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DEPARTMENT OF MODERN OFFICE MANAGEMENT LECTURE NOTES

SEMESTER-1ST
PAPER- BUSINESS STUDIES
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BUSINESS STUDIES

Introduction to Business

We live in a business environment. It is an indispensable part of society. It satisfies our wants by providing variety of goods and services through wide networking of business activities. This module has been designed to enable the learners to be aware of the world of business, recognize its importance, objectives, understand the different types of business activities and new developments like e-commerce as well as appreciate the responsibilities of business towards different stakeholders

NATURE AND SCOPE OF BUSINESS

When we look around us, we observe that most of the people are engaged in various activities. Teachers teach in the schools, farmers work in the fields, workers work in the factories, drivers drive vehicles, shopkeepers sell goods, doctors attend patients and so on. In this way, people are busy during the day and sometimes during the night throughout the year. Now the question arises as to why we all keep ourselves busy. The answer is to satisfy our wants. By doing so, we either discharge various obligations or earn money through which we can buy goods and avail services. In this lesson let us learn more about various types of activities in which we all keep ourselves busy to satisfy our wants. We shall learn in detail about 'Business' as a human activity.

CHARACTERISTICS OF BUSINESS

Deals in goods and services: People in business are engaged in production and distribution of goods and services. The goods may be consumer goods like bread, butter, milk, tea, etc. or capital goods like plant, machinery, equipments, etc. The services may be in the form of transportation, banking, insurance, warehousing, advertising and so on.

(ii) **Sale or exchange of goods and services:** If a person produces or buys a product for self-consumption or for gifting it to another, he is not engaged in business. But when he produces or buys goods to sell it to somebody, he is engaged in business. Thus, in business the goods and services produced or purchased must be exchanged

for money or for goods (under barter system) between the buyers and sellers. Without sale or exchange of goods the activities cannot be treated as business.

(iii) Regular exchange of goods and services: The production or buying and selling activities must be carried out on a regular basis. Normally, an isolated transaction is not treated as business. For example, if Raju sold his old car to Hari, it is not considered as business, unless he continues to carry buying and selling of cars on a regular basis.

(iv) Requires investment: Every business activity requires some amount of investment in terms of land, labour or capital. These resources are utilised to produce a variety of goods and services for distribution and consumption.

(v) Aims at earning profit: Business activities are performed with the primary objective of earning income by way of profit. Without profit it is not possible to survive for a long period. Earning of profit is also required to grow and expand the business.

(vi) Involves risk and uncertainty of income: We know that every business aims of earning profit. The businessman who invests the various resources expects a fair amount of return. But, inspite of his/ her best efforts, the reward he/she gets is always uncertain. Sometimes he/she enjoys profits and also times may come when he suffers heavy losses. This happens because the future is unpredictable and businessperson has practically no control over certain factors that affects his/her earnings

We know that economic activities are undertaken to earn money. Generally, people engage themselves in such activities on a regular basis and are said to be engaged in their occupation. Occupations may be classified into three broad categories.

(i) **Business:** Business refers to an occupation in which goods and services are produced and sold in return of money. It is carried out on a regular basis with the prime objective of making profit. Mining, manufacturing, trading, transporting, storing, banking, and insurance are examples of business activities.

(ii) **Profession:** A person may not be an expert in every field. So, we require services of others who specialize in one field or other. For example, we need the services of doctors for our treatment, lawyers to get legal support etc. They are all engaged in profession.

Thus, profession refers to an occupation, which requires specialized knowledge and training to pursue it and primary objective of every profession is to provide service. A

professional body regulates every profession. These professionals have a code of conduct developed by the concerned professional body.

(iii) **Employment:** Employment refers to an occupation in which a person works regularly for another and gets wages/salary in return. Government servants, company executives, bank officials, factory workers are said to be in employment. In employment there are certain terms and conditions regarding work to be performed, hours of work, amount of wages/salary and other facilities, if any. The employer who offers employment normally decides these conditions. The person seeking a job must join the work only after being satisfied with the terms and conditions. The remuneration payable to an employee is fixed and is paid in the form of wage or salary.

Forms of Business Organization

On the basis of size, ownership and managerial requirements business units have a defined organizational structure. After studying this module the learners shall be able to classify the business enterprises into various forms of organization like Sole Proprietorship, Partnership Firms, Hindu Undivided Family, Cooperative Societies and Joint Stock Companies

MEANING OF SOLE PROPRIETORSHIP

Sole' means single and 'proprietorship' means ownership. It means only one person or an individual is the owner of the business. Thus, the business organization in which a single person owns, manages and controls all the activities of the business is known as sole proprietorship form of business organization. The individual who owns and runs the sole proprietorship business is called a 'sole proprietor' or 'sole trader'. A sole proprietor pools and organizes the resources in a systematic way and controls the activities with the sole objective of earning profit.

