CHARACTERISTICS

Followingarethe essentialcharacteristicsof a goodbusiness:

1. Capital

Capitalis the lifeblood of everybusiness.It is the most essentialand important element of business.In caseof deficiency,loanscanbe takenfrom variousfinancialinstitutions.

2. Creationof Utility

Utility is an economicterm referring to that characteristicof a certain commodity, which can satisfy any human need. Businesscreates utility, which gives benefit to the entire societyaswell asthe businessmen.

3. Dealingin Goodsand Services

Everybusinessdealswith sale,purchase,productionand exchangeof goodsand servicesfor someconsideration.

4. Employment

Businessis a good source of employment for its owners as well as for other people, for example,employees,agents,transportersetc.

5. IslamicProcess

Businessis an Islamicway of earningliving. Incomefrom businessis known asprofit, which is Rizqe rHralal. TheHolyProphetMuhammad(SAWW)himselfdid prosperousbusiness.

6. Motive

Themotive of businessis to earnprofit. Otherwiseit will not be termedasbusiness.

7. Organization

Everybusinessneedsan organizationfor its successfulworking. A proper organizationis helpful in the smoothrunningof businessandachievingthe objectives.

8. Productionsor Purchaseof Goods

A businessmandealsin production or purchaseof goods. Thesegoodsare suppliedto the people. So,it is necessarythat more goodsshould be producedso that demandof people maybe fulfilled.

9. RegularTransaction

Businesshas a nature of regular dealingsand seriesof transactions. So,in business,only thosetransactionsincludedwhich haveregularityand continuity.

10. Risksand Uncertainty

Businessinvolvesa largevolumeof riskand uncertainty. Theriskelementin businesskeeps a personvigilantand he tries to ward off his risk by executinghis policiesproperly.

11. Saleor Transferfor value

Anothercharacteristicof businessis the saleor transferof goodsfor value.

12. SocialWelfare

Businessdoes not only satisfy the producer, but also the consumerwhen products are offered for saleat low pricesin markets.

NATUREOFBUSINESS

Thefollowing pointsstate the natureof businessin brief:

1. EconomicActivity

Businessis an economicactivity as it is concernedwith creation of wealth through the satisfactionof humanwants.

2. HumanActivity

Businessis an economicactivity and every economicactivity is done by human beings. Thus,businessis one of the most important humanactivities.

3. SocialProcess

Businessis run by owners and employeeswith the help of professionalsand customers. Thus,businessis a socialprocess.

4. System

Businessis a systematicarrangementof variouselements,which leadsto the attainment of particularobjective,accordingto a well esrtablishedplan.

COMPONENTS AND SCOPE OF BUSINESS

BUSINESS

The word “Business” includes all human activities concerned with earning money. In other words, business is an activity in which various persons regularly produce or exchange goods and services for mutual gain or profit.

COMPONENTS OF BUSINESS

Business bears the following components:

- Industry
- Commerce

Business

Industry | Commerce

INDUSTRY

Industry is connected with the production and preparation of goods and services. It is a place where raw material is converted into finished or semi finrished goods, which have the ability to satisfy human needs or can be used in another industry as a base material. In other words, industry means that part of business activity, which is concerned with the extraction, production and fabrication of products.

KINDS OF INDSTRY

1. Primary Industry
2. Secondary Industry

Industry

Primary Industry	Secondary Industry
(a) Extractive	(a) Construction
(b) Genetic	(b) Manufacturing
	(c) Services

1. PRIMARY INDUSTRY

Primary industry is engaged in the production or extraction of raw materials, which are used in the secondary industry. Primary industry can be divided into two parts:

(a) Extractive Industry
(b) Genetic Industry

(a) Extractive Industry

Extractive industries are those industries, which extract, raise or produce raw material from below or above or above the surface of the earth. For example, fishery, extraction of oil, gas and coal etc.

(b) Genetic Industry

Genetic industries are those, which are engaged in reproducing and multiplying certain species of animals and plants. For example, poultry farm, fishing farm, diary farm, plant nurseries etc.

2. SECONDARY INDUSTRY

These industries use raw materials and make useful goods. Raw material of these industries is obtained from primary industry. Secondary industry can be divided into three parts:

(a) Constructive Industry
(b) Manufacturing Industry
(c) Services Industry

a) Constructive Industry

All kinds of constructions are included in this industry. For example, buildings, canals, roads, bridges etc.

b) Manufacturing Industry

In this industry, material is converted into some finished goods or semi finrished goods. For example, textile mills, sugar mills etc.

c) Services Industry

These industries include those industries, which are engaged in providing services of professionals such as lawyers, doctors, teacher etc.

COMMERCE

Commerce is the second component of business. The term "commerce" includes all activities, functions and institutions, which are involved in transferring goods, produced in various industries, from their place of production to ultimate consumers.

In the words of Evelyn Thomas:

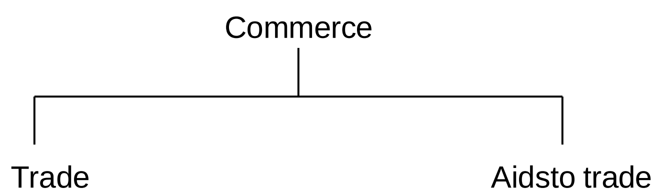
"Commercial occupations deal with the buying and selling of goods, the exchange of commodities and distribution of the finished goods."

In simple words, "trade and aids to trade" is called commerce.

