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T Y B COM (Semester VI)

SOFT SKILL COURSE - (SS 302 A)

BUSINESS HISTORY

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Nature of Business

The Approach

This is a book on the organisation and management of business. Our purpose is to understand what is involved in organising business activity and conducting it successfully. How shall we go about it? Since business, like any human body, has its own problems which have to be understood, analysed and resolved by those responsible for managing it, we may proceed in the fashion of the physician who has to understand the structure and working of human body before he can venture to diagnose ills and prescribe remedies.

Before a person starts practising medicine and surgery, he has to acquire sufficient knowledge about the structure of the body, the functions of different organs, the processes by which these organs perform their functions in co-ordination with others, the inter-relationship among different body organs, the external conditions in which the human body is to survive and grow and the responses which are made by the body to adapt itself to its environments. Similarly, a person can hope to understand and tackle problems of business properly only if he has some knowledge of the business world, business activity and its organisation and the relationship of business with the world around it.

Human Occupations

Human life is built around work. Whether one likes it or hates it, work is an essential part of life. Numerous and varied are the activities that a man undertakes during his life-time and long indeed is the list of the roles that he has to play in the theatre of life. We may well leave it to the students of sociology and psychology to go into these and mark the various patterns of human behaviour. But we know it from our experience as also from that of others around us that all activities of man fall into two categories.

In the first category come all those acts and activities of man which are inspired by love, patriotism, sympathy, humanity and similar sentiments. A housewife's cooking for her family, a man's sacrifice for the country, his work for the uplift of Harijans and his visits to the temple for the day's prayers are all examples of human actions of the first type. Though important, these are outside the scope of the present discussion. Here, we are concerned with the second category of human activities which is related to the production and exchange of wealth. In Economics, we call these economic activities. All of them involve working to earn a livelihood and are usually called occupations. A lawyer goes to the court, a teacher to the school or college, a government servant to his office, an employee to his work-place, a factory worker to his factory, and a factory owner to his office in the factory to earn a living by producing wealth in different forms. These are all instances of human occupations. If we look at the whole range of human occupations, we can classify these under the following categories :

Professions

Professions are those occupations which involve the rendering of personal services of a special and expert nature. A lawyer who practises the legal profession

takes up cases and offers his technical advice and specialised services for suitable payment. So do the chartered accountant and the medical practitioner. Since specialised services have to be rendered by professional persons, they have to satisfy the minimum academic and other qualifications prescribed by law or by the association to which they must belong in order to be able to practise their profession. Such requirements exist for lawyers, engineers, doctors, etc., who practise professions as their occupation.

Employment

In this class of occupations, a person has to work under an agreement or rules of service and perform such work as may be assigned to him by the employer. Remuneration for such work takes the form of wages or salaries and allowances. Sometimes people belonging to professions take up employment with the Government or private agencies. Firms employ chartered accountants and hospitals engage doctors and nurses in regular service.

Business

As an economic activity, business is so familiar to us that it seems almost funny to go back to its literal meaning of 'being busy'. All occupations require a person to be busy but what really matters for a proper understanding of business is what keeps him busy. Business is known to us by the institutions that conduct it and, therefore, we may try to mark its essential characteristics by examining the nature of work performed by some of them. The village farmer who tills his land and sells his produce, the village shoe-maker who makes shoes to order, the various kinds of shops in the market in the rural and urban areas dealing in various articles and commodities in demand, the restaurants that cater to the needs of different classes of population, the banks, insurance companies, transporters' cold storage companies, theatres and the line-selling services, the factories turning out manufactured goods of all kinds required by consumers and producers are some examples of business firms familiar to us all. Some of them are working on a small scale and making both ends meet. Some others are functioning on a large scale and are providing livelihood to thousands. Some are owned and controlled by individuals, some others by groups of private individuals, and yet others by the Government. Thus whether it is Ghasita Ram's shoe repair shop, Ramanna's grocery store, Jayant and Parikh's motor repair garage, Bata's shoe factories or stores, Birla's textile mills, Shri Ram's chemical plants, Tata's Iron & Steel Company, Mahindra's jeep factory or the Government-owned Central Bank of India or Life Insurance Corporation of India, Indian Airlines, Indian Railways, or Bharat Electronics or Hindustan Insecticides—these all are engaged in business. What is common to them all? What is it that entitles them all to be called businessmen or business institutions? An answer to these questions may be found in the characteristics of business which are discussed below.

Characteristics of Business

(i) Safe, transfer or exchange for the satisfaction of human needs. It will be noted that all business activities are, directly or indirectly, concerned with the transfer or exchange of goods and services for value. Production or purchase of goods or services for personal consumption or presentation ex-gratia (free of charge) are obviously outside the scope of business, for there is no sale or transfer for value involved in them. If, for instance, a person cooks at home for personal consumption, it is not business, for it does not entail any transfer for value or exchange. But when a person cooks for those who patronise his restaurant and pay for their meals, it becomes his business. The ultimate object of production and sale is to meet some felt need of the people in the community.

(ii) Dealings in goods and services. Business consists in dealings in goods and services. The goods produced or acquired for business purposes may be consumers' goods like cloth, shoes, crockery, etc., or producers' goods like tools and

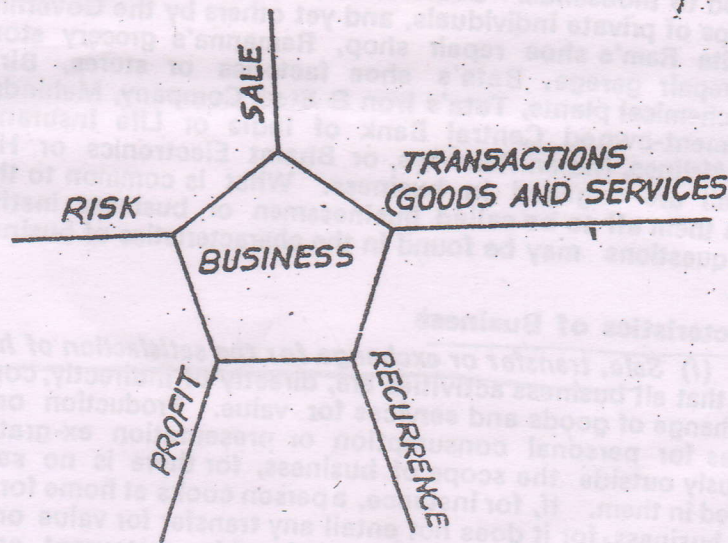
machinery. Services are those intangible and invisible goods supplied by business concerns which cannot be stored by the consumer. Concerns supplying electricity, water or gas, or those engaged in transportation of goods and passengers, deal in services and are business concerns like those dealing in tangible goods.

(iii) Recurrence of transactions. Properly speaking, the term business should be reserved for the exchange of goods and services undertaken continually or at least recurrently. If a person sells his radio set and gains thereon, it does not constitute business. But, if he keeps a stock of such sets and conducts a series of such deals it will be his business.

(iv) Profit motive. The profit motive is an important distinguishing feature of business. Business is a human activity directed towards the acquisition of wealth. All business consists in an attempt on the part of men to reap more than what has been expended or invested. If a business enterprise despairs of making a profit in a particular line or dealing, it is likely to turn to another field which brings back something over and above what was initially invested. This will be true even of Government-run business in the long run. This is not to undermine or belittle the importance of the element of service in business activity. In fact, business activity will flourish and its object will be realised only when it is able to serve the community to its satisfaction.

(v) Element of risk. Risk means the possibility of loss. It arises out of the uncertainty that goes with the profit expected from a business activity. Profit generally depends not only upon the efforts of the business enterprise but also upon a number of other factors over which it has little or no control. These factors include:

- (a) Changes in technology,
- (b) Changes in consumer tastes and fashions,
- (c) Wrong management decisions about use of capital and other resources,
- (d) Labour trouble,
- (e) Shortage of raw materials,
- (f) Increase in competition in the market,
- (g) Fire, theft or natural causes (these can be shifted to insurers).



Characteristics of Business

In the light of the features of business activity discussed here, business may be defined as the organised production of sale of goods undertaken with the object of earning profits through the satisfaction of human wants.

Business as an Adventure



Since business activity involves the undertaking of risk, it is often called an adventure. This adventure involves the investment of resources in pursuit of some objective calling for the supply of goods and services that the community needs. The attempt of a business organisation is to obtain the best return on the investment by achieving its objective as fully and at as low a cost as possible. In pursuing a customer who would buy the goods or services offered by a business firm, business seeks to discover and exploit an opportunity. "Opportunity is where you find it," is an old proverb. Business activity consists in systematically finding and exploiting opportunities. Those engaged in business have the important function of looking for business potential and converting problems into opportunities. If they succeed in this endeavour, they are rewarded with returns; if they fail, they have to lose and try afresh. In any case, it would be seen that business is an exciting pursuit with its own trials and tribulations, stresses and strains, and joys and sorrows.

Business, Profession and Employment Distinguished

Factors	Business	Profession	Employment
Formal basis for establishment or commencement	Individual decision plus registration formalities where required by law	Membership of a professional body	Service contract
Qualification	Specialised knowledge not found in all cases	Expertise and training in a specific field necessary	Specialised knowledge not necessary in all cases
Capital	Capital requirement varies according to scale	Some amount required for establishment	No capital required
Transfer of interest	Transfer possible with required formalities	Not possible	Not transferable
Individual risk	Present	Present	None
Return	Profit or a share thereof	Professional fee	Salary
Nature of work	Goods and services provided to individuals and groups	Personalised service	Performing work assigned by superiors

Inter-relationship of Business, Profession and Employment

Although business as an activity is distinguished from profession and employment mainly on account of factors of investment and risk, yet one cannot forget the

Important role played by professional experts and employees in the success of modern business. Professionals of various types like consulting engineers, chartered accountants, cost accountants, management consultants, legal experts, doctors, architects and the like are retained by business firms for tackling a variety of complicated technical problems that go with modern large-scale business. Besides, large business firms employ a large number of specialists and experts in different areas on a regular basis. In fact, considering the expert knowledge that the conduct of modern business requires, management of business is becoming a professional job. As an economic institution of recognised importance, business provides employment to a large number of persons in the country. The prosperity of a business concern depends not merely on the foresight and the resources of businessmen, but is equally determined by the availability of the right type of employees with positive attitude towards work. Thus, while business provides opportunities for employment, the employees provide the organised and devoted effort which is essential for any business house to make the best of its investment.

DIVISIONS OF BUSINESS

Business activities may be classified into two broad categories : (a) Industry, and (b) Commerce. Industry involves the production of goods and materials, while commerce is concerned mainly with their distribution. Accordingly, then, a business concern, the agency through which business is regularly conducted, may be an industrial enterprise or a commercial one.

Industry

The term 'industry' refers to that part of business activity which concerns itself with the raising, production, processing or fabrication of products. The products of an industry may be used either by the final consumers or by another industrial undertaking for further production. Accordingly, these will be called consumers' goods if used by final consumers, and producers' goods or capital goods if used in the production of other goods. When a concern engages in the production of cloth or toothpaste, or when it processes cheese, it may be said to be producing consumers' goods. On the other hand, an engineering concern manufacturing machine tools and machinery is said to be producing producers' goods for the simple reason that these products will be used by factories for the production of certain other products. In some cases, an industrial concern may produce materials which will be further processed by yet other concerns, for conversion into finished consumers' goods. Such materials are generally placed in the category of intermediate goods. An example of this kind is provided by plastics and aluminium which are further used by industry for manufacturing other products.

Types of Industry

The broad sphere of industry may be divided into four distinct types :

(1) *Extractive industries.* These industries include activities whereby various forms of wealth are drawn out, extracted, or raised from the soil, air or water or obtained from beneath the surface of the earth. The commodities raised by such industries are produced with comparatively little assistance from man. The products of extractive industries are generally meant to be used by the manufacturing and construction industries for producing finished goods though these may be used directly in some cases. These include hunting, fishing, mining, fruit-gathering, agriculture, afforestation, etc.

(2) *Genetic industries.* These industries engage in reproducing and multiplying certain species of plants and animals with the object of earning profit from their sale. Examples of this type are nurseries multiplying and selling plants, cattle-breeding farms, poultry farms and commercial kennels.

(3) *Construction industries.* These industries involve construction of buildings, roads, dams, bridges, canals. The distinctive characteristic of these industries is that their products are not marketed in the ordinary sense of being taken to the markets to be sold; they are erected, built, or fabricated at a fixed site. These industries use the products of manufacturing industries, especially cement and iron and steel, as also those of extractive industries like quarries, etc.

(4) *Manufacturing industries.* Ordinarily, the term industry is used to refer to manufacturing industries. Though that is not correct, it cannot be denied that the bulk of our requirements is fulfilled by such industries. Manufacturing industries are engaged in the conversion or transformation of raw materials or semi-finished products into finished products. In this process, these industries create 'form utility.' The products of extractive industries generally become the raw materials of manufacturing industries. The cotton textile industry is an example of a manufacturing industry that makes use of the cotton produced by farms which are engaged in an extractive industry. Likewise, the iron and steel industry is concerned with the conversion of iron ore produced by mines (extractive industry) into pig iron, steel and various other products. Manufacturing industries may be divided further into the following categories:

(a) *Analytical.* In this type of industry, many types of products may be manufactured by analysing and separating different elements from the same material. For example, in the oil refinery industry, the crude oil is analysed and separated into petrol, diesel, gasoline, kerosene and lubricating oil.

(b) *Synthetic.* In synthetic industries various ingredients are put together and combined in the manufacturing process so as to manufacture a new product. For instance, cement is produced by combining and mixing concrete, gypsum, coal, etc.

(c) *Processing.* In this category are included those industries wherein the raw material is processed through different stages of production resulting in the final product. Textiles, paper and sugar are examples of this type.

(d) *Assembly line.* 'Assembly line' type of industries include the industries where different instruments or component parts already manufactured are assembled to turn out new useful products, e.g., car, scooter, bicycle, television, etc.

Industries are also classified on the basis of size and investment as follows:

(i) *Heavy Industries.* The term heavy industries is generally used to refer to those industries which call for big capital investment and have a longer production cycle. Such investment goes mostly into machinery and equipment of sophisticated and expensive type. Industries like iron and steel, aeronautics, ship-building and aluminium are included in this category.

(ii) *Light Industries.* Light industries are those which involve a comparatively smaller capital investment and have a short duration production cycle. This may be because of the less costly machinery required for the manufacture of certain types of products or because of the use of less sophisticated process of production.

Industries are also classified as *large-scale* and *small-scale* according to the capital employed, number of workers employed, materials and tools used and volume or value of output produced over certain periods. For purposes of governmental assistance, a small industry is defined as an industry involving a capital outlay of not more than Rs. 10 lakhs in plant and machinery.

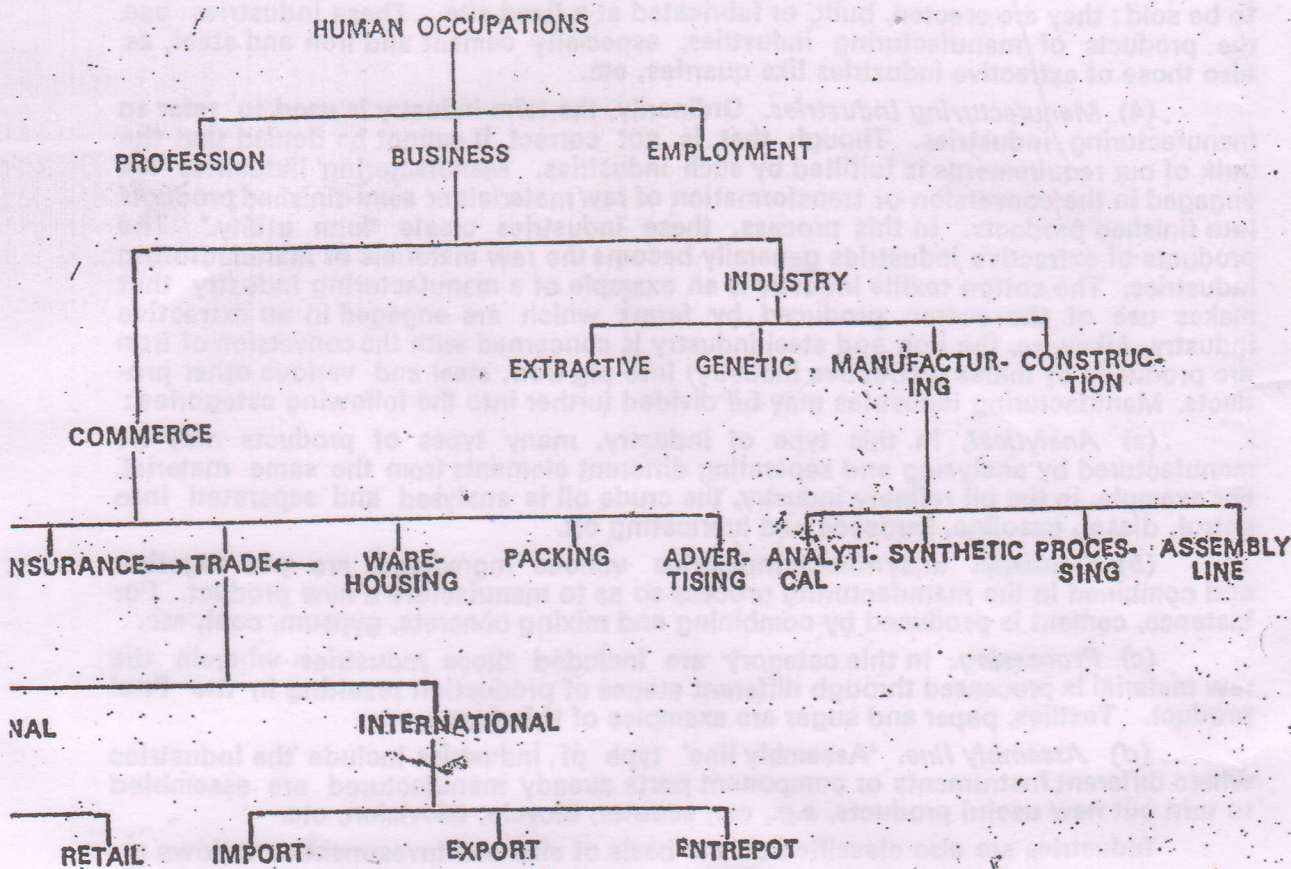
Industries by the Type of Product (Official Classification)

Industries may also be classified by the type of product. Although the number of products manufactured by various industries is very large, a standard classification of industries on this basis is given by the Government of India in the First Schedule to Industries (Development and Regulation), Act, 1951 for purposes like licensing and reporting of production and other statistics. This is as follows:

(1) Metallurgical industries including:

(a) Ferrous goods, e.g., iron and steel and ferro-alloys; and

(6)



Human Occupations and Divisions of Business

(7)

(2)

- (b) Non-ferrous goods, e.g. precious metals, including gold and silver and their alloys.
- (2) Fuels including coal, lignite, coke, etc.
 - (3) Boilers and steam generating plants.
 - (4) Prime movers (other than electrical generators), e.g., steam engines and turbines.
 - (5) Electrical equipment including electric motors, electric fans, etc.
 - (6) Telecommunications including telephones, telegraph equipment, television sets, etc.
 - (7) Transportation including aircraft, bicycles, railway locomotives, etc.
 - (8) Industrial machinery including :
 - (a) major items of specialised equipment used in specific industries, e.g., textile machinery, jute machinery and rayon machinery ;
 - (b) general items of machinery used in several industries, such as the equipment required for various 'unit processes', e.g., size reduction equipment—crushers, ball mills and the like ;
 - (c) other items of industrial machinery such as ball, roller and tapered bearings.
 - (9) Machine tools.
 - (10) Agricultural machinery, e.g., tractors and harvestors.
 - (11) Earth-moving machinery, e.g., bulldozers and dumpers.
 - (12) Miscellaneous mechanical and engineering industries like plastic moulded goods and razor blades.
 - (13) Commercial, office and household equipment including typewriters, air-conditioners, refrigerators, etc.
 - (14) Medical and surgical appliances.
 - (15) Industrial instruments, e.g., water meters, steam meters, electricity meters and the like.
 - (16) Scientific instruments.
 - (17) Mathematical surveying and drawing instruments.
 - (18) Fertilizers of different types.
 - (19) Chemicals (other than fertilisers) including inorganic and organic chemicals, paints, varnishes and enamels, etc.
 - (20) Photographic raw film and paper.
 - (21) Dyestuffs.
 - (22) Drugs and pharmaceuticals.
 - (23) Textiles (including those dyed, printed or otherwise processed).
 - (24) Paper and pulp including paper products.
 - (25) Sugar.
 - (26) Fermentation industries including alcohol and other products.
 - (27) Food processing industries including milk foods, malted foods, etc.
 - (28) Vegetable oils and vanaspati.
 - (29) Soap, cosmetics and toilet preparations.
 - (30) Rubber goods such as tyres and tubes.
 - (31) Leather, leather goods and pickers.
 - (32) Glue and gelatin.
 - (33) Glass.
 - (34) Ceramics including firebricks, sanitarywares, tiles, etc.
 - (35) Cement and gypsum products.
 - (36) Timber products.
 - (37) Defence industries including arms and ammunition.
 - (38) Miscellaneous industries, including cigarettes and linoleum, whether felt-based or jute-based.

While industry is concerned with the production of goods for the satisfaction of human wants, commerce is an activity whereby goods are transferred to those who need them. It is "an organised system for the exchange of goods between the members of the industrial world." It establishes the necessary link between producers and consumers and, therefore, embraces all those functions which are essential for maintaining a free and uninterrupted flow of goods and services between them. The stream of goods and services starting from industry is beset with a number of hindrances, some of which are discussed below :

(i) *Hindrances of person.* The basic problem of the producers is to find persons who will be interested in picking up for a fair price whatever has been produced by them. Commerce is primarily concerned with the establishment of contacts between producers and sellers through trade. Trade on local and international markets may, therefore, be regarded as the core-commerce.

(ii) *Hindrances of exchange.* The goods produced by various industries are exchanged by them for money. Dealing in goods will naturally involve the question of the time and place of payment. When is money to be paid and how or in what form is it to be paid will be the important questions to be settled before transactions in goods can be completed. Commerce makes exchange of goods and services possible by removing these hindrances and solving these problems through the agency of banks and other financial institutions. Banking should, therefore, be regarded as an important function of commerce and banks as essential commercial institutions.

(iii) *Hindrances of place.* Producers and consumers are generally separated by varying distances. Commerce being concerned with establishing a contact between them naturally involves arranging for the transportation of goods from the production end to the consumption end. Not merely this, proper arrangements have to be made to cover the risks to which goods are exposed while in transit. Besides, proper packing will also have to be arranged to protect products against possibilities of damage. Transportation, insurance and packing are, therefore, important functions of commerce concerned with the removal of difficulties relating to the transfer of goods from places where they are produced to the places where they are needed. Transport agencies (including railways, airlines, shipping companies, bus companies, etc.) as well as insurance companies (fire, marine and general) are, therefore, commercial institutions of no mean significance.

(iv) *Hindrances of time.* Production and consumption, particularly in modern times, are separated not only by long distances but also by varying intervals of time. Since goods are produced in anticipation of demand, it becomes necessary to make suitable arrangements for their storage so that they can be made available as and when needed by consumers. For this reason, warehousing is recognised as yet another important function of commerce. Agencies and institutions operating warehouses are, therefore, commercial undertakings which form an integral part of the network of modern commerce.

(v) *Hindrances of knowledge.* Exchange of goods which is the central function of commerce can be performed well only if the producers have opportunities of bringing their products to the notice of potential customers. This requires the proper organisation of advertising, publicity and selling campaigns. For this reason, advertising and publicity can also be included among functions of commerce. Therefore, advertising agencies are commercial concerns of importance.

To sum up, commerce may be defined as that part of business activity which seeks to facilitate exchange of goods by removing hindrances of person (through trade), hindrances of exchange (through banking), hindrances of place (through

transportation, insurance and packing), hindrances of time (through warehousing) and hindrances of knowledge (through advertising, etc.). It could well be described as the sum-total of all such activities and processes as make trade possible. The important commercial activities revolving around trade are: (i) banking, (ii) transport, (iii) insurance, (iv) warehousing, (v) packing, and (vi) advertising.

Trade

From the above description of commerce, it is clear that trade is not only an important part of commerce but is its nucleus. Trade refers to the sale, transfer or exchange of goods. It does not include the ancillary functions like transportation, insurance, banking, etc. which along with it, form part of commerce.

Types of Trade

Trade may be classified broadly into two categories:

(i) *Internal trade*. Also called home trade, this consists in the sale and exchange of goods within the bounds of a nation. Payments for such sale are made in national currency directly or through the national banking system and the internal transportation system is utilised for the movement of goods. Internal or home trade may be conducted on either of the following bases:

(a) *Wholesale trade*. This involves the sale of goods in comparatively larger quantities to those traders who are in direct contact with the consumers. It serves as a link between the producers or manufacturers and the retail traders who sell direct to the consumers.

(b) *Retail trade*. This type of trade consists in the supply of the requirements of the consumers in the small quantities needed by them. It provides the link between the wholesalers and the consumers.

(ii) *International or foreign trade*. This refers to the supply of the goods to buyers located in foreign countries. When goods are moved from one country to another, payments have to be converted into the currency of the other country and means of international transportation have to be used. Such trade is conducted mostly on wholesale basis. Foreign trade may be further divided into:

(a) *Import trade*, which consists in the procuring of foreign goods for home use.

(b) *Export trade*, which consists in the supply of home goods for foreign use.

(c) *Entrepot trade*, which effects the exchange of goods between foreign producers and foreign consumers.

Plant, Firm and Industry

In ordinary usage, we talk of different agencies for conducting business activity in the same sense without understanding the basic distinction among them. It is common to hear people talking about business in terms of a mill, a factory, a store or a workshop. Similarly, they may speak of a particular person, partnership among business persons, or a company as a business institution. Sometimes they may even speak of textile business or engineering industry or chemicals industry as examples of business. These agencies through which business activity is conducted may be classified as plants, firms and industries which are described here with suitable examples.

Plant. Plant means an establishment for the production of goods or provision of services. It includes not only the equipment installed in the factory, but also the workers who are engaged in the production of goods and supply of services. Thus, an establishment which produces sugar, or is engaged in the supply of electricity, is a plant. In the day-to-day terminology, we use the term mill or factory for a plant.

Firm. The word 'firm' is used in a broader sense and means the concern which owns and manages the plant, and in addition, arranges for marketing of the products. It is not only the technical unit (i.e., plant) but includes the units of finance, management and enterprise too. A firm may own only one plant, or more than one plant manufacturing the same product or even different products. For example, the Delhi Cloth and General Mills Company Ltd. owns three textile mills; one chemical works and two sugar factories. The collection of all these plants under one organisation makes a firm.

Industry. The term 'industry' refers to the collection of firms which either use the same raw material (such as machinery-making concerns which produce different machines, but which use the same raw material, namely steel) or manufacture the same product, even if they use different raw materials, such as textile mills. An industry may, sometimes, come into existence by the fusion or integration of a number of industries. For instance, in England, the cotton textile industry previously consisted of three main sections, namely, spinning, weaving and finishing but these three sections have now got integrated into the cotton textile industry. Similarly, an industry may get split up into a number of different industries. For example, with the increase in output of aeroplanes, a number of parts are now being manufactured by firms which do not assemble the aeroplane and the number of firms making such parts is so large that they have come to be known as a separate industry. The manufacture of textile machinery is also a separate industry now whereas formerly it was a part of the textile industry.

The Role of Business Firms

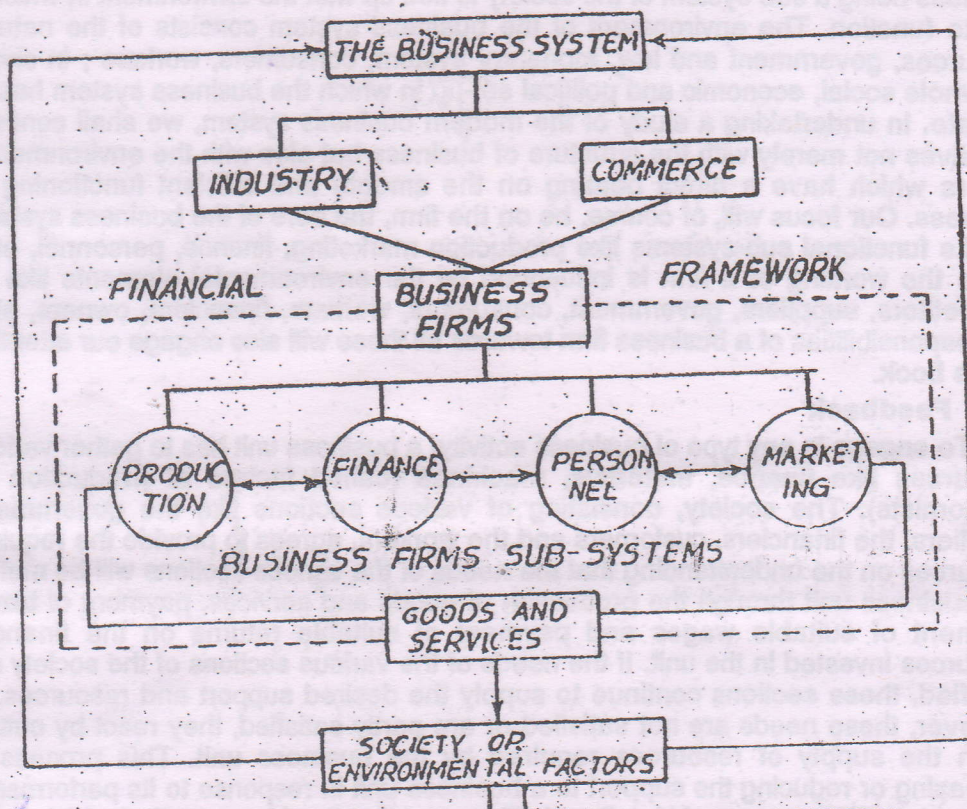
A firm may be an informal group of persons or just one person trying to buy and sell goods and services or, as it most often happens, it may be a group of persons formally organised to conduct business. According to Wheeler, "A 'business firm' is a concern, company or enterprise which buys and sells, is owned by one person or a group of persons, and is managed under a specified set of operating policies." A business firm comes into existence when an individual or a group of persons co-ordinate their efforts and pool together their resources to conduct business activity. It is the result of entrepreneurship on the part of one or more persons. The society depends a great deal on the activities of business firms. In the first place, business firms supply goods and services to the community. In fact, the success of a firm depends, in the long run, on the extent to which it can identify and satisfy the need of the society in which it functions. Secondly, the business firms provide employment to a large number of people. Thirdly, business firms utilise the resources of the community for production of goods and services and are thus responsible for capital formation. Fourthly, a business firm provides opportunities for gain to other firms dependent on it for their business (say, as suppliers of materials, goods, fuels, etc.) Lastly, business firms provide tax revenues to the government of the country and enable it to undertake projects and programmes for the welfare of the people. Keeping the importance of business firms in view, Wheeler describes an individual firm as "the atom of business, the basic source of productive economic energy." It is the firm that turns the wheel of business and economic activity in any society.

BUSINESS SYSTEM

Meaning of System

Even though the word 'system' is a very old one, it has gained currency in scientific literature comparatively recently. The term has acquired such popularity that it can be anything that one wants it to be. Simply stated, a system may be described as a set of interrelated parts. In studying a system, we address ourselves not only to a study of the different parts as such, but what is more important, to the way these parts are integrated and inter-related and these contribute to the functioning of a whole being. Thus, a system is a whole entity consisting of parts, each of which may

analyse and identify the sub-systems, understand their inter-relationships and mark how they are integrated. This approach to the study of phenomena is called 'systems approach' or 'system analysis'. A character in a play by the Italian playwright Moliere expressed surprise and delight when he was told that he had been speaking prose all through his life. Our reaction will perhaps be no different if we are told that "we are entirely surrounded by, live within, and we ourselves are systems."² In fact the best example of a system is provided by the human body which has organic, muscle and skeletal sub-system—all highly inter-related to form an integral whole. The human society is also a system and so is our economy. An interesting feature of systems study is that there are sub-systems within systems, and the solar and other systems; the solar system consists of different planetary and other systems, and so on. In studying any system, therefore, we have to study it internally by identifying its sub-systems and also externally as a part (sub-system) of some larger system. This is the approach of modern science and it is this that we propose to adopt in our study of business organisation and management in this book.



Land and Natural Environment. Science and the Arts.
 Government and Law. Money, Credit and Capital.
 Labour and Human Resources. Consumers and the
 Public. Religious Beliefs. International Relations.
 Other Environmental Factors.

An Outline of Business System

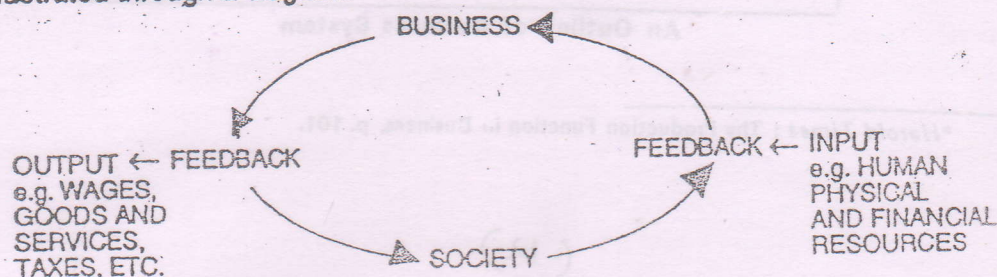
²Harold Times: The Production Function in Business, p. 101.

Business as a System

Let us now see how the systems approach of analysis can be used to study and understand business. If we look upon business as a system, it may be regarded as an entity functioning in the social, economic, political and cultural environment of a country or even of the world. The structure of the business system consists of sub-systems of industry and commerce. These sub-systems are made up of various forms of enterprises which are engaged in the production and supply of goods and services to the community. Each firm or enterprise is itself a system comprising sub-systems like production, marketing, financing, personnel, etc., and of course, each of these functions or systems has its own sub-systems. The behaviour of the business system as a whole depends on the functioning of and inter-relationship among these sub-systems. However, these sub-systems are the direct parts of the business system and these constitute the structure of business. The structure of business being a sub-system of the society is tied up with the environment in which it has to function. The environment of the business system consists of the natural resources, government and law, monetary system, consumers, workers; in short, the whole social, economic and political set-up in which the business system has to operate. In undertaking a study of the modern business system, we shall concern ourselves not merely with the structure of business but also with the environmental factors which have a direct bearing on the smooth and efficient functioning of business. Our focus will, of course, be on the firm, the core of the business system, and its functional sub-systems like production, marketing, finance, personnel, etc.,. Since the working of a firm is influenced by the environmental elements like its competitors, suppliers, government, consumers, workers, financiers, owners, etc., the responsibilities of a business firm towards all these will also engage our attention in this book.

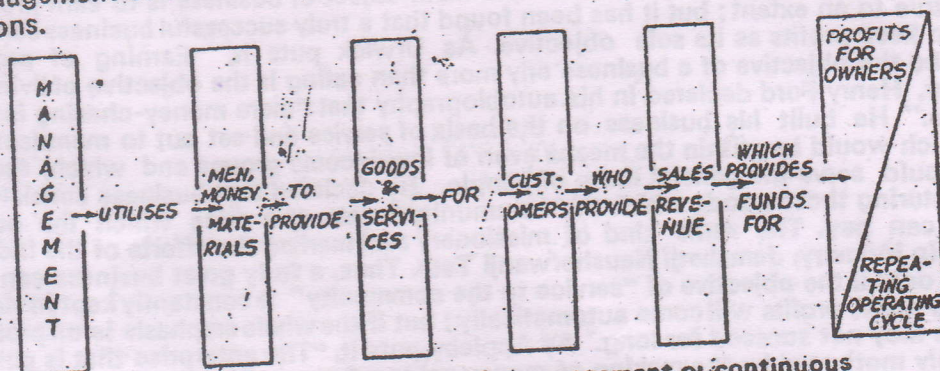
The Feedback

To engage in any type of business activity, a business unit has to gather various resources like finance, materials, machines (called factors of production by economists). The society, consisting of various sections like the government, suppliers, the financiers, customers and the workers, agrees to provide the required resources on the understanding that the needs of the various sections will be met by the business unit through the production of goods and services, payment of taxes, payment of suitable wages and payment of suitable returns on the financial resources invested in the unit. If the needs of the various sections of the society are satisfied, these sections continue to supply the desired support and resources. If, however, these needs are not satisfied or are partly satisfied, they react by cutting down the supply of resources required by the business unit. This process of increasing or reducing the support to a business unit in response to its performance is known as the process of 'feedback'. The word 'feedback' means that which is fed back to the original giver or that which is given in return for something. Thus, in a business system, the concept of feedback refers to the arrangement by which society gets various outputs from business in return for the inputs and increases or reduces the inputs provided to the business system depending upon the satisfaction provided on the outputs of business. The feedback process for the business system is illustrated through a diagram.



MANAGEMENT OF BUSINESS

Since we are concerned with the management of business, it will be useful to start with a working definition of management too. The management of business firm or enterprise consists in guiding and directing its operations towards fulfilment of its objectives, the most important of them being the production and supply of goods and services needed by the community. To realise this objective of maintaining a continuous supply of goods and services of a specific type for meeting the needs of the community, a business firm makes use of the four basic resources—Men, Materials, Money and Management. With the aid of money (capital), the management makes use of human (man) and physical resources (materials to convert ideas into achievements). Given money, men and materials, it is the quality of management that determines how well and how far will a firm succeed in its work. Management is the 'critical' factor in business operations that is responsible for the utilisation of the resources through proper planning, direction and supervision. The following chart shows how the management of a business firm performs this function in the conduct of its operations.



The utilisation of resources by management of continuous functioning of a business enterprise

It is the function of those responsible for the management of a firm to lay down objectives and policies for the firm, plan its operations, organise the resources and allocate duties among the staff, issue directions and guide and co-ordinate their work and then check on the operations to make sure that these contribute to the realisation of objectives. The operations of a firm are generally sub-divided as production, finance, marketing, personnel, research and development, etc. Generally, the functioning of an enterprise is conditioned by the availability of finance. Therefore, subject to the available financial resources, the enterprise has to function in pursuit of its goals. Business management, then, refers to the guidance and direction of business operations, including production, marketing, finance, personnel (people), research and development, etc., within the framework of financial resources. The function of production is concerned with the creation of utility, particularly form utility. Marketing consists in catering to consumer needs by arranging for the supply of goods and services to the members of the community. Management of finance consists in utilising the available finances so as to meet the requirements of the firm for money most effectively and efficiently. Management of personnel involves the functions of hiring, firing, compensating and motivating the people in the enterprise to work for the realisation of enterprise objectives. Management of research and development consists in conducting research investigations into markets and what is more into product design and production processes so that the enterprise can render better service to the community. We have included this function under the production sub-system.

Inter-relation of Business Activities

It must be borne in mind that all the functions of an enterprise are inter-related. Production depends upon the information gathered from the market. The personnel

or staff requirements depend upon the level or scale of production and financial requirements will depend upon the personnel and production requirements. Marketing will, in turn, depend upon the pattern and scale of production.

Objectives of Business

It is generally believed that business activity is carried on only for profit. Businessmen themselves proclaim that the main object of business is to earn profits. This is true to an extent; but it has been found that a truly successful business cannot afford to keep profits as its sole objective. As Urwick puts it, "Earning of profits cannot be the objective of a business any more than eating is the objective of living." Similarly, Henry Ford declared in his autobiography that "mere money-chasing is no business." He built his business on the basis of service and set out to manufacture cars which would be within the means even of low-income groups and which, therefore, would serve the general mass of people. He declared that business consists in manufacturing those goods which the community wants, at a price which the community can pay. The same kind of missionary zeal marked the efforts of the Indian pioneer in industry, Jamshetji Nausherwanji Tata. Thus, a truly great business can be built up only if the objective of "service to the community" is constantly kept in view. If this is done, profits will come automatically; but if the whole emphasis is on profits, business may not succeed for long. As Appleby puts it, "The enterprise that is coldly and solely motivated by the making of money seldom fares well in the long run."

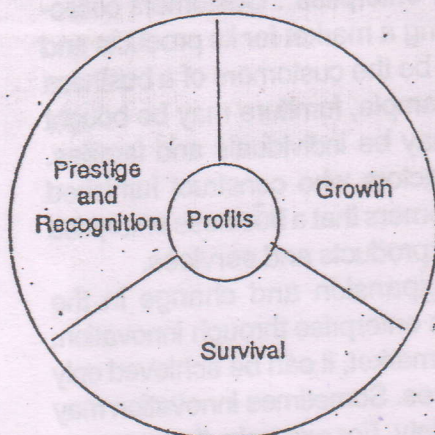
Business is essentially an economic activity but it cannot be carried on in isolation from the society. In fact, it is an activity carried on by the people (entrepreneurs and managers), through the people (employees), for the people (consumers and the society at large). A business enterprise may, therefore, be viewed as an economic institution functioning in social, political and cultural environment. The objectives of business will have to be set in relation to this survival and growth in its environment. It will be seen that while on the one hand the environment dictates certain objectives to the enterprise, the enterprise in its own turn also influences the environment. For example, the environment may require that an enterprise provides employment to people. Having accepted this objective, the business enterprise may create products or services for the distribution of which facilities may have to be created in the economy. This may set new objectives for the environment including the Government, the community and the financial institutions. Thus, the objectives of business are determined through an interaction between the enterprise and its activities on the one hand and the environmental needs and responses on the other.

Against the above backdrop, the objectives of business activity may be broadly categorised under the following heads :

1. Organic Objectives
2. Economic Objectives
3. Social Objectives
4. Human Objectives
5. National Objectives.

Let us now examine each of these categories.

A business enterprise consists of people organised to conduct business activity to meet and satisfy the needs of society. It is essentially an organic entity which has its own infancy, childhood, adulthood and maturity. In this position, the first concern of a business enterprise is to ensure its own survival for the continuance of business activity. Once the enterprise is assured of its survival it will aim at growth and expansion. To achieve this, it will try to gain prestige and win recognition from the society in which it functions. If it is unable to establish its goodwill in the community by rendering useful service, it will aim at further growth and expansion. In this respect the behaviour of an enterprise is similar to that of an individual human-being. A man like an enterprise first works towards the objectives of survival. If this objective is achieved in a reasonable measure, he



looks forward to growth through and with goodwill, prestige and recognition. It will be seen that the economic, social, human and national objectives of business are all means to the achievement of a business enterprise and its activities because an enterprise, which does not fulfil these objectives, cannot hope to survive for long leave apart growing or creating goodwill. This discussion of the firm's organic objectives is brought out in the above diagram.

2. ECONOMIC OBJECTIVES

Since business is basically an economic activity, its primary objectives are economic. The main economic objectives of business may be described as under:

(i) *Profit.* Business activity is undertaken for earning profits. In privately-owned business enterprise, profit may be earned to provide means for wealth accumulation or growth and expansion of business activity through ploughing back of earnings. In a State-owned business enterprise, profit may be aimed at generating sufficient resources to finance expansion of the same business or other important social and economic needs. As has been stated earlier, profit is not the sole objective of business but is certainly an important measure to the success of business activity. However, an enterprise does not work for the so-called maximum profit. What is necessary is that a firm must try to avoid losses so that it can continue to function. As Peter F. Drucker puts it, "The problem of any business is not the maximisation of profit but the achievement of sufficient profit to cover the risks of economic activity and thus to avoid loss."

The objective of business is then to earn as much of profits as will cover its own future risks. To quote Drucker again, it must have "A profit required to enable it to stay in business and to maintain intact the wealth-producing capacity of its resources."

(ii) *Creation of customers.* Business involves transfer, sale or exchange of goods and services to satisfy the needs of customers. It follows that business activity can be sustained only if there are enough people to buy the products and services offered by an enterprise. Without a body of customers, a business enterprise cannot survive. That is why Peter Drucker asserts, "There is only one valid definition of business purpose : to

* Peter F. Drucker: *The Practice of Management*, p. 28 (Mercury Books Edition).

create a customer. ... it is the customer who determines what a business is...the customer is the foundation of the business and keeps it in existence...and it is to supply the customer that society entrusts wealth-producing resources to the business enterprise". Customers collectively constitute the market. Thus business amounts to creating a market for its products and services by meeting the needs of the customers. Who would be the customers of a business will depend upon the way the business defines itself. For example, furniture may be bought by people for their homes and, therefore, the customers may be individuals and families. Furniture could also be made for the house building contractors who construct furnished apartments. It is by identifying new categories of potential customers that a business enterprise is able to achieve the objective of extending the market for its products and services.

(iii) *Innovation.* Business is an order of growth, expansion and change in the economy. This dynamic function is performed by a business enterprise through innovation. Whether it is the objective of earning profits or expanding the market, it can be achieved only when business provides newer and better products and services. Sometimes innovation may take the form of adaptation to a change taking place in the society. For example, if consumers do not have enough time for household activities like cooking, business may offer new gadgets for the purpose and thus meet the need. But it is also possible for business to innovate and lead the society towards change. Innovation has its part to play. In all branches of business, it is the means by which an enterprise that has reached the stage of maturity and is beginning to decay can renew itself by introducing new designs using new techniques and tools, adopting new processes and suggesting new uses for its products. Through innovation a business enterprise can increase competitive strength and improve its image in the minds of the customers. If business does not innovate, it cannot continue for long.