CHARACTERISTICS OF SOLE PROPRIETORSHIP

Sole proprietorship has the following characteristics :

i. **Ease of formation:**— An ideal form of ownership should be easy to form. Ease of formation implies minimum of legal and other formalities. Sole proprietorship is easy to form.

ii. **Single Ownership** : A single individual always owns sole proprietorship form of business organization. That individual owns all assets and properties of the business. Hence, he alone bears all the risk of the business. Thus, the business of the sole proprietor comes to an end at the will of the owner or upon his death.

iii. **No sharing of Profit and Loss** : The entire profit arising out of sole proprietorship business goes to the sole proprietor. If there is any loss it is also to be borne by the sole proprietor alone. Nobody else shares the profit and loss of the business with the sole proprietor.

iv. **One man's Capital** : The capital required by a sole proprietorship form of business organization is totally arranged by the sole proprietor. He provides it either from his personal resources or by borrowing from friends, relatives, banks or other financial institutions.

v. **One-man Control** : The controlling power in a sole proprietorship business always remains with the owner. The owner or proprietor alone takes all the decisions to run the business.

vi. **Unlimited Liability** : The liability of the sole proprietor is unlimited. This implies that, in case of loss the business assets along with the personal properties of the proprietor shall be used to pay the business liabilities.

ADVANTAGES OF SOLE PROPRIETORSHIP

The sole proprietorship form of business is the most simple and common in our country. It has the following advantages :

i. **Easy to Form and Wind up** : A sole proprietorship form of business is very easy to form. With a very small amount of capital one can start the business. Legal formalities are minimum just like formation, it is also very easy to wind up the business. It is the owners, sole discretion to form or wind up the business at any time.

ii. **Direct Motivation** : The profits earned belong to the sole proprietor alone and he bears the risk of losses as well. Thus, there is a direct link between effort and reward. If he works hard, then there is a possibility of getting more profit and vice versa This provides strong motivation for the sole proprietor to work hard.

iii. **Quick Decision and Prompt Action** : In a sole proprietorship business the sole proprietor alone is responsible for all decisions. Since no one else is involved in decision making it becomes easy to take quick and prompt action on the basis of decision taken.

iv. **Better Control** : In sole proprietorship business, the proprietor has full control over each and every activity of the business. He is the planner as well as the organizer, who co-ordinates every activity in an efficient manner. Since the proprietor has all authority with him, it is possible to exercise better control over business.

v. **Maintenance of Business Secrets** : In the case of sole proprietorship business, the proprietor is in a very good position to keep his plans to himself since management and control are in his hands. There is no need to disclose any information to others.

vi. **Close Personal Relation** : The sole proprietor is always in a position to maintain good personal contact with the customers and employees. Direct contact enables the sole proprietor to know the likes, dislikes and tastes of the customers. Also, it helps in maintaining close and friendly relations with the employees and thus, business runs smoothly.

vii. **Provides Self-employment** : Sole proprietorship form of business organization provides self employment opportunities to the people. Not only is the owner self-employed, sometimes he also creates job opportunities for others. You must have observed in different shops that there are a number of employees assisting the owner in selling goods to the customers. Thus, it helps in reducing poverty and unemployment in the country.

LIMITATIONS OF SOLE PROPRIETORSHIP

One-man business is the best form of business organization because of the above-discussed advantages. However, all types of ownership have some limitations and the sole proprietorship is no exception. Let us learn those limitations.

i. **Limited Capital** : In sole proprietorship business, it is the owner who arranges the capital required for the business. It is often difficult for a single individual to raise a huge amount of capital. The owner's own funds as well as borrowed funds sometimes become insufficient to meet the requirement of the business for its growth and expansion.

ii. **Lack of Continuity** : The existence of sole proprietorship depends on the owner. The business may come to an end as and when the sole proprietor so decides or in the event of his death.

iii. **Limited Size** : In sole proprietorship form of business organization there is a limit beyond which it becomes difficult to expand its activities. It is not always possible for

a single person to supervise and manage the affairs of the business if it grows beyond a certain limit.

iv. **Lack of Managerial Expertise** : A sole proprietor may not be an expert in every aspect of management. He/she may be an expert in administration, planning, etc., but may be poor in marketing.

MEANING OF PARTNERSHIP

You have studied that sole proprietorship form of business organization has certain limitations. Its financial and managerial resources are limited. It is also not possible to expand the business activities beyond a certain limit. In order to overcome these drawbacks, another form, i.e., partnership form of business has come into existence. Let us first find out what is 'partnership' Suppose you want to open a restaurant in your locality. You will need to gather a lot of things. You may find that it is not possible to arrange the money required to start and run the business alone. You may then talk to your friends and all of you agree to run the restaurant by contributing a certain amount of money and the other things required. So all of you join hands together to become the owners and share the profits and losses. This is another form of business organization, which may be known as partnership.

CHARACTERISTICS OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

After having a brief idea about partnership, let us identify the various features of this form of business organization.

i. **Two or more Members** – At least two members are required to start a partnership business. But the number of members should not exceed 10 in case of banking business and 20 in case of other business.

ii. **Agreement** : Whenever you think of joining hands with others to start a partnership business, first of all, there must be an agreement between all of you. This agreement contains -

- the amount of capital contributed by each partner,
- profit or loss sharing ratio;
- salary or commission payable to the partners, if any;
- duration of business, if any;
- name and address of the partners and the firm;

- duties and powers of each partner;
- nature and place of business; and
- any other terms and conditions to run the business.

iii. **Lawful Business** – The partners should always join hands to carry on any kind of lawful business. To indulge in smuggling, black marketing etc, can not be called partnership business in the eye of the law.

iv. **Sharing of Profit** – The main objective of every partnership firm is sharing of profits of the business among the partners in the agreed proportion. In the absence of any agreement for the profit sharing, it should be shared equally among the partners.

v. **Unlimited Liability**– Just like the sole proprietor the liability of partners is also unlimited. That means, if the assets of the firm are insufficient to meet the liabilities, the personal properties of the partners, if any, can also be utilized to meet the firm's liabilities.

Voluntary Registration – It is not compulsory that you register your partnership firm.

vi. **Principal Agent Relationship**– All the partners of a firm are the joint owners of the business. They all have an equal right to actively participate in its management. Every partner has a right to act on behalf of the firm. When a partner deals with other parties in business transactions, he/she acts as an agent of the others and at the same time the others become the principal. So there always exists a principal agent relationship in every partnership firm.

vii. **Continuity of Business** – A partnership firm comes to an end in the event of death, lunacy or bankruptcy of any partner. Even otherwise, it can discontinue its business at the will of the partners. At any time, they may take a decision to end their relationship.

ADVANTAGES OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

Partnership form of business organisation has certain advantages, which are as follows:

- Easy to form** – Like sole proprietorship, the partnership business can be formed easily without any legal formalities. It is not necessary to get the firm registered. A simple agreement, either oral or in writing, is sufficient to create a partnership firm.
- Availability of large resources** – Since two or more partners join hands to start partnership business it may be possible to pool more resources as compared to sole proprietorship. The partners can contribute more resources as compared to sole

proprietorship. The partners can contribute more capital, more efforts and also more time for the business.

iii. **Balanced decisions** – The partners are the owners of the business. Each of them has equal right to participate in the management of the business. In case of any conflict they can sit together to solve the problems. Since all partners participate in decision-making, there is less scope for reckless and hasty decisions.

iv. **Sharing of losses** – In a partnership firm all the partners share the business risks. For example, if there are three partners and the firm suffers a loss of Rs. 12,000 during a particular period, then all partners may share it and the individual burden will be Rs. 4,000 only

LIMITATIONS OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

In spite of all these advantages as discussed above, a partnership firm also suffers from certain limitations, some of them are as follows :

i. **Unlimited Liability** – All the partners are jointly as well as individually liable for the debts of the firm to an unlimited extent. Thus, they can share the liability among themselves or any one can be asked to pay all the debts even from his personal properties.

ii. **Uncertain Life** – The partnership firm has no legal entity separate from its partners. It comes to an end with the death, insolvency, incapacity or the retirement of any partner. Further, any dissenting member can also give notice at any time for dissolution of partnership.

iii. **Limited Capital** – Since the total number of partners cannot exceed 20, the capital to be raised is always limited. It may not be possible to start a very large business in partnership form.

iv. **Non transferability of share** – If you are a partner in a firm you cannot transfer your share of interest to outsiders without the consent of other partners. This creates inconvenience for the partner who wants to leave the firm or sell part of his share to others.