

FIRM AND INDUSTRY

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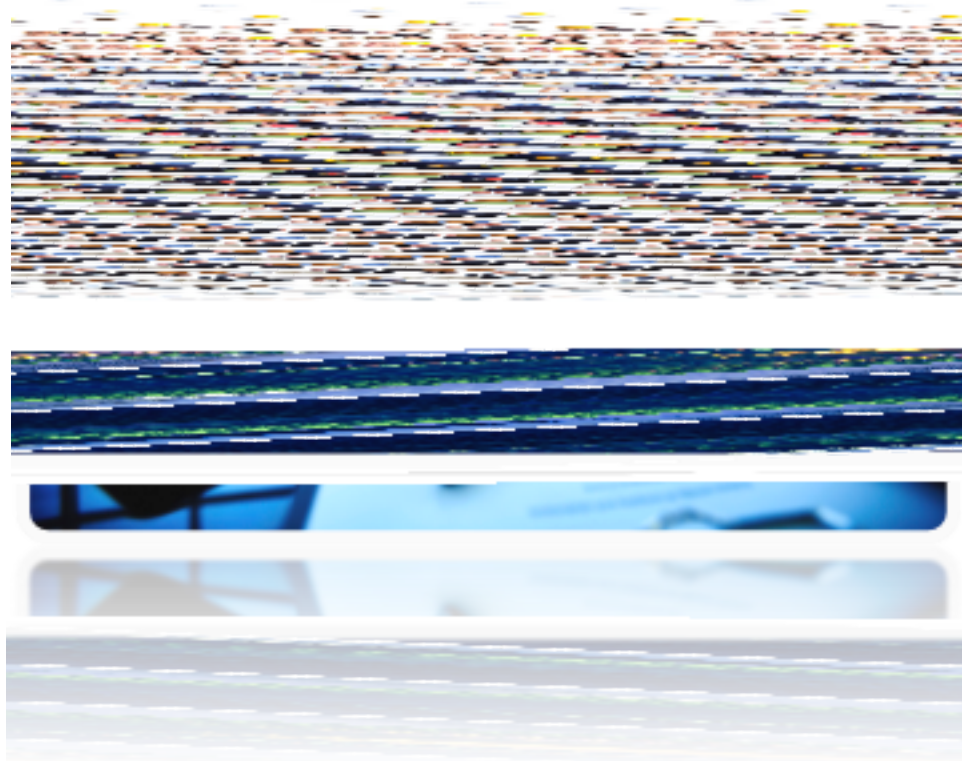
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Firm is..

According to Hanson, “A Firm is an independently administered business unit.”

- The basic objective of a firm is making profits.
- The term is mostly used in relation to companies providing various services to clients like individuals, households and government bodies.
- A firm can be a sole proprietorship or a partnership.



Characteristic features of Firms

A firm is a place..

- where various decisions related to production are taken like what, where and how much to produce.
- where the human resource is hired for further production of goods and services.
- where all the resources of production are brought together.
- where the sales and distribution of the manufactured product is also carried out.
- the state of technology is defined by the firms production function.

Objectives of Firms

- **Profit Maximisation:** The main objective of a firm is to earn maximum profits by ensuring optimum utilization of resources. Profits are defined as the difference of sales revenue and total costs.
- **Sales Maximising:** Sales maximisation is said to be towards maximum utility function of the managers. Sales have become an end of themselves.
- **Long Run Survival:** The primary objective of a firm is long run survival and therefore long run policies overrule the short run policies. The firm makes efforts towards building goodwill, consumer satisfaction, quality enhancement, catering to shareholders' interests, etc.

Objectives of Firms

- **Consumer Satisfaction:** To ensure the consumers remain loyal towards the firm's product, a firm makes efforts towards brand building and consumer satisfaction.
- **Social Welfare:** The economic activity of the firm provides welfare to the society since it provides employment, removes poverty, contributes to the national income, increases the standard of living, etc. A firm directly provides welfare by providing environment sustainability, free education, free medical facilities, promoting culture and tradition, etc.
- **Growth of a Firm:** Another objective of the firm where the manager tries to maximize the growth rate of the firm by increasing sales, production, assets, employees, etc.

