Business Organization

These slides are prepared solely for the teaching purpose.

INTRODUCTION

Meaning of Business:

Business is an Economic activity which involves regular production and or exchange of goods and services with the main purpose of earning profits.

- According to Urwick and Hunt, "Business is any enterprise which makes, distributes, or provides any article or service, which other members of the community need and are able and willing to pay for.ing profit.
- Business comprises all profit seeking activities and enterprises that provide goods and services necessary to an economic system.

Characteristics of Business

- Dealing in goods and services.
- Profit motive
- Regularity of transaction
- Element of risk
- Consumer satisfaction
- Social activity.

Nature of Business

- Business is an economic activity
- Business is an art
- Business is a science
- Business is a system
- Business is a social activity

Meaning of Business Organisation:

According to Stephenson, "Business Organisation generally refers to operation and control of trade or any similar business

According to William H. Hevoman, "Business organisation means leadership, control and directing the joint efforts of some people made to achieve a common objective."

Charcterstics of Business Organisation:

- Group of People
- Pre-determined Aims and objective
- Co-ordination and co-operation in the working of various persons
- Arrangement of various resources
- Direction, operation and control of business activities
- Delegating authority according to responsibility.

Aims and objectives of business Organisation:

- To achieve pre-determined aims
- To increase the efficiency of business
- To establish the co-ordination among various department
- To receive benefit of specialization
- To establish harmonious relation between labour and capital
- To use country resources for the benefit of the country
- To fulfill social obligation
- To get maximum production at minimum expenses

Functions of business Organisation:

- Functions related to Production
- Functions related to Marketing and Distribution
- Functions related to Management of Finance
- Functions related to Human Resource Management

Importance of Business Organisation:

The Significance of business may classified into the following four categories namely :

(1) Significance to National Economy
(2) Significance to Business itself
(3) Significance to Community
(4) Significance from other point for view

(1) Significance to National Economy : The significance of business to a nation may be expressed by the following facts :

(i) Optimum and profitable use of resources.
(ii) Balanced industrial growth.
(iii) Source of national income.
(iv) Faster economic growth in the country.

v) Contributes of national prosperity.
(vi) Better utilization of human resources.
(vii) Increase in the standard of living of the people.
(viii) Source for meeting import requirements.
(ix) To meet the obligations of development planning.
(x) Larger creation of employment.
Eradication of poverty.
(xii) Capital formation.
(xiii) Development of labour and capital markets.

(2) Significance to Business itself : The significance of business from the point of view of business itself, may be stated as below :
(i) Large scale production and efficient distribution.
(ii) Creation of healthy competition.
(iii) Fulfillment of social responsibility.
(iv) Decrease in the cost of production.
(v) Helps to develop managerial skill.
(vi) Greater utilization of production capacities.
(vii) Development of the undertaking.
(viii) Profitable sales volume.
(ix) Specialisation in production.

(3) Significance to Community : The Significance of business from the point of view of community is discussed below :

(i) Uplifts the standard and quality of life.
(ii) Development of labour markets.
(iii) Human prosperity.
(iv) Creation of employment.
(v) Creates habits of saving.
(vi) Provides goods and services at reasonable prices.
(vii) Advantage of form, place, time and possession utilities.

(4) Significance to other point of view : The other significance of business may be discussed under the following heads :

(i) Promotion of international trade.
(ii) Closer cultural relations between countries.

Forms of Business Organisation:

- Sole Proprietor
- Partnership Firm
- Joint Hindu Undivided Family
- Joint Stock Company
- Co-Operative Society

Sole Proprietorship

A Sole Proprietorship consists of one individual doing business. He invests money in the business and manages the operations, bears the risks involved and enjoy the profit ad loss of the business. He has the sole authority to take decision regarding the business.

- J.L. Hanson: "A type of business unit where one person is solely responsible for providing the capital and bearing the risk of the enterprise, and for the management of the business."