SCOPE OF COMMERCE

The scope of commerce can be explained as:

1. Trade
2. Aids to Trade



1. TRADE

Trade is the whole procedure of transferring or distributing the goods produced by different persons or industries to their ultimate consumers. In other words, the system or channel, which helps the exchange of goods, is called trade.

TYPES OF TRADE

There are two types of trade:

(a) Home trade
(b) Foreign Trade

Trade

Home Trade	Foreign Trade
(i) Wholesale Trade	(i) Import Trade
(ii) Retail Trade	(ii) Export Trade

(a) Home Trade

The purchase and sale of goods inside the country is called home trade. It is also known as ‘domestic’, ‘local’ or ‘internal trade’. Home trade has two types:

(i) Wholesale Trade
(ii) Retail Trade

(i) Wholesale Trade

It involves selling of goods in large quantities to shopkeepers i,n order to resale them to the consumers. A wholesaler is like a bridge between the producers and retailers.

(ii) Retail Trade

Retailing means selling the goods in small quantities to the ultimate consumers. Retailer is a middleman, who purchase goods from manufacturers or wholesalers and provide these goods to the consumers near their houses.

(b) Foreign Trade

Trade or exchange of goods and services between two or more independent countries for their mutual advantages is called foreign trade. It is also called international trade. Foreign trade has two types:

(i) Import Trade
(ii) Export Trade

(i) Import Trade

When goods or services are purchased from other country it is called import trade.

(ii) Export Trade

When goods or services are sold to any other country it is called export trade.

2. AIDSTOTRADE

Trademansbiting and sellingof goods,whereas,aids to trade mean all those things which are helpful in trade.

a) Banking
b) Transportation
c) Insurance
d) Warehousing
e) Agents
f) Finance
g) Advertising
h) Communication

(a) Banking

In daily businessroutine, commercialbanksand other financial institutions help the seller andthe buyerin receivingandthe buyerin receivingandmakingpayments.

(b) Transportation

Thegoodswhich are manufacturedin mills and factories,reachthe consumersby different meansof transportationlike air, roads,rails,seasetc.

(c) Insurance

Thetransfer of goodsfrom one placeto another is not free from risk of loss. Thereis a risk of lossdue to accident,fire, theft etc. The insurancecompanieshelp out the traders with this problemthroughinsurancepolicy.

(d) Warehousing

The manufacturers today, produce goods in large quantity. Therefore, a need for warehousesarisesin orderto storethe manufacturedgoods.

(e) Agents

Theyare the personswho act as the agentsof either buyer or seller. Theyperform these activitiesfor commission.

(f) Finance

A large amount is needed to set up an industry. Financialinstitutions provide long terrm finance to the producers. The producersalone are unable to manufacturegoodswithout financialhelp.

(g) Advertising

Theconsumermay sometimes,not know about the availabilityof goodsin the market. The producermust sell his goodsin order to remain in business. Advertisementis an easyway to inform the large number of customersabout the goods. Thiscan be done through TV, newspapersr,adio etc.

(h) Communication

The producers,wholesalers,retailers, transporters,banks,warehousekerepers,advertisers and consumerslive at different place. Thispost office, telephoneand other similarmediais veryusefulfor promotion of trade and industry.

FACTORSOFPRODUCTION:

Factorsof production are the resourcesor inputs that are required for the production of goodsor services.Thecomponentsof factorsof productionare:

i. Labor
ii. Capital
iii. Entrepreneurship
iv. Physicarlesources

i. Labor

Labor is the most important factor of production. Laborare the people who work in an organizationand providephysicaland mentalefforts in productionprocess.

ii. Capital

Capitalis the amountor property which is investedby investor(s)in the businessto produce goodsand services.

iii. Entrepreneurship

Entrepreneurshipis the managementability of the peopleto run the business.
It involves: r
(a) Identificationof opportunity
(b) Allocationof resources
(c) Creationof wealth by assumingthe necessaryrisk

iv. Physicalresources

Physicarl esourcesincludeland, naturalresources,building,vehiclesand machinerythat are usedin the productionprocess.

ECONOMIC SYSTEM

Economic system is defined a system for allocation of resources. Commonly, it has following two types as below:

a) Planned economy
b) Free market economy

a) Planned economy

In planned economy the government decides that how many resources are to be generated and how these resources will be allocated. In this system government determines the key economic functions. How the factor of production will be utilized and how much will be the economy's output is decided by the government.

b) Free market economy

In free market economy demand and supply in the market determines the allocation for resources with little or no government intervention. In this economy market mechanism decides the key economic functions (what, for whom and how to produce). Free market economy increases the efficiency and productivity, firms and organizations with better quality products and low costs (produced efficiently) will survive in the market.

ENVIRONMENTAL FORCES

Forces that influence the performance of organizations can be divided into two categories as under:

1) External Factors (External Environment)
2) Internal Factors (Internal Environment)

External Factors:

External factors are the factors which are found outside the organization. These factors are not controllable by the organization. External factors bring the opportunity or threat for the organization. External factors include technological factors, economy of the country, political and legal factors, socio curltural factors and demographic factors.

Internal Factors:

Internal factors are the factors within the organization that affect the performance of business. Strengths or weaknesses of the organization are the internal factors. Strengths may include experienced and trained workers, strong financial resources, strong brand name, good reputation and organizational culture and weaknesses of an organization may include lack of sufficient capital, weak brand name, poor reputation, inexperienced and untrained workers.

SWOT Analysis:

SWOT analysis is an analysis of an organization's strengths, weaknesses, opportunities, and threats. Strengths and weaknesses are the part of internal environment and opportunities and threats are the part of external environment. SWOT analysis helps an organization to focus on strengths, to reduce weaknesses, to exploit the opportunities and to neutralize threats.

