

Unit 1- Introduction to Business Operation

SESSION-1 Concept of Business

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To understand the basic concept of Human Activities & Business	<ul style="list-style-type: none">• Meaning of Economic & Non Economic Activities• Meaning of Business, Employment & Profession.• Concept of Business• Meaning & Definition of Business.• Characteristic of Business.• Scope of Business	<ul style="list-style-type: none">• Explain the meaning of Economic & Non Economic Activities.• Define Business.• List out characteristics of Business.• Describe the role of profit in Business.	Interactive classroom teaching through lecture & examples.

Session 2 Types of Business Operations

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To understand the classification of Business Operations.	<ul style="list-style-type: none">• Types of Business Operations.	<ul style="list-style-type: none">• Enumerate the types of Business Operations/activities	<ul style="list-style-type: none">• Interactive Lecture Activity – Prepare a chart on types of Business Operations.

Session 3 Management of Business Operations

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To know the meaning & concept of Management of Business Operations.	<ul style="list-style-type: none">• Functions of Management of Business Operations.	<ul style="list-style-type: none">• Explain the various strategic functions involved in Management of Business Operations.	<ul style="list-style-type: none">• Interactive Lecture with discussion & examples.

A Case Study

Sania was a very talented girl who loved to do flower arrangements. On any Birthday or party or occasion she would always gift her near & dear ones with a bouquet made by her. Seeing her interest & creativity Sania's mother advised her to contact a florist and sell her flower arrangements to that particular shop. She approached many local florists but all denied saying that they don't want any help. Dejected, she came back & thought of a brilliant idea of starting her own florist outlet. In 2010 she started her own outlet at home. Her flower arrangements were widely appreciated. Slowly and steadily she started getting orders from hotels, for marriages, parties, functions, retail outlets, online orders. The orders picked up faster than she could even dream of. Now she needed more money to buy flowers & other accessories. She borrowed money from bank to cover all her expenses. In 2014 her sales increased manifold (almost 60%) from 2010. Her success story is an example for all those people who have concept in mind & want to earn.



1.1 Human Activities

After reading Sania's story it is clear that all human beings have different needs and to satisfy these needs they perform any activity. Such activities are termed as 'Human activities'. It can be divided into 2 categories :—

(i) **Economic Activities** :- Those activities which aim at earning a livelihood are termed as Economic Activities. It is concerned with proper allocation & use of Economic resources. For example -

- Doctor, Lawyer, teacher working in their profession.
- Working in a factory or office.
- Production, distribution & consumption of goods & services.

Economic Activities can further be classified into 4 categories:-

- 1) Business
- 2) Profession
- 3) Employment
- 4) Services

(ii) **Non-Economic Activities**:- Activities undertaken to satisfy emotional, social and psychological needs are termed as Non Economic Activities. They cannot be measured in monetary terms. For example –

- Businessman working in old age homes on Sunday.
- Teacher teaching his/her own child.

1.2 Types of Economic Activities : -

Economic Activities can be further classified into 4 types –

1. **Business** :- Business refers to those economic activities which are connected with production, purchase, sale or distribution of goods or services with the motive of earning profit. For example – Manufacturing, wholesale, shop owner etc.



2. **Profession** :- Profession refers to that economic activity which requires specialized knowledge & skill to render service to various section of society. The individuals engaged in this activity are called professionals. For example – Lawyer, Doctor, Painter etc.



3. **Employment** :- Employment refers to that economic activity where people work for others & get some remuneration in return (like wages, salaries). People who are working are called employees & who hire them for jobs are called employers. For example – Working in offices, factories, school, shops etc.



4. **Services** :- It includes all economic activities whose output is not physical product or manufacturing. It is generally consumed at the time it is produced. It provides convenience, recreation, comfort for example – Health services, security services, consulting, airways, hospitality etc.