Characteristics

- Sole Possession
- Full Control
- Bearing whole Profit/Loss
- Infinite Liability
- Less Regulation
- No Separate Entity
- Limited resources

ADVANTAGES

- Easy to Form and Dissolve
- Directly Motivated
- Complete Control
- Maintenance of Secrecy
- Quick Decision-Making
- Individual Dealings
- Fewer Regulations
- Low start-up costs
- No corporate taxes

DISADVANTAGES

- Faulty decisions
- Limited resources
- Unlimited liability
- Limited life
- Limited managerial skills
- Unsuitable for big businesses

PARTNERSHIP

'Partnership' is an association of two or more persons who pool their financial and managerial resources and agree to carry on a business, and share its profit.

- ***Section 4 of the Indian Partnership Act, 1932*** defines partnership as "the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

CHARACTERISTICS

- Least Two Persons to form partnership
- Contractual Relationship
- Involvement in Profits and Business
- Legitimate Business
- Principal Agent Relationship
- Unlimited Liability
- Registration is not compulsory
- Quick decision

Types of partners

- Active Partners
- Sleeping Partners
- Nominal Partners
- General Partners
- Partners by Estoppel
- Partners by Holding Out

ADVANTAGES

- Better resources
- Quick and prompt decisions
- Better managerial ability
- Secrecy is maintained
- Risk is minimised
- Easy to form
- Easy to dissolve

DISADVANTAGE

- Indefinite liability
- Clash among partners
- Delay in decisions
- Interest can not be transferred
- Each partner is 'jointly and severally' liable for the partnership's debts
- Inappropriate for big concerns

Partnership Deed

Before starting a partnership business, all the partners have to draw up a legal document called a Partnership Deed of Agreement. It usually contains the following information:

- Names and addresses of partners
- Commencement of partnership
- Duration of partnership
- Business to be done
- Name and address of firm
- Initial investments
- Division of profits and losses
- Ending of the business
- This document will be signed by members of the partnership.

Joint Hindu Family

- The Joint Hindu Family (JHF) business is a form of business organisation run by Hindu Undivided Family (HUF), where the family members of three successive generations own the business jointly.
- The head of the family known as Karta manages the business. The other members are called co-parceners and all of them have equal ownership right over the properties of the business.
- The membership of the JHF is acquired by virtue of birth in the same family.
- The share of each member's interest in the family property and business keeps on fluctuating. The member's interest increases by death of any existing coparcener and decreases by birth of a new co-parcener.

Advantages

- Guaranteed Shares in Profits
- Swift Decision
- Cooperation
- Narrow Accountability of co-parceners
- Boundless responsibility of the Karta
- Persistent life
- Tax profit
- Contribution of understanding and Experience regarding business

Disadvantages

- Instability
- Misuse of power
- Lack of motivation
- Scarce resources

Company

- A corporation is a legal entity doing business, and is distinct from the individuals within the entity.
- Chief Justice Marshal defined a company as "person, artificial, invisible, intangible and existing only in the eyes of law. Being a creation of law, it possesses only those properties which the charter of its creation confers on it either, expressly or as incidental to its very existence; among the most important of which are immortality and individuality."

Features

- Separate legal entity
- Common seal
- Limited liability
- Transferability of interest
- Separation between ownership and management
- Can sue and be sued

Advantages

- Huge Pecuniary Resources
- Constricted Liability
- Perpetual succession
- Transferability of Shares
- Benefits of Large Scale Operation
- Specialized Administration
- Community Trust
- Ample Scope for Expansion and Growth
- Tax Benefit
- Suitable for big business concerns

DISADVANTAGES

- Difficult to form
- Lots of legal formalities
- No personal relations
- Quarrel between ownership and management
- Difficult to wind -up
- Lack of quick decisions

Memorandum of Association: It is a principal document in the formation of a company. It is called the charter of the company. It controls the relations of the company with outside parties. It fixes the aims, the name and registered office, etc. of the company.

It contains the following six clauses:

- Name clause,
- Situation clause,
- Objects clause,
- Liability clause,
- Capital clause,
- Subscription clause.

Articles of Association: It contains the various rules and regulations for the internal management of the company.

Prospectus: This document is prepared by the public limited companies. The purpose of its preparation is to invite the public to subscribe its shares and debentures.