3. SOCIAL OBJECTIVES

Since business operates in society it cannot survive and grow unless it meets the needs of the society. Business activity has to be rooted deep in the society and its culture. It is an important part of its objectives to fulfil its obligations to the society. In its turn, it is also likely to influence the need and expectations of the society and its culture. Some of the important social objectives of business are as under:

(i) *Supply of the desired quality of goods.* Business thrives on the goodwill of the community in which it is carried out. A business enterprise can hope to have a good image only if it is alive to its responsibility for producing and supplying goods and services of standard quality. If business fails to maintain a continuous and sufficient supply of unadulterated goods and articles of standard quality, it will be failing in fulfilling its social objects and is likely to incur the wrath of the society.

(ii) *Avoidance of profiteering and anti-social practices.* While it is legitimate for a business enterprise to work for reasonable profit, it is necessary that it does not overcharge the customers and profiteer at their cost. It is also a social obligation of business enterprises not to indulge in such malpractices as hoarding, black-marketing, etc.

(iii) *Providing employment.* One of the important objectives of business is to create opportunities for gainful employment for the people in the society. Sometimes this objective may conflict with the economic objective of cutting down costs and increasing profits by introducing automatic or semi-automatic machines. In a country like India, conflict may have to be settled in favour of employment considerations and programme for the introduction of automatic equipment may have to be deferred or implemented in phases without causing loss of job to anyone.

Business activity can be conducted only through the medium of human beings working as individuals or groups in organisations. If the human factor is overlooked by a business enterprise, it will be difficult for him to achieve any of its other objectives. In fact, the efficiency and success of an enterprise depends ultimately on the ability and zeal of the people working in it. For this reason, business has to consciously seek the willing co-operation of people engaged in different tasks. The human objective of business arises from the expectations of the human beings performing business operations. Some of the important human objectives of business are:

(i) *Fair deal to employees.* The first prerequisite for getting the best out of people is providing a fair deal to employees at different levels in the form of fair wages and other incentives.

(ii) *Development of human resources.* Business can perform its function of innovation and customer creation only when the employees are given opportunities for developing new skills and abilities and have work climate in which they will grow as mature and productive beings.

(iii) *Participation.* A business enterprise can get the best consideration from its employees if they have an opportunity to participate in making such decisions as affect them.

(iv) *Job satisfaction.* A business enterprise owes to its employees to provide them job satisfaction by making the job interesting and challenging and by reducing the unpleasantness of work.

In short, a business enterprise that pays sufficient attention to its human objectives, i.e., objectives in relation to the people working in it, can hope to benefit from their active participation in its activities.

5. NATIONAL OBJECTIVES

While social objectives are reflected in the general responsibilities of business to observe some moral code and serve the society in various ways, national objectives are the more specific obligations of business towards fulfilment of national needs and aspirations and implementation of national plans and policies in accordance with the accepted priorities. Keeping in view the national goal of establishing a democratic socialist society and achieving growth with stability and social justice, business in India has the following major national objectives:

(i) *Ensuring social justice.* It should be the objective of business to remove inequalities of opportunities and provide a fair opportunity to all to work and progress. In pursuit of this objective, special attention has to be paid to neglected and weaker sections of the society.

(ii) *Development of small entrepreneurs.* In keeping with the accepted national policy, large business has the responsibility of encouraging the growth and development of small-scale entrepreneurship by patronising small-scale ancillary units and also by desisting from assuming monopolistic position.

(iii) *Production according to national priorities.* Business has the objective of producing and supplying goods which are needed in the country for its development. Development of industries to supply inputs for agriculture and to produce machinery and equipment required for increasing production in the country are important national objectives of business in India. It is also one of the national objectives of business in India to manufacture and distribute cheaper varieties of essential goods like cloth, soap, edible oils, etc., so as to help the poorer sections.

(iv) *National self-sufficiency and export development.* To help the country to become self-reliant and avoid dependence on other nations, business has special responsibility to produce such articles as have hitherto been imported. In the case of machinery, equipment and processes, business should aim at import substitution. It should also be

the endeavour of business to increase the international currency resources of the country by developing export markets for goods manufactured in India.

(v) *Development of skilled personnel.* Every industry has the responsibility for training young men as apprentices and thus contributing in skill formation for economic growth and development.

The above are but a few of the obligations that business owes to the nation. The ultimate aim of every business enterprise should be to become a useful and effective instrument of the economic growth and development and to implement national policies in the larger interests of the nation.

DEVELOPMENT OF COMMERCE

Commerce is that aspect of business activity which is concerned with the distribution of goods and services produced by industry. Modern commerce, in its highly-developed form, consists of a complex and well-developed system of exchange and a well-organised system of transport, insurance, warehousing and other allied activities which facilitate trade. This system is the outcome of gradual evolution spread over a long period of human history. The following stages in this long process of development may be marked:

(i) *Household economy.* This was the very first stage of economic development. Division of labour was almost unknown except at the family level and the menfolk tried to meet the few primitive needs of their families with the help of their women. Self-sufficiency within the family was the basis of the economy and commercial intercourse between families was almost totally absent. Men devoted themselves to the tougher jobs like hunting, fishing, the making of weapons, arrows and bows, etc., while women engaged in fruit gathering, cultivation of land and similar work. In short, commerce was still unknown.

(ii) *Primitive barter economy.* Gradually, the needs of the family became more numerous. Moreover, the families began to maintain slaves. At this stage, the need for exchange between different districts became imperative. Commerce made its beginning and barter (exchange of goods for goods) began to be practised. But even at this stage exchange was rather rare and restricted. Means of communication were either totally absent or wholly primitive and trade was non-existent.

(iii) *The rise of trade.* At this stage, newer commodities appeared, and progressive people often came into touch with relatively backward people. Needs of people got multiplied and the need for exchange arose. In the beginning, trade took the form of direct exchange. Goods were delivered at a particular fixed place in exchange for other goods. The functions of trade were generally exercised by princes, nobles, priests, high officials, landowners, etc., in the beginning. Gradually, the trader appeared on the scene. The trader found a fine opportunity of selling his wares at religious festivals where people gathered in large numbers. To protect themselves against attacks by plunderers and pirates, the traders generally moved in caravans or fleets of ships. The next stage was the growth of protected trade centres. Gradually, home trade developed and assumed importance. With trade assuming regularity, a common medium of exchange became necessary. At this stage money appeared as an instrument and medium of trade. The introduction of weights and measures was yet another step forward in the development of commerce.

(iv) *Town economy.* At this stage, trade assumed certain fixed forms. Production began to be undertaken for catering to the needs of fixed local markets. These markets gradually developed into large towns. Division of labour became increasingly important. Traders were divided into wholesale and retail merchants. For the first time prices began to be fixed regularly, and credit began to be allowed. To

regulate commercial intercourse with foreign merchants who were often mistrusted, merchant guilds, which were public and semi-public institutions, were organised in towns.

(v) *International trade.* The next stage in the development of commerce was large-scale extension in the geographical coverage of trade. Goods were now produced for being sold in various foreign markets, too, besides the home markets. This revolutionary change in the character and scope of trade was brought about by the Industrial Revolution which increased the scale of production immensely. Several middlemen began to operate between the producer and the consumer. The pattern of commerce grew in complexity. Specialised institutions like banks, transport companies, insurance companies, warehousing companies were set up to help the traders.

The story of commerce in the various stages of its evolution is, thus, a record of the gradual removal of hindrances which beset the flow of goods from the producers to the consumers.

EVOLUTION OF INDUSTRY

Modern life depends upon goods produced in almost all parts of the world. To a farmer in Punjab, cloth comes from Bombay, sugar from U.P., kerosene from Assam, salt from Rajasthan—to mention only a few articles. His own produce, namely, wheat, cotton, groundnuts, etc., is sent to various parts of the country and sometimes even abroad. This development has been brought about during the Industrial Revolution which occurred first in England from 1760 to about 1830. Before we discuss Industrial Revolution, we shall examine the situation prior to it.

Before the Revolution, the situation in almost all civilised countries showed many common features. To mention the more important of them:

- (a) the population was engaged mostly in agriculture;
- (b) in their spare time, the agriculturists and the members of their families engaged themselves in the manufacture of goods, chiefly cloth;
- (c) some people were wholly engaged in manufacture of goods, but this manufacture depended only on manual labour and on the special skill of the workers;
- (d) self-sufficiency was the rule, so that the produce and manufactured articles of a locality were sold within a small local area; and
- (e) there was little trade except in costly articles.

The earliest stage when goods were manufactured was the handicraft system. This was a stage only a few steps removed from the pastoral stage.*

Handicraft System. Artisans living in villages produced the requirements of the local people, and generally worked on the basis of yearly payments in exchange of goods supplied to meet requirements of farmers. Thus, in India, for example, even today the village carpenter renders services to the farmers throughout the year and receives a fixed payment in kind at the end of the year.

Under the handicraft system, the processes of production were extremely simple. Machinery was not used much. The artisans worked mostly with simple, crude and inexpensive tools. Most of the work was done by hand. Hence, industry did not require much capital. Production was labour-intensive. A worker who started manufacturing a product carried it through all stages. The design of the product and its finish depended entirely on the handiwork of the artisan. The organisation of industry was elementary. The family of the artisan was the unit of organisation. Since

* This was a stage when subsistence agriculture including dairying was prevalent in the whole community.

production was carried on chiefly for a small local market, the division of labour* was of a very simple type, and was introduced on a small scale. The modern means of transport were not available for the conveyance of raw materials from distant places and the transportation of the finished products to the remote markets. The artisan was, therefore, compelled to gather the supplies of raw materials from the neighbourhood and sell his products in his own locality.

Guilds (also Gilds). The second stage was the development of guilds. The work was being done and organised at this stage as under the handicrafts system. Artisans working and living in a local area joined themselves into an association in order to protect and develop their business interests and commercial relations. Craft guilds, as they were called, were organised following the example of the merchant guilds which were associations of merchants (*i.e.*, traders). The merchant guilds tried to establish and enforce fair trade at customary prices, and regulate the conduct of the members. Similarly the craft guilds were associations of skilled workmen formed with the object of maintaining high standards of production and securing reputation for fair dealings. The men at every craft had to appoint officials to inspect the products of the workshops. This ultimately led to the setting up of a complete system of industrial regulation. Gradually, craftsmen like those concerned with the manufacture of clothing, say, weavers, tailors, etc., and leather workers, formed themselves into associations which came to be called *craft guilds*. The membership of these guilds became compulsory, for it was found possible to compel them to be responsible for the honesty and skill of those outside it.

The guilds not only provided opportunities for the training of new workers but also tended to restrict the number of fresh entrants to a craft. Generally, there was a separate guild for each craft in a town, but in very small towns the workmen belonging to different crafts joined one guild. At the head of each craft guild was a number of wardens elected by the members or appointed by the mayor of the town. The wardens supervised the production of goods by the members, with a view to maintaining proper standards of quality and workmanship. Regulations for the conduct of the craft were made by the guild and enforced by the wardens. These included the prohibition of night work and the regulation of wage as also the fixation of prices. Questionable practices like forestalling, regrating and engrossing** were suppressed by the officers of the craft guild, particularly in those cases where buying and selling of food articles was involved. The craft guilds also undertook religious and philanthropic work for the benefit of the member-craftsmen. The sick and old members were taken care of by the guilds and the poor members of the fraternity were duly helped. Arrangements were also made for amicable settlement of disputes among members through mutual agreement.

In the Middle Ages, when guilds flourished, the artisans fell into three clearly defined grades—masters, journeymen and apprentices. The *master craftsman* established a workshop, in which he worked along with his subordinates. A new entrant to a craft had to undergo training as an apprentice (usually for seven years, as in London). Upon the completion of the training, he would work with his master or move about for work to earn enough money to establish himself as a full-fledged master. At this stage, he was called *journeyman*. In the course of time, he settled down as a master craftsman to work as a member of the craft guild. The three grades thus represented different stages in a career. It must however, be noted that this system of apprenticeship was not merely a system of vocational training. According

*The division of labour is determined by the extent of market.

—Adam Smith

***Forestalling* means buying up goods before they reach the market, *regrating* means buying in or near the same market to sell at higher prices, and *engrossing* means buying up completely so as to secure the monopoly of supply.

to Southgate, "It aimed at moulding a youth into a good citizen and a good Christian as well as a good workman."

After fairly a long period of bloom, the craft guilds declined in importance and finally withered away. The more important reasons of their decline were:

- (a) the decline of international commerce in the 17th and 18th centuries;
- (b) the rigid outlook of the member-craftsmen and the restriction on fresh entrants through heavy entrance fees;
- (c) increasing opposition from the journeymen who developed several grievances against master workmen; and
- (d) the development of new towns which were free from guild authority.

The Domestic System. The merchants who had to market goods in different places found it necessary to see that production was geared to the needs of the markets. For this purpose, they began to enter into contracts with artisans and workers for the supply of goods. At first, the worker arranged for his own supply of raw materials, tools and place of work. The merchant would come, at fixed intervals, get the manufactured goods and pay. With the great rise in demand for goods, it was no longer possible for the artisan to arrange for supply of raw materials; therefore this task had to be taken up by the merchants. The merchants bought raw materials, put them out to workers at their houses, and then found a market for the finished products. In this sense, it could well be called the 'putting-out system'. The artisans still worked in their homes. In the 18th century, there were several new mechanical inventions followed by a great improvement in tools. Some of the tools were beyond the means of the workers and the merchants had to arrange for supply also. Soon a merchant would be getting work from a number of artisans. It became necessary in due course that he should collect all these workers under one roof and supervise them personally or through his agents. These places of work came to be known as manufactories. The rise of entrepreneurship can be seen in this stage. Adam Smith advocated division of labour after observing this system at work in a number of manufactories. The worker depended upon the employer for supply of materials and tools, but he still worked with his own skill which was his valuable possession. He still had the opportunity of setting up his independent production unit.

THE INDUSTRIAL REVOLUTION

The term 'Industrial Revolution' is applied to the series of remarkable changes in the British industry which occurred during the second half of the eighteenth century and the first half of the nineteenth century. These changes quickly overtook industry in other countries of the world. The use of the term 'Industrial Revolution' is often attributed to the noted historian Arnold Toynbee, in 1884, though the French writer Blanqui is believed to have used it as early as 1837. The word 'revolution' means a fundamental change. In this sense, the 'Industrial Revolution' was a change in—

- (a) industrial method, from handwork to work done by machines driven by power; and
- (b) industrial organisation, from work at home to work in factories.[†]

Since the term 'revolution' is often associated with a sudden change preceded or followed by 'violence' the appropriateness of using the term 'Industrial Revolution' is contested by some writers. Nevertheless, if the state of British industry in 1770 is contrasted with the condition in 1850, the change would appear to be both sudden and fundamental in its effects. Hence the use of the term 'Industrial Revolution.'

* G.W. Southgate: *English Economic History*, p. 30.

† *Op. cit.* p. 15.

The Industrial Revolution did not occur suddenly. It was brought about by a series of inventions like the "spinning jenny", "water frame", "mule", power loom, machine lathe, etc. which completely revolutionised industry and commerce. It began with a number of inventions for use in the cotton textile industry by such inventors as Hargreaves, Arkwright, Crompton, Kay and Cartwright, but was complete only with the inventions of the steam engine and steam locomotion. Steam engine enabled machines to be driven by power and, therefore, production rose by leaps and bounds. Since local areas could not absorb the whole output, it was necessary to market the products in far-off places. The development of railways and the steamship greatly helped in meeting this need. In the absence of efficient means of transport, Industrial Revolution would not have led to all that characterises the modern industrial world. With these inventions, the manufactories were converted into factories.

According to Knowles, "The so-called Industrial Revolution comprised six great changes or developments all of which were interdependent." These changes may be summed up as under:

(i) *Development of engineering.* The Industrial Revolution brought in its wake unprecedented development of engineering skill. Engineers were needed to design machinery for textiles, for coal-mining, for making and repairing steam engines, and for making tools and locomotives. The revolution could be complete only when trained and skilled engineers were available to industry in sufficient numbers.

(ii) *Revolution in iron-making.* The engineers, who took charge of the important task connected with the industrial change, could succeed in their work only if iron was cast in sufficient quantities and was of fairly good quality. A revolutionary change in the processes and scale of iron making, therefore, became indispensable for the completion of the Industrial Revolution.

(iii) *Use of steam power in textiles.* The use of mechanical devices driven by steam power in textiles was the next important development connected with the Industrial Revolution. At first, it was applied to the rather simple operation of spinning. This created a surplus of yarn with those working on old weaving machines, and new power-driven machines began to be used for weaving purposes also. The use of machines gradually spread over to wool, flax and silk industries.

(iv) *Rise of chemical industries.* With the application of power-driven machinery in textiles, it became necessary to effect suitable changes in the processes like bleaching, dyeing, finishing or printing, so that production could be accelerated to keep pace with the output of piece-goods. This could be achieved only with the creation of chemical industries. These industries, in their turn, also depend upon engineering industries.

(v) *Development of coal-mining.* The development of coal-mining was another change implied in Industrial Revolution. The iron and steel required by the engineering industries could not have been made available without a sufficient supply of coal in the form of coke. Coke was needed for smelting and refining iron ore and pig iron respectively in blast furnaces as also for producing the steam power which had already become the motive power of industry. As a part of Industrial Revolution, therefore, the engineers devised 'a steam engine which pumped water out of mines'. This provided the much-needed impetus to coal-mining.

(vi) *Revolution in transport.* The last but perhaps the most important part of Industrial Revolution was the revolutionary change in the means of transport. The various developments mentioned above would have lost all significance if they were not accompanied simultaneously by a revolution in the means of transport. The older means of transport including the horse-drawn carriage became outdated as they could

* L. C. A. Knowles: *The Industrial and Commercial Revolution in Great Britain during the Nineteenth Century*, p. 20.

not cope with the demands on transport made by the need to move food to the large population concentrated at the new centres of coal and iron industries, and by the movement of important raw materials to feed factories. Fast and efficient means of transport were, likewise, needed for the distribution of goods manufactured on a large scale in international markets.