1.3 Concept & Meaning of Business

Business is an economic activity which is concerned with production, purchase, sale, distribution of goods and services. It is done on regular basis to earn profit. The word business has been derived from the word 'BUSY' hence business occupies the individuals and people to earn a livelihood. Business is a wide term. It has become an integral part of society in modern times. Its scope is not

limited to only earning profits but also innovating new products or services & to see that it reaches its prospective customers keeping their preferences in mind.

1.4 Definition of Business : The term business has been defined differently by many scholars.

“Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling goods.” — Lewis H. Haney

“Business is an institution organized and operated to provide goods and services to society under the incentive of private gain.” — B.O. Wheeler

1.5 Characteristics of Business :

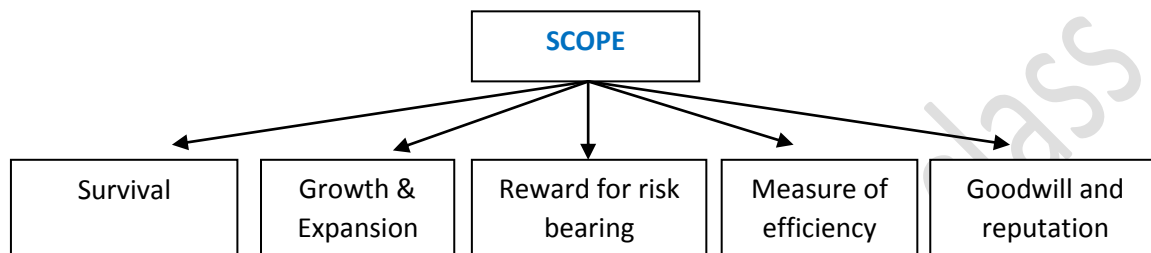
Business is an important economic activity. It possesses various characteristics which makes it distinct from other activities.

- i) **Economic Activity** : Business is an economic activity undertaken to earn money for livelihood. It satisfies human needs through production, Sale or distribution of goods & services. Example : Sale of toys in the shop.
- ii) **Sale or Exchange of Goods & Services** : For any business it is essential that there is sale or exchange of goods & services for money worth. Goods purchased or produced for personal use cannot be termed as Business Activity. For Example : The owner of the toy shop sells his toys to the customer, it is a business activity, but if he gives a toy from his shop to his child then its not business activity as he is not getting any money in return.
- iii) **Regular Dealings** : Business involves exchange of goods & services on regular basis. One single transaction of sale or purchase cannot be termed as business. For example : A person sells his old air conditioner and buys a new one is not a business activity. But if he continuously deals in sale and purchase of air conditioner, it will be considered as business activity.
- iv) **Production or Purchase of Goods and Services** : Business includes all the activities concerned with manufacturing goods, purchasing goods or providing services like transportation, banking for satisfaction of human needs. For Example : Purchasing cloth from the manufacturer and manufacturing shirts to sell in the market.
- v) **Profit motive** : Profit earning is one of the main motive of a business activity. Earning profit is essential for survival of the business. Businessman is always thinking to maximize his revenue (profit) by increasing his sales or minimizing his costs. For example: A property dealer purchases a home at Rs. `85 lakh and sells for `95 lakh. `10 lakh is his profit in this transaction which he will use in expansion of his business.
- vi) **Consumer satisfaction** : Today's Market is 'Consumer Oriented' i.e. Consumer is the king in the market. So businessman has to satisfy his consumers in all respects to run his business successfully. For example : Reliance industries provide consumer oriented service i.e. to provide good service to the consumers is their priority.
- vii) **Uncertainty of Return** : The businessman starts his business with profit motive but he is not sure whether he will earn profits or incur losses. Every product depends on the efforts of the businessman, market conditions, demands of the product, political scenario etc. For example : Sahara airlines started with a boom, earning profits every year. But due to unrealistic policies and programs it started incurring heavy losses & finally had to wind up its business.
- viii) **Risk element** : All Business activities carry some element of risk. Risks can be caused by factors like change in technology, fashion, increased competition, theft, fire etc. Nokia which

was once a leading mobile company is now facing a tough competition from Samsung and Apple to survive in the market.

