

BUSINESS STUDIES**CHAPTER - I**
NATURE AND PURPOSE OF BUSINESS

Human wants are unlimited. In every society people undertake various activities to satisfy their needs. Human activities can be classified into two:-

(a) Economic Activities (b) Non Economic Activities

**a) Economic Activities**

Economic activities are those activities which are undertaken by people to earn money. The primary objective behind every economic activity is to earn money. Economic activities help to earn our livelihood or to fulfill various needs. Economic activities may be business, profession or employment.

Eg : A worker working in the factory.

A manager working in an office.

A doctor operating his clinic

A teacher teaching in a School

b) Non Economic Activities

Non economic activities are those activities which are undertaken by people without the intention of earning money. They are done for getting psychological satisfaction or as a hobby. Non economic activities are performed out of sympathy, love, humanity, patriotism etc.

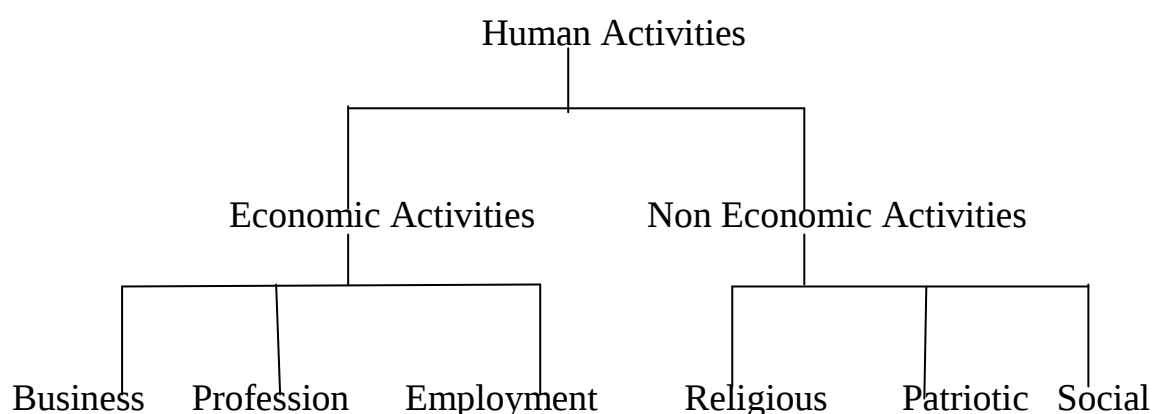
Eg : House wife cooking food for her family.

Boy helping an old man to cross the road.

Gardening as a hobby.

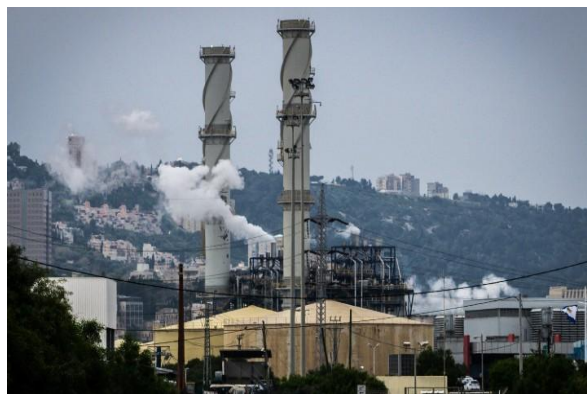
Playing football.

A patriot sacrifices his life for his motherland.



I Business

The term business is derived from the word ‘busy’. Business is an economic activity carried out regularly with the objective of earning profit. It may consist of production, purchase of goods for sale, exchange of goods or supply of service to satisfy the needs of other people .Eg. **Lunar** Rubbers (Manufacturing business), Pulimoottil Silks (Trading business), Union Bank of India (Banking business).





Definition



Business may be defined as “an economic activity on a continuous basis which involves production or purchase of good for sale, or exchange of goods or providing services, at profits”.

Characteristics of Business

All business concerns irrespective of their size, nature or ownership have the following essential characteristics.

1. An Economic Activity

Business is as an economic activity because it is undertaken with the objective of earning money (profit) and not because of love, affection or sympathy.

2. Production or Purchase of Goods and Services



Before goods are offered to people for consumption they must be either produced or purchased by business enterprises. Goods may consists of

consumer goods like sugar, pen, notebook etc or capital goods like machinery, furniture etc.