Co-operative Societies

- It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help and mutual help.
- The primary objective is to provide support to the members. People come forward as a group, pool their individual resources, utilise them in the best possible manner and derive some common benefits out of it.
- The Section 4 of the Indian Cooperative Societies Act 1912 defines Cooperative Society as "a society, which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles."

Features:

- Intentional Union
- Open Membership
- Number of Members
- Registration of the Society
- Capital of the society
- Egalitarian Management
- Welfare Motive
- Allocation of Surplus

TYPES OF COOPERATIVE SOCIETIES

- Consumers’ Cooperative Societies
- Producer’s Cooperative Societies
- Marketing Cooperative Societies
- Housing Cooperative Societies
- Farming Cooperative Societies
- Credit Cooperative Societies

ADVANTAGES

- Democratic management
- Open membership
- Created for welfare
- State aids
- Limited liability
- Easy to form

DISADVANTAGES

- Corruption
- Lack of motivation
- Limited capital
- Lack of secrecy
- Clashes among members
- Limited resources
- No expert services in management

Stock Exchanges

- Stock Exchange is an organized market for the purchase and sale of industrial and financial security. It is convenient place where trading in securities is conducted in systematic manner i.e. as per certain rules and regulations.
- According to Husband and Dockerary, "Stock exchanges are privately organized markets which are used to facilitate trading in securities."
- The Indian Securities Contracts (Regulation) Act of 1956, defines Stock Exchange as, "An association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities."
- London stock exchange (LSE) is the oldest stock exchange in the world. While Bombay stock exchange (BSE) is the oldest in India.

Characteristics:

- Marketplace for securities
- Deals in second hand securities
- Regulates trade in securities
- Allows dealings in listed securities
- Transactions are done through members
- Association of persons
- Acknowledgment from Central Government
- Particular spot
- Financial Barometers

FUNCTIONS:

- Mobilisation of Savings
- Appraisal of Securities
- Capital Formation
- Proper Channelization of Funds
- Providing a ready market
- Providing a quoting market prices
- Safeguarding activities for investors
- Creating the discipline
- Maintenance of liquidity
- Promotion of the habit of saving

Sources of business finance

- A business needs finance for discharging its daily operations as well as long term obligations also.
- It is needed for fulfilling the working capital requirement.
- It is needed for acquiring new fixed assets and paying long term liabilities.

There are three types of sources of Finance:

- Long term
- Medium term
- Short term

METHODS OF RAISING LONG TERM FINANCE

- Issue of Shares- Equity and Preference Shares
- Issue of Debentures
- Loans from financial institutions
- Public Deposits
- Retention of Profit
- Lease financing
- Foreign Investment

Important sources of short term finance

- Trade Credit
- Instalment Credit
- Accounts Receivable
- Customer Advance
- Factoring
- Bank Credit

(i) Loan
(ii) Overdraft
(iii) Cash Credit
(iv) Bills discounting
(v) Lien
(vi) Mortgage

BUSINESS COMBINATIONS

To combine is simply to become one of the parts of a whole, and a combination is merely a union of persons to make a whole or group for the prosecution of same comic purpose.

A business combination is a method of economic organisation by which a common control of greater or less completes is exercised over a number of firms which either have operated hither to or could operate independently this control may be either temporary or permanent for all or only for some purposes.

Causes of Combinations

- Lust for power
- Elimination of Competition
- Benefits of Large Scale Production
- Joint Stock Enterprise
- Market Control
- Entity Capability
- Trade Cycles
- Shielding Tariffs
- Government Demands

Types of Combinations

- Horizontal Combination
- Vertical Combination
- Lateral Combination
- Diagonal Combination
- Circular Combination

Benefits of combination

- Increase in Capital.
- Elimination of Competition
- Saving in Expenses
- Controls Over Production
- Large Scale Marketing
- Experts Services
- Research Work
- Use of Modern Technology
- Stability
- Division of Labour

Disadvantages

- Monopoly in the market
- This could lead to a market that is over-capitalized.
- The identity and reputation of the old company comes to an end as it enters into a business combination.
- There may be added pressures and tensions in the new management structure.

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