1.6 Scope of Business

Profit is the main objective of every economic activity. According To Peter F Drucker “A business must achieve sufficient profits to cover the risk of economic activity & thus to avoid loss” Profit plays a very vital role in the Business. It is the return, which every businessman expects to get, on what he has invested in business.



The following reasons justify the role of profit in the business :

- 1) ***Survival*** – The entrepreneurs engage in business activities to earn profits as a means of livelihood. Everyone has to satisfy his needs & hence no one is expected to undertake business activity without any earnings. Business can survive only when there are adequate profits.
- 2) ***Growth & Expansion*** – Profit not only provides funds for growth & expansion but also motivates businessman to think of diversification & re-invest for expansion.
- 3) ***Reward for Risk bearing*** – Profit motivates businessman to take risks, higher the risk, higher is the possibility of earning more profits. In the eventuality of loss due to any risk, he does not stop the business. He runs the business assuming profits in future.
- 4) ***Measures efficiency*** – Profit is considered as an index for judging the performance of the business enterprise if profits are higher it indicates the efficiency of management.
- 5) ***Goodwill & Reputation*** – Higher profitability builds reputation of the business. Goodwill creates market standing which helps to raise loans and obtain credit for further expansion.

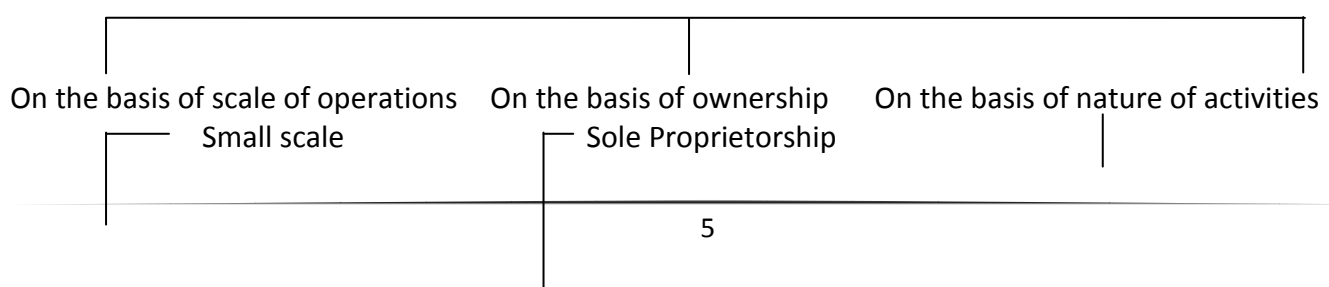
Conclusion

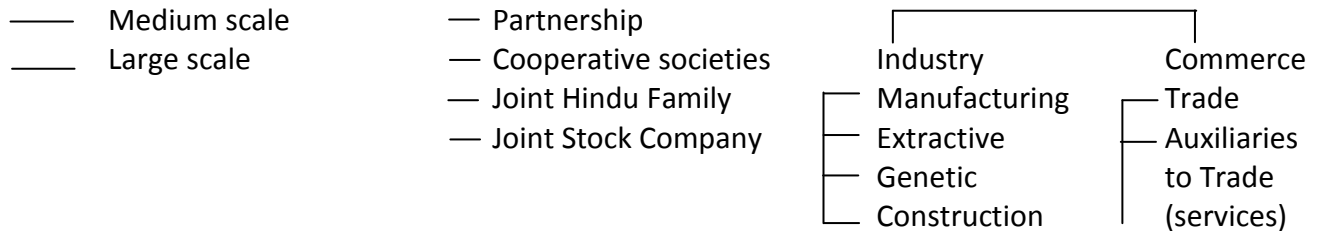
The scope of business should not be restricted to earning profits only. Profit is extremely important for any business enterprise but not the sole objective.

2.1 Types of Business Operations

The spectrum of business is very wide and covers various forms of Business Operations which aim at facilitating the production & distribution of goods & services. The business operations can be broadly classified on the basis of ownership, scale of business or nature of business.

Types of Business Operations





2.1.1 On the basis of scale of operation

1. **Small Scale Business** – A small scale business is an undertaking in which the investment in fixed assets, plant & machinery, whether held on ownership term or on lease, should be more than 25 lakhs, but should not exceed Rs. 5 crore in case of marketing sector. In case of service sector the investment can be more than 10 lakhs but less than 2 crores. However this investment limit is varied by the Government from time to time. Registration of such business is not compulsory but if registered with Commissioner of Industries then they can avail Financial Assistance. There is easy Mobilization of Capital, Entrepreneurial Skill and other Sources Small Scale Business are a big support to Medium Scale & Large Scale Units. A Small Scale unit is generally a Sole-Proprietorship or may be Partnership. The area of operation is generally localized catering to local demand. These units are mostly Labour Intensive with Smaller Capital Investment. For Example – Chemicals, Shoes, Bicycles, Readymade Garments, Consumable Goods, Sports Goods, Plastic Products, Leather Products, Processed Food, Spices .

2. **Medium Scale Organisation** – Medium scale business is an undertaking in which the investment in fixed assets, plant & machinery should be more than 5 crore but not to exceed 10 crore in case of manufacturing sector. But in case of service sector investment can be minimum 2 crore & maximum limit is Rs. 5 crore. The business is mostly privately owned but managed by owner & some professionals in key roles. Limited sources of capital, limited customer base generally catering to local & region at large. Technologically advanced as compared to small scale business organization. They can employ more people in the business if its expanding. Medium scale business typically results from slow & steady growth of small business. As the organization earns more revenue, it sets aside capital for building, equipment more employees thus bridging the gap between small business & large corporations.

The Government of India now regulates the small scale & medium scale business under MSMEs (Micro Small & Medium Enterprises Act 2006). It provides a legal framework & defines the specific roles of the related institutions.

3. **Large Scale Business Organisation** – The industries or organizations with fixed assets of more than 10 crore are called large scale organizations. These could be manufacturing units or other which use both indigenous & imported technologies. All capital goods and consumer goods can be produced through large scale industries. Mostly the investment is done through Public Investors. The units are more capital intensive & technologically advanced. These Business Organization have Structured Governance, Professional Management, Diverse Markets, Wide range of Funding Sources. Companies like Reliance, Tata Group, Infosys Technology, Mahindra Group etc. all the large scale business organizations.

2.1.2 On the basis of Ownership

1. **Sole Proprietorship** – Sole Proprietorship refer to a form of business organization which is owned, managed and controlled by an individual. Here sole means 'only' and the proprietor mean 'owner.' The Proprietor bears all the risks, invests capital and enjoys all the profits. He takes all the decision, employs staff and procures all the resources required to run his business. He has the sole right to control the business operations. This business is carried out on small scale where customers demand personalized services.

2. **Partnership** – Partnership is that form of business organization in which two or more persons agree to pursue a lawful business for the purpose of earning profit. The persons who for partnership are called ‘partners’ and the business is conducted with the name of the ‘firm’. The capital is invested by the partners in an agreed ratio and even the profits and losses are divided as decided in partnership deed. The minimum no. of partners can be 2 and maximum can be 20 in case of ordinary business and 10 in case of banking business.

3. **Hindu undivided family Business** – Hindu undivided family or Joint Hindu Family business is a special type of business organization which is governed by the provisions of Hindu Succession Act, 1956 under Hindu Law. The business is owned and carried on by the members of Hindu Undivided Family. The property is managed and held by the senior male member as the Head of the family known as ‘Karta’. The basis of membership in the business is birth in a family and 3 successive male generations can be members of the business. Now even women have been given equal right in inheritance of ancestral property according to Hindu Succession (Amendment) Bill 2004.

4. **Cooperative Societies** – Cooperative Society is a voluntary association of persons who join together for mutual help, economic & social interests. The registration of cooperative society is compulsory under the Cooperative Societies Act, 1912. The capital of cooperative societies is raised from its members through issue of shares. The organization is established primarily with a view to render service to its members and not earn profits. There are various types of Cooperation Societies like Housing Cooperative Societies, Consumer’s Cooperative Societies, Credit Cooperative Societies etc.

5. **Joint Stock Company** – It is considered to be the most suitable form of organization for operating business activities on large scale. “A Company is an artificial person created by law having a separate entity with perpetual succession and common seal”. It is governed by the Companies Act, 1956 and without registration no company can come into existence. The shareholder are the owners of the company. The Board of directors are elected as representatives who manage the affairs of the company on behalf of the members. It has a separate legal entity. Company can be classified as Private Company and Public Company.

The minimum number of members to start a Private Company is 2 and maximum is 50 whereas Public Company has to have 7 minimum number of members and no limit for maximum.

2.1.3 On the basis of nature of a activities

1. **Industries** - The activities of extraction, production, processing, Conversion of products are described as industry. Industry produces both Consumer goods and Producers goods For Example - Automobile Industry, Electronic Industry, Steel Industry etc.

The industries can be of following types –

- 1) **Extractive Industries** – These industries extract products from natural sources like earth, water, air etc. The products of these industries are used by manufacturing & construction industry. For example : farming, mining, fishing, lumbering etc.
- 2) **Genetic Industries** – These industries are engaged in breeding plants & animals for their use in further reproduction. For example – Plant in nurseries, horticulture, poultry farms etc.
- 3) **Manufacturing Industries** – These industries are concerned with the conversion & transformation of raw materials and semi finished products into finished products. Articles of daily use are mostly produced by manufacturing units. For example – Oil, Cars, Fertilizers, Medicines, Textile, Television, Paint etc.

- 4) **Construction Industries** – These industries are engaged in construction of buildings, dams, roads, canals etc. These industries create the basic infrastructure for development. For example – DLF Construction Company.

2. **Commerce**

The term commerce refers to all those activities that facilitate the transfer of goods & services from producer to consumers. Facilitating services like transportation, warehousing, insurance, banking, advertising, packaging help the smooth & easy transfer of goods from manufacturer to end user. Commerce can be divided into 2 broad categories :

- (i) Trade
- (ii) Auxiliaries to trade

Trade – Trade is that branch of commerce which is concerned with the sale, transfer or exchange of goods & services. All the commercial services like transportation, storage, insurance, banking etc. revolve around trade. It is nucleus of all commercial activities. Trade is of following types :

- a) **Internal Trade** – It consists of buying & selling of goods within the boundaries of a country. It is also known as domestic trade or inland trade. It can be further classified into
 - i) **Wholesale Trade** – It refers to sale of goods of specific variety in large quantities. They buy in bulk from manufacturer and then sell in small quantities to the retailers. For Examples – Biscuits manufactured by Parle-G is bought in bulk by the distributors all over the country.
 - ii) **Retail Trade** – It refers to purchase of goods in small quantities from wholesaler and finally their sale to final consumers. For Example – Parle-G Biscuits sold by shop keepers in the market to consumers.
- b) **External Trade** – It consists of the exchange of goods & service between nations. It is also known as Foreign Trade or International Trade. It involves use of foreign currency & transportation like shipping & airways. It can be further classified into
 - i) **Import** – Purchasing goods from Foreign country for home consumption. For Examples – LED lights are purchased from China for domestic use.
 - ii) **Export** – Selling domestic product in foreign countries. For Examples – Rice is exported to other countries from India.
 - iii) **Entreport** - Import of foreign goods with a view to re-export them.

Auxiliaries to Trade

Commerce includes several auxiliary services which help in exchange of goods & services. Following are the aids to trade :-

- i) **Transportation** – It performs the function of carrying goods from producers to wholesalers, retailers and finally consumers. It creates place utility and connect the world efficiently.
- ii) **Warehousing** – It performs the function of storing the goods both for manufacturers & traders till they decide to sell the goods. It creates time utility.
- iii) **Insurance** – It provides a cover against loss of goods in the process of transit or storage. The producers & traders can get their products insured & avoid risk of loss due to fire, theft etc. It removes hindrance of risk.
- iv) **Banking** – Banks offer credit facility to needy producers at reasonable interest. Banks facilitate in easy, safe & quick transfer of money. It removes hindrance of finance.

- v) **Advertising** – It helps in awareness creation & idea formation. It helps to highlight – distinctive features & utility of different products. The customer can choose the product according to their needs & obtain better value for money. It removes hindrance of information.

3.1 Management of Business Operations

The types of Business Operations cannot be managed if the entrepreneur doesn't assemble or coordinate various factors of production like human resources, material, money, machines to keep the enterprise running. The ultimate success of any business depends upon how the business operations are being managed by the entrepreneur. Different business activities require different kind of entrepreneurial skill.

The term 'Operations' describe the processes and resources that we use to produce the highest quality products or services as efficiently as possible.

Business operations typically include four key areas :

- **Location** : Where you do business – Physically and online.
- **Equipment** : The tools you need to get the job done.
- **Labour** : The human side of business operations.
- **Process** : The way you get business done, including your systems for quality control and improvement.

The importance of each of these areas depends on the nature of the company. For example, physical location is critical to a retail outlet that lives by walk-in-customers, while physical location may not matter a bit to an Internet-based company.

Every business organization regardless of the company, nature of its business, size or type or location have to perform a few strategic activities so that the Business process or workflow of the organization is smooth and it flows uninterrupted. Each strategic activity is highly inter related and must be consistent with the other. The following major activities are involved in management of Business operations -

1. Strategic planning – Planning is an important and basic requirement of any business. Strategic Planning is a broad plan for bringing the organization from its present position to the desired position in future. Top management should identify who will be involved in the planning process, provide opportunity for proper participation, give responsibility for developing and implementing the plans.

2. Financing Decision – Finance is the life blood of any business organization. There must be a continuous flow of funds for the business to commence its operations, to continue operations & for expansion or growth. Finance is an important operative function of business. The business firm has to raise funds from several sources at reasonable cost & ensure its effective utilisation so as to generate adequate profits.

3. Market research and development- In recent years, competition in most of the industries has increased due to growing industrialization, expanding size of operations, liberalization. The business organization have to be fully aware of marketing environment & formulate company policies keeping in mind the target customers, pricing, sales promotion and after sales service.



4. Logistics decisions - Logistics decisions is concerned with the proper movement of material from source of supply to place of procedure and movement of finished product from the factory to the customer. It helps to provide product to the customer at right place and at right time. The business firm has to design and operate a quick, accurate and efficient order processing system to retain customers and ensure repeat order.

It includes decision regarding transportation, warehousing, order processing, inventory management, procurement, vendor management etc.



5. Technological decisions – Information Technology is a boon to any business organization. Through Information Technology they can perform many functions & activities in lesser time & at lesser cost. To improve the quality of decisions, managers require very fast processing & transmission of huge mass of data. I.T. helps in collecting, processing & communicating information very quickly & effectively.

