

BUSINESS ORGANISATION

B.S. RAMAN, M.Com

Head of the Department of Commerce (Retd),

St. Aloysius College,

Mangalore - 575 003.

AND

DR.PARAMESHWARA,

M.Com, M.B.A, M.Phil, Ph.D

Department of Commerce

Mangalore University

Konaje

UNITED PUBLISHERS

Mangalore - 575 001

Revised Edition : 2022

Price : Rs.260/-

Publishers : **UNITED PUBLISHERS**
Alaiman Compound
Jeppu Market Road
Mangalore - 575 001
Ph.: 0824-2406160
Mob.: 9591042660

Type Set : **UNITED PUBLISHERS**
Mangaluru.

PREFACE

This Text-Book of **Principles of Management** is specially prepared for B.B.A. Students. It is prepared in accordance with the latest syllabus of the University.

We do not claim any originality in the subject-matter of this book. We have drawn immense material from many standard books on this subject. Yet, this book is original in the exposition and presentation of the subject matter. The subject matter has been dealt with exhaustively and in very simple language.

We express our profound gratitude to the **United Publishers, Mangaluru**, for bringing out this book.

We shall consider our efforts amply rewarded if this book is found useful by the teachers and the students. Suggestions for improvement of this book will be gratefully accepted.

Mangalore,

B.S. Raman

DR. PARAMESHWARA

BUSINESS ORGANISATION

MODULE-I: NATURE, SCOPE AND FORMS OF BUSINESS

Nature - Scope and Forms of Business, Meaning, Nature scope objectives, essentials of successful business.

Forms: Sole proprietorship: Definitions, Features, Merits and Demerits

Partnership: Definitions, Features, Merits and Demerits, Joint Stock Company: Definitions, Features, Merits and Demerits, Co-operatives: Definitions, Features, Merits and Demerits.

Public Enterprises: Departmental Undertaking: Definitions, Features, Merits and Demerits Public Corporations: Definitions, Features, Merits and Demerits Government Companies: Definitions, Features, Merits and Demerits

MODULE II: BUSINESS COMBINATIONS

Business Combinations-Meaning Definitions, Causes, Types, Forms, merits and demerits of Business Combinations, Recent Trends in Business Combinations

MODULE III: SOURCES OF BUSINESS FINANCE

Sources of Business Finance -Types of Business Finance: Long, Medium and Short Term;

Sources of Corporate Finance: Issue of Shares, Public Deposits, Retained Earnings, Institutional Financing (IDBI, IFCI, ICICI, SFC), Objectives, Functions and forms of assistance; Sources

of Short-Term Finance: Trade Credit, Bank Credit, Inter Company Loans, Lease Finance, Accounts Receivable, Financing Customer Advances.

MODULE IV: ELEMENTS OF INSURANCE

Elements of Insurance - Meaning, Significance, Principles, Types- Life Insurance: Terms and Conditions, Types-Fire Insurance: Features, Types and Proceedings for Claim, Marine Insurance: Features, Types, Clauses, Warranties and Marine Losses, Miscellaneous Types of Insurances and Recent Changes and Development in Insurance Sector.

CONTENTS

Module I	Nature and scope of business	1 – 148
Module II	Business Combinations	149 – 234
Module III	Sources of Business Finance	235 – 312
Module IV	Elements of Insurance	313 – 347

MODULE – I

NATURE, SCOPE AND FORMS OF BUSINESS

INTRODUCTION

The ordinary meaning of the word business is business, i.e., any activity in which a man is busy. A man may be busy in two kinds of activities: economic and non-economic. An economic activity denotes work or effort directed towards the production of wealth. In other words, economic activity is aimed at profit. Economic activity of a man is called business. Business, therefore, means the production or purchase of goods with a view to sell them at profit. Besides, if services are rendered on payment to others, they shall be included in business. Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling of goods and services.

Business is one of the economic activities. So, before we take up the discussion of 'business', let us have some idea about 'eco-nomic activities'.

ECONOMIC ACTIVITIES

Meaning of Economic Activities:

Economic activities refer to those human activities which are undertaken with the object of satisfying material or economic needs. In other words, they are activities undertaken by the people to satisfy their economic needs directly or indirectly.

Economic activities are concerned with the production and distribution of wealth (i.e., goods and services) either for own consumption or for sale to others at a profit. They are influenced mainly by material or economic considerations. Buying and selling of goods by traders, manufacture and sale of goods by industrialists, production and sale of agricultural crops by farmers, specialised personal services rendered by professionals like doctors, lawyers, chartered accountants,

management consultants, etc. and personal services of employees in private and Government undertakings are examples of economic activities.

Types or Kinds of Economic Activities:

Economic activities can be broadly classified into three types. They are:

1. **Business**
2. **Profession**
3. **Employment**

1. Business: Business refers to economic activities concerned with the production and sale of goods and services for the purpose of earning profit. Trading (i.e., buying and selling of goods), manufacturing, mining (i.e., extraction of minerals from the mines), transportation, banking, etc. are examples of business activities. It may be noted that production or purchase of goods and services for one's own consumption cannot be called business. In other words, business is concerned only with that part of production which is exchanged with others for profit.

2. Profession: Profession is an economic activity concerned with the rendering of technical, specialised and expert personal services to clients in return for a reward or payment called fees. The specialised services of doctors, lawyers, architects, chartered accountants, management consultants, etc. are examples of profession.

Profession has certain characteristic features. They are:

- (a) Profession involves the rendering of personal services.
 - (b) The services rendered are technical, specialised and expert.
 - (c) It requires the acquisition of specialised professional knowledge, adequate training and preparation.
 - (d) There is an association or professional body to regulate the behaviour of the members of the profession.
 - (e) Every professional is compulsorily required to enrol himself as a member of his professional body or association.
-
-

-
-
- (f) Every professional is required to observe the code of conduct prescribed by his professional body.
 - (g) Entry into a particular profession is restricted by standards set by the association of that profession.
 - (h) Right mental attitude is required on the part of profession-als.
 - (i) Honesty and integrity should prevail in the dealings of professionals.
 - (j) Profession presupposes the existence of spirit of service on the part of the professionals. That is, in a profession, service to the society should receive priority over the economic rewards.
 - (k) Profession should be carried on in strict confidence.
 - (l) Professionals cannot advertise their professional services.
 - (m) The reward for profession is fees.

3. Employment or Services: Employment is an economic activity or occupation in which a person, known as an employee, under a contract of employment or contract of service, performs regularly such work as may be assigned to him by the employer, in return for a payment called salaries or wages. In other words, it is an economic occupation under which a person, known as an employee, renders personal services to another person, known as an employer, under a contract of employment or service, in return for salaries or wages. In short, it means working for another person, under a contract of employment, for a reward or payment called salaries or wages. The services rendered by managers, cashiers, accountants, clerks, attenders, etc. in Government or private offices, the services rendered by workers in factories, the services rendered by agricultural labourers in fields, etc. are examples of employment. It must be noted that in the case of employment, there is the relationship of employer and employee or master and servant. Again, the employee works in accordance with the terms of employment or in accordance with the instructions of the employer.

The main features of employment or services are:

- (a) It involves the rendering of services.
- (b) In the case of employment, there is the relationship of employer and employee or master and servant.
- (c) The service is rendered by the employee under a contract of employment or contract of service.
- (d) The employee acts or works in accordance with the terms of employment or in accordance with the instructions of the employer.
- (e) The service is rendered for a reward or remuneration called salaries or wages.

Distinction between Business, Profession and Employment :

There are a number of differences between business, profession and employment. They are :

- (a) Business is concerned with the production and sale of goods and services to people. Profession is concerned with the rendering of specialised personal services to clients. Employment is concerned with the performance of the work assigned by the employer.
 - (b) Acquisition of specialised professional knowledge is required for every profession. But acquisition of specialised knowledge is not necessary for business and employment.
 - (c) A businessman need not enrol himself as a member of any association. Similarly, an employee need not enrol himself as a member of any association. But a professional is required to enrol himself as a member of his professional body.
 - (d) A businessman is not required to observe any specific code of conduct. But a professional is required to observe the code of conduct prescribed by his professional body. Similarly, an employee is required to observe the terms of employment and the instructions of his employer.
 - (e) More capital is required for doing a business. But profession does not require much capital, and employment does not require any capital.
-

- (f) Business has more risk. Profession has less risk. There is no risk in employment.
- (g) The reward for business is profit. The reward for profession is fees. The reward for employment is salaries or wages.

MEANING OF BUSINESS

In its literal sense, business means the state of being busy. In this sense, any economic activity with which a man keeps himself busy can be regarded as business. But such a view or meaning is too wide to serve any purpose.

In common parlance (i.e., in the general sense), business is identified with exchange of goods and services. In this sense, business refers to mere trading (i.e., buying and selling of goods). This view is too narrow, as the scope of modern business is quite wide.

In its practical sense, business refers to all those economic activities which are concerned with the production or purchase of goods and services for the purpose of sale at a profit. In this sense, business includes activities like manufacturing, trading, transportation, warehousing, banking and finance, insurance, advertising, etc. This view is clear from the definitions of business given by eminent authorities.

In the words of 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 willing to pay for".

According to Prof. R.N. Owens, "Business is an enterprise engaged in the production and distribution of goods for sale in a market or the rendering of services for a price."

In the words of L.R. Dicksee, "Business is a form of activity pursued primarily with the object of earning profits for the benefit of those on whose behalf the activity is conducted".

According to Haney, "Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling of goods".

In the words of Peterson and Plowman, "Business may be defined as an activity in which different persons exchange something of value, whether goods or services for mutual gain or profit".

NATURE OF BUSINESS

The nature of business is indicated by its characteristics. So, to understand the nature of business, one should know the characteristics of business.

Characteristics of Business:

Business has several characteristics. The chief characteristics of business are:

1. Economic activity: Every business is an economic activity, leading to the

creation of utility of one kind or another. For instance, when a manufacturer converts raw materials into finished goods, he undertakes a business, i.e., an economic activity leading to the creation of **form utility**. Similarly, when a transport company carries goods from one place to another, it undertakes a business, i.e., an economic activity leading to the creation of **place utility**. So also, when a cold storage company stores some commodities in winter and sells them in summer, it undertakes a business, i.e., an economic activity leading to the creation of **time utility**.

2. Sale, transfer or exchange for value: Business involves sale, transfer or exchange of goods or services for value. So, it is only the production or purchase of goods or services with the object of selling them or exchanging them for value comes under business. Production or purchase of goods or services for personal consumption or for presentation to others free of charge cannot come under business.

3. Dealing in goods or services: Business consists of dealings in goods or services.