Objectives of Firms

- **Maximum Returns to Shareholders:** An alternate objective of profit maximisation is wealth maximisation. Wealth maximisation involves maximising the market value of a firm's stock
- **R&D and Quality Enhancement:** In a highly competitive global economy, R&D and Quality Control has become one of the important objective of the firm. With the variety of products available at the same price, consumer today is seeking value for money and therefore the firm needs to build brand equity.
- **Management Utility Maximisation:** With the growth of joint stock companies and large corporate houses, there is a separation between ownership and managers. This can result in the managers not always working towards the interest of owners.

Industry is..

- Industry is a group of related firms.
- An industry covers all economic activities that are organized and carried on by all individuals, units, firms, businesses, and organizations existing and working inside it.
- Industry is also described as retail and wholesale depending upon the nature of transactions with the customers
- Eg: dairy industry or food processing industry etc



Classification of Industries

PRIMARY INDUSTRY

Primary industry is a nature-oriented industry, which requires little human effort for production of goods.

E.g. Agriculture, farming, forestry, fishing, horticulture, etc.

GENETIC INDUSTRY

Genetic industries are engaged in reproduction and propagation of certain species of plants and animals with the object of sale and earn profit.

Eg: plant nurseries, cattle rearing, poultry, cattle breeding, etc.

Classification of Industries

EXTRACTIVE INDUSTRY

Extractive industry is concerned with the extraction of goods from the soil, air or water in raw form which are used by manufacturing and construction industries for producing finished products.

Eg: mining, coal, iron ore, extraction of timber and rubber, etc.

MANUFACTURING INDUSTRY

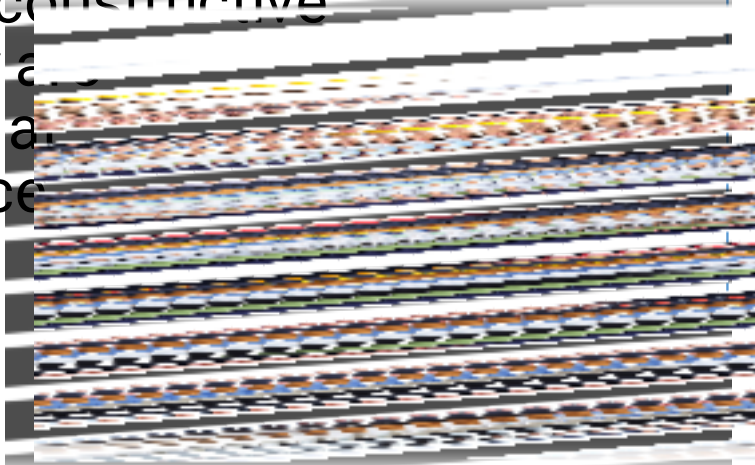
Manufacturing industries are engaged in transforming raw material into finished product (consumer or producer goods) with the help of machines and manpower.

Eg: textiles, chemical industry, sugar industry, paper industry, etc.

Classification of Industries

CONSTRUCTION INDUSTRY

Construction industries take up the work of construction of buildings, bridges, roads, dams, canals, etc. Goods produced and sold by constructive industry are erected at one place



SERVICE INDUSTRY

Service sector plays an important role in the development of the nation and therefore it is named as service industry.

Eg: hotel industry, tourism industry, entertainment industry, etc.



Difference between Firm and Industry

- Industry is a type of business inside an economy whereas; a firm is a business unit inside an industry.
- There can exist numerous firms inside an industry.
- Industry is not an entity while a firm is a type of company.
- A firm is a kind of business whereas an industry is a sub sector of an economy.
- All the rules and regulations are levied on an industry, and these rules have to be followed by all the firms prevailing inside the industry.

THANK YOU!