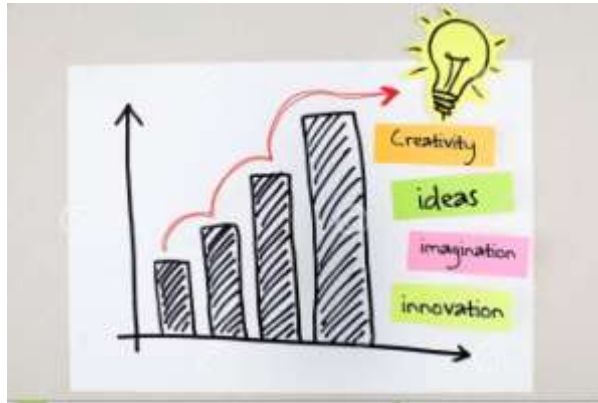
6. Internal process review - It is easy to focus only on the day to day running of your business especially in early stages. But once the business expands a regular review of the progress, internal process policy and procedures can help the business to identify its position in the market. This review highlights the assessment of core business activities, finance, business efficiency and competitor analysis.

7. Maintaining Customer Relationship – Maintaining good customer relationship is growing in importance due to the challenging business environment faced by organization throughout the world today. The aim should be to maximize profit over the long run through the satisfaction of customer's wants. All the plans, policies & operations of business enterprise should be oriented towards customer. Every business decision is made with a prior knowledge of its impact on the customers as 'consumer is the king'.



8. Employee enrichment - Human resources are the only resource which has an unlimited potential for empowerment and development. Sound organization adopts right strategies for attracting, developing, retaining and utilizing human resources. A competent & dedicated team of employees can help an enterprise in achieving its goals efficiently & effectively.

9. Innovation & Creativity — Innovation implies doing new things or doing things that are already being done in new ways. It involves creativity & thought process to transform idea or resource into some useful applications. To survive and succeed in this competitive environment it's imperative for any organization to conceive something original and unique.



SUMMARY

- **Human Activities:** Economic (Aim to earn livelihood by use of economic resources) and Non – Economic Activities (Aim to satisfy emotional, social and psychological needs).
- **Types of Economic Activities** – Business, Employment, Profession and Services.
- **Business** - Buying & selling of goods & services for profit on regular basis.
- **Scope of Business:** Survival, Growth, Reward for risk taking, measure of efficiency and creates goodwill.
- **Business operations:** describe the processes and resources that we use to produce the highest quality products or services as efficiently as possible.
- **Types of Business Operation –**
 - On the basis of scale of operations – small scale, medium scale and large scale.
 - On the basis of ownership – The Proprietorship, Partnership, Cooperative Societies, Joint Hindu Family, Joint Stock Company.
 - On the basis of nature of activities – Industry – Manufacturing, Genetic, Extractive Construction. Commerce – Trade and Auxiliaries to trade.

Key Words

1. Business
2. Profession
3. Service
4. Employment
5. Business risk
6. Industry
7. Business Operations
8. Commerce
9. Strategy
10. Business Goals
11. Auxiliaries to trade
12. Innovation

Self Test Questions

I. Choose the correct answer:-

1. The activities which are performed to earn livelihood are called
a) Religious activity, b) Economic activity, c) Human activity
2. The economic activity which requires specialized knowledge and skill to render services are called
a) Profession, b) Business, c) Employment
3. The element of risk is highest in
a) Economic activity, b) Business, c) Services

III. Match the following

- | | |
|--------------------------|--------------------------------------|
| 1. Joint Hindu Family | 1. Teacher teaching his own child |
| 2. Banking | 2. 'Karta' is the Head of the family |
| 3. Large Scale Industry | 3. Re-export |
| 4. Entrepport | 4. Investment of more than 10 crore |
| 5. Non Economic Activity | 5. Removes hindrance of finance |

IV. Answer the following briefly:-

1. Briefly explain how business operations are critical to the success of any business.
2. Manoj invested his savings in a piece of land in 2005. In 2015 he sold his Land at a good profit. Will his purchase and sale of land considered as business? Give reasons in support of your answer.
3. Describe briefly the role of profit in business.
4. Distinguish between Internal & External Trade.
5. Explain various auxiliaries to trade.

V. Answer in detail.

1. Explain the various strategic functions involved in Management of Business Operations.
2. Enumerate the various types of Business Operations.