Strengths:

Strengths are the capabilities of an organization that enable it to perform efficiently. Strengths may include skilled manpower, strong financial resources, strong brand name, good reputation and organization a culture, well established distribution network etc.

Weaknesses:

Weaknesses are the internal characteristics of an organization that prohibit it to perform well. Organization's weakness may include lack of sufficient capital, weak brand name, poor reputation, unskilled manpower, inefficient management, poor distribution channels etc.

Opportunities:

Opportunities are the external environmental factors that may bring the prospects for growth and higher performance. For example: technological advancement, market developments, changes in lifestyle, changes in government regulation related to your business.

Threats:

Threats are the external environmental factors that may undermine the organization's performance. For example, new regulation that may affect the business, changes in consumer tastes, if an organization does not adopt new developed and modern technology it will be become a threat for the organization.

QUALITIES OF A GOOD BUSINESSMAN

The modern business is very complex. Due to scientific and technological development, changes are taking place very fast in every business field. Following are the basic personal skills or qualities which a good businessman must possess:

1. Ability to Plan

A businessmani,f he wants to shinein business,must have the ability to plan and organize it.

2. Activator

Hehadto activatehisworkers. If he activateshisworkersthen this isgoodfor business.

3. Boldor Courage

Courageis a great assetof a businessman.A goodbusinessmanshouldbe a courageousand bold person. May be his some angry decisionsgave him loss in future, so he has to be courageousandbe bold.

4. Cooperation

A good businessmanshould have to cooperate with his workers. With the help of cooperationwith his workershe canrun hisbusinesswell.

5. Courtesy

Courtesyis to businesswhat oil is to machinery. It costsnothing but wins a reputation. So businessmanhasto win the heartof everyonewith hispolite manners.

6. DecisionMaking

A good businessmanshould be a good and quick decision maker. Quick decision of a businessmanis an important assetof businessman.And businessmanhasto know that his quickdecisionwill givehim benefit or not.

7. Discipline

A good businessmanshouldhaveto careabout the disciplineof the business.If he doesn't care about the disciplinethen nobody (who concern to his business)obeys the discipline andbusinesscan't gowell.

8. Evaluator

A businessmanhas to check himself that how he is working. This thing can make the businessgoodin progress.

9. Foresight

A good businessman must have the quality of foresight. He must keep in touch with the businessworld. He should move about and see what is going on for he has to estimate new wants and new inventions for creating fresh demands.

10. Honesty

A businessman should be honest in dealing with others. Honesty of a businessman helps him in his business.

11. Hardworking

A businessman must be hard working. Without have working no business can be successful. If the owner is not hard working then other workers of the business can't be hardworking.

12. Initiation

The business world is moving at a very fast speed. A businessman should have the ability to take initiative by producing new things and new methods of marketing the products and services.

13. Knowledge

A good businessman should have knowledge of his business. It should be supplemented by the knowledge of trade, finance, marketing, income tax, etc.

14. Leadership

Leaders are not made, they are born; but the businessman has to get some qualities of a leader. With the help of leadership a businessman can control his business and workers.

15. Negotiator

If a businessman is a good negotiator, then he can run his business well, because without good communication he can't impress his consumer.

16. Personality

A businessman should have a graceful personality because it can impress his customers. If his personality is not good or not graceful then his business can't go well.

17. QuickDecisions

A businessmanhasdecisionmrakingpower. He decideson all matters in the best interest of the business. A businessmanmust have technical knowledge, judgment power and intelligenceto take soundand quickdecisions.

18. Responsibility

A successfulbusinessmanshould have to realizehis responsibilities. If he doesn't do his duty then hisbusinesscan't go well.

19. Reviewer

A goodbusinessmanhasto reviewhis mistakes,which he committed in the past,and try his bestneverto do it againin his life.

20. SoundFinancialManagement

Soundfinancialmanagementis an important factor for successfulbusiness. Without it no businesscangowell. Soa businessmustpossessgoodfinancialposition.

21. SelfCronfidence

A good businessmanshould have self cornfidence. Without self cornfidencehe can't make quickdecisionsandbusinesssuffersa lot.

22. Tact

A good businessmanshouldbe a tactful person. He hasto handlepersonsor his customers verytactfully. It helpsto earnprofit in future.

23. TechnicalSkills

A good businessmanmust have the knowledge about technical skills. He should have completecommandof specializedknowledgein hisfield, whichhe hasto perform.

Lecture2

ORGANIZATIONAL BOUNDARIES AND ENVIRONMENTS

All businesses, regardless of their size, location, or mission, operate within a larger external environment.

External environment:

Everything outside an organization's boundaries that might affect it.

a. Organizational Boundaries: that which separates the organization from its environment. Today boundaries are becoming increasingly complicated and hard to pin down.

b. Multiple Environments: include economic conditions, technology, political r legal considerations, social issues, the global environment, issues of ethical and social responsibility, the business environment itself, and numerous other emerging challenges and opportunities.

THE ECONOMIC ENVIRONMENT

Economic environment—Conditions of the economic system in which an organization operates.

c. Economic Growth
   i. Aggregate Output and Standard of Living
      1. Business cycle—Pattern of short terrm ups and downs (expansions and contractions) in an economy
      2. Aggregate output—Total quantity of goods and services produced by an economic system during a given period
      3. Standard of living—Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
   ii. Gross Domestic Product—Total value of all goods and services produced within a given period by a national economy through domestic factors of production

Grossnational product (G N P)—Totalvalue of all goodsand services producedby a national economywithin a given period regardlessof where the factorsof productionare located

1. Real Growth Rate—the growth rate of GDPadjusted for inflation andchangesin the valueof the country'scurrency.

2. GDPper Capita—GDPper personand reflects the standard of living.

3. Real GDP—GDP calculated to account for changes in currencyvaluesand pricechangesversusNominal GDP, GDP measuredin current dollarsor with all componentsvaluedat currentprices.