3. Sale or Exchange of Goods and Services

In business there should be sale or exchange of goods or services between the seller and the buyer. If goods are produced not for the purpose of sale but for internal consumption, it can't be called as a business activity. Services may include facilities offered to consumers in the form of transportation, banking, communication etc.



4. Regularity in dealing

Business involves dealing in goods and services on a regular basis. One single transaction never constitutes a business. Thus, if a person sells his old bike even at a profit never treat as a business activity.

5. Profit Motive



Profit Motive is an important distinguishing feature of business. No business can survive for long without earning profit. It must earn profit for its survival, growth and expansion.



6. Element of risk

Every business involves a larger element of risk. Risk means the possibility of loss. He may suffer loss due to unfavorable changes in business environment like changes in consumer tastes, increased competition in market, fire, theft, accidents, natural calamities etc.

7. Uncertainty of return

There is no surety that a business man will always earn profit. Though every business is commenced and conducted with profit motive but there is always danger of loss. Profit of a firm depends up on various internal matters; most of them are beyond the control of a business man.

8. Creation of Utility



The word utility means capacity to satisfy wants. Business is an economic activity which creates utility by changing the form of the commodity such as manufacturing furniture from wood, by changing the place of commodity such as bringing sands from the banks of rivers and by purchase and sales of goods like books by the book sellers to students etc.

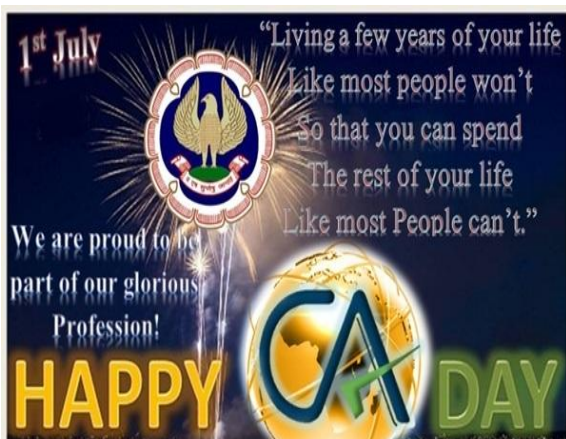
II Profession

Profession is an occupation, in which application of special knowledge and skill of a person is necessary. It involves rendering of personal services of a special and expert nature. Professionals should follow the guidelines or code of conduct laid down by the professional body. Those engaged in professions are known as professionals. They get fee as return for their service.

Eg (1) Doctors are engaged in the medical profession (governed by medical council of India) to practice as a doctor one should possess MBS degree and also fulfill one year house surgery.

2) Lawyers are engaged in the legal profession (Governed by Bar Council of India).

3) Chartered Accountants are engaged in the accounting Profession (Governed by Institute of Chartered Accountants of India).



III Employment



Employment refers to an occupation in which people work for others regularly and get salary or wage in return. The person or organization providing employment is called the employer and the person employed is called the employee. There must be contract between employer and employee, which explains the terms and conditions of employment. Employees get salary or wage as return for their service.

Difference between Business, Profession and Employment

Basis of Different	Business	Profession	Employment
Commencement	A business can start at any time on owner's decision after fulfilling legal formalities	A person can engage in his profession only after getting membership of a professional body.	An employee can work in an office after getting appointment letter from his employer.
Nature of work	Production or purchase and sale of goods and services	Rendering of personalized expert service	Performing the works assigned by the employer
Qualification	No. minimum qualification is required in business	In profession specialized knowledge and training is required	In employment qualification is decided by the employer.
Reward	Profit	Fees	Wage or salary

Risk	Profit is uncertain, so risk is high in business	Fees is generally regular, so there is very little risk	Salary is fixed and regular, so there is no risk
Transfer of Interest (ownership)	We can sell the ownership of a business to another person	It is not possible in profession	It is not possible in employment.
Capital Investment	In business capital investment is needed	In profession limited capital investment is needed for establishment of office	In employment no Capital investment is needed
Code of Conduct	In business there is no code of conduct to be followed	In profession professional code of conduct to be followed.	Norms of behavior laid down by the employer are to be followed.

Classification of Business Activities

On the basis of function we can classify business activities into two:-

- I. Industry
- