, social and psychological satisfaction of employees and development of human resources.
- **Economic Well being of the Employees:** In business, employees must be provided with remuneration and incentive for performance, benefits of provident fund, pension and other amenities like medical facilities, housing facilities etc. By this, they feel more satisfied at work and contribute more for the business.
- **Social and Psychological Satisfaction of Employees:** It is the duty of business units to provide social and psychological satisfaction to their employees. This is possible by making the

job interesting and challenging, putting the right person in the right job and reducing the monotony of work opportunities for promotion and advancement in career should also be provided to the employees. Further, grievances of employees should be given prompt attention and their suggestions should be considered seriously when decisions are made. If employees are happy and satisfied, they can put then best efforts in work.

- **Development of Human Resources:** Employees as human beings always want to grow. Their growth requires proper training as well as development. Business can prosper if the people employed can improve their skills and develop their abilities and competencies in course of time. Thus, it is important that business should arrange training and development programmes for its employees.

- **Well being of Socially and Economically Backward People:** Business units being inseparable parts of society should help backward classes and also people those are physically and mentally challenged. This can be done in many ways. For instance, vocational training programme may be arranged to improve the earning capacity of backward people in the community. While recruiting its staff, business should give preference to physically and mentally challenged persons. Business units can also help and encourage meritorious students by awarding scholarships for higher studies.

National Objectives:

- ❖ Being an important part of the country, every business must have the objective of fulfilling national goals and aspirations. The goal of the country may be to provide employment opportunity to its citizens, earn revenue for its exchequer, become self sufficient in production of goods and services, promote social justice, etc. Business activities should be conducted keeping these goals of the country in mind, which may be called national objectives of business.

The following are the national objectives of business.

- ❖ **Creation of Employment:** One of the important national objectives of business is to create opportunities for gainful employment of

people. This can be achieved by establishing new business units, expanding markets, widening distribution channels, etc.

- ❖ **Promotion of Social Justice:** As a responsible citizen, a businessman is expected to provide equal opportunities to all persons with whom he/she deals. He/She is also expected to provide equal opportunities to all the employees to work and progress. Towards this objective special attention must be paid to weaker and backward sections of the society.

- ❖ **Production According to National Priority:** Business units should produce and supply goods in accordance with the priorities laid down in the plans and policies of the government. One of the national objectives of business in our country should be to increase the production and supply of essential goods at reasonable prices.

- ❖ **Contribute to the Revenue of the Country:** The business owners should pay their taxes and dues honestly and regularly. This will increase the revenue of the government, which can be used for the development of the nation.

- ❖ **Self sufficiency and Export Promotion:** To help the country to become self reliant, business units have the added responsibility of restricting import of goods. Besides, every business units should aim at increasing exports and adding to the foreign exchange reserves of the country.

Global Objectives:

Previously India had very restricted business relationship with other nations. There was a very rigid policy for import and export of goods and services. But, nowadays due to liberal economic and export-import policy, restrictions on foreign investments have been largely abolished and duties on imported goods have been substantially reduced. This change has brought about increase in competition in the market. Today because of globalisation the entire world has become a big market. Goods produced in one country are readily available in other countries. So, to face the competition in the global market every business has certain objectives in mind, which may be called the global objectives. Let us learn about them.

- ❖ **Raise General Standard of Living:** Growth of business activities across national borders makes quality goods available at reasonable prices all over the world. The people of one country get to use similar

types of goods that people in other countries are using. This improves the standard of living of people.

- ❖ **Reduce Disparities among Nations:** Business should help to reduce disparities among the rich and poor nations of the world by expanding its operation. By way of capital investment in developing as well as underdeveloped countries it can foster their industrial and economic growth.

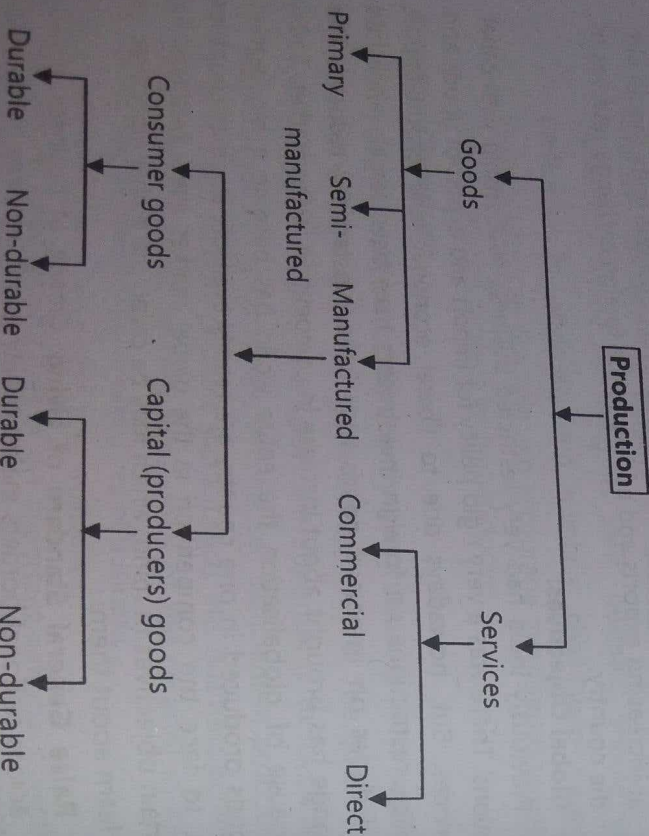
❖ **Make Available Globally Competitive Goods and Services:** Business should produce goods and services which are globally competitive and have huge demand in foreign markets. This will improve the image of the exporting country and also earn more foreign exchange for the country.

1.5 CATEGORIZATION OF BUSINESSES

The businesses can be categorized according to the business activity, size of the business activity i.e. scale of operations, use of factors of production etc.

Broadly the businesses are divided in the various categories as under:

Classification of Goods and Services



On the basis of activity carried out:

- Manufacturing:** Where the raw material is converted into a finished product. E.g. Godrej Washing Machine
- Service:** In this category the businessmen provide services. E.g. Architect provides architectural services.

On the basis of intensive use of factors of production:

- Capital intensive industry:** Industries which require heavy capital investment are classified under this category. E.g. Steel Plant.
- Labour intensive industry:** Industries where large volume of labour is required come under this category. E.g. Building construction.

On the Basis of Scale of Operations:

- Small and Medium Scale:** These are relatively small and medium industries where all the factors of production, land, labour, capital are required in relatively small quantum. E.g. a small workshop providing a part of the big machine / equipment, vendors of large scale manufacturers who supply a part in the total assembly of the finished product. Currently this category is in focus as these units provide employment opportunities in good number. They are accorded priority by the central and state governments and for which several sops are given by the banks and the government. These are defined by a statute and are referred to as Micro, Small and Medium Enterprises (MSMEs).

- Large Scale Industry:** These are the industries where all the factors of productions are required in huge quantity. E.g. Manufacturers of scooters and motor cycles. They do procure several parts from their vendors but the finished product is sold under their brand.

1.6 SCOPE OF BUSINESS

The scope of business is very comprehensive. It encompasses all human activities, which tend to satisfy needs and wants of the human beings living in a society. A large part of the business is concerned with providing the final or finished products or goods to the desired people.

Business is universal and everywhere. It is essential to ensure the production and distribution of goods and services to satisfy the



economic wants of people at a profit. The nature and scope of businesses are changing very quickly. The people, who are engaged in business, must have the ability to cope with the changing environment because the people's attitudes, habits, tastes, likes and dislikes, norms, beliefs, values, perceptions and motives are changing with the change of time.

1.7 COMMERCE

Definition: Commerce refers to the buying and selling of goods and services for money or in kind. It is a branch of business. It includes all the processes that have to do with the exchange of products and services. The term usually refers to doing business on a large scale. Specifically, on a scale large enough to require transportation from seller to buyer. The transportation may be across a town, a state or county, or from country to country.

The term 'commerce' usually means the same as 'trade'. Trade also means buying, selling, or exchanging goods and services between people, firms, and countries.

Commerce focuses on the distribution side of the business, rather than production. Some economists, however, say that it includes all business activities and functions. In other words, everything to do with the transference of goods and services from producers – including production – to consumers.

The second component of the scope of business is commerce. It involves the buying and selling of goods and all the activities which are associated with the transfer of goods from the production source to the ultimate consumers or destination. The ranges of activities related to commerce take place through:

1.8 TRADE

Trade is a basic economic concept involving the buying and selling of goods and services, with compensation paid by a buyer to a seller, or the exchange of goods or services between parties. Trade can take place within an economy between producers and consumers.

The process of buying and selling goods is called **trade**. It is the process of exchanging goods and services amongst the buyers and sellers and both of them earn profits. Trade can be classified into two types, internal trade and external trade.

- ❖ Trade broadly refers to exchanging goods and services, most often in return for money.
 - ❖ Trade may take place within a country, or between trading nations. For international trade, the theory of comparative advantage predicts that trade is beneficial to all parties, although critics argue that in reality it leads to stratification among countries.
 - ❖ Economists advocate for free trade between nations, but protectionism such as tariffs may present themselves due to political motives, for instance with 'trade wars'.
 - ❖ **Internal Trade:** The process of buying and selling goods within a country is called internal trade. The internal trade can be either wholesale trade or retail trade.
 - ❖ **Wholesale Trade:** In wholesale trade, the goods are purchased in bulk from the producers and sold to the retailers. These retailers then sell these goods to the final consumers.
 - ❖ **Retail Trade:** In the retail trade, the retailer sells goods and services to the final consumers.
 - ❖ **External Trade:** The process of buying and selling goods between the two countries is called external trade. The external trade has two types: import trade and export trade.
- The elements which help in the purchasing of goods and services are called **aid to trade**. There are certain constituents that are essential for the progress of the trade and are as follows:
- Aids to Trade:**
- ❖ **Transport:** By using different ways of transport, the goods are transported from industry to the consumers. It includes railways, ships, airlines, etc.
 - ❖ **Insurance:** Insurance is a very important to aid to trade. Insurance reduces the risk of damage to goods due to fire, flood or earthquake, etc. by paying a good amount in this regard.
 - ❖ **Warehousing:** Warehouses are used to keep the goods and they are released and are delivered to the market when demanded. Thus, warehousing plays an important part to overcome the barrier of time and helps the goods reach the consumers in a short span of time.
 - ❖ **Banking:** Commercial banks play an important role in financing trade activities. They provide funds to the traders for stock holding and

transporting the goods. They also support the producers in purchasing and receiving at both national and international levels. The banks also offer credit facility in the form of cash credit, overdrafts and loans to the traders.

❖ **Business Process Outsourcing:** This is relatively a new concept. The business management study the pros and cons of certain operations and if found profitable get the said operations through an approved vendor. Adoption of this practice entails getting the work at low cost and without increasing the in house staff.

❖ **Advertising:** In order to create awareness amongst the customers, the manufacturers or the service providers have to advertise their products and services and this is done through advertising. By itself, advertising is a special subject. There are various medias through which the advertising can be made and the advertiser has to adopt it according to the product or service that is to be advertised.

❖ **Research and Development:** Every business should have a research and development approach to remain in business. We are in a dynamic society where the expectations of the consumers go on changing and for that purpose, using creativity, the business should come out with its product and service with greater utility.

1.9 BUSINESS ADMINISTRATION

Meaning and Definition: The term is defined in various ways. A few definitions have been cited hereunder.

"Business administration is the process of organizing the business's personnel and resources to meet business goals and objectives. These processes include human resources, as well as operations management, financial management, and marketing management."

Business administration covers all facets of managing day to day operations and decision making for a company or non profit organization. It includes efficient organization and management of employees and other resources to focus operations toward organizational goals.

Effective business administration promotes stability, success and growth for the company or organization. Specialty areas for management include finance and economics, human resources, marketing, operations, information systems and accounting. Knowledge of business laws and regulations is essential for administrators to avoid legal entanglements, especially with employment and labour laws.

1.10 FUNCTIONS OF ADMINISTRATION

Theo Haimann puts forward his view of the term as, "Administration means overall determination of policies, setting of major objectives, the identification of general purposes and laying down of broad programmes and projects". It refers to the activities of the higher level. It lays down basic principles of the enterprise. According to Newman, "Administration means guidance, leadership and control of the efforts of the groups towards some common goals."

Practically, there is no difference between management and administration. Every manager is concerned with both - administrative management function and operative management function as shown in the figure below. However, the managers who are higher up in the hierarchy denote more time on administrative function and the lower level denote more time on directing and controlling worker's performance i.e. management.

On the Basis of Function:

Basis	Management	Administration
Meaning	Management is an art of getting things done through others by directing their efforts towards achievement of pre-determined goals.	It is concerned with formulation of broad objectives, plans and policies.
Nature	Management is an executing function.	Administration is a decision-making function.
Process	Management decides who should do it and how should he do it.	Administration decides what is to be done and when it is to be done.
Function	Management is a doing function because managers get work done under their supervision.	Administration is a thinking function because plans and policies are determined under it.
Skills	Technical and human skills.	Conceptual and human skills.
Level	Middle and lower level function.	Top level function.

On the Basis of Usage:

Basis	Management	Administration
Applicability	It is applicable to business concerns i.e. profitmaking organization.	It is also applicable to non business concerns i.e. clubs, schools, hospitals etc.
Influence	The management decisions are influenced by the values, opinions, beliefs and decisions of the managers.	The administration is influenced by public opinion, government policies, religious organizations, customs etc.
Status	Management constitutes the employees of the organization who are paid remuneration (in the form of salaries and wages).	Administration represents owners of the enterprise who earn return on their capital invested and profits in the form of dividend.

Functions of management in brief are:

❖ **Planning:** Planning means looking ahead and chalking out future courses of action to be followed. It is a preparatory step. It is a systematic activity which determines what, when, where, how and who (4W 1H) is going to perform a specific job. Planning is a detailed programme regarding future courses of action.

It is rightly said "Well planned is half done." Therefore, planning takes into consideration available and prospective human and physical resources of the organization so as to get effective coordination, contribution and perfect adjustment. It is the basic management function which includes formulation of one or more detailed plans to achieve optimum balance of needs or demands with the available resources.

❖ **Organizing:** It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals. According to Henry Fayol, "To organize a business is to provide it with everything useful or its functioning i.e. raw material, tools, capital and personnel". To organize a

business involves determining and providing human and nonhuman resources to the organizational structure. Organizing as a process involves:

- Identification of activities.
- Classification or grouping of activities.
- Assignment of duties.
- Delegation of authority and creation of responsibility.
- Coordinating authority and responsibility relationships.

❖ **Staffing:** It is the function of manning the organization structure and keeping it manned. Staffing has assumed greater importance in the recent years due to advancement of technology, increase in size of business, complexity of human behaviour etc. The main purpose of staffing is to put right man on right job i.e. square pegs in square holes and round pegs in round holes. According to Koontz and O'Donnell, "Managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal and development of personnel to fill the roles designed in the structure." Staffing involves:

- Manpower Planning (estimating man power in terms of searching, choose the person and giving the right place.)
- Recruitment, Selection and Placement.
- Training and Development.
- Remuneration.
- Performance Appraisal.
- Promotions and Transfer.

❖ **Directing:** It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. It is considered life spark of the enterprise which sets it in motion the action of people because planning, organizing and staffing are the mere preparations for doing the work. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating subordinates for the achievement of organizational goals. Direction has following elements:

- Supervision
- Motivation
- Leadership
- Communication

❖ **Controlling:** It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of controlling is to ensure that everything occurs in conformance with the standards. An efficient system of control helps to predict deviations before they actually occur. According to **Theo Haimann**, "Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation."

According to Koontz and O'Donnell, "Controlling is the measurement and correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished." Therefore, controlling has following steps:

- Establishment of standard performance.
- Measurement of actual performance.
- Comparison of actual performance with the standards and finding out deviation, if any.
- Corrective action.

1.11 MANAGEMENT

Meaning and Definition:

Management is the coordination and administration of tasks to achieve a goal. It is the art of getting work done through others. A manager is one who directs the efforts of the team towards attainment of organizational goals. The administration activities include setting the organization's strategy and coordinating the efforts of staff to accomplish these objectives through the application of available resources. It can also refer to the seniority structure of staff members within an organization.

According to **Henri Fayol**, "To manage is to forecast and to plan, to organise, to command, to co-ordinate and to control." Henri Fayol gave this definition of management in his book "Industrial and General Administration". ... "Management is the art of getting things done through people."

"Management is a multipurpose organ that manages business and manages managers and manages workers and work." This management definition was given by **Peter F. Drucker** in his book, The Practice of Management.

1.12 CHARACTERISTICS OF MANAGEMENT

❖ **Management as a Continuous Process:** Management can be considered as a process because it consists of planning, organizing, activating and controlling the resources (personnel and capital) of an organization. So, they are used to the best advantage in achieving the objectives of the organization.

None of the managerial functions would produce the ultimate results in the absence of all other basic functions. Hence, we can say that management is a continuous process.