4. PurchasingPower Parity—Principlethat exchangerates are set so that the prices of similar products in different countriesare about the same.

iii. Productivity—Measure of economic growth that compares how mucha systemproduceswith the resourcesneededto produceit.

There are a number of factors which can inhibit the growth of an economic system including:

1. Balance of Trade—the economic value of all the products that a country exportsminusthe economicvalueof imported products.

   a. Trade Surplus —A positive balanceof trade results when a country exports (sells to other countries) more than it imports (buysfrom other countries).

   b. Trade Deficit—A negative balance of trade results when a country imports more than it exports.

   c. National Debt—Amountof moneythat a government owesits creditors.

d. EconomicStability

Conditionin an economicsystemin which the amount of moneyavailable and the quantity of goodsand servicesproducedare growingat about the samerate.

Factorswhichthreatenstabilityinclude:

i. Inflation—Occurrence of widespread price increases throughout an economic system

Measuring Inflation: The CPI—Measure of the prices of typical products purchased by consumers living in urban areas

ii. Unemployment—Level of joblessness among people actively seeking work in an economic system. Unemployment may be a symptom of economic downturns.

1. Recessions and Depressions
   Recession—Period during which aggregate output, as measured by real GDP, declines

2. Depression—Particularly severe and long larsting recession

e. Managing the Economy

i. Fiscal policies—Government economic policies that determine how the government collects and spends its revenues

ii. Monetary policies—Government economic policies that determine the size of a nation's monetary supply

iii. Stabilization policy—Government policy, embracing both fiscal and monetary policies, whose goal is to smooth out fluctuations in output and unemployment and to stabilize prices

iv. Three Major Forces
   1. The information revolution will continue to enhance productivity across all sectors of the economy, most notably in such information dependent industries as finance, media, and wholesale and retail trade.

   2. New technological breakthroughs in areas such as biotechnology will create entirely new industries.

   3. Increasing globalization will create much larger markets while also fostering tougher competition among global businesses; as a result, companies will need to focus even more on innovation and cost cutting.

v. Projected Trends and Patterns—there are a number of projections for the near future. Sudden changes in environmental factors, such as war, can alter these projections.

DEMOGRAPHIC ENVIRONMENT

Demographic environment is the study of characteristics of population such as size of population, population growth rate and population distribution on the basis of gender, age, income level, level of education, geographic location, family structure, etc. these factors influence the size of demand, buying pattern, liking and attitude of customers. Demographic factors are important to managers as the changes in these demographic factors affect the businessmen' planning.

Total population determines the size of market, huge population size and growth rate brings a large number of customers, more consumption and more opportunities for business, cheap and abundant labor supply will also be available. It affects the business positively. Another demographic factor that affects the business is education level. If education level of public is high then the supply of skilled labor will increase and supply of unskilled labor will decrease. In case of low education level supply of skilled labor will decrease. Education level also affects the buying pattern of customers; if they are highly educated then the business enterprise must be careful about the quality of its products and services. In the same way, gender and age composition, income level, geographical location etc are also important demographic factors.

POLITICAL AND LEGAL ENVIRONMENT

Legal and political factors include legal and governmental system organizations operate. Political and legal environment strongly affect the business decisions. Aspects which are considered in political and legal environment are the preferences and priorities of the government, political stability in the country, laws/rules and regulations, taxation policy and attitude of the government towards business.
Government decides that what sort of economic activities the country should have, in which areas the private sector should be encouraged, also defines the areas where foreign companies may enter. Laws and regulations influence the decision making and limit the businesses for the country's wellbeing.

THE TECHNOLOGICAL ENVIRONMENT

Technology has a variety of meanings, but as applied to the environment of business, it generally includes all the ways by which firms create value for their constituents.

f. Product and Service Technologies – the technologies employed for creating products (both physical goods and services) for customers. Although many people associate technology with manufacturing, it is also a significant force in the service sector.

g. Business Process Technologies – are used not so much to create products as to improve a firm's performance of internal operations (such as accounting, managing information flows, creating activity reports, and so forth). They also help create better relationships with external constituents, such as suppliers and customers.

i. Enterprise Resource Planning—Large scrale information system for organizing and managing a firm's processes across product lines, departments, and geographic locations

SOCIO CULTURAL ENVIRONMENT

Social and cultural factors affect the working of business enterprises significantly. Socio r cultural factors include the societal values, attitude, customs, religion; beliefs, habits and preferences etc. socio curltural trends have considerable effect on the demand for products e.g., dominant religion of any society has influence over the buying behavior of that society.

NATURAL ENVIRONMENT

Geographical and ecological factors such as changes in weather and climate, earthquake, floods, storms and natural resources are considered in natural environment. Natural factors are not in control of any business unit however while considering natural factors managers will develop their product, production planning, marketing planning etc. For example, weather conditions influence the buying pattern, demand for heaters; sweater and woolen cloths will be more in winter while in summer there will be more demand for air conditioners, fans and cold drinks etc.

Lecture 3

BUSINESS ORGANIZATION & SOLE PROPRIETORSHIP

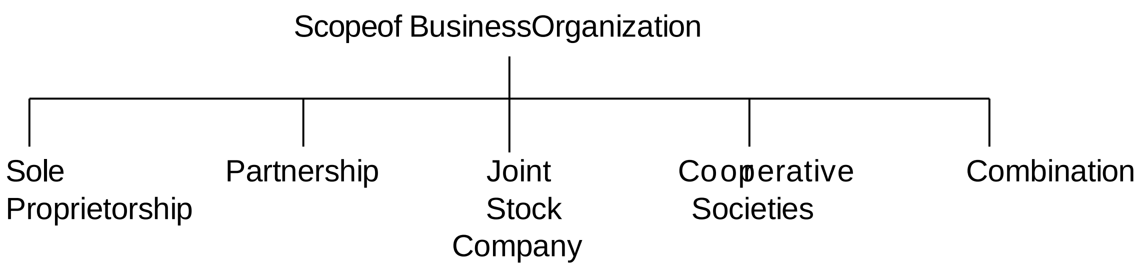
Business organization is an act of grouping activities into effective cooperation to obtain the objective of the business.

In the words of L.H. Haney

> "It is more or less independent complex of land, labour and capital, organized and directed for productive purposes but entrepreneurial ability."

SCOPE OF BUSINESS ORGANIZATION

The scope of business organization can be defined as under:



1. SOLE PROPRIETORSHIP

According to D.W.T. Stafford

> "It is the simplest form of business organization, which is owned and controlled by one man"

Sole proprietorship is the oldest form of business organization which is owned and controlled by one person. In this business, one man invests his capital himself. He is all in all in doing his business. He enjoys the whole of the profit. The features of sole proprietorship are:

- Easy Formation
- Unlimited Liability
- Ownership
- Profit
- Management
- Easy Dissolution

2. PARTNERSHIP

According to Partnership Act, 1932

"Partnership is 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."

Partnership means a lawful business owned by two or more persons. The profit of the business shared by the partners in agreed ratio. The liability of each partner is unlimited. Small and medium size business activities are performed under this organization. It has the following features:

- Legal Entity
- Profit and Loss Distribution
- Unlimited Liability
- Transfer of Rights
- Management
- Number of Partners

3. JOINT STOCK COMPANY

According to S.E.Thomas

"A company is an incorporated association of persons formed usually for the pursuit of some commercial purposes"

A joint stock company is a voluntary association of persons created by law. It has a separate legal entity apart from its members. It can sue and be sued in its name. In the joint stock company, the work of organization begins before its incorporation by promoters and it continues after incorporation. The joint stock company has the following feature:

- Creation of Law
- Separate Legal Entity
- Limited Liability
- Transferability of shares
- Number of Members
- Common Seal

4. COOPERATIVE SOCIETIES

According to Herrik

"Cooperation is an action of persons voluntarily united for utilizing reciprocally their own forces, resources or both under mutual management for their common profit or loss."

CooperativeSocietiesare formed for the help of poor people. It is formed by economically weakpersonsof the society. In this form of organization,all membersenjoyequalrights of ownership. Thefeaturesof cooperativesocietyare asunder: r

ƒEasyFormation
ƒProtectionof Mutual Interest
ƒLimitedLiability
ƒEqualDistributionof Wealth
ƒEqualRights

5. COMBINATION

Accordingto J.L.Hanson

"Combinationis the association,temporaryor permanent,of two or morefirms."

Businesscombinationsare formed when severalbusinessconcernundertakingunits are combined to carry on businesstogether for achievingthe economic benefits. The combination among the firms may be temporary or permanent. The salient features of businesscombinationare:

ƒEconomyin Production
ƒEffectiveManagement
ƒDivisionof Labour
ƒDestructiveCompetition

IMPORTANCE OF BUSINESS ORGANIZATION

Thefollowing points elaboratethe role of businessorganizations:

1. Distribution

Another benefit of businessorganizationis that it solvesthe problemsof marketing and distribution like buying,selling,transporting,storageand grading,etc.

2. Feedback

An organization makes possible to take decisionsabout production after getting the feedbackfrom markets.

3. FinanceManagement

It also guidesthe businessmanthat how he shouldmeet his financialneedswhich is very beneficialfor makingprogressin business.

4. Fixingof Responsibilities

It also fixes the responsibilitiesof each individual. It introduces the schemeof internal check.In this way chancesof errorsandfraudsare reduced.

5. Minimum Cost

It helpsin attainingthe goalsandobjectivesof minimumcostin the business.

6. Minimum Wastage

It reducesthe wastageof rawmaterialandother expenditures.In this waythe rate of profit isincreased.

7. ProductGrowth

Businessorganizationis very useful for the product growth. It increasesthe efficiencyof labor.

8. QuickDecision

Businessorganizationmakesit easyto take quickdecisions.

9. RecognitionProblems

Businessorganization makes it easy to recognizethe problems in businessand their solutions.

10. Reducesthe Cost

Businessorganizationis usefulin reducingthe costof productionasit helpsin the efficient useof factorsof production.

11. SecretariatFunctions

It alsoguidesthe businessmanaboutthe bestwayof performingthe secretarialfunctions.

12. SkilledSalesmen

It is also a benefit of the businessorganizationthat it providesthe skilled salesmenfor satisfyingvariousneedsof the customers.

13. Transportation

It is another benefit is that it guides the businessman that what type of transport he should utilize to increase the sales volume of the product.

PRE REQUISITES OF BUSINESS

Following are the main pre rerquisites of a successful business:

1. Selection

The first and most important decision before starting a new business is its selection. If once a business is established, it becomes difficult to change it. One should make a detailed investigation in the selection of business.

2. Feasibility Report

A person should prepare the feasibility report about the business to be started. This report will provide the facts and figures whether business is profitable or not.

3. Nature of Business

There are various types of business like manufacturing, trading and services. The businessman should decide that what type of business he would like to start.

4. Demand of Product

The businessman also keeps in view the demand of the product which he wants to sell. If the demand is inelastic, the chances of success are bright. If the demand of a product is irregular, seasonal and uncertain, such business should not be started.

5. Size of Business

The Size of business means the scale of business. The size of business depends upon the demand of commodity in the market and organizational ability of entrepreneur. The determination of size of business is an important decision of a person.

6. Availability of Capital

Availability of capital is an important factor in the business.Capital is required for the purchaseof land, machines,wagesand raw materials.A businessmanmust decidethat how muchcapitalhe canarrange.

7. BusinessLocation

A businessmanhasto selectthe placewhere he wantsto start his business.He shouldselect that placewhere raw material, cheaplabour and transportation facilities are available. He shouldalsocheckthe locationof businesscompetitors.

8. GovernmentPolicy

Thebusinessmanshouldalsocarefullyconsiderthe policiesof governmentbefore starting a new business. Some areas are declared as 'tax free zones' and for some particular businessesthe loan is providedwithout anyinterest.

9. Availability of RawMaterial

Availability of Raw material is essentialto produce the goodsat low cost. Sometimesthe raw material is to be imported which may create problem for him. Soa businessmanmust keepthis factor in mind.

10. Availability of Machines

Availabilityof new machinesis alsoan important factor for a business.A businessmanmust seewhether thesemachinesare easilyavailableinsidethe country or not. If theseare to be imported then it maycreatethe problemsfor him.

11. Availability of Labor

Skilledand efficient labor is essentialto run the businessin profit. But if efficient and skilled laboris not availablewherebusinessis goingto bestartedthen it will not be profitable.

12. Meansof Transportation

Quickand cheapmeansof transportation are essentialfor low cost of production and high profit rate. A businessmanmust keepin viewthis factor.

13. PowerResources

There must be availability of power resources like water, oil, coal and electricity. So businessmanmust keepin view this factor.

14. Hiring Employees

A businessman must hire the efficient and competent employees in the business. The proper training must be given to employees.

15. Product Pricing

A businessman must decide the price of his product. In the beginning the price must be low. He must keep in view that whether he will cover cost of his product and other expenses with such price.

FUNCTIONS OF BUSINESS

Following are the main functions of a business:

1. Production

Production of goods and services is the first main function of the business. The production must be regular. The goods and services must be produced in such a way which can satisfy human needs.

2. Sales

The sale is another important function of the business. Sales are of two types:

- Cash sales
- Credit sales

The sale must be regular and at reasonable price. It is very difficult job because there is hard competition in each market.

3. Finance

It is also an important function of the business to secure finance. Finance is required for establishment and expansion of business. There are two sources of raising funds:

(a) Owner's Capital
(b) Borrowed Funds

4. ManagementFunction

“To do things efficiently and effectively” is known as management. The functions of managementare:

ƒPlanning
ƒOrganizing
ƒLeading
ƒControlling
ƒStaffing

Themanagementalsoprovidesdirectionfor all subordinates.

5. Innovation

In this era of competition, for the survival of business,innovation is essential. The businessmanmust try to find new techniquesof production becausethe businessmay not sellpresentoutput in future.

6. Accounting

Another function of the businessis to maintain its recordsproperly. To record the business activities is called accounting. With proper accounts, the owner can know the actual performanceof businessandchancesof fraud arereduced.

7. Marketing

Accordingto HarryHenser

> “Marketing involvesthe designof the productsacceptableby the consumersand the conductof those activities which facilitate the transfer of ownershipbetweenseller andbuyer.”

Through marketing, goods are moved from producers to consumers. It is an important function of the business. This function includesbuying, selling,transportation, product designingand storage, etc. The concept of marketing mix is very important in marketing.It includesfour Ps:

ƒProduct
ƒPrice
ƒPlace
ƒPromotion

8. Quality Improvement

Quality of product must be improvedto increasethe sale.If quality of product is poor then businessmaysuffer a loss.

9. Motivation

Motivation is very essential for increasing the efficiency of employees. Motivation encouragesthe employeesto givetheir bestperformance.

10. Research

Researchis also an important function of any business.Researchis a search for new knowledge. By research,businessbecomesable to produceimproved and new goods.The researchis of two types:

ƒ BasicResearch
ƒ AppliedResearch

11. PublicRelation

It is very important function to makefriendly relationswith public, in this way salesvolume is increased.

SOLE PROPRIETORSHIP

SoleProprietorshipand its Characteristics

Soleproprietorshipis a simpleand oldest form of businessorganization. Its formation does not require any complicatedlegal provisionlike registrationetc. It is a small scralework, as it is owned and controlled by one person,and operated for his profit. It is also known as “sole ownership”,“individual partnership”and “singleproprietorship”.

DEFINITION

Followingare someimportant definition of soleproprietorship:

1. Accordingto D.W.T.Staffod

“It is the simplestform of businessorganization,whichis ownedand controlledby oneman.”

2. Accordingto G.Baker

"Soleproprietorshipis a businessoperatedbyonepersonto earnprofit."

CHARACTERISTICS

Followingare the maincharacteristicsof soleproprietorship:

1. Capital

In soleproprietorship,the capitalis normallyprovidedby the ownerhimself. However,if additionalcapitalis required,suchcapitalcanbe increasedby borrowing.

2. EasyDissolution

Thesoleproprietorshipcanbe easilydissolved,asthere are no legalformalitiesinvolvedin it.

3. EasilyTransferable

Suchtype of businesscaneasilybe transferredto anotherpersonwithout anyrestriction.

4. Freedomof Action

In soleproprietorship,singleowner is the solemasterof the business;therefore,he hasfull freedomto take actionor decision.

5. Formation

Formationof soleproprietorshipbusinessis easyascomparedto other business,becauseit dosnot require anykind of legalformality like registrationetc.

6. LegalEntity

In soleproprietorship,the businesshasno separatelegalentity apartfrom the soletraders.

7. LegalRestriction

Thereare no legalrestrictionsfor soletradersto setup the business.Butthere maybe legal restrictionsfor settingup a particulartype of business.

8. Limited Life

Thecontinuityof soleproprietorshipis basedon goodhealth,or life or deathof the sole owner.

9. Management

In sole proprietorship, the control of management of the business lies with the sole owner.

10. Ownership

The ownership of business in sole proprietorship is owned by one person.

11. Profit

The single owner bears full risk of business, therefore, he gets total benefit of the business as well as total loss.

12. Size

The size of business is usually small. The limited ability and capital do not allow the expansion of business.

13. Success of Business

The success and goodwill of the sole proprietorship is totally dependent upon the ability of the sole owner.

14. Secrecy

A sole proprietorship can easily maintain the secrecy of his business.

15. Unlimited Liability

A sole proprietor has unlimited liability. In case of insolvency of business, even the personal assets are used by the owner to pay off the debts and other liabilities.

ADVANTAGES OF SOLE PROPRIETORSHIP

Following are the advantages of sole proprietorship:

1. Contacted with the Customers

In sole proprietorship a businessman has direct contact with the customer and keeps in mind the like and dislikes of the public while producing his products.

2. Direct Relationship with Workers

In sole proprietorship a businessman has direct relationship with workers. He can better understand their problems and then tries to solve them.

3. EasyFormation

Its formation is veryeasybecausethere are not legalrestrictionsrequiredlike registration etc.

4. EasyDissolution

Its dissolutionis verysimplebecausethere are no legalrestrictionsrequiredfor its dissolutionand it canbe dissolvedat anytime.

5. EasyTransferof Ownership

A soleproprietorshipcaneasilybe transferredto other personsbecauseof no legal restrictioninvolved.

6. Entire Profit

Soleproprietorshipis the onlyform of businessorganizationwherethe ownerenjoys100% profit.

7. EntireControl

In soleproprietorshipthe entire controlof the businessis in the handsof oneperson. He cando whateverhe likes.

8. Flexibility

Thereis greatflexibility in soleproprietorship. Businesspoliciescaneasilybe changed accordingto the marketconditionsand demandof people.

9. Honesty

Thesolemasterof the businessperformshis functionshonestyand effitively to makethe businesssuccessful.

10. Independence

It is anindependentform of businessorganizationand there is no interferenceof anyother person.

11. PersonalSatisfaction

Asall the Businessactivitiesareaccomplishedunderthe supervisionof soleowner,so he feelspersonalsatisfactionthat the businessis runningsmoothly.

12. PrimeCreditStanding

A soleproprietor canborrow moneymore easilybecauseof unlimited liability.

13. QuickDecisions

Soleproprietor canmakequickdecisionsfor the developmentand welfare of hisbusiness and in this way cansavehis time.

14. PersonalInterest

A soleproprietor takeskeenintere4stin the affairsof businessbecausehe aloneis responsiblefor profit and loss.

15. Savingin Interest on BorrowedCapital

Sometimes,a soleproprietor borrowsmoneyto increasehis capital,from hisrelatives, without interest.

16. Savingin LegalExpenses

Asthere areno legalrestrictionsfor the formation of soleproprietorshipso it helpsin increasingsavingsaslegalexpensesare reduced.

17. Savingin ManagementExpenses

Theowner of the businesshimselfperformsmost of the functionsso it r educesthe managementexpenses.

18. Savingin Taxes

Thetax ratesare verylow on soleproprietorshipbecauseit is imposedon the incomeof singleperson.

19. Secrecy

It is an important factor for the developmentof business.A soletrader caneasilymaintain the secrecyabout the techniquesof productionand profit.

20. SocialBenefits

It is helpful in solvingmanysocialproblemslike unemploymentetc.

DISADVANTAGES OF SOLE PROPRIETORSHIP

The disadvantages of sole proprietorship can be narrated as under:

1. Continuity

The continuity of sole proprietorship depends upon the health and life of the owner. In case of death of the owner the business no longer continues.

2. Chances of Fraud

In sole proprietorship, proper records are not maintained. This increases the chances of errors and frauds for dishonest workers.

3. Expansion Difficulty

In sole proprietorship, it is very difficult to expand the business because of the limited life of proprietor and limited capital.

4. Lack of Advertisement

As the sources of single person are limited so he cannot bear the expense of advertisement, which is also a major disadvantage.

5. Lack of Capital

Generally, one mran resources are limited, so due to financial problems he cannot expand his business.

6. Lack of Inspection and Audit

In sole proprietorship there is lack of inspection and audit, which increases the chances of fraud and illegal operations.

7. Lack of Innovation

Due to fear of suffering from loss, a sole proprietor does not use new methods of production. So, there is no invention or innovation.

8. Lack of Public Confidence

The public shows less confidence in this type of business organization because there is no legal registration to control and wind up the business.

9. Lackof SkilledPersons

Onepersoncannothire the servicesof qualifiedandskilledpersonsbecausehe haslimited resources.It is alsoa greatdisadvantage.

10. ManagementDifficulty

Onepersoncannotperform all typesof dutieseffectively. If he is a goodaccountant,he maynot be a goodadministrator. Dueto this, businesssuffersa loss.

11. Much Strainon Health

In this type of businessorganizationthere is muchstrain on the healthof the businessman becausehe alonehandlesall sortsof activities.

12. Not Durable

Thistype of businessorganizationis not durablebecauseits existencedependsupon the life of soleproprietor.

13. PermanentExistence

In this type of businessthere is a needof permanentexistenceof a businessman.In caseof absencefrom businessfor few daysmaybecomethe causeof loss.

14. Riskof CarelessDrawings

In soleproprietorship,owner himselfis a boss. Thereis no questionto hisdecisionsor actions. So,there is a riskof carelessdrawingsby him.

15. Riskof Loss

In caseof soleproprietorshipa singlepersonbearsall the losses,whereasin the caseof partnershipor JointStockCompanyall the partnersor membersbearthe loss.

16. Unlimited Liability

In soleproprietorshipthere is unlimited liability. It means,in caseof losspersonalproperty of the owner canbe soldto satisfythe claimants. It is a greatdisadvantage.

CONCLUSION

From the abovemrentioned detail, we come to the point that despite the above disadvantages, sole proprietorship is an important form of business organization. This is due to the fact that its formation is very easy and due to unlimited liability the owner takes great care and interest in the business, because in case of loss, he is personally responsible. As he enjoys entire profit, this factor also encourages him to work with great efficiency which promotes his business.

PARTNERSHIP

Partnership and its Characteristics

Partnership is the second stage in the evolution of forms of business organization. It means the association of two or more persons to carry on as co owners, i.e. a business for profit. The persons who constitute this organization are individually termed as partners and collectively known as firm; and the name under which their business is conducted is called "The Firm Name".

In ordinary business the number of partners should not exceed 20, but in case of banking business it must nor exceed 10. This type of business organization is very popular in Pakistan.

DEFINITION

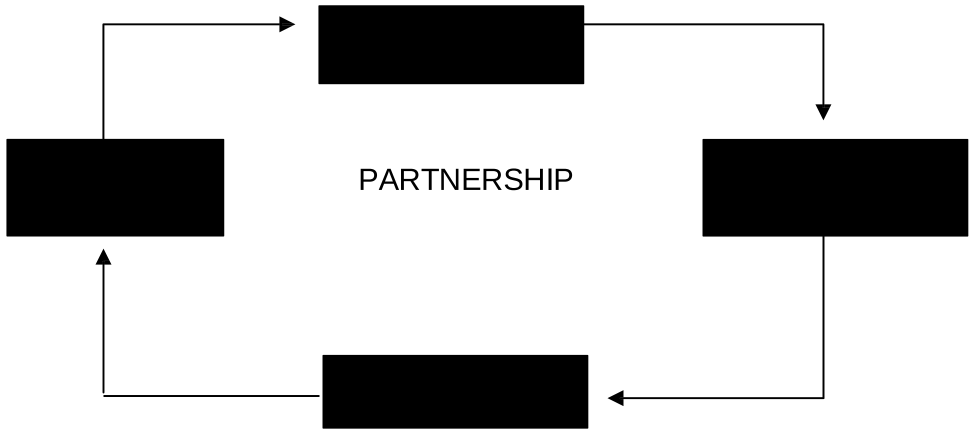
1. According to Section 4 of Partnership Act, 1932

   "Partnership is 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."

2. According to Mr. Kent

   "A contract of two or more competent persons to place their money, efforts, labour and skills, some or all of them, in a lawful commerce or business and to divide the profits and bear the losses in certain proportion."

StructuralDiagram:



CHARACTERISTICS

Themain characteristicsof partnershipmaybe narratedasunder:

1. Agreement

Agreementis necessaryfor partnership. Partnershipagreementmaybe written or oral. It is better that the agreementis in written form to settle the disputes.

2. Audit

If partnershipis not registered,it hasno legalentity. Sothere is no restrictionfor the audit of accounts.

3. Agent

In partnershipeverypartner actsasan agentof anotherpartner.

4. Business

Partnershipis a businessunit anda businessis alwaysfor profit. It mustnot includeclub or charitabletrusts, set up for welfare.

5. Cooperation

In partnershipmutual cooperationand mutual confidenceis an important factor. Partnershipcannottake placewith cooperation.

6. Dissolution

Partnershipis a temporaryform of business.It is dissolvedif a partner leaves,diesor declaredbankrupt.

7. LegalEntity

If partnershipis not registered,it hasno legalentity. Moreover,partnershiphasno separatelegalentity from its membersand vice

Lecture 1

INTRODUCTION

CONCEPT OF BUSINESS

Literally, the word "business" means the state of being busy. Generally, the term business includes all human activities concerned with earning money. In other words, business is an activity in which various persons regularly produce or exchange goods and services for mutual gain or profit. The goods and services produced or purchased for personal use are not included in "business".

DEFINITION

1. **According to L. H. Haney**
   "Business may be defined as human activities directed toward providing or acquiring wealth through buying and selling of goods."

2. **James Stephenson** says that:
   "Every human activity which is engaged in for the sake of earning profit may be called business."

3. **In the words of B. W. Wheeler**
   "An institution organized and operated to provide goods and services to the society, under the incentive of private gain" is business.

Structural Diagram