Why the Industrial Revolution occurred first in England? The fundamental change in industrial organisation and methods called Industrial Revolution occurred first in England due to certain physical and environmental advantages:

Firstly, favourable factor was the freedom of this country from invasion. There were many wars on the Continent of Europe. In some of these England did participate, but no war was fought on English soil. As a result, there was a great demand for English goods, and people began to think of ways and means of producing more goods.

Secondly, England was the only country which presented *one whole market* and in which there were no barriers to movement of goods. (Germany was then divided into a number of small States while in France there were many octroi barriers which prevented free flow of goods.) This also encouraged the demand for and production of goods.

Thirdly, Great Britain enjoyed *political and financial stability* on account of its constitution and the wise policies of its statesmen like Walpole.

Fourthly, industrial progress in many countries was hindered by the absence of *personal freedom* which had been enjoyed by Englishmen since the sixteenth century. Such freedom enabled the working people to migrate to the towns and cities to work in large factories.

Fifthly, England had completed an agricultural revolution by which small farms were consolidated into big ones so that a number of small peasants became landless and were forced to find employment in cities. *Improvement in methods of agriculture*, especially manuring and crop rotation, increased the supply of food and, therefore, set free a part of agricultural population for industrial work.

Sixthly, British merchants had become rich by their trade with foreign lands. There was plenty of money with the church and the big English landlords. The institution of banking had also developed. Thus, there was *no dearth of capital*.

Finally, England enjoyed many *natural advantages* which favoured the rise and growth of industry. For instance, it was *connected with all parts* of the world for trade; it had an *excellent coastline* and *good inland waterways* in its navigable rivers; its *climate was invigorating*; and its *natural resources were plentiful* (particularly the supplies of coal and iron were to be found near each other). There was no other country in which there were such favourable circumstances; once a few inventions were made, the road to further change and innovation was opened out. The British inventors soon completely converted their economy into an economy of large-scale production. Later on, the Industrial Revolution spread to the U.S.A. and the Continent.

Results of the Industrial Revolution. The Industrial Revolution was a phenomenon which radically altered the whole system of production and left its mark even on the social and political life of the countries swept by it. Its sweep was truly breathtaking for, in almost no time (about a hundred years), it turned the page of history to start a new chapter in human thought and activity. A study of its important consequences is, therefore, not merely of historical interest, but is basic to an understanding of the present-day system of industrial, social and political organisation. The major results of the Industrial Revolution may be studied under two broad heads: (a) economic consequences, and (b) social and political consequences.

Economic Consequences. (i) *Mass production.* As a result of the Industrial Revolution, goods began to be produced on a mass scale. Previously, the methods

Production were more or less direct but, with the Industrial Revolution, they became indirect and roundabout. Before goods could be produced for consumption, machinery to manufacture the goods had to be produced. The increase in scale of production following the Industrial Revolution was unprecedented.

(ii) *Growth of capitalism.* By far the most important consequence of the Industrial Revolution was the transformation of the natural economy which was previously the rule in a capitalistic economy. In a *natural economy*, communities were self-sufficing and the workers did not work to amass wealth. Capital was represented by machinery, and machinery was subordinated to the personal skill of the workers. The Industrial Revolution replaced this simple system by a more complicated and more gigantic one, called the capitalistic economy. In contrast to the natural economy of the pre-revolution times, the *capitalistic economy* is characterised by the following important features :

(a) *Production of goods* is undertaken not for direct consumption but *for sale* in the market for money which is utilised to buy other requirements. In modern times, even a farmer may concentrate on the product, which may be commercially more profitable, whereas previously farmers tried to produce almost everything that they needed.

(b) As a result of the above, *money has become supreme* and everything is done and measured in terms of money. Money is both the measure of value and the medium of exchange. However, money did exist even before the Revolution.

(c) People *specialise* in their skills in a narrow sense. They cannot produce whole things; but they do specialise in producing parts of a product in an expert manner. It is capital in the form of money again that brings all the factors of production together to make a whole product.

(d) *Ownership of means of production or capital goods is concentrated in a few hands.* By hiring other people, such capital goods are put to use and wealth is produced. In the U.S.S.R., ownership of capital goods is with the Government. This system is known as '*State socialism*'. When private individuals own capital goods, the system is known as '*capitalism*'.

(iii) *Specialisation.* Having been produced on a mass scale, goods had to be marketed over wide areas. Efficient means of transport not only helped in sending goods to different places but also helped manufacturers to buy raw materials from far-off places economically. This resulted in specialisation. Not only did people have to make a choice of their profession or work, but even different areas had to choose between one industry or another. Some areas began to produce cotton textiles, others iron and steel, still others machinery or hardware, and so on.

(iv) *Improvement in standard of living.* In a way, the Industrial Revolution helped to raise the standard of living of the people. Factory goods were inexpensive and there were a number of articles which were previously treated as luxuries, but came within the means of ordinary people after the Revolution. The Industrial Revolution killed small industries and thus increased unemployment amongst artisans and workers, but it began to provide employment for unskilled labour and later on for skilled labour (of a different type) in ever-increasing numbers. Thus increasing employment and availability of cheaper goods raised the standards of living.

(v) *Trade cycles.* Economic progress has not been altogether smooth. It has been an inherent feature of a capitalistic economy after the revolution that there should be periods of prosperity with high level of employment and high prices, followed by depressions and slumps when large number of firms fail leading to large-scale unemployment and losses. On the whole, the progress has been upward but only by fits and starts—two steps forward and one step backward.

Social and Political Consequences. The immediate social consequences of the Industrial Revolution were not happy. The workers came in large numbers from

the countryside and there was *rapid urbanisation*, but there was no organised attempt to provide adequate housing for them. As a result, wherever factory towns grew, slums rose there. The living conditions of the workers were extremely wretched and most of them were forced to live in filth, dirt and darkness. Naturally the health and morals of the workers suffered immensely. Another important consequence was the *emergence of two social classes*, namely, the employers (capitalists) and the workers. Initially, the employers were completely devoid of social sense. The wages of the workers were very low and the working conditions extremely uncongenial. With the loss of their skill, the workers had no choice but to submit to these conditions, but they harboured resentment. Even today, there is conflict between the working class and the capitalists. This conflict has embittered relations between various classes.

With the rise of big cities, the urban population became more educated and better organised. The *institution of the daily press* also spread ideals of freedom, liberty and democracy amongst the masses. There were some employers like Robert Owen who too preached that workers must be treated as human beings. Karl Marx pitilessly exposed the new system in his book *Das Kapital*. The trade unions gave strength to the workers. Soon governments were forced to pass factory laws to regulate employment, and the trade unions began to negotiate on equal terms with the employers. *The workers also began to organise themselves politically*. In Britain, the Labour Party was organised by the trade unions to win political power. In Russia, the workers had a complete victory in the overthrowing of the Czarist regime and the establishment of Communist rule. To some extent these developments can be said to have arisen directly from the Industrial Revolution. The modern system of *adult franchise* is also, in some ways, the product of the great spread of education which the Industrial Revolution facilitated. Today, the worker in the industrialised countries is in a far better position than even before, and he enjoys a good standard of living. Though it can be said that the rich have become richer, it may not be wholly true to say that poor have become poorer, at least not in the advanced industrial countries.

Machine Age and the Factory System. The Industrial Revolution which started as a small cloud on the horizon of English industry spread over to industry all over the world over a short span of time. The old industrial order with small manufactory factories employing a small number of workers and using small amounts of materials, working with crude implements and machines to produce for limited local markets, was washed away. In its place rose a new system of production characterised by hugeness, vastness, and complexity in various aspects. The workers now worked in large factories located not in the homes of workmen but in elaborate buildings built for the purpose mostly in the cities or their suburbs. The scale of production was enlarged many times, and the products catered to the needs and tastes of consumers all over the world. The old implements and machines were replaced by complicated machines driven by power which worked day in and day out to turn out a mass of standardised products. For large-scale production with specialised machines, large sums of capital were needed. Capital became the dominating factor of production and the supplier of capital took over the charge of industrial units from the workmen. Thus the new system was christened as the factory system—the latest stage in the development of industry. The most important *features* of the factory system of industrial organisation may be summed up as under :

(i) *Mass production.* Factories in modern times are engaged in production for markets much wider than those catered to under the domestic system. Production of goods on a mass scale is, therefore, the first distinctive feature of the modern factory system.

(ii) *Mechanisation.* Mass production of goods has necessitated the use of costly machines with high degree of efficiency and precision. Employment of machinery has reduced the worker's position to that of a mere operator. His manual skill is of little consequence now.

(iii) **Standardisation.** The employment of expensive precision machinery for mass production has naturally led to the standardisation of products. The products no longer bear the stamp of the worker's personal attention and artistic talents. All products of a particular variety or lot are now identical and interchangeable because they are produced with highly specialised and accurate machines.

(iv) **Specialisation and division of labour.** Mass production with machinery is possible only with division of labour. The factory system of production is characterised by division of labour both in production and management. Each worker specialises in the performance of a small part of the job and so does every member of the management also specialise in a particular aspect of management.

(v) **Aggregation.** Aggregation refers to the increase in the size of industrial establishments and the concentration of industrial power. Mass production of standardised machine-made goods necessitated an increase in the size of the premises and the staff of the industrial establishments. Besides, the ownership of industrial units passed on to large and powerful joint stock companies drawing their capital from a large number of people rather than an individual or a few partners. Later on, the industrial world came to be controlled by powerful combinations of large and small companies.

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