❖ **Management as a Discipline:** Since the boundaries of management are not exact as that of any other physical sciences, it may not fit in very well for being addressed as discipline. However, its status as a discipline increases because it continuously discovers many aspects of business enterprises and also passes on the verified knowledge to the practitioners of the managerial process.

❖ **Management as a Career:** As a career or occupation, management is a broad concept. Management itself can be regarded as a career, but it also presents a variety of interesting and challenging careers focused on specialized occupations in the fields such as marketing, finance and personnel.

❖ **Management as an Applied Science:** Even though management is a science so far as it possesses a systematized body of knowledge and uses scientific methods of research, it is not an exact science, like natural sciences which deal with living phenomena such as botany and medicine.

Hence, management is definitely a social science like economics or psychology and has the same institutions which these and other social sciences have.

❖ **Universal Application:** Management is a universal activity, applied to any form of activity, economic or otherwise.

❖ **Goal Oriented:** Management has the task of attaining certain objectives. The success or failure of the management depends on how far it is able to attain the desired goals. It is judged by the extent to which it achieves its targets.

❖ **Guidance:** The main task of the management is guidance in the utilization of material and human resources in the best possible way.

Through optimum utilization of resources, it has to ensure that the objectives are attained. The essential element of management is that it gets the work done by coordinating the performance of those who actually perform diverse and specific jobs.

- ❖ **Divorced from Proprietorship:** Management does not signify proprietorship. In earlier days, management and enterprise were lumped into the same factor. It now refers to a specialized group of people who have acquired the ability to carry out a project.
- ❖ **An Activating Factor:** Management is the factor which activates other factors of production. A manager's skill lies in motivating his workers through guidance, training, incentives, rewards, status, security, control, etc. So a manager's ability lies in the fact that he is able to motivate others to apply their skill to the best advantage of the enterprise in the accomplishment of its objectives.
- ❖ **Management is a Human Activity:** Management functions are discharged only by individuals. No corporate body or an artificial being can perform the work of a management. Although it is an activity which may be performed by an individual it cannot be seen. It can only be felt.
- ❖ **Management Signifies Authority:** Since the essence of management is to direct, guide and control, it has to have authority. Authority is the power to compel others to work and behave in a particular manner. Management cannot discharge its function without authority. It is the foundation of management. Since management has authority it stands at a higher pedestal.
- ❖ **Leadership:** The management has to lead a team of workers. It must be capable of inspiring, motivating and winning their confidence.

1.13 FUNCTIONS OF MANAGEMENT

Five Basic Operations of Management:

In general, there are five basic functions:

- Setting objectives
- Organizing
- Motivating the team
- Devising systems of measurement
- Developing people

- ❖ **Setting Objectives:** Setting and achieving objectives is the primary way a management accomplishes and maintains success. They must also be able to convey them to their staff or employees in a compelling manner. For instance, a restaurant manager could state they want to improve service times and remind employees that faster service increases revenue and tips.
- ❖ **Organizing:** Managers evaluate the type of work, divide it into achievable tasks and effectively delegate it to staff. Organization consists of a series of relationships among individual staff as well as departments or entities inside the organization. It is the management's responsibility to ensure that these individuals and entities work together in harmony, which includes motivating staff members and departments to stay on task. A good management is skilled at building interpersonal relationships among their team members and can troubleshoot when members get confused with the challenges they encounter.
- ❖ Organization also requires a manager to establish relationships of authority among their team members. Maximizing organizational arrangements can help businesses enhance the company's efficiency in the market, reduce the costs of business and improve productivity.
- ❖ **Motivating the team:** In addition to the tasks of organization and delegation, motivation includes having the skills to handle different types of personalities in a team. An effective management must know how to form and lead successful teams and know how to galvanize team members around a cause.
- ❖ **Devising systems of measurement:** Management needs to set targets or key performance indicators that the team aims for and then generate ways to measure whether their team is on track to meet those goals. Because it can be challenging to come up with measurable ways of understanding performance, managers must often be creative and thoughtful. However, like the other functions of management, measurement is critical to improving business performance.
- ❖ **Developing people:** In addition to leading their team toward a goal and measuring their progress along the way, good management invest in their staff's development. Management can, for example, work with their team to help them set goals to move up in their careers.

- ❖ Management must have leadership skills to use these five operations successfully. They are responsible for coaching their team members by helping them recognize their strengths and weaknesses and improve their performance. Different managements may have different styles of leadership. Regardless of their style, managers should develop their leadership skills to be an effective supervisor.

1.14 MANAGEMENT CONCEPTS

Management needs to understand a few simple ideas to employ the five basic operations. These concepts are essential to ensure their team comes together to reach the business goals:

Control: Employees of an organization need to understand the goals that they are aiming for as well as the measurement that will be used to determine whether they have been successful. Different staff members in a company have different roles that entail separate levels of responsibility. A manager must have control over what the members do, how they do it and how to measure their progress. Control over these factors helps a manager reach success.

Planning: The best managers know that planning is critical before the implementation of any strategy, but it is also an ongoing activity. Planning does not end when implementation begins. Rather, management needs to be prepared to answer the questions of who, what, when and where a team is working to implement the organization's mission. Planning should include selecting objectives as well as implementing them.

Staffing: Staffing is an underappreciated but crucial function of management. Managers need to ensure that they have the right people for the job, but they also need to pay attention to issues like organizing workplace policies. The company needs to retain the best talent by providing incentives such as benefits, paid time off and a thorough training program.

Motivating: Motivation is critical to effective management and leadership. Organizational productivity declines when employees are not motivated to fulfil the organization's objectives. Motivation in management describes ways in which managers promote productivity in their employees. Motivation in management, is the process through which managers encourage employees to be productive and effective.

An incentive has a motivational power. A large number of incentives which the modern organizations use to motivate their employees may be broadly grouped into: (i) financial incentives and (ii) nonfinancial incentives.

Financial Incentives: Outside the normal compensation based on increase in productivity.

Non financial Incentives: Appreciation of work done, competition, group incentives, workers participation in management, growth opportunities.

1.15 MANAGEMENT STYLES

Analysts who study management have identified several effective leadership styles. There is no one best style of management and some people will feel more personally suited to one type or another. You can also select elements of different styles of management to create the best archetype for you and your company.

Here, we briefly review three positive management styles that can help make any manager a more effective leader.

Persuasive Management Style: A compelling leader spends a lot of time with their team members. Being engaged with employees allows the persuasive manager to lead by example, and to gain and compliance from the team by persuading rather than instructing or demanding. Influential managers are aware of the work that their team members are doing on a day to day basis and are involved in their work lives.

Democratic Management Style: A democratic manager invites the team to be directly involved in decision making. Open lines of communication between democratic managers and employees allow these types of managers to understand the skills and advantages that each employee brings to the table. Open participation and exchange of ideas among different levels of employees allow everyone to contribute to the outcome of a decision or a project.

This style of management is more successful when managers develop organized and streamlined decision making processes. Otherwise, accepting input from everyone can make the process sluggish and disorganized.

Laissez-faire Management: The laissez-faire manager functions almost more like a mentor than a manager. They empower their employees to step up and make decisions. This allows the team to feel like they own a part of each project. The manager takes a backseat role, stepping in to offer advice or get things back on track when something goes wrong. Otherwise, they stand aside, allowing their employees to flourish creatively and exercise their own leadership.

1.16 LAYERS OF MANAGEMENT

Large businesses and corporations often have three primary levels of management organized in a hierarchical structure. You may have heard terms that refer to these different layers of management, such as "middle management" or "senior management."

Junior Management: Lower level managers include roles like frontline team leaders, foremen, section leads and supervisors. This level of management, the lowest in the three layers, is responsible for overseeing the everyday work of individual employees or staff members and providing them with direction on their work.

Junior management's responsibilities often include ensuring the quality of employees' work, guiding staff in everyday activities and routing employee problems through the appropriate channels. They also are responsible for the day to day supervision and career planning for their team, as well as providing feedback on their employees' performance.

Middle Management: Middle managers, the next layer in the management hierarchy, are overseen by senior management. Middle management includes those working in the roles of a department manager, regional manager and branch manager. Middle management is responsible for communicating the strategic goals developed by senior management down the line to frontline managers.

In contrast with senior management, middle managers spend more of their time on directional and organizational functions. This includes defining and discussing important policies for lower management, providing guidance to lower level management to achieve better performance and executing organizational plans at the direction of senior management.

Senior Management: Senior management, including the chief executive officer, president, vice president and board members, is at the top layer of this management hierarchy. Senior management needs to set the overall goals and direction of an organization. Senior management develops strategic plans and companywide policy and makes decisions about the direction of the organization at the highest level. They also usually play an essential role in mobilizing outside resources and are held accountable to the company's shareholders as well as the general public for the performance of the company.

1.17 ORGANIZATION

Meaning and Definition:

Meaning: An entrepreneur organizes various factors of production like land, labour, capital, machinery, etc. for channelizing them into productive activities. The product finally reaches consumers through various agencies. Business activities are divided into various functions, these functions are assigned to different individuals.

Organisation is the foundation upon which the whole structure of management is built. Organisation is related with developing a frame work where the total work is divided into manageable components in order to facilitate the achievement of objectives or goals. Thus, organisation is the structure or mechanism (machinery) that enables living things to work together. In a static sense, an organisation is a structure or machinery manned by group of individuals who are working together towards a common goal

Various individual efforts must lead to the achievement of common business goals. Organization is the structural framework of duties and responsibilities required of personnel in performing various functions with a view to achieve business goals through organization. Management tries to combine various business activities to accomplish predetermined goals.

Organization is a goal oriented process, which aims at achieving them, through proper planning and coordination between activities. It relies on the principle of division of work and set up authority-responsibility relationship among the members of the organization.

❖ **Principles of Coordination:** The coordination of different activities is an important principle of the organization. There should be some agency to coordinate the activities of various departments. In the absence of coordination there is a possibility of setting up different goals by different departments. The ultimate aim of the concern can be achieved only if proper coordination is done for different activities.

❖ **Principle of Authority and Responsibility:** The authority flows downward in the line. Every individual is given authority to get the work done. Though authority can be delegated but responsibility lies with the manager who has been given the work. If a superior delegate his authority to his subordinate, the superior is not absolved of his responsibility, though the subordinate becomes liable to his superior. The responsibility cannot be delegated under any circumstances.

❖ **Principle of Definition:** The scope of authority and responsibility should be clearly defined. Every person should know his work with definiteness. If the duties are not clearly assigned, then it will not be possible to fix responsibility also. Everybody's responsibility will become nobody's responsibility. The relationship between different departments should also be clearly defined to make the work efficient and smooth.

❖ **Span of Control:** Span of control means how many subordinates can be supervised by a supervisor. The number of subordinates should be such that the supervisor should be able to control their work effectively. Moreover, the work to be supervised should be of the same nature. If the span of control is disproportionate, it is bound to affect the efficiency of the workers because of slow communication with the supervisors.

❖ **Principle of Balance:** The principle means that assignment of work should be such that every person should be given only that much work which he can perform well. Some person is over worked and the other is under worked, then the work will suffer in both the situations. The work should be divided in such a way that everybody should be able to give his maximum.

❖ **Principle of Continuity:** The organization should be amendable according to the changing situations. Everyday there are changes in

methods of production and marketing systems. The organization should be dynamic and not static. There should always be a possibility of making necessary adjustments.

❖ **Principle of Uniformity:** The organization should provide for the distribution of work in such a manner that the uniformity is maintained. Each officer should be in charge of his respective area so as to avoid dual subordination and conflicts.

❖ **Principle of Unity of Command:** There should be a unity of command in the organization. A person should be answerable to one boss only. If a person is under the control of more than one person then there is a likelihood of confusion and conflict. He gets contradictory orders from different superiors. This principle creates a sense of responsibility to one person. The command should be from top to bottom for making the organization sound and clear. It also leads to consistency in directing, coordinating and controlling.

❖ **Principle of Exception:** This principle states that top management should interfere only when something goes wrong. If the things are done as per plans then there is no need for the interference of top management. The management should leave routine things to be supervised by lower cadres. It is only the exceptional situations when attention of top management is drawn. This principle relieves top management of many botheration's and routine things. Principle of exception allows top management to concentrate on planning and policy formulation. Important time of management is not wasted on avoidable supervision.

❖ **Principle of Simplicity:** The organizational structure should be simple so that it is easily understood by each and every person. The authority, responsibility and position of every person should be made clear so that there is no confusion about these things. A complex organizational structure will create doubts and conflicts among persons. There may also be overlapping's and duplication of efforts which may otherwise be avoided. It helps in smooth running of the organization.

❖ **Principle of Efficiency:** The organization should be able to achieve enterprise objectives at a minimum cost. The standards of costs and revenue are predetermined and performance should be according to these goals. The organization should also enable the attainment of job satisfaction to various employees.

- ❖ **Scalar Principle:** This principle refers to the vertical placement of supervisors starting from top and going to the lower level. The scalar chain is a prerequisite for effective and efficient organization.

1.20 ORGANIZATIONAL ACTIVITIES

Every business is based on different activities in which it specializes. The activities of the businesses help to bring productivity and in the growth of the company. Every business puts together a combination of policies and programs to run these activities smoothly.

Every business is based on different activities in which it specializes. The activities of the businesses help to bring productivity and in the growth of the company. Every business puts together a combination of policies and programs to run these activities smoothly.

Following are different **types of business activities**:

(1) Budgeting: Budgeting is the target of the spending for every department of the organization. The different types of budgets for different departments are as per the requirements. There is a marketing budget, sales budget and an annual business budget.

This budget helps to determine revenue utilization in the respective operations which will fuel the further growth of the organization. It is the responsibility of the departmental head to form a budget based on the expenses of the last year, the requirements of the new year. The common trends are referred to form the budget on an annual basis. Underutilization of the budget indicates proper planning while and overutilization of the budget indicates improper planning and lack of focus.

It also indicates increasing competitive activities and a decrease in market share. The budget is always incremental all from the previous year and is largely based on the achievement of the previous year. Usually, the budget of the previous year is compared to the expenses to indicate the budget to expense ratio.

(2) Accounting and Auditing: The process of managing flow of the money in the organization is called accounting while monitoring that done in a proper way is called auditing. Accounting deals with the cash flow in the organization and also with the financials.

The assets and liabilities are matched properly and it is desirable to have more assets and liabilities for the better financial health of the organization. Managing of all these expenses, salaries of the employee's budget comes under the finance division.

These types of business activities are a very important determinants of the organization since they are directly related to the profits. Accounting is also responsible for tax filings, monitoring cost of the company and making financial decisions. Accounts of receivable accounts, payable customer credit are a few the things that are adopted by the accounting department.

On the other hand, auditing is to check if the answers are in the proper direction. It is necessary that all the activities in the organization are according to their SOPs or standard operating procedures. Auditing is also performed to see the commitment to the delivery ratio of various departments.

It is crucial that auditing is done by a third party company which would be impartial in the results, since a partial auditing result is no good in the long run. Many organizations provide these kind of services, organizations like KPMG and Ernst and Young. Proper audits indicate excellent transparency in business activities.

(3) Marketing: The marketing department is the backbone for sales. Every organization will have a marketing department of its own which will focus on improving brand recognition and brand value in the market. [Organizations have different activities for the marketing department to write from market research after post-marketing campaign feedback.]

Organizations have different activities of the marketing department, from market research to taking post marketing feedback.

The marketing activities would be divided into several subcategories like market research which would involve in collecting data which is primary and secondary. Marketing department would also involve product launching and product management activities which take care of the product right from launch until the feedback collection.

Providing the required material for the sales department is also one of the activities of the marketing department. It involves providing educational material, sales aid and other required materials related to

marketing. Another aspect of marketing activity is to launch a marketing campaign. These campaigns involve a product and its awareness in the market why with the use of events and advertising but then in other companies advertising is also a part of marketing which has its own activities.

advertising forms a separate department which has its own activities. In any case, the coordination between advertising and marketing departments is of crucial importance to launch an effective campaign. The ultimate aim of the marketing activities is to gain more revenue by increasing the sales and generating higher profits for the organization, providing more exposure to the products the brands of the organization.

(4) Sales Activities: These are the types of business activities which are prominent in every organization whether it is small or big. Sales departments are the ultimate revenue generator for every organization. It is important that the organization focuses on sales activities and provides all the necessary requirements for the sales team in order to generate profits.

These activities include recruiting the best of the salespersons, training them regarding the technicalities of the product, helping them on how to convince and convert the customer by giving them training on soft skills and also collecting the payments in order to realize the profit. Growth of sales is the aim of every organization.

It is the sales team that reaches the prospects and creates a customer base generating regular business. The aim of the sales team is to convert new customers and maintain the existing customers and secure the business. Coupled with the products of the company, systems create demand for the product in the market. Often there is synchronization of activities between the sales and marketing department which is managed and developed by the company heads. An organization which has highest sales with automatically have a higher market share and get more profits. In other words, it will be more financially stable.

(6) Operations and Supply Chain: The supply chain is a very important aspect of the business. Every company needs a good supply chain management system which will take care right from inventory management to delivery management. This is true especially in the case of e-commerce where supply chain and related types of business

activities are of paramount importance and play a crucial role in customer satisfaction.

Operations also include process enhancement and process standardization. Using Six Sigma to enhance the productivity of the current processes or to make necessary modifications all to change the entire process is a part of operational activities.

(7) Customer Service: This business activity is rated by far the highest amongst all types of business activities. In this competitive environment only, product quality is not important but a 360-degree view of the customer is crucial because customer satisfaction is rated as highest in the entire business activity.

Customer satisfaction is the end part of the process which starts with production moves on with product management and marketing then goes ahead with sales and finally ends with customer service. Customer service plays a very important role in after sales service.

Many times, it is the customer service that brings lost customers back to this organization and not sales or marketing. It has become mandatory for organizations to rate this activity as the highest and that is a reason why they have dedicated customer service executives assigned to solve the issues of the customers.

Companies have now taken to social media to provide customer satisfaction and customers get an instant reply when using platforms like facebook or twitter to complain about the product or the service. Customer service definitely plays an important role in customer satisfaction and is rated as high as product quality.

POINTS TO REMEMBER

- This chapter introduces the term with the definitions of "Business", its characteristics, objectives of business, categorization of business on various parameters, scope of business.
- It also discusses the concept of commerce and trade, its distinction. Further the chapter also brings out the concept of **business administration**, its functions in details, distinction between business management and the administration.

- The chapter also covers the concept of management in greater details as well as the functions of management. The chapter gives the details of management styles as well as levels of management in an organization.
- Before conclusion, the chapter throws light on the concept of "Organization", principles of organization and the activities that organization undertakes.
- Thus, this chapter covers a broad spectrum starting from business, administration, management and organization.

QUESTIONS FOR DISCUSSION

1. Explain the term "Business" and describe its characteristics.
2. What are the objectives of a business enterprise?
3. Explain the term "Business Administration" and its functions in brief.
4. Explain the terms "Commerce" and "Trade" and the distinction if any between these two terms.
5. Write short notes on:
 - (a) Objectives of business
 - (b) Functions of Management, in brief.
 - (c) Principles of organization
 - (d) Various activities covered by Organization

QUESTIONS FROM PREVIOUS EXAMINATIONS

1. Define administration. Explain the functions of administration.
(April 2017)
2. Define business. Explain economic and social objectives of business.
(April 2017)
3. Write short note on :
(a) Principles of Management
(October 2018)

Chapter 2...

Types of

Business Organisations

Contents ...

- 2.1 Sole Proprietorship
 - 2.1.1 Meaning and Definitions of Sole Proprietorship
 - 2.1.2 Features or Characteristics of Sole Proprietorship
 - 2.1.3 Advantages of Sole Proprietorship
 - 2.1.4 Limitations of Sole Proprietorship
- 2.2 Meaning and Definitions of Partnership Firm
 - 2.2.1 Features or Characteristics of Partnership Firm
 - 2.2.2 Advantages of Partnership Firm
 - 2.2.3 Limitations of Partnership Firm
- 2.3 Meaning and Definition of Limited Liability Partnership
 - 2.3.1 Features of Limited Liability Partnership
 - 2.3.2 Advantages of Limited Liability Partnership
 - 2.3.3 Limitations of Limited Liability Partnership
- 2.4 Meaning and Definition of Joint Stock Company
 - 2.4.1 Features of Joint Stock Company
 - 2.4.2 Advantages of Joint Stock Company
 - 2.4.3 Limitations of Joint Stock Company
- 2.5 Joint Stock Company u/s 25 of the Companies Act, 1956
 - 2.5.1 Advantages of Section 25 companies
- 2.6 Non Government Organisation (NGO)
 - 2.6.1 Features of NGO
 - 2.6.2 Limitations of NGO
- 2.7 One Person Company
- 2.8 Multinational Company
 - 2.8.1 Features /Advantages of Multinational Company
 - 2.8.2 Limitations of MNCs

2.9 MSME

2.9.1 Advantages of MSME

2.9.2 Limitations of MSME

2.10 Concept and Definitions of Entrepreneur

2.10.1 Characteristics of Entrepreneur

2.10.2 Qualities / Skills of Entrepreneur

- Points to Remember
- Questions for Discussion
- Questions from Previous Examinations

Introduction:

Organisation is an essential part of human life. An individual cannot perform all the necessary activities. Therefore individuals join or co-operate together in the form of groups or organisations.

Thus organisation is a group of people formed for a particular purpose or objective.

Business organisations, Government organisations, Non-Government Organisations, Trusts etc. are some of the examples of organisations. All these organisations are formed with certain specific objectives.

Common objectives, Division of Labour, People, Communication, co-ordination are the features of organisation.

Following are some of the forms of Business organisation:

1. Sole Proprietorship
2. Partnership Firms
3. Limited Liability Partnership
4. Joint Stock Companies
5. Co-operative Societies
6. Multinational Companies
7. Non-Government Organisations

Apart from all these forms of organisations, there are various informal organisations in existence.

In this chapter, we are going to discuss various forms of business organisations and also details about Entrepreneur and Entrepreneurship.

2.1 SOLE PROPRIETORSHIP

A sole trading organisation or sole trader is that form of business which does not have a separate legal entity. Sole proprietorship is run by single person. A single person is the sole owner in case of sole proprietorship. He invests his own capital and runs the business.

Starting and running of sole proprietorship business is very easy.

It is also known as sole trader or individual entrepreneurship or proprietorship. In this form, there is no legal distinction between the owner and the business. The examples are grocery shop, consultation service etc.

2.1.1 Meaning and Definitions of Sole Proprietorship

As the name suggests sole means 'only one' and proprietorship implies ownership. Sole Proprietorship is a form of business organisation wherein a single person owns, manages and controls, all the business.

He is responsible for employing capital to commence business, bearing all the risk of the enterprise and also for managing all activities single handed.

Definitions:

"The sole proprietorship is that form of business organisation which is owned and controlled by a single individual. He receives all the profits and risks all of his property in the success or failure of the enterprise."

– Wheeler

"The individual proprietorship is the form of business organisation at the head of which stands an individual as one who is responsible, who directs its operations and who alone runs the risk of failure."

– L.H. Haney

2.1.2 Features or Characteristics of Sole Proprietorship

1. **Single Ownership:** It is a type of business unit in which a single person owns the entire business i.e. all assets and properties belong to him. Accordingly, he bears all the risks and liabilities.
2. **No Profit/Loss Sharing:** Income generated from sole trading business is the income of sole proprietor. Consequently he has to bear all the losses incurred by the firm. There is no sharing of business profits and losses.

2.9 MSME

2.9.1 Advantages of MSME

2.9.2 Limitations of MSME

2.10 Concept and Definitions of Entrepreneur

2.10.1 Characteristics of Entrepreneur

2.10.2 Qualities / Skills of Entrepreneur

- Points to Remember
- Questions for Discussion
- Questions from Previous Examinations

Introduction:

Organisation is an essential part of human life. An individual cannot perform all the necessary activities. Therefore individuals join or co-operate together in the form of groups or organisations.

Thus organisation is a group of people formed for a particular purpose or objective.

Business organisations, Government organisations, Non-Government organisations, Trusts etc. are some of the examples of organisations. All these organisations are formed with certain specific objectives.

Common objectives, Division of Labour, People, Communication, co-ordination are the features of organisation.

Following are some of the forms of Business organisation:

1. Sole Proprietorship
2. Partnership Firms
3. Limited Liability Partnership
4. Joint Stock Companies
5. Co-operative Societies
6. Multinational Companies
7. Non-Government Organisations

Apart from all these forms of organisations, there are various informal organisations in existence.

In this chapter, we are going to discuss various forms of business organisations and also details about Entrepreneur and Entrepreneurship.

2.1 SOLE PROPRIETORSHIP

A sole trading organisation or sole trader is that form of business which does not have a separate legal entity. Sole proprietorship is run by single person. A single person is the sole owner in case of sole proprietorship. He invests his own capital and runs the business.

Starting and running of sole proprietorship business is very easy.

It is also known as sole trader or individual entrepreneurship or proprietorship. In this form, there is no legal distinction between the owner and the business. The examples are grocery shop, consultation service etc.

2.1.1 Meaning and Definitions of Sole Proprietorship

As the name suggests sole means 'only one' and proprietorship implies ownership. Sole Proprietorship is a form of business organisation wherein a single person owns, manages and controls, all the business.

He is responsible for employing capital to commence business, bearing all the risk of the enterprise and also for managing all activities single handed.

Definitions:

"The sole proprietorship is that form of business organisation which is owned and controlled by a single individual. He receives all the profits and risks all of his property in the success or failure of the enterprise."

– Wheeler

"The individual proprietorship is the form of business organisation at the head of which stands an individual as one who is responsible, who directs its operations and who alone runs the risk of failure."

– L.H. Haney

2.1.2 Features or Characteristics of Sole Proprietorship

1. **Single Ownership:** It is a type of business unit in which a single person owns the entire business i.e. all assets and properties belong to him. Accordingly, he bears all the risks and liabilities.
2. **No Profit/Loss Sharing:** Income generated from sole trading business is the income of sole proprietor. Consequently he has to bear all the losses incurred by the firm. There is no sharing of business profits and losses.

3. **One Man's Capital:** The capital required for the business is contributed by sole proprietor. He can contribute capital by his personal resources or by borrowing.
4. **Unlimited Liability:** In sole proprietorship, the liabilities are limited. In case of heavy losses, the personal assets of sole proprietor can be used to discharge the liabilities.
5. **Less Legal Formalities:** The legal formalities for formation, operation and closure of sole proprietorship are less as compared to any other form of organisation.
6. **One Man Control:** Owner is the whole and sole controlling authority in this business. He can take all decisions regarding his business.
7. **Small Business:** In case of small business like grocery shops, sole proprietorship is in existence.
8. **No Separate Legal Entity:** There is no separation of ownership and management in sole proprietorship. Ownership and management vests in the hands of sole Proprietor.
9. **License from Local Authority:** A sole proprietor has to obtain license from local authority e.g. shop act license.
10. **Termination:** Business in the form of sole proprietorship can be terminated as per will and wish of the owner. Thus the business in the form of sole proprietorship is easy to start and terminate.

2.1.3 Advantages of Sole Proprietorship:-

1. **Easy to Form:** Formation of sole trading organisation has very less legal formalities. The procedure of registration is also not required. Only local government formalities need to be completed for formation of sole proprietorship. Only one person can start this business by investing a certain amount.
2. **Less Paperwork Required:** The operations of sole proprietorship business are private and not subject to public disclosure. Hence less paperwork is required in sole proprietorship.
3. **Complete Owner Control:** The owner controls everything that goes on in the business and he does not have to seek any approvals from anyone. Hence all major decisions can be taken with zero interference from the outsiders.
4. **All Profits go to Owner:** Sole Proprietor can enjoy all the profit of the business himself. He is not required to share his profit with anyone else.

5. **Flexibility:** Sole Proprietorship is the most flexible kind of business as per requirements.
6. **Increase in Sales:** Sole Proprietor can maintain direct contact with the customers. Due to this, his sales increase. This helps to develop Goodwill in the market.
7. **Easy Human Resource Management:** Sole Proprietorship is carried on a small scale. Relatively less number of employees are employed by the sole trader. Due to this, it is easy for him to manage human resources.
8. **Better Credit Rating:** The liability of sole proprietor is unlimited. In case of heavy losses, assets of the proprietor can be used to discharge liabilities. So creditors have a guarantee that they are paid without any problems. This increases credit rating of sole proprietorship.

2.1.4 Limitations of Sole Proprietorship

1. **Limited Resources:** The resources available to a sole trader are less. Sole Proprietor depends upon personal resources and borrowings for capital. Limited Financial Resources is a major limitation of sole proprietorship.
2. **Limited Managerial Skills:** A sole trader cannot be expert in everything like supervision, control, accounting, management, production, marketing etc. He has to take help of experts whenever necessary.
3. **Lack of Continuity:** Continuity of sole proprietorship depends on the proprietor's will and wish. If proprietor do not want to continue the business, it comes to an end.
4. **Unlimited Liability:** The liability of sole proprietor is unlimited. His personal property is at stake in case of heavy losses. This becomes a major problem in the development of sole proprietorship.
5. **Hasty Decisions:** Sometimes decisions taken by sole proprietor may be wrong because they are taken without consulting anyone.
6. **Lack of Division of Labour:** Sole traders himself has to run a business so he cannot take advantage of division of labour.

In spite of various limitations, many individuals choose sole trading business due to its benefits. Such business is suitable where manual skills are required and where capital requirement is less.

2.2 MEANING AND DEFINITION OF PARTNERSHIP FIRM

When two or more individuals come together and form a business, it is called as Partnership.

According to the Indian Partnership Act, 1932 "Partnership is relation between persons who have agreed to share profits of a business carried on by all or any one of them acting for all."

According to **J. L. Hanson** "Partnership is a form of business organisation in which two or more persons upto a maximum of twenty in ordinary business and ten in banking business join together to undertake some form of business activity."

2.2.1 Features / Characteristics of Partnership Firm

1. **Association of Two or More Persons:** There must be at least two competent persons to form a partnership. According to The Companies Act, 1956 the number of partners in a firm carrying on banking business should not exceed ten and in any other business twenty. If the number of partners exceeds this limit, the partnership becomes an illegal association.
2. **Agreement:** The partnership relation is one of a contractual nature. It arises from contract and not from status. An agreement between the partners is the basis of this contract. The agreement may be inferred from the course of dealing or the conduct of the parties. The agreement may be for a fixed period, or for the execution of a particular adventure, or it may give option to the partners to withdraw from the partnership at any time. Partnership is thus created voluntarily by members.
3. **Business:** A partnership can be formed only for the purpose of carrying on the business. 'Business' includes every trade, occupation and profession. The word 'business' generally conveys the idea of a running business involving numerous transactions. Besides that a person may become a partner with another in a particular adventure or an undertaking, which if successful, would result in profit. The business to be carried on by the firm must be legal.

4. **Sharing of Profits:** The object of partnership must be to make profit. Profit must be distributed among the partners in an agreed ratio. The sharing of profit also involves sharing of loss which in fact is negative profit. But as between the partners, it may be agreed that one or more of them shall not be liable for losses.

5. **Mutual Agency:** The business of partnership may be carried on by all the partners or any of them acting for all. A partner is an agent (in the sense that he can bound by the acts of the other partners).

2.2.2 Advantages of Partnership Firm

1. **Easy Formation:** Partnership can be easily formed. The partners can enter into agreement and can start their business.
2. **Large Capital:** Sole Proprietor can invest less capital but in case of partnership, each partner contributes certain amount of capital. Due to this, partnership is in a strong position to raise capital and expand business.
3. **Flexibility in Operations:** Generally there are limited number of partners in partnership. So there is flexibility in the operations of business as partners can make any changes by mutual consent.
4. **Better Management:** Business of partnership can be very well managed by all the partners as they take interest in the daily affairs of the business because of ownership, profit and control.
5. **Risk Sharing:** In partnership, every partner bears the risk individually. It means total risk is divided between the partners.
6. **Faster Decision Making:** Partners are directly involved in business activity. They are always available for decision making. Because of this, partnership firm has higher chances of getting the prompt decision. This is beneficial in emergency situation.
7. **Loan Facilities:** Partnership is established by two or more persons. The size of partnership firm is large as compared to sole trading organisation. Due to bigger size, partnership can generate sufficient funds for growth and expansion.
8. **Secrecy:** In partnership, there is no legal obligation to partners to publish financial information. If the partners want to keep the information secret, it is possible to maintain secrecy of the information.

9. **Profit Incentive:** Profits of partnership are shared by the partners as per agreed ratio. This encourages the partners to do more work to earn profit. Higher profits will give high share to partners.

10. **Protection to Minor:** In case of death or lunacy of partner, his minor can be admitted to partnership with the consent of all other partners.

11. **Easy to Dissolve:** A partnership business can be dissolved after making agreement between partners regarding the dissolution of business. The dissolution of partnership does not require any complicated legal formalities.

2.2.3 Limitations of Partnership Firm

1. **Limited Capital:** Partnership business is established and managed by few partners. It has less chances of accumulating large amount of capital because capacity of each partner to contribute is limited.

2. **Unlimited Liability:** The liability of partners is not limited. It means the personal property of partners is sold if the debts of partnership could not be settled from property of the business.

3. **Uncertainty:** A partnership may face dissolution in case of death, insolvency or mental or physical illness of any partner. Thus it has uncertain existence.

4. **Difficult to Transfer Share:** The share of the partnership firm can be transferable after the agreement of the partners. A partner who wishes to transfer his share must take consent of all other partners.

5. **Mutual Conflicts:** The success of partnership depends upon mutual trust and confidence among the partners. Partnership may come to an end in case of conflicts among partners.

6. **Lack of Public Faith:** Public doesn't believe in partnership business as much as joint stock company.

7. **Lack of Prompt Decisions:** Decisions in partnership are mutually taken by partners. It sometimes takes long time and brings delay in decision making.

8. **No Separate Legal Status:** The partnership has no separate and independent existence apart from partners. Partnership is not a separate legal entity like Joint Stock Company.

Apart from all the limitations, partnership firms can be formed and run successfully by the mutual consent of partners.

2.3 MEANING AND DEFINITION OF LIMITED LIABILITY PARTNERSHIP - (LLP)

In case of partnership firm, the liability of partners is unlimited. It means if partnership has debts which could not be paid out of partnership property, the private assets of partners have to be sold to pay off partnership debts. Unlimited Liability of partners is the limitation of partnership firm. To avoid this limitation, a new form of partnership can be formed which is known as Limited Liability Partnership.

A limited liability partnership is a partnership in which some or all partners have limited liability. In Limited Liability Partnership, one partner is not responsible or liable for another partner's negligence or misconduct. In LLP, some partners have limited liability similar to shareholders of a corporation.

Thus the main difference between LLP and Partnership is about the liability of partners. In LLP, the partners and the firm is considered as a separated legal entity. Hence the liability of partners is limited to the amount invested in the company.

Limited liability partnership was introduced in India under the Limited Liability Partnership Act, 2008.

According to Section 2(1) of Limited Liability Partnership Act, 2008, "LLP is a 'Body Corporate' formed and incorporated under LLP Act. It has legal entity separate from its partners and has perpetual succession."

2.3.1 Features of Limited Liability Partnership

1. **Formation:** Limited Liability Partnership can be formed according to Limited Liability Partnership Act, 2008.
2. **Separate Legal Entity:** LLP is a body corporate which has separate legal entity separate from its partners.
3. **Name:** The name of LLP must clearly indicate that it is Limited Liability Partnership.
4. **Perpetual Succession:** Unlike a partnership firm, LLP has a perpetual succession.
5. **Combination:** LLP contains elements of a corporate structure as well as a partnership firm structure. LLP can enjoy the benefits of both the forms of organisation.

6. **Number of Partners:** There must be minimum 2 partners to form LLP and there is no maximum limit on number of partners.
7. **Agreement:** LLP agreement is not mandatory. However, in the absence of LLP agreement, the rights and liabilities of partners shall be determined as per Schedule 1 of Limited Liability Partnership Act, 2008.

2.3.2 Advantages of Limited Liability Partnership

1. **Capital Requirement:** LLP can be formed without any minimum capital requirements. It has no restriction on minimum capital requirement.
2. **Number of Partners:** LLP can be formed with minimum 2 partners and there is no restriction on maximum limit of partners.
3. **Easy Formation:** Formation of LLP has more flexibility and less legal requirements as compared to formation of company.
4. **Agreement:** LLP agreement is not mandatory. In the absence of LLP agreement, the rights and liabilities of partners shall be determined as per schedule 1 of Limited Liability Partnership Act, 2008.
5. **Perpetual Succession:** This is the greatest advantage of LLP. Partners may join or leave, but LLP continues to function.
6. **Partner's Liability:** In LLP, partners are not liable for each other's act.
7. **Transfer of Ownership:** It is easy to transfer the ownership according to the terms of LLP agreement.
8. **Legal Problems:** In case of any legal problems, LLP can sue in its own name and be sued by others. The partners are not liable to be sued for dues against LLP.
9. **No limit on remuneration to partners:** In LLP, there is no limit on remuneration to be paid to partners. This remuneration is to be decided by LLP agreement.
10. **Personal Assets of Partners:** In LLP, the personal assets of partners are secured except in case of fraud.

2.3.3 Limitations of Limited of Limited Liability Partnership

1. **Extensive Legal Documentation:** Because of the separate legal status granted to LLP, there is an extensive amount of legal paperwork to form LLP.
2. **Unlimited Liability:** In certain situations and cases, the liability of partners become unlimited. Thus the purpose of formation on of LLP is not served.

3. **Consent of Partners:** An act of partner without the consent of other partners can bind the LLP. Thus it is difficult to function in this way.

4. **No Raising of Funds from Public:** LLP has to restrict an capital collected from partners. LLP is not allowed to raise money from the public.

5. **Winding up not Easy:** It is not easy to wind up limited liability partnership. There are lot of legal formalities to wind up LLP.

2.4 MEANING AND DEFINITION OF JOINT STOCK COMPANY

37378

According to the dictionary meaning, a joint stock company is a company whose stock is owned jointly by the shareholders. It is a business entity in which shares of the company's stock can be bought and sold by shareholders. Each shareholder owns company stock in proportion.

In Joint Stock Company, shareholders are called as owners of the company.

A company is voluntary association of persons created by law having a common seal and a perpetual succession.

The Companies Act, 1956 defines a company as "A Company formed and registered under this act or an existing company." An existing company means a company formed and registered under any of the former Companies Act."

2.4.1 Features of Joint Stock Company

1. **Artificial Person:** A Company is a creation of Law. It has a separate existence just like human beings. It can purchase and sell property, appoint employees, incur debts, file suits and be sued upon. Thus, a company has a distinct entity.

2. Incorporated Association: Company is an incorporated association of persons created by law of the country. In India, companies are formed and registered under the Companies Act, 1956. Incorporation means registration of company with Registrar of Companies. The Registration Certificate grants a legal entity to a Company.

3. Independent Legal Entity: A company has a legal entity distinct and separate from its members. Company is an autonomous body, self controlling and self governing. Company can purchase/sell property, open bank account and can sue and be sued. A Company can purchase shares or debentures of another company.

4. Perpetual Succession: Company has no allotted span of life. The existence of a company can be terminated only by law. Members may come and go but the company can go on forever.

5. Common Seal: Company is an Artificial Legal Person. But it acts through human beings who are called as Directors. Directors act as agents of the company. All the acts of the company are authorized by its common seal. Common seal acts as official signature of the company. A Document not bearing the common seal will not be binding on company.

6. Separation of Ownership and Management: A company is owned by shareholders. Shareholders appoint their representatives or agents to manage the affairs of the company on their behalf. Directors look after day to day management of the company. Hence there is separation of ownership and management.

7. Limited Liability: The Liability of shareholders of a company is different from the liability of the company. Liability of shareholders is restricted to number of shares held by them. In case of losses, shareholders are not called upon to make good the losses.

8. Transferability of Shares: Shares of a company are freely transferable. A shareholder is free to transfer his shares as and when he likes.

2.4.2 Advantages of Joint Stock Company

If we study the concepts and features of company, we can identify the following advantages of company:

1. The greatest advantage of Joint Stock Company is that the liability of shareholders is limited to number of shares held by them.
2. A company has a perpetual succession. It means any changes in membership of a company do not affect the existence of a company.
3. Shareholders or members are the owners of the company. Shareholders elect directors for day to day management of the company. Directors are professionals in the field of management. Hence company can run with professional management.
4. There is no limit to maximum number of shareholders in case of public limited company. It is possible for the company to expand business by issuing new shares and debentures.
5. Shares of a company are freely transferable. Shareholder can transfer his shares to anyone. The company continues even if there is change in shareholders.
6. Companies can raise large amount of funds by issuing shares or debentures. Thus large scale business is possible for Joint Stock Company.
7. Accounts of a company are audited annually. This helps in reduction of frauds and accounting errors.

2.4.3 Limitations of Joint Stock Company

In spite of several advantages, the company form of organisation suffers from some disadvantages-

1. **Lack of Secrecy:** According to the provisions of The Companies Act, 1956, company has to disclose various details to Registrar of Companies.

Hence, secrecy of business comes down. In addition to this, company has to provide its annual report to shareholders. So, secrecy of business is difficult to maintain.

2. **Lack of Personal Interest:** In case of sole proprietorship, the owners look after the business. So, they take personal interest in the

affairs of the business. However, in Joint Stock Company, day to day affairs are managed by salaried employees. They do not have any interest in the company except their own salary. This may result into inefficiency.

3. Legal Restrictions: As compared to proprietorship and partnership, a company has to comply with more legal requirements.

4. Complicated Formation Procedure: Sole proprietorship and partnership is easy to form. For registration and formation of company, lot of formalities are required and services of promoters, underwriters are also required. Thus, Company formation is expensive, time consuming and complicated.

5. Management Mischief: Sometimes the managers and directors misuse the company resources for their personal benefits. This brings losses to company.

6. Speculation in the Shares of Company: Shares of a company are listed on a stock exchange. Illegitimate speculation in the value of shares of a company is injurious to the interest of shareholders.

In spite of the above limitations of Joint Stock Company, it is the most popular form of business organisation in India. Many individuals and organisations invest in shares and debentures of companies.

2.5 JOINT STOCK COMPANY U/S 25 OF THE COMPANIES ACT, 1956

1. Under the Companies Act, 1956, Section 25 Company can be defined as a limited company formed for the sole object of "promoting commerce, art, science, religion, charity or any other useful object, and intends to apply its profits, if any, or other income in promoting its objects, and prohibits the payment of dividend to its members.
2. From the above definition, it is clear that Section 25 companies are formed and intended for achieving charitable purposes and they have limited liability.
3. An association having objective of promoting commerce, art, science, charity or any other useful purpose can be registered as Non Profit Company U/S 25 of the Companies Act, 1956.
4. Section 25 company is the most popular forms of Non Profit Organisation in India. This company can be registered as a

company with limited liability without addition of the word 'limited' or "Private Limited" in its name.

5. According to the Companies Act, 1956 the minimum share capital required by a public company is Rupees Five Lakhs and by a private company is Rupees One Lakh.

6. However this company is not required to have any minimum paid up capital.

7. As per Companies Amended Act, 2013 Section 25 has now become Section 8. Some new provisions are included in Section

8. Section 8 includes in its ambit companies formed for promotion of sports, education, research, social welfare and protection of environment.

2.5.1 Advantages of Section 25 Companies

1. Section 25 companies are allowed to dispense with the use of term Limited or Private Limited from their names. This helps them to enjoy limited liability without disclosing to the public the nature of liability of its members.

2. Section 25 companies are exempted from requirement of minimum share capital.

3. Section 25 companies are required to follow less AGM formalities. They can determine the date, place and time of its AGM according to their convenience and feasibility. They are allowed to conduct AGM after serving notice of 14 days.

4. Section 25 companies are free to increase number of directors without seeking approval of Central Government.

5. Partnership Firm can become member of Section 25 Company.

6. Section 25 companies have different but easy rules to follow regarding Board Meetings, Quorum for Meetings, Qualifications of Secretary etc.

7. Such company can only be amalgamated with other similar company registered U/S 8 of the Act.

Infosys Foundation, Reliance Foundation, TATA Foundation are some of the examples of Sec. 8 Companies registered under this act.

2.6 NON GOVERNMENT ORGANISATIONS (NGO)

NGOs are found all over the country. NGO is a voluntary organisation which comes into existence for achieving a specific purpose. Service is the main motive of NGO. NGOs are playing important role in the field of education for children, development of youth, protection of animals, helping disabled etc.

2.6.1 Features of NGO

1. **Voluntary Associations:** NGOs are created by people voluntarily with common interest.
2. **Autonomous:** NGOs are free from interference of the Government. They can have their own policies and procedures.
3. **Own Funds:** NGOs have to create and maintain their own funds. They can collect contribution from public. In addition to this, they can get funds from National and International Organisations.
4. **Service Motive:** NGOs are formed with the objective of social welfare such as education, environment protection etc.
5. **Types Of NGOs:** There are NGOs which operate in particular city or nation. NGOs like Red Cross operate at national level. There are certain NGOs which operate at International Level. Some NGOs are organised by Government and some are managed by business organisations. e.g. Infosys Foundation

2.6.2 Limitations of NGO:

1. **Limited Financial Resources:** NGOs have to depend upon public contributions or sponsorships for funds. Most of the NGOs suffer from shortage of funds.
2. **Mismanagement of Funds:** Public do not have confidence in NGOs because many NGOs have misappropriated the funds.
3. **Lack of Trained Staff:** NGOs are managed by volunteers. Many times problems occur due to lack of proper training to staff.
4. **Limited Scope:** Many NGOs operate only in small local areas.
5. **Unhealthy Competition:** The competition among NGOs is increasing day by day due to increase in number of NGOs.

Sometimes unhealthy competition hampers the growth of NGO.

In spite of these limitations, NGOs are playing important role in the development of country. NGOs can be registered as Trust or Society or as Section 8 Company according to The Companies Act, 2013.

2.7 ONE PERSON COMPANY

The concept of One Person Company was introduced by The Companies Act, 2013.

Section 2(62) of The Indian Companies Act, 2013 defines a one person company as "a company that has only one person as its member".

One person company has only one shareholder as its member. Such companies are created when there is only one promoter for the business. Instead of forming sole proprietorship, people prefer to start business as One Man Company due to **its Features and Advantages.**

1. In case of sole proprietorship, owner's liability is unlimited but in case of one man company a separate legal entity is established and it is different from promoter. Liabilities of company are different from owners. The owner is not liable to repay the debts of the company.
2. One Man Company can be formed as a private company like any other company.
3. The main advantage of such company is that member can make nomination while registering company. In case of death of member nominee can become sole member.
4. One Man Company should have minimum 1 Director and it can have maximum 15 Directors.
5. One Man Company do not have to fulfill minimum capital requirements.
6. A single person can form One Man Company by subscribing his name to the memorandum of association and fulfilling requirements of The Companies Act, 2013.
7. Only natural persons are allowed to start One Man Company and also nominee has to be natural person.
8. According to the act, One Person Company cannot be converted to Section 8 Company.
9. One Person Companies enjoy following privileges under The Companies Act.

(a) They do not have to hold annual general meetings.

(b) Their Financial Statements need not include Cash Flow Statements.

(c) Provisions regarding independent directors do not apply to them.

(d) A company secretary is not required to sign annual returns, directors can sign them.

(e) Several provisions relating to meetings and quorum do not apply to them.

10. One Person Company can be registered with minimum capital of ₹ 1 Lakh. If capital of company exceeds ₹ 50 Lakhs or average turnover for 3 years exceeds ₹ 2 crores, then the company has to be converted to a Private Limited Company.

Thus we can say that One Person Company is one shareholder corporate entity where liability is limited to the company only.

2.8 MULTINATIONAL COMPANIES (MNCs)

1. A multinational company is one which is incorporated in one country and whose operations are in various countries. The country where it is registered is called as Home Country and countries where operations are expanded are called as Host Countries.

2. The headquarters of MNC are in Home Country.

3. MNCs are also called as global enterprise, international enterprise, world enterprise etc.

2.8.1 Features or Advantages of MNCs

1. **Huge Assets and Turnover:** MNCs have huge physical and financial assets and huge turnover.

2. **Control:** MNCs business is run through various branches in various countries. But the whole MNC is controlled from head office from the home country.

3. **Network of Branches:** MNCs operate through network of branches in host countries.

4. **Mergers and Acquisitions:** MNCs expand their economic power through mergers and acquisitions.

5. **Professional Management:** MNC employs professional managers to handle huge business operations with latest technology.

6. **High Promotion Activities:** MNCs spend huge amount on advertising and sales promotion. They generally use aggressive marketing strategies.

7. **Quality Products:** MNCs offer better quality products and services to compete at the world level.

8. **Employment Opportunities:** MNCs create lot of employment opportunities in the host countries. Thus they help to increase employment level in host country.

9. **Attracting Foreign Capital:** With the entry of MNC the inflow of foreign capital increases.

10. **Managerial Development:** MNCs employ latest management techniques. This leads to managerial development in host countries.

11. **Improvement in Standard of Living:** MNCs provide quality products and services and help in improving the standard of living of people of host countries.

2.8.2 Limitations of MNCs

1. **Harmful to Local Market:** Producers in local market find it difficult to compete with MNCs. Many of them have to supply their products to MNCs.

2. **Harmful for Host Countries:** MNCs have the objective of profit maximization. They exploit the natural resources of the host countries.

3. **Regional Development:** MNCs prefer to set up industries in particular region. So particular regions develop rapidly and other regions remain underdeveloped.

4. **Monopoly:** MNCs are financially very strong and they adopt aggressive marketing strategies to sell their products. They try to create monopoly.

5. **Work for Self Interest:** MNCs work for their own interest and they do not work for economic development of host country.

6. **Environmental Costs:** Multinational corporations create higher environmental costs. MNCs may transfer technology which is outdated in the home country to host country.

7. **Technology Issues:** MNCs may transfer technology which is outdated in the home country to host country.

In spite of the limitations, there are various MNCs such as Infosys, Cognizant, Pepsico, Sony etc operating successfully in India.

2.9 MICRO, SMALL AND MEDIUM ENTERPRISE (MSME)

Micro, Small and Medium Enterprise (MSME), was introduced by Government of India in agreement with Micro, Small & Medium Enterprises Development (MSMED) Act, 2006. They are entities engaged in the production, manufacturing, processing or preservation of goods and commodities.

MSME sector is considered as the backbone of Indian economy that has contributed substantially in the socio-economic development of the nation. It generates employment opportunities and works in the development of backward and rural areas.

Definition of MSME:

Previous definition of MSME was as per MSME Development Act, 2006. After 14 years since the MSME Development Act came into existence in 2006, a revision in MSME definition was announced in the Atmanirbhar Bharat package on 13th May, 2020.

As per this announcement, the definition of Micro manufacturing and services units was increased to ₹ 1 crore of investment and ₹ 5 crore of turnover. The limit of small unit was increased to ₹ 10 crore of investment and ₹ 50 crore of turnover. Similarly, the limit of medium unit was increased to ₹ 20 crore of investment and ₹ 100 crore of turnover.

Later, on June 1st, the government of India for medium enterprises, increased the limit for investment to ₹ 50 crore and for turnover, the limit was increased to ₹ 250 crore.

Updated MSME Definition

Type of Enterprise	Investment	Turnover
Micro	₹ 1 crore	₹ 5 crore
Small	₹ 10 crore	₹ 50 crore
Medium	₹ 50 crore	₹ 250 crore

Thus unit which has a Investment upto 1 crore and turnover upto ₹ 5 crores is Micro Unit. Unit having investment upto 10 crores and turnover upto 50 crores is small unit and unit having investment upto 10 crores and turnover upto 250 crores is Medium unit.

2.9.1 Advantages of MSME

1. **Close Contact with the Customers:** It is one of the most important advantage. Medium and especially small businesses deal more directly with their customers, which enables them to meet their needs more accurately and to offer a more individualized service, and even establish some bond with their users. MSME have a greater capability to detect and satisfy very specific needs of its customers than a large company.
2. **Flexibility:** Because of their size and simpler structure, MSME have a greater capacity to adapt to changes. In addition, it helps them to be closer to their customers, which will allow them to know the variations in the market before anyone else.
3. **Fast Decision Making:** In MSMEs, decision-making depends on a person or a small group. This helps for faster decisions.
4. **Advantages of Registration:** When MSME is registered it can get facilities from Government such as Collateral Free Loans, consideration in International Trade Fairs, Exemption from Direct Taxes etc.

2.9.2 Limitations OF MSME

1. **Funding Difficulties:** Normally, MSMEs do not have the financial power that large companies have. For this reason, they usually need external financing, which is more limited.
2. **Narrow Customer Base:** The task of reaching its customers can be very hard for an MSME. The financial power of large companies allows them to make themselves known through mass media by advertising, but for small and medium companies, reaching a significant number of customers can be a task that requires lot of efforts.
3. **Higher Costs:** MSMEs cannot have the advantages of economies of scale. Due to this, cost of production increases.

4. **Low Bargaining Power:** For MSME, it is much more difficult to negotiate with suppliers and customers.
5. **Lack of Skilled Labour:** It is difficult to attract talented and well-prepared workers for MSMEs because they cannot offer benefits like companies to workers.
6. **Technological Problems:** For financial reasons, an MSME will have more difficulties to adapt to technological changes, which could lead to obsolescence. However, there are very interesting technological solutions that SMEs can access.

2.10 CONCEPT AND DEFINITIONS OF ENTREPRENEUR AND ENTREPRENEURSHIP

The word entrepreneur has come from the French word "Entreprendra" which means to undertake, to pursue opportunities to fulfil needs and wants through innovation to undertake business. "Entrepreneur is a person who organizes operates and assumes the risk for business venture".

According to Encyclopedia of Britannica

"Entrepreneur is an individual who bears the risk of operating a business in the face of uncertainty about future condition and who is rewarded accordingly by his profit or losses".

According to Richard Cotillion

"Entrepreneur is an agent who purchased the means of production for combination into marketable product".

So we can say that entrepreneur is a person who takes risk for establishing a new venture or business in order to create utility for the welfare of human being as well as for him or herself. He is always a person who seeks out opportunities and takes on challenges.

Meaning and Definition of Entrepreneurship:

Entrepreneurship is considered as act of assuming the risk of an entrepreneur.

According to Nathael H. Liff:

"Entrepreneurship is the capacity for innovation investment and expansion in new markets product and techniques."

According to Joshep Schumpeter

"Entrepreneurship is the force of creative destruction whereby established way of doing things are destroyed by the creating of new and better ways to get things done."

According to S. S. Kanaka:

Entrepreneurship is a process involving various actions to be taken to establish an enterprise.

From the functional view point entrepreneurship is defined as-

"the combination of activities such as perception of market opportunities, gaining command over scarce resources, purchasing inputs, producing and marketing of product, responding to competition and maintaining relation with political administration and public bureaucracy for concession licenses and taxes etc."

2.10.1 Characteristics of an Entrepreneur

An entrepreneur is a person who initiates a business venture. There are some essential features of an entrepreneur which are described below.

1. **Risk taking capability:** Every business involves risk of time, money etc. An entrepreneur must have the risk taking capability.
2. **Creativity and Innovation:** As an initiator, entrepreneur possesses creativity and innovative power.
3. **Need for Achievement:** Entrepreneur has strong desire to achieve the goal of business. He is always driven by the needs for achievement.
4. **Need for Autonomy:** An entrepreneur does not like to work under anybody. It is the need for autonomy which drives a person to be an entrepreneur.
5. **Self Confidence:** An entrepreneur has confidence in him.
6. **Leadership Capability:** An entrepreneur must have leadership capability.
7. **Decision Making Capability:** The entrepreneur should have capacity to take quick decisions.
8. **Adaptability:** He should have the capacity to adapt with any kind of situation that arise in the enterprise.

9. Foresight: Entrepreneurs have a good foresight to know about future business environment.

2.10.2 Qualities and Skills of Entrepreneur

1. **Moderate Risk Taking:** An entrepreneur always takes calculated risk to operate the organisation.
2. **Hard Work:** An entrepreneur is very much hard worker, he or she always busy with various types work.
3. **Accountability:** A successful entrepreneur is accountable to his associates.
4. **Educated in Real Sense:** Successful entrepreneur tries to implement his organisational objectives through his education.
5. **Analytical Mind:** A successful entrepreneur is analytical minded. He scrutinizes every activity on the organisation.
6. **Dynamic Leadership:** A successful entrepreneur is always dynamic to operate the organisation.
7. **Presence of Mind:** A successful entrepreneur must always have presence of mind.
8. **Accommodative:** A good entrepreneur has the capacity to make his own place at every sector.
9. **Courageous and Tactful:** Successful entrepreneur must be courageous and tactful. Tactfulness is very much essential for a successful entrepreneur.
10. **Decision Making:** A successful entrepreneur makes right decision in right time, in right place.
11. **Foresighted:** A successful entrepreneur foresees the future and takes decision accordingly.
12. **Strong Desire to Success:** A successful entrepreneur have a strong desire to success. He is driven by the desire to success.
13. **Innovation:** Innovation is the process of making something new. A successful entrepreneur is innovative.
14. **Self Confidence:** A successful entrepreneur is self confident.
15. **Goal Setting:** A successful entrepreneur sets the goals clearly.
16. **Keen Observation:** A successful entrepreneur always observes the situation.

17. **Sociable:** A successful entrepreneur is sociable person.
 18. **Loves to Work:** A successful entrepreneur is very much addicted to work.
 19. **Loves New Ideas:** A successful entrepreneur loves new ideas of the organisation.
 20. **Team Builder:** A successful entrepreneur builds a suitable team.
 21. **Clear Understanding:** A successful entrepreneur clearly understands every things.
 22. **Ability to Conceptualize:** A successful entrepreneur is able to conceptualize the reality.
- In this chapter we have studied various types of organisations. The type of organisation depends upon various factors like capital, motive, risk, level of activities, market etc.

POINTS TO REMEMBER

- **Sole Proprietorship:** Single ownership, No Profit Sharing, One Man Capital, Unlimited Liability, Less Legal Formalities, One Man Control, No Separate Legal Entity
- **Partnership:** Sharing of Profits in proportion, Risk Sharing, Easy Formation and Registration
- **Limited Liability Partnership:** Separate Legal Entity, Perpetual Succession, Agreement
- **Joint Stock Company:** Artificial Person, Incorporated Association, Independent Legal Entity, Common Seal, Perpetual Succession, Limited Liability, Transferable Shares, Separation of Ownership and Management
- **Sec 25 companies:** Formed for social purpose or charity.
- **NGOs:** Voluntary Associations, Autonomous, Own Funds, Service Motive.
- **MNCs:** Large Capital, Huge Profits, Large Network, Professional Management, Employment Opportunities.
- **MSMEs:** Flexible, Advantages of Registration.

QUESTIONS FOR DISCUSSION

1. Define Sole Proprietorship. Explain Features of Sole Proprietorship.
2. Explain in detail Advantages and Limitations of Sole Proprietorship.
3. Define Partnership. Explain features of Partnership Firm.
4. Explain in detail Advantages and Limitations of Partnership Firm.
5. Explain the concept of Limited Liability Partnership with advantages and limitations.
6. Define and explain features of Joint Stock Company.
7. Explain advantages and disadvantages of Joint Stock Company.
8. Explain in detail concept of Sec 25 company.
9. Explain the characteristics of NGOs.
10. Explain features and advantages of MNCs.
11. Explain the concept of One Man Company.
12. Define Entrepreneurship. Explain Qualities and skills of an entrepreneur.

QUESTIONS FROM PREVIOUS EXAMINATIONS

1. Define Partnership. Explain its merits and demerits.
(October 2012, 2013)
2. Write Short Note: Sole Proprietorship.
(October 2012)
3. State the Features of Joint Stock Company.
(October 2013)
4. Write a Short Note on : Partnership Firm.
(April 2014)
5. State the meaning of limited liability partnership. Explain the merits and demerits of limited liability partnership.
(April 2018, October 2018)
6. Define sole proprietorship. Explain the merits and demerits of sole proprietorship.
(October 2018)

*********Chapter 3...****Business Environment****Contents ...**

- Introduction
- 3.1 Business Environment
- 3.2 Salient Features of Business Environment
- 3.3 Constituents of Business Environment
- 3.4 External Environment
- 3.5 Economic Environment Component
- 3.6 Critical Elements of Economic Environment
- 3.7 Indian Economic Environment
- 3.8 Important Economic Changes
- 3.9 Trade Union Movement
- 3.10 Consumer Movement
- 3.11 Consumer Environmental Component
- 3.12 Legal Environmental Component
- 3.13 Cultural Environmental Component
- 3.14 Importance of Ethics in Business
- 3.15 Impact of Educational Component on Business Environment
- 3.16 Political Environmental Component
- 3.17 Technological Environmental Component
- 3.18 Natural Environmental Component
- 3.19 Social Responsibility
- 3.20 Responsibilities of the Business towards Community
- 3.21 Responsibilities towards the State and Central Government
- 3.22 Business Components to be focused for Development
 - Points to Remember
 - Questions for Discussion
 - Questions from Previous Examinations

The objective of this chapter is to understand the meaning of business, environment, to know about the different constituents of

business environment to study the macro variables of business environment in detail, to learn about the interaction of business and environmental forces and to understand the concept of social responsibility.

3.1 INTRODUCTION

While conducting any business there are several aspects which impact the success or failure of it. There are some aspects which may be beyond the direct control of the owner. These factors mainly arise from the work environment. Eg. the current corona virus pandemic has impacted every business which was beyond anyone's imagination.

This necessitates the need to understand the precise meaning of the term "environment", recent floods etc. Thus, there are several factors that affect the business on which the businessman has no control. All these factors are referred to as "Environment". Every business operates in specific known factors like political, economic, social, legal, technological etc. There are some factors which are stationary (non-moving) and some are dynamic. Similarly, there are some qualitative and quantitative. Environment is a complex phenomenon.

Let us understand what the Business Environment is:

There are several definitions but a few are given hereunder which will focus on the various aspects of it.

According to the Business Environment Dictionary, business environment means all of the internal and external factors that affect how the company functions, including employees, customers, management, supply and demand and business regulations. **Business environment** is the sum total of all external and internal factors that influence a business. External factors and internal factors can influence each other and work together to affect a business.

3.2 BUSINESS ENVIRONMENT

External Factors:

- ❖ **Political factors** are governmental activities and political conditions that may affect your business. Eg. government laws, regulations relating trade barriers, tariffs etc.
- ❖ **Macroeconomic factors** are factors that affect the entire economy, not just your business. Eg. impact of current coronavirus pandemic, recessions, demonetization, exchange rates, depressions etc.

- ❖ **Microeconomic factors** are factors that can affect your business, such as market size, demand, supply, relationships with suppliers and your distribution chain, such as retail stores that sell your products, and the number and strength of your competition.

Social factors are basically sociological factors related to general society and social relations that affect your business. Social factors include social movements, such as 'swadeshi' movement, changes in fashions and consumer preferences, preference for organic food etc.

- ❖ **Technological factors** are technological innovations that can either benefit or hurt your business. The current level of technological improvement has totally changed the business styles. Eg. now the banking facilities are available for 24 hours of the week. This is attributed to advanced machines. Some technological innovations can increase your productivity and profit margins, such as computer software and automated production. On the other hand, some technological innovations have forced closure of some business activity. Eg. computers eliminated typewriting institutions.

3.3 SALIENT FEATURES OF BUSINESS ENVIRONMENT

Following are salient features of Business Environment:

- ❖ **External Forces:** It covers all factors which directly or indirectly affect the business.
- ❖ **Specific Factors:** It includes investors, customers, suppliers, general forces like political, social, legal, technological etc.
- ❖ **Inter-Relations:** Factors which are interrelated like change in eating habits of the youngsters – consumption of fast food, adoption of western culture by the youth etc.
- ❖ **Uncertainty:** This depends upon the type of business. The current lockdown on account of corona virus pandemic has adversely impacted the business. Today the business environment is changing very fast. A day is likely to come when we will be having only E-books for our students, for banking operations you need not visit the bank physically.
- ❖ **Dynamism:** Today's business environment is dynamic. Funds are transferred from one place to the other within a moment. Through digital media news from any nook and corner is flashed all over the world within a short time.

- ❖ **Volatility:** The unpredictable changes that occur in the business environment make the business volatile. Customer preferences changes quite fast. No one had thought of penetration of the mobile so fast in the rural areas. The volatility changes from organization to organization. Use of advanced technology may bring out retrenchment in factories. Flashing of news about finding an external particle in a drink bottle affects the sale of that drink immediately.
- ❖ **Complexity:** Today's business organizations are complex. It is very difficult to understand the impact of business environment on the companies. Although it is easy to scan the environment but it is very difficult to know how these changes will influence business decisions. Sometimes change may be minor but it might have large impact. For example, a change in government policy to increase the tax rate by 5% may affect the income of a company by a large amount.

3.4 CONSTITUENTS OF BUSINESS ENVIRONMENT

Internal Environment: Factors which influence the business from within are usually controllable. These include objectives of the business, business policies, production capacity, methods of production, management, managerial attitude, organization structure etc.

3.5 EXTERNAL ENVIRONMENT

It includes the following **Micro Environment Factors**.

- ❖ **Customers:** Customers differ from unit to unit? Means? Composition of the customers influences a firm (sentence doesn't connect from here) comprises of household, commercial, industrial, government etc. The type of customer influences the firms. It is always better to have a spread amongst the customers so that sluggishness in one type of customer may not affect the entire business of the firm.
- ❖ **Competitors:** Because of use of high end technology, China has dominated various markets world over. This has adversely impacted the Indian domestic manufacturers. It is worthwhile to know that after the globalization, and entry of Multinational Corporations from abroad the Indian domestic manufacturers had to adopt technology to remain competitive.
- ❖ **Suppliers:** Same is the case with the suppliers. There should not be a monopoly of any supplier which may endanger the firm's business in

- case of failure of the supplier. Number of chemical and pharmaceutical industries in India are dependent on the raw material supplies from China and the current strained relations between India and China has adversely impacted the business of these two sectors. Now these Indian pharmaceutical companies will have to find out an alternate source of supply which is not an easy task.
- ❖ **Social Factors:** Business environment has very important position in the social system, every business has a social responsibility while the social factors influence the policies and strategies of the business. There are many social factors which affect the policy and strategies of business such as culture, values, tastes and preferences, social integration and disintegration.
- ❖ **Economic Factors:** Economic factors include per capita income, national income, resource mobilization, exploitation of natural resources, infrastructure development, capital formation, employment generation these are the basic economic factors which influence the business environment.
- ❖ **Cultural Factors:** Cultural factors include variables like social and religious practices, education, knowledge, rural community norms and beliefs and so on which are affecting the business on the cultural aspects.
- ❖ **Geographical Factors:** Geographical factors also plays an important role in business such as geographical locations, seasonal variations, climatic condition are some factors should be kept in mind before starting the business.
- ❖ **Technological Factor:** It is one of the most important factors of the business environment that is why the government in its industrial policy resolution, industrial licensing policies and even in liberalization policy has assigned a great importance to sophisticated technology.
- ❖ **Political Factors:** Political parties in power substantially influence the business environment, we can take the example of congress, at the time of congress rule, stock prices went up, where as the market crashed during unstable minority government of the national front.
- ❖ **Legal Factors:** Every business in India is regulated by a law, hence legal factors play a very important role in business, laws relating to industrial licensing, company formation, factory administration etc.

❖ **Ecological Factors:** These factors deal with the study of the environment. It has two basic factors i.e. biotic and abiotic and their interaction with one another, one who is starting a business is expected to preserve ecological factors for achieving a sustainable growth.

❖ **The Government Policies:** The government policies provide a basic environment for the business. Some of the government policies are industrial policies, licensing policies, trade policies, labour policies, fiscal policies, taxation policies etc. are some policies for business in India.

❖ **Labour Factors:** Labour in an organization constitute an internal factor, general labour policies and climate may form a part of external environment, in an organization labour plays an important role in increasing the strength of an organization, so we can say labour is also one of the most important factors in business.

❖ **Competitive Market Condition:** This is also one of the most important factors affecting business, in this world of competition it is very difficult to survive in a business. In a socialistic economic environment, market is controlled by the centralized authority-the government-whereas the competitive forces determine the market in a fully capitalist economy.

❖ **Location Factors:** Location is also a very important part in business, if you are doing your business in metropolitan cities and in perfect location, business will reach profits whereas in backward areas it is difficult to run a business and maintain the pace.

3.6 ECONOMIC ENVIRONMENTAL COMPONENT

Primarily, organization and conducting a business enterprise is an economic activity. The entrepreneurs have to take into account various macro-economic factors while making any business decision. Therefore, it will be worthwhile to understand what the micro-economic environment is.

Common macroeconomic factors include gross domestic product, the rate of employment, the phases of the business cycle, the rate of inflation, the money supply, the level of government debt, and the short-term and long-term effects of trends and changes in these measures. Weightage to be given to these macro factors depends upon the size of

the business unit and the amount of investment that is being put in, these factors have some impact on small units also but it is insignificant.

The factors that make up the macro-environment are economic factors, demographic forces, technological factors, natural and physical forces, political and legal forces and social and cultural forces. Eg. Availability of funds from banks - population of the place and the demand for the product/service, availability of technology - for a floor mill electric power is required, social - opening up of a mutton shop in a predominantly brahmin or Jain locality etc. may be misinterpreted?

India is a vast country having a democratic set up and federal structure. Certain subjects are reserved for the central government, while certain subjects are given to the states. Some are overseen by the central government. Political ideology of the political parties which govern the state or at the centre do influence the economic decisions. The central government decides the broad economic policies to enable the government to allocate available resources according to the planned priorities. Even the central government directly or through the Reserve Bank of India (RBI) directs the banking industry to allocate the scarce resources to a particular segment of the economy which is otherwise neglected. The role of the government is to have a regional balance in the development of the various regions of the country.

In a country like India which is following a socialistic pattern, certain types of business activities are reserved for the government and rest are left open for the public. E.g. railways, defence services requirements etc. Of course, currently these activities are being selectively opened up for the private sector.

India being a developing country, the rate of capital formation is relatively low and hence for establishing big sized businesses, financial resources are required to be mopped up from the banks as well as from the public offers through capital market.

3.7 CRITICAL ELEMENTS OF ECONOMIC ENVIRONMENT

The macro-economic environment has certain critical elements which are as follows:

1. **Economic System:** India has adopted a mixed economic pattern of society where public and private sector coexists simultaneously.

2. Anatomy of the Economy: Indian economy consists of household sector, corporate business sector, government administration, capital market and foreign sector.

3. Functioning of the Economy: The three most important functions of the economies are as follows:

Just as feeding, digestion and growth are the essentials of beings, similarly, production, consumption and growth are the essentials of economies.

(a) Production: The first vital process of an economy is production which must go on continuously. "Production includes any activity, and the provision of any service, which satisfies and is expected to satisfy a want." In this wider sense, production includes products produced on farms like wheat, vegetables, pulses, etc, and those manufactured in the factories such as clothes, bicycles, television sets, electric appliances and the like. It also includes the services of shopkeepers, traders, transporters, actors, doctors, civil servants, teachers, engineers and the like who help in satisfying the wants of the people in the economy through their services.

(b) Consumption: The second vital process of an economy is consumption. Consumption means the use of economic goods and services in the satisfaction of human wants.

The consumption that goes on in the economy may be of various types. Prof. Hicks classifies consumption goods into **two categories**: single use goods and durable use goods. 'Single-use goods' are those which are used up in a single act. Such goods are food stuffs, cigarettes, matches, fuel etc. They are the articles of direct consumption because they directly satisfy human wants.

(c) Growth: Economic growth is the process whereby the real per capita income of a country increases over a long period of time. Growth of Population particularly working population is the first cause of growth. A rapidly growing population in relation to the growth of national product keeps the output per head at low level. This is the case of the Indian economy which is in a developing stage.

(d) Economic Planning and Programs: India has adopted a Five-Year Planning process for its development, since 1951. The planning commission decides the priorities that the government, both at the centre as well as at the state, should pursue. Since 2014, the Planning Commission has been dissolved and a new "Niti Aayog" has been established by the present government, which continue to follow the same principles but the priorities are changed here and there.

(e) Economic Policy Statements and Proposals: From time to time the central government declares its policies which are followed by the governments as well as the society at large. Eg. Industrial policies adopted from time to time. Agricultural Policy, Money and Credit policies of the Central Bank of the country i.e. (Reserve Bank of India), Import & Export Policy, Price control on certain commodities, various Regulatory Authorities like Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA) etc.

(f) Economic Controls and Regulations: Through various legislations the economic activities are controlled. Eg. Banking Regulation Act, Industrial Development and Regulation Act, The Companies Act, Minimum Wages Act etc.

(g) Economic Trends and Structure: The functioning of the economy is reflected in the long term trends in the macro economic variables like income, money supply, prices, GDP, Balance of payments, employment etc.

(h) Economic Problems and Prospects: Inflation, unemployment, recession etc. are some of the economic problems.

3.8 INDIAN ECONOMIC ENVIRONMENT

The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company. These factors are often beyond a company's control, and may be either large scale (macro) or small scale (micro).

The economic environment refers to all the economic factors that affect commercial and consumer behaviour. The economic environment consists of different things for different people. For example, for a farmer, the weather and price of fertilizers are important factors.

Due to certain recent developments like demonetization, global industrial recession, current corona virus pandemic, the Indian economy is in a very bad shape where the GDP growth is expected to be in negative during the current financial year 2019-2020. However, the international organisations like IMF, the World Bank and some of the international Credit Rating Agencies like S&P, have predicted that the Indian economy will recover substantially in the next financial year and will be one of the leading economies of the world.

1. International Environmental Component

When a country exports goods, it sells them to a foreign market, that is, to consumers, businesses, or governments in another country. Those exports bring money into the country, which increases the exporting nation's GDP. Those exports bring money into the country, which increases the exporting nation's GDP. When a country imports goods, it buys them from foreign producers. The money spent on imports leaves the economy, and that decreases the importing nation's GDP. Therefore, every government tries to restrict imports and encourages exports. For restricting imports custom duty is increased and for exports the government gives subsidy as well as provides credit at lower rate of interest.

In recent years, exports have become more diversified with a greater reliance on service sector based exports, for example, computer programming. Exports are a component of aggregate demand (AD). Rising exports will help increase AD and cause higher economic growth.

In order to encourage Indian exports, the Government of India has taken several initiatives. It has established the EXIM Bank (Export Import Bank), the government has provided several subsidies to the exporters, even export credit is also given at relatively lower rates. The Government of India has also established Export Credit Guarantee Corporation of India to safeguard the interest of the exporters. The Commerce Ministry (Exim) policy. The Exim policy is guided by encouragement to exports and discourages unessential imports. The Government has created Star Trading Houses. Emphasis is on the mutual trust and liberalization.

After India's independence, for quite a few decades India's imports were quite huge. Due to increase in the population and low level of

agricultural production, India had to import food grains on a large scale. But now the position has been reversed. Today, India is also exporting some of the agricultural products. Gradually, as the industrial development picked up, the imports started decreasing. Today, our exports have also shown an increasing trend. Of late, India's foreign exchange earnings have increased substantially due to export of information technology related services as well as export of gems and jewellery. Over the past few years, the composition of our exports has undergone a sea change. In the past our contribution of agriculture sector was quite significant but now the industrial exports have overtaken the agricultural sector. The low productivity of the agricultural sector is attributed to traditional cultivation practices, dependence on the vagaries of monsoon and frequent natural calamities like floods, draughts and low farm mechanization. Gradually things are changing.

2. The current World Market Scenario:

After the establishment of the World Trade Organization the entire scenario of the World Market has undergone a sea change. Now the whole world has become a world market. There are less barriers now. Gradually the trade restrictions have been reduced and the market has become too much competitive.

3. WTO And Indian Agriculture and Farmers

Household policy steps, such as the functioning of least assistance selling price, public division program, in addition to the provision of entering financial assistance to farming haven't within any kind of method been constrained through the WTO understanding. Specific provisions within the Agreement on Agriculture (AoA), additionally offer us the versatility to offer assistance for research, disease and pest control, advertising and also marketing expertise, infrastructure advancement, payments for alleviation out of organic catastrophes, payments underneath the local guidance programs for disadvantaged areas as well as payments beneath green programs. [Indian growers today have to make the most of the chance supplied provided by the AoA, by dealing with efficiency problems as well as generating the products of theirs much more cut throat around the world.]

[Indian farmers today can make the most of the opportunity provided by the AoA, by dealing with problems of efficiency and generating produce which are more competitive in the world.]

4. Social Environmental Component

Social factors affecting business

- ❖ Social classes and their influence on the society
- ❖ Average disposable income level
- ❖ Wealth of people
- ❖ Economic inequalities
- ❖ Level of education
- ❖ Access to education (free or paid)
- ❖ Level and access to healthcare
- ❖ Health consciousness in society (smoking, drinking, drug use, safe driving etc.),
- ❖ Buying habits and consumer preferences
- ❖ Average retirement age (for men and women)
- ❖ Personality of average consumer
- ❖ Reputation of company in society
- ❖ Conflicts within society
- ❖ Susceptibility to influence
- ❖ Social organization (communities, social groups, gangs, ad-hoc gatherings etc.),
- ❖ Uncertainty avoidance, dominating in society (or other G. Hofstede socio-cultural factors)

The Social Environmental Component of the business environment consists of several movements like Trade Union Movement, Consumer Movement, Shareholders movement. Business ethics get very much affected by these social movements. Businesses have to strike a balance between the aspirations of various interested groups and its own achievements. When there is social harmony businesses flourish.

In the sociological environment, various forces like political, ecological, geographical, historical, ethical, moral, institutional etc. influence the business performance. Social environment differs from place to place. Social and business environment go hand in hand. Economic growth and social justice should keep pace with each other. The prerequisite for social progress is the structural development of the economy.

3.10 TRADE UNION MOVEMENT

As the industrial activity progressed, the clash of interest between the labour and management started increasing. The managements were labour to exploit the labour and maximize profit. Gradually the labour trying to unite and demanded redressal of their grievances. The force started to unite and demanded redressal of their grievances. The Trade Union Movement is the outcome of the Industrial Revolution that occurred first in Britain and gradually the movement spread in the industrialized countries. The workers became aware of their rights and started demanding a fair treatment. In the Indian industrial sector also, the trade unions were organized and they started getting their demands settled. Trade Union Act has been passed in 1926 and it takes care of the workers rights as well as duties. Trade unions are required to be registered. All India Trade Unions Congress (AITUC) was formed in 1920. National Trade Union congress (NTUC) affiliated to Indian National Congress was established in 1947, Hindu Mazdoor Sabha in 1948, Bharatiya Mazdoor Sangh (BMS) in 1955. Where there is no settlement between the two parties, for them, the Government has created a Conciliation Authority which calls both the parties and gives them hearing and finally gives its judgment which is binding on both the parties. If this judgement is not acceptable to any party then the issues are taken to the industrial courts whose verdicts are binding on both the parties.

3.11 CONSUMER MOVEMENT

Consumer is king so far as marketing aspect is concerned. The entire marketing activity is focused on the consumer. Sometime, because of certain grievances about the quality, pricing etc., the consumer feels that he is being exploited by the trades and then they come together to seek redressal of their grievance. In the today's business world, the consumers are having greater awareness about their rights. On the lines of the Trade Union movement in the present times the consumers are also forming their movement against unacceptable trade practices and raise their voices to get their grievances sorted out amicably. If the issues are not sorted out amicably then the Government has constituted Consumer Forums / Consumer Courts who provide justice to the aggrieved party.

3.12 LEGAL ENVIRONMENTAL COMPONENT

In order to have a smooth sailing for the businesses, the governments have to enact several legislations, through passage of various Acts for specific purposes. It encompasses right from the

establishment of the business activity, location, capacity, labour laws, the government has to establish a legal framework so that in case of any dispute there is a redressal mechanism available. Following are the few Acts, which are used on a large scale. Mainly these are for the organized sector.

1. Companies Act, 1956
2. Capital Issues Control Act, 1947
3. Trade unions Act, 1926
4. Payment of Bonus Act, 1961
5. Consumers' Protection Act
6. Foreign Exchange Management Act, (FEMA)
7. Factories Act.
8. Social Security Enactments.
9. Laws for Managerial Remuneration
10. MRP Act, 1969

Foreign Exchange Management Act 2000 (FEMA-2000)

Securities and Exchange Board of India which is often referred as SEBI is the key regulator of securities market in India. It was established in 1988 by the Government of India and is established and incorporated through section 3 of SEBI Act, 1992. (<http://www.sebi.gov.in/acts/act15ac.pdf>).

Controller of Capital Issues was the regulatory authority before SEBI came into existence which derived its authority from the Capital Issues (Control) Act, 1947. Its headquarter is situated at Plot No.C4-A, 'G' Block, Bandra Kurla Complex, Bandra (East), Mumbai 400051.

SEBI is managed by its board members and the management of the board is defined in Section 4 of the act, which consists of following:

- (a) A Chairman who shall be appointed by the central government.
- (b) Two members from Ministry of Central Government dealing with Finance (and administration of the Companies Act, 1956).
- (c) One member from The Reserve Bank of India.
- (d) Five other members appointed by central government, out of them at least three shall be whole time members.

Objectives of SEBI:

The primary objective of SEBI is to promote healthy and orderly growth of the securities market and secure investor protection. However, other objectives of SEBI can be categorized as:

- Ensuring fair practices in securities market.
- Efficient, competitive and professional services by promoting bankers, brokers, advisors, underwriters, portfolio managers and other intermediaries.
- Formulate rules and regulations for the securities market in India.
- Settlement of investor's grievances in securities market
- The government has also enacted several legislations to curb the illegal acts. Few frequently used Acts are as under:

Act	Basic objective
Essential Commodities Act, 1974	Contains provisions against economic offenders and anti-social elements.
Sick Industrial Companies Act, 1985	Provides for establishment of Board of Industrial and Financial Reconstruction (BIFR) for sick industrial organizations.
Consumer Protection Act, 1986	Provides protection to the consumers against business malpractices.

There are several other Acts like Factories Act, Minimum Wages Act, Industrial Disputes Act, Industrial Relations Bill etc., which also form the business environment.

3.13 CULTURAL ENVIRONMENTAL COMPONENT

Culture is the lifeblood of a vibrant society, expressed in the many ways we tell our stories, celebrate, remember the past, entertain ourselves, and imagine the future. Our creative expression helps define who we are, and helps us see the world through the eyes of others. Culture refers to the symbols, language, beliefs, values, and artefacts that are part of any society. Because culture influences people's beliefs and behaviours, culture is a key concept to the sociological perspective. Culture comprises of knowledge, belief, art, morals, law, customs and other capabilities and habits acquired by an individual as a member of the society. The culture is shared by the members of the society and the cultural ethos are passed on the next generation. There are subcultures within the culture.

Cultural Aspects that influence business:

Cultural factors affecting business:

- ❖ fashion trends
- ❖ lifestyle
- ❖ social media influence (blogging etc.) vs. traditional media (press, TV, radio)
- ❖ dominant communication technology in social groups
- ❖ participation in cultural events
- ❖ willingness to pay for tickets
- ❖ popular actors, music styles, design forms etc.
- ❖ creativity of people
- ❖ relative population of local (folk) artists vs. global imported culture
- ❖ various other determinants of culture

3.14 IMPORTANCE OF ETHICS IN BUSINESS

❖ Business Ethics is an art and science for maintaining harmonious relationship with society, its various groups and institutions as well as recognizing the moral responsibility for the tightness rightness and wrongness of business conduct." -Wheeler.

The system of moral and ethical beliefs that guides the values, behaviours and decisions of a business organization and the individuals within that organization is known as business ethics. Some ethical requirements for businesses are codified into law; environmental regulations, the minimum wage, and restrictions against insider trading and collusion are all examples of the government setting forth minimum standards for business ethics.

Business ethics comprises various traits, such as trustworthiness and transparency in customer services. Ethical business practices strengthen customer relationship that is of prime importance for long term organizational success. It deals with retaining and creating a long lasting impression in the minds of customers. Such impressions help the enterprise to win the trust of customers and get more business.

3.15 IMPACT OF EDUCATIONAL COMPONENT ON**BUSINESS ENVIRONMENT**

Some of the important factors and influences operating in the social environment are the buying and consumption habits of people, their languages, beliefs and values, customs and tradition, tastes and preferences, education and all factors that affect the business. Eg. With the spread of education in the rural areas there is a greater demand for

the branded products in the rural areas. An educated person while purchasing any product verifies whether it is an ISI marked product or otherwise. Through this he verifies the quality of the product.

3.16 POLITICAL ENVIRONMENTAL COMPONENT

Every facet of our life has been affected by the political influence. This is predominantly seen when it comes to economic activities. The type of government also decides the business environment. Whether it is a democratic government or it is a dictatorship or monarchy type of government. The political ideology of the government has a greater influence in the business. Eg. The moment Hon. Narendra Modi- Prime Minister of India, gave a slogan of "AatmNirbhar Bharat" - (Self Reliant India), it has dramatically changed the business environment. Chinese goods are now vanishing from the market.

3.17 TECHNOLOGICAL ENVIRONMENTAL COMPONENT

Prior to adoption of automation and technology all the works were carried out manually. However, with the adoption of technology and technology the entire business environment has witnessed a sea change. Day in and day out, new inventions and software are being introduced within the world. Several complicated operations can now be completed within a fraction of a second with the use of technology. Several inventions have become obsolete when a new invention is introduced. The use of advanced technology in business, industry and services sector has its impact on several other traditional aspects like approach to management, use of Management Information System (MIS) for decision making, decisions are now fast, wherever mathematical calculations are involved, those are accurate and upto the desired fractions, output is clean and with a speed, transmission of information and documents from one end to the other is faster than imagination. All this proves the role of the technology on the business environment. Costs have been reduced. Man power is replaced by machines. Without moving one can have virtual conferences across the world at large. Data storage has reduced the storage space required. Robotics has been introduced in everyday life e.g. Robotics presence at the petrol pumps, in factories and even at home and hospitals etc.

3.18 NATURAL ENVIRONMENTAL COMPONENT

Needless to say, that natural environment has an impact on the business environment. There are climatic changes which are affecting business environment. Pollution of every type - air, water, etc. do

influence the business environment. Green house gasses affect the business locations. Due to various factors like earthquakes, sea based cyclones, drastic change in the climate do affect the crops and the seasons. Thus, the natural environment component is also a vital aspect so far as business environment is concerned.

It will be worthwhile to understand that the environmental factors may result either in providing new opportunities or even it may pose threats. Opportunities may be in the form of new market, new products, new sources of raw materials, employees with better skills, favourable government policies. The threats may put several constraints and limits. The local people may oppose any new entry of a plant. E.g. The proposed installation of Atomic Energy Plant at Jaitapur in Konkan region has been opposed by the local people on the ground that the project will be a threat to the natural resources of the region and the human race also, and the government had to abandon the project installation.

The threat of the air pollution is so grave that the apex court (i.e. Supreme Court) had to give directions to the Delhi Government to take effective steps on war footing to arrest the pollution. Educational institutions and transport had to be closed. So, this is also an example of natural environmental component that affects the business environment.

3.19 SOCIAL RESPONSIBILITY

Concept:

Social Responsibility means that individuals and companies have a duty to act in the best interests of their environment and society as a whole. **Social responsibility**, as it applies to **business**, is known as **corporate social responsibility (CSR)**.

Social responsibility is a moral obligation on a company or an individual to take decisions or actions that is in favour and useful to society. Social responsibility in business is commonly known as Corporate Social Responsibility or CSR. For any company, this responsibility indicates that they acknowledge and appreciate the goals of the society, and therefore, would support them to achieve these goals.

Of late, there is increased awareness about the interdependence between the business and the environment offered by the society. In the present set up the business community cannot remain aloof from the society just to pursue their business goals without taking into account

the society's general approval. Irrespective of the ownership pattern the society expects that every business house should owe to the society and society contribute to the social welfare of the society. In India, the Tatas should contribute to the social welfare of the society. In India, the Tatas were the first industrialist to recognize the social responsibility of the business houses. The concept of Social responsibility envisages intelligent and objective concern for the welfare of society no matter its impact on profitability.

Advantages of Social Responsibility:

A company can boost its morale and enhance work culture when they can engage their employees with some social causes. There are many factors that can have a positive impact on the business while delivering social responsibilities. Such few factors are:

- ❖ Justification for existence and growth
 - ❖ The long term interest of the firm
 - ❖ Avoidance of government regulation
 - ❖ Maintenance of society
 - ❖ Availability of resources with business
 - ❖ Converting problems into opportunities
 - ❖ A better environment for doing business
 - ❖ Holding business responsible for social problems
- There are some factors that forces the businesses to respond to social responsibility. The forces are:

Consumerism: Due to greater consumer awareness the businessmen have to take into account care for the interests of the consumers for their protection. E.g. Abandonment of use of low micron plastic in packaging to keep the environment safe.

Enlightened Self-interest: Due to socio economic development of the rural areas, the market for the branded goods which assure quality of the product has sizeably improved. People are now health conscious.

Trade Unionism: Due to prevailing stiff competition in the domestic market because of the presence of MNCs on the Indian marketing canvas, the retention of the talented workers has become a big problem and if not solved at the right time there is a flight of these talented employees to other units. The manufacturers have to pay greater attention to the welfare activities and provide benefits as the present day workers are not merely interested in compensation packages but also concerned about the Best HR practices followed by the organizations.

Public Opinion and Government Control: The businessmen have also to be concerned about the public opinion as well as the likely government control over the business environment. Say liquor business, although it fetches greater revenue to the government on the moral front there is opposition from the public.

Evolution of Corporate Social Responsibility in India:

The idea of Corporate Social Responsibility (CSR) goes back to the early 20th century, when public discussions emerged in the United States about the role and social responsibilities of its large industrial corporations. Since then, the idea of CSR has evolved into a global doctrine on the interplay between business and society.

Post liberalization, Indian economy has made significant progress across the entire spectrum of industries. Many sectors, especially IT, have grown at a rapid pace, promoting incomes and boosting consumption. Yet, India continues to face many challenges in bridging development gaps. Almost 25 percent of its population i.e. 300 million people live below poverty line.

India's 25 percent rate of illiteracy is five times that of China, with the economic cost of illiteracy alone estimated to be \$54 billion annually. The public sector has been making several efforts to bridge these gaps.

Programs such as Integrated Child Development Services (ICDS), Targeted Public Distribution System (TPDS), Sarva Shiksha Abhiyan (SSA), and Mahatma Gandhi National Rural Employment Guarantee Act (MNRGA), are the largest social safety net programs around the world adding up to Rs. 2 lakh crores in annual expenditure by the Government.

The concept of CSR rests on the ideology of give and take. Companies take resources in the form of raw materials, human resources etc from the society. By performing the task of CSR activities, the companies are giving something back to the society.

The activities that can be done by the company to achieve its CSR obligations include eradicating extreme hunger and poverty, promotion of education, promoting gender equality and empowering women, reducing child mortality and improving maternal health, combating human immunodeficiency virus, acquired, immune deficiency syndrome, malaria and other diseases, ensuring environmental sustainability, employment enhancing vocational skills, social business projects, etc.

CSR holds a very important place in the development scenario of the world and can pose as a tool for sustainable development. As CSR is a dynamic and ever evolving concept, it has many definitions and interpretations. The benefits of CSR are long term and larger in scale.

Accepting this shift would help us better prepare for the changes that will nurture and strengthen corporate India. Hence it is suggested that CSR is adopted by the companies as a long term strategy instead of merely a legal obligation.

The Companies Act 2013 (Companies Act) has introduced several new provisions. One of such new provisions is Corporate Social Responsibility (CSR).

The concept of CSR rests on the ideology of give and take. Companies take resources in the form of raw materials, human resources etc. from the society. By performing the task of CSR activities, the companies are giving something back to the society.

Section 135, of the Companies Act, provides the threshold limit for applicability of the CSR to a company i.e.

- (a) Net worth of the company to be Rs. 500 crore or more
- (b) Turnover of the company to be Rs. 1000 crore or more
- (c) Net profit of the company to be Rs. 5 crore or more. Further as per the CSR Rules, the provisions of CSR are not only applicable to Indian companies, but also applicable to branch and project offices of a foreign company in India.

Every qualifying company requires spending of at least 2% of its average net profit for the immediately preceding 3 financial years on CSR activities.

Activities under CSR: The activities that can be done by the company to achieve its CSR obligations include eradicating extreme hunger and poverty, promotion of education, promoting gender equality and empowering women, reducing child mortality and improving maternal health, combating human immunodeficiency virus, acquired, immune deficiency syndrome, malaria and other diseases, ensuring environmental sustainability, employment enhancing vocational skills, social business projects, contribution to the Prime Minister's National Relief Fund or any other fund set up by the central government or the state governments

for socioeconomic development and relief and funds for the welfare of the scheduled castes, the scheduled tribes, other backward classes, minorities and women and such other matters as may be prescribed.

All CSR funds must be spent in India. The New Act encourages companies to spend their CSR funds in the areas where they operate, but money cannot be spent on activities undertaken that are part of the normal course of the company's business or on projects for the exclusive benefit of employees or their family members.

Responsibilities of Business towards Different Stakeholders:

Social responsibility is a matter of developing right attitude towards the social as well as industrial progress, it is a social discipline for the industrial unit.

• Stakeholder: Customers-

A satisfied customer is an asset to the organization. Therefore, ultimate aim of any production unit or service provider unit is to achieve customer's satisfaction. It will be worthwhile to understand what the customer expects. Usually the customer expects good quality, durability, reasonable pricing, post sale satisfactory service, prompt response whenever the customer needs his services. Prompt response to the complaints and positive response to the suggestions placed by the customer is also one of the expectations of the customer. Customer also expects that his view points be patiently listened and solicits support from the supplier in a positive manner. Customer also expects that there should be a constant endeavour by the manufacturer for improvement in the utility of the products through R & D. The customer also expects that the manufacturer of any product may contribute to increase the efficiency and functioning of business by appropriately guiding and providing the utility in the product.

• Stakeholder: Shareholder-

Shareholders are primarily owners of the company as they have invested their funds in the company and naturally, they expect better return in the form of share in profit through higher dividends and if there are adequate surpluses and if it is a limited company and has substantial reserves, declaring a bonus share. The share holders also expect that if the company is expanding satisfactorily and it is in need of additional funds for its developmental needs, may offer right shares instead of

Business Administration directly resorting to public issue. The shareholders also expect that the company should have better reputation in the market and also observe ethical standards of high order.

• Stakeholder: Workers/Employees-

Fair Compensation: The employer should ensure that the compensation given to the workers and employees is fair as compared to the similar concerns in the vicinity. There is a cardinal principle in fixation of compensation/wages which suggests that it should be based on the profits of the unit, compensation in the similar workplaces in the vicinity and capacity to pay. If the compensation/wages are low then there will be greater labour turnover and in the process interest of the unit will hamper.

Opportunities to the Workers/Employees: In today's work scenario the workers and the employees do not work merely for compensation or wages but they also expect some sort of career path planning (well defined promotion policy) as well as delegation of some authority and responsibility. They also consider what are the HR practices in the organization and how is the work culture also.

Working Conditions and Management's Approach towards Workers/Employees Welfare:

Today the work scenario has changed. Workers as well as the employees are very much concerned with the healthcare, fringe benefits etc. This job is being attended to by the Human Resources Development (HRD) departments who are constantly busy to ensure that there is a healthy atmosphere.

Trade Union Rights: In every organization there exists a Registered Trade Union which represents the workers/employees to the management and ensures that their members get satisfactory treatment so far as compensation / working conditions etc. The managements should have a fair and transparent approach towards the Trade Union to have industrial peace and keeping an eye on ensuring highest productivity.

Human Relations Approach: The Human Resources Development Department should ensure that there are various schemes which will ensure that the employees are motivated all the time and they give their best to the organization. They may introduce incentive schemes, ensure appreciation / recognition of the employee's achievements etc.

Training & Development: The HRD should ensure that the staff is imparted training on a continuing basis so as to ensure that their skills are updated and the staff is capable of giving optimum productivity to the organization.

Grievance Redressal Mechanism: The business managements should ensure that the grievances of the staff are resolved by mutual discussions.

In nut shell, one can say that the management should bear in mind that a Satisfied Worker/Employee is an asset to the organization. While doing so the management should also keep one eye on the cost to the company as well as enforcing strict discipline in the organization.

3.20 RESPONSIBILITIES OF THE BUSINESS TOWARDS COMMUNITY

The company managements should also keep in mind the responsibility of their organization to the society at large. The company policies should be such that the society appreciates the company's concern about the society's healthcare requirements. The company managements should also try to ensure that the local youth is absorbed in the employment to a great extent, subject to fulfilling company's requirements. The companies should also ensure that they strictly adhere to the norms of the Pollution Control Board and take care of the proper disposal of the affluent from the factory. It is also essential that the company managements maintain good rapport with the local self-government authorities and assist them to sort out their problems, if any, within the overall framework of the company. Company may allow the services of their ambulance and clinical facilities in the emergency to the residents of the village where the company is located. From out of CSR activities, company may help the educational institutions in the village, healthcare arrangements etc. so that the villagers will have affinity with the company.

Mechanism for enforcing CSR provisions: The corporates are under statutory obligation to disclose their CSR spending in their Annual Reports and are required to submit a report to the Ministry of Company Affairs. The other forms of business organizations (partnership firms, private limited companies, etc.) do participate in discharging their social responsibilities. At times when there is any natural calamity like flood,

business Administration etc. these organizations do come forward to earthquake etc. to the society by donating to the Chief minister discharge their duty to the society by donating to the Chief minister's Relief Fund and the government gives tax relief on such /prime minister's Relief Fund and the government gives tax relief on such donations.

3.21 RESPONSIBILITIES TOWARDS THE STATE AND CENTRAL GOVERNMENT

The first and foremost requirement is that the business enterprise should fulfil its statutory obligations without undue delay. It may be in respect of payment of taxes, submission/filing of returns, etc. The company should also extend its helping hand to the government authorities in case of need and establish good rapport with them. The business enterprises should also ensure that the locally available natural resources should be used judiciously and without endangering its sustainability.

3.22 BUSINESS COMPONENTS TO BE FOCUSED FOR DEVELOPMENT

According to Philip Kotler, the "father of modern marketing", Marketing is the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services. While explaining the components of business development he explains that segmentation, targeting, positioning, needs, wants, demand, offerings, brands, value and satisfaction, exchange, transactions, relationships and networks, marketing channels, supply chain, competition, the marketing environment and marketing programs.

POINTS TO REMEMBER

- Everyone is connected with the business activity in one form or the other. One may be a seller, supplier or a buyer or consumer. The business activity encompasses a wide field. Eg. manufacturing, processing, preservation, service providing which is the need of the society. This is a vital activity that contributes to the country's economy.

- In this chapter we have introduced the business environment that prevails. Characteristics and features of business environment have also been discussed. The chapter also introduces the students to the concept of macro and micro environment in greater detail. The salient features of the business environment have been explained. The factors that influence the business environment have been discussed. The concept of social responsibility, its latest position with reference to Corporate Social Responsibilities have also been discussed. The chapter brings out the domestic as well as international business scenario.
- Today's world is a dynamic one and the changes are taking place very fast. This is the situation that prevails in all walks of life. In order to remain in business and grow the business organizations will have to maintain the same pace for their survival. Today the business needs to be managed with professional skills.

QUESTIONS FOR DISCUSSION

1. Explain the characteristics of a business activity.
2. Explain the term Business Environment and discuss the various constituents of business environment.
3. Explain economic business environment.
4. Write short notes on:
 - (a) Social responsibility of a business
 - (b) Constituents of Business Environment
 - (c) Impact of legal environmental components on business environment
 - (d) Economic Environment

QUESTIONS FROM PREVIOUS EXAMINATIONS

1. Write short notes on :
 - (a) Social environment
 - (b) International environment

(October 2018)

(April 2018)

Chapter 4...

Business Promotion and Development

Contents ...

- 4.1 Business Unit Promotion
 - 4.1.1 Introduction
 - 4.1.2 Concept of Promotion
 - 4.1.3 Stages of Business Promotion
 - 4.1.4 Legal Provisions Governing Promotion and Establishment of Business Unit
- 4.2 Business Development
 - 4.2.1 Introduction
 - 4.2.2 Concept of Business Development
 - 4.2.3 Process of Business Development
- 4.3 Business components
 - 4.3.1 Introduction
 - 4.3.2 Business Components to be Focused for Development like Markets, Customers and Relationships
- Points to Remember
- Questions for Discussion
- Questions from Previous Examinations

4.1 BUSINESS UNIT PROMOTION

4.1.1 Introduction

Establishing a new business unit is a complex and risky task. Owner of the business have to complete various formalities while establishing a new business unit. Business Promotion is the first step in the formation of any business. It consists of conceiving a business opportunity and taking a step to establish a business unit. Promotion of a business unit simply refers to all those activities that are required to be completed to establish a new business. Promotion of a business unit begins with identifying an opportunity for doing a business, assess its feasibility and then take the

Preliminary investigation

Preliminary investigation is the second important stage in business promotion. At this stage the soundness of the business is studied by the promoters. The promoters make an estimate of the expected income and expenditure of the business unit to be started. They assess the risks involved and also studies the viability of the project. They have to make enquiries in the market about the potentiality of the proposed business. They need to study the various facts, data and information relating to the markets.

Determining Size of the business

The promoter has to determine the size and form of the business unit. They have to determine whether their business will be small, medium or large size. Similarly they have to take decision about the form of business unit such as proprietary firm, partnership firm, public or private limited company. They need to take in to account some important factors while determining the size of a business unit such as 1. Nature of Business, 2. Managerial Ability, 3. Entrepreneurial Skill 3. Availability of Finance 4. Availability of Labour and 5. Extent of the Market. The nature of business has a direct influence on its size. Manufacturing industries are generally bigger than trading and service firms.

Fixing Location of Business:

The decision to choose the best location for a new business should not be taken in a hurry. Location decision is very important for any organisation irrespective of its size. The location decision has a direct effect on an operation's costs of a business, as well as its ability to serve customers. Location decisions, once made, are difficult and costly to withdraw. Some of the important factors taken into account while deciding the location are: 1. Availability of infrastructure facilities like power, water, roads etc. 2. Availability of raw materials, labour, 3. Nearness to market, 4. Banking facilities, 5. General law and order situation, 6. Social infrastructure, 7. Government policies, 8. Natural factors and safety considerations.

Financial Planning:

Financial Planning is process of setting objectives, policies, procedures, programmes and budgets relating to the financial activities of a concern. Financial planning plays important role in financial management. A financial plan is an estimate of the total capital requirements of the company. It is the plan needed for estimating the fund requirements of a business and determining the sources for the same. It involves taking certain important decisions so that funds are continuously available to the company and are used efficiently. The

promoters has to take important decision relating to financial planning. Such decision considers:

1. Capital requirements of business unit,
 2. Its long term or short term financial need,
 3. Sources of collecting funds,
 4. Cost of collecting finance and the returns on capital invested.
- Financial Planning ensures that:
1. Availability of adequate funds,
 2. A reasonable balance between outflow and inflow of funds so that stability is maintained,
 3. Suppliers of funds will easily invest in the business. Further Financial Planning helps in making growth and expansion of business and ensures its long-run survival. It eliminates uncertainties relating to changing market trends.

Deciding structure and layout of Business Unit:

Organisation structure is the division of departments according to functions and pattern of relationships and responsibilities of employees. It is a system that reveals how activities of an organisation will be competed. It shows who will be whose boss, composition of authority and responsibility, rules regulations and role of each individual.

The organizational structure also determines how information will move within the organisation. A good organizational structure increase efficiency of an organisation. It also ensures minimum wastage, better use of available space, safety and security of workers.

Decision relating to Manpower Requirements:

Promoters have to determine the requirement of skilled, semi-skilled and unskilled workers of an organisation. They have to select the right man for the right job. Manpower planning plays a vital role in this regard. The main objective behind manpower planning is to maintain and improve ability of an organisation by proper utilisation and development of human resource. There are several factors which effects on decision related to manpower requirement such as:

- | | |
|--|-------------------------------|
| 1. Economy | 2. Labour Market, |
| 3. Demographic Factors | 4. Regulatory Framework, |
| 5. Industry Growth, | 6. Industry Attractiveness, |
| 7. Technology, | 8. Competition Climate |
| 9. Strategy | 10. Human Resource Inventory, |
| 11. Human Resource Mobility | 12. Type of Organization, |
| 13. Approach of Organization towards Planning, | |
| 14. Organizational Growth Cycle and | |
| 15. Level of Environmental Uncertainty etc. | |

Completing Legal Formalities and Tax Planning:

When starting a new business venture, promoters should ensure that they're complying with all the legal obligations of running a business. The legal formalities which to be completed while starting a business are licensing, permission from local authorities, approvals from financial institutions or banks, preparation of essential documents, formal sanction to start the business, tax obligations, employment laws etc.

Tax planning is a legal way of reducing tax liabilities. It helps to utilise the tax exemptions, deductions, and benefits in the best possible way for minimising tax burden. Tax planning should be done carefully in order to take its full advantage.

Launching the Enterprise:

After preparing the business plan, business owner assembles the necessary resources to launch a business unit. While launching a business he collects the required funds and acquires land and buildings, plant and machinery, furniture and fixtures, raw materials, employees etc. Once this is achieved, he has to ensure that the project is implemented properly and it has smooth and uninterrupted operation.

4.1.4 Legal Provisions governing Promotion and Establishment of Business Unit

Starting a business unit requires compliance with many legal provision. Recognition and familiarity of legal compliances, which forms the foundations of any business, are one of the major challenges. Legal compliances are an integral part of any business. It ensures that the business runs smoothly and avoids unnecessary penalties or legal actions that hamper operations of business.

Basic compliances for different kinds of businesses are:

Sole proprietorship

The necessary compliances prior to the commencement of Sole proprietorship would be a Shops and Establishment Act or NOC from Gram Panchayat along with recurring compliances like preparing financial statements, filing of income tax (IT) returns and GST returns.

Partnership Firm

Legal provisions requires to start a partnership are partnership Deed along with the registration at a local Registrar of Firm, regularization of IT Returns filing along with GST Returns (if applicable) and preparation of financial statements.

Limited Liability Partnership (LLP)

In case of limited Liability Partnership the pre-requisites would be an LLP Deed, filing of incorporation forms with the Ministry of Corporate Affairs (MCA), along with a Common Seal of the LLP, regular filing of financial statements along with the annual returns, event-based forms and IT Returns with the MCA.

A Private Limited Company

A Private Limited Company would require filing of incorporation forms with the MCA, Memorandum of Articles of Association and a common seal of the company. Periodic filing of financial statements with the annual returns and event-based forms with the MCA. Filing of IT Returns and also GST Returns (if applicable). A mandatory practice would be Quarterly Board Meetings and Annual General Meetings.

Following are the further requirements for establishing a business unit:

1. Permanent Account Number (PAN) for income tax.
2. Taxation Account Number (TAN).
3. Professional Tax Registration.
4. Employees' Insurance.
5. Import Export Code (IEC) if the business involves import or export
6. Employees' Provident Fund.
7. GST number if the business involves sale of goods and services.

4.2 BUSINESS DEVELOPMENT**4.2.1 Introduction**

Business development is the process of identifying, nurturing and acquiring new clients and business opportunities for increasing growth and profitability of a business. It consists of generating ideas, taking initiatives and conducting activities for making a business better. The aim behind business development is to increase revenues and profitability by expansion and growth of a business.

Business development activities extend across different departments it deals with product, finance, marketing, human resource and research and development activities. All of these different departments and activities are directed and aligned to the business development goals. The scope of business development can be wide and vary from organization to organization. Well-planned business development is a important for the success of a business. Thus Business development is a process that creates growth, expansion, progress or positive change in business unit. It is a tool which enables business to reach at the highest level.

4.2.2 Concept of Business Development

Business development plans provide guidance to organizations in determining its mission, vision and values, as well as selecting a product or service, targeting audience and the strategies to achieve success. Successful business development plans include a situation analysis, a SWOT analysis and clearly outlined goals, objectives, strategies and tactics. The plan provides guidance for all members of the organization.

The process of business development identifies areas of business operations where change is needed. Each need is analyzed, and the potential effects are projected into a change management plan. The plan outlines the specific ways in which the change will improve business operations.

4.2.3 Process of Business Development

A business development process is the combination of steps a business takes to grow effectively. These steps include everything related to delighting customers with superior product or service.

Business Development Process

Idea Generation:

The first step in business development is idea creation. While identifying business ideas, a group of people should come together to generate ideas. Idea generation refers to the systematic search for business development ideas. There should be brain storming session among business developers to find ideas collectively. Brainstorming allows them to evaluate ideas of each other. While generating an idea care should be taken to aligns the idea with business goal. The ideas for developing new business may come from:

- Internal sources i.e. through R&D department or from existing employees.
- External sources e.g. distributors and suppliers, competitors, customers.

Idea Screening:

The next step in the business development is idea screening. All ideas generated are screened to spot good ones and drop poor ones as soon as possible. The company would like to go ahead only with those product ideas that will turn into profitable products.

Determine Feasibility:

After generating an idea, it is essential to determine the feasibility of the idea. Feasibility means determining whether the idea is practically

implementable or not. Determining feasibility helps an organisation save time and money. It is important to determine an idea which will have long-term feasibility in the market. Conducting market research helps an organisation to get valuable information in understanding feasibility of an idea.

Marketing Strategy Development:

When a promising idea has to be developed, it is necessary to design an initial marketing strategy.

- The marketing strategy statement should consist three parts namely: A description of the target market, the planned value proposition, and the sales, market share and profit goals for the first few years.
- An outline of the product's planned price, distribution and marketing budget for the first year.
- The planned long-term sales, profit goals and the marketing mix strategy.

Make a Decision:

When making a development decision, a businessman should put his feelings aside and do what is best for his business. Taking a business development decision may be difficult after learning all the information from feasibility analysis. While developing a business it is important to make sure that everyone who is involved in generating business development idea is ready to work hard on it.

Some factors that should be considered while developing a business are:

- Introduction timing of the development. For instance, if the economy is experiencing recession, it is good to wait until the bad phase goes out.
- If competitors are ready to introduce their own products, the company should push to introduce the new product sooner.
- Introduction place. Where to launch the new product? Should it be launched in a single location, a region, the national market, or the international market? Normally, companies don't have the confidence, capital and capacity to launch new products into full national or international distribution from the start. Instead, they usually develop a planned market rollout over time.

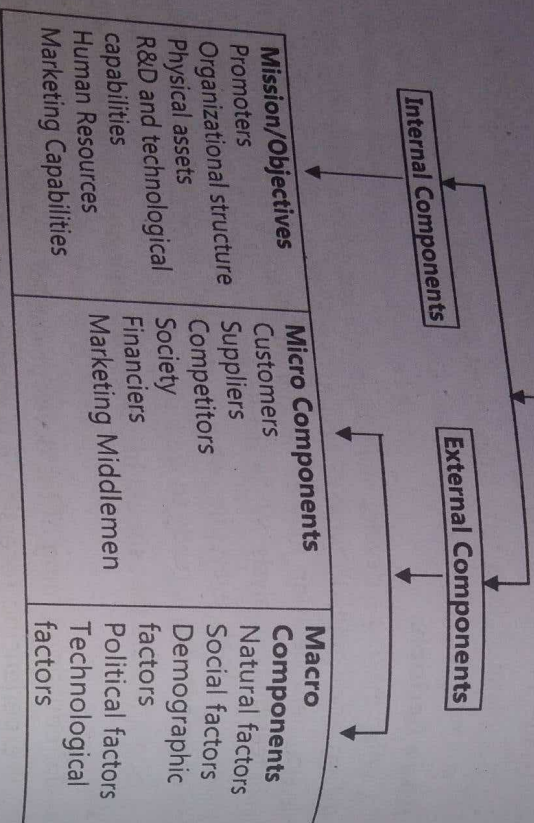
4.3 BUSINESS COMPONENTS

4.3.1 Introduction

Starting a business requires understanding and dealing with many issues such as legal, financing, sales and marketing, intellectual property protection, liability protection, human resources, and more. A business consists of a number of components. Such components are essential for the structure of a business. The basic components among the development and growth of a business.

these are money, men, material and machine.

4.3.2 Business Components to be Focused for Development like Markets, Customers and Relationships



Internal Components:

Mission/Objectives:

Mission is a general statement of how an organisation will achieve its vision. Vision is specific imagination of an organisation for its future. Objective is a specific result that a person or system aims to achieve within a time frame and with available resources' mission statement explains the company's purpose and focus, while objectives outline a path for achieving the mission. Business development largely depends upon its mission and objectives. An ambitious organisation sets high goal for it and tries to achieve it.

Promoters:

Promoter is the person who originates the idea for formation of a company and gives the practical shape to that idea. He assembles the company and the money, the machine and the materials for establishing a business unit. Foresighted and competent promoters establish a strong foundation for an organisation, which plays a crucial role in business development.

Organizational Structure:

Organizational structure is a system used to define a hierarchy within an organization. It identifies each job, its function and where it reports to within the organization. Poor organizational design and structure results in confusion, lack of coordination among functions, failure to share ideas, and slow decision making, unnecessary complexity, stress and conflict. Such kind of organisational structure is not good for business development.

Physical Assets:

Physical assets refer to tangible fixed assets, such as office buildings, stores, manufacturing equipment, computers and office furniture. Availability of physical assets is necessary for its development. In absence of sufficient physical assets and organisation can not undertake development projects.

R&D and Technological Capabilities:

The main role of the Research and Development department is to help an organisation to maintain its competitiveness. Research helps an organisation in keeping an eye on developing trends and competition. Before a new idea is developed, a research and development department conducts a thorough study to support it.

Human Resources:

Human resources is used to describe both the people who work for a company or organization and the department responsible for managing resources related to employees. The survival and success of a business largely depends on the quantity and quality of human resources. The social behaviour of the employees greatly affects the working of the business. The characteristics of human resource like skill, quality, morale, commitment can contribute to the successful development of an organisation. Skilful and committed human resource can take an organisation to a great height.

34378

Marketing Capabilities:

Marketing activities relating to product, price, promotion and place. Marketing activities relating to business development. Marketing capabilities also plays important role in business development. Marketing capabilities also includes the firm's skills and competences relating to gathering and dissemination of market information, successfully launching new products and customer relationship and supplier relationship new products and customer relationship and achieving firm success.

Micro Environment:

Micro components of a business are also known as operating components. It includes an organisation's immediate components that affect its performance such as customers, suppliers, intermediaries, competitors etc.

Customer:

Consumers are the king of the market. Businesses have different classes of customers like wholesale customers, retail customers, industrial customer's foreign customers etc. For the development of the business it is necessary to develop and maintain good relationship with the customers.

Customer relations refer to the interactions between a business organisation and its customers, as well as the views customers hold toward the business. An effective business must use its for developing customer relations and develop a policy for handling their complaints, soliciting their feedback and addressing public-relations issues. Large business units use customer-service departments for resolving their complaints and to provide them best service. Customer service can help a business gain new customers through a positive reputation and keep existing customers, making it easier to generate profits. Maintaining healthy and productive customer relationship is the best way to ensure a bright future for the business. However nowadays, consumer expectations are high. Therefore a business organisation 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.

Suppliers:

A supplier is a person, company, or organization that sells or supplies goods or services to customers. The role of a supplier in a business is to provide high-quality products from a manufacturer at a good price to a

distributor or retailer for resale. A supplier in a business is someone who acts as an intermediary between the manufacturer and retailer. 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 development of a business 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.

Competitors:

Competitors are companies who are trying to sell similar goods or services to the same customers to whom our business organisation is selling. Liberalisation, privatisation and globalisation has turned world in to a global market. Because of this, Business firm has to face tremendous competition not only from Indian business firm but also from foreign firms. 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. Taking a step to develop a business without studying competitors' strengths and weaknesses is dangerous for a business firm. The business must understand the strategies framed by the competitors to respond in an effective manner.

Society:

A business firm gets all its strength from a society. Without support of a society a business firm cannot think about its development and growth. The members of the society include:

- | | |
|----------------------------|-------------------|
| (i) Financial institutions | (ii) Shareholders |
| (iii) Government | (iv) Employees |
| (v) General public | |

Now days the expectation of the society from the business have increased. Therefore every big business firm maintains public relations department to handle complaints, grievances and suggestions from general public.

Financiers:

Capital is the lifeblood of every business. A firm needs adequate funds to meet its working capital and fixed capital requirements. Financial factors like financial policies, financial position and capital structure of an organisation influence on its performance. For the development of an organisation sufficient amount of funds are required.

are also known as market intermediaries. They are and promote and distribute

ment of a business consists of the larger societal

like land, water, mineral, weather

like a fine
fence

aw

- atit
S a
llo
Vā
/hi

influence on business acc...

is 'to help bring into

- Business development (BD) is the process of identifying, nurturing and acquiring new clients and business opportunities for increasing growth and profitability of a business. It consists of generating ideas, taking initiatives and conducting activities for making a business better.
- A business development process is the combination of steps a business takes to grow effectively. These steps include everything related to delighting customers with superior product or service.
- A business consists of a number of components. These components and parts build the structure of a business.

QUESTIONS FOR DISCUSSION

1. Define Business Promotion? Explain various Stages of Business Promotion.
2. What is Business Development? Explain the process of Business Development.
3. What do you mean by Business components? Explain Business components to be focused for its development.

QUESTIONS FROM PREVIOUS EXAMINATIONS

1. Explain various stages of Business Promotion. (April 2014)
2. Discuss any four legal provisions governing promotion and establishment of unit. (April 2018)
3. What are the important legal provisions for governing promotion and establishment of unit? (April 2017)
4. Write short note on :
(a) Promotion of business unit (October 2018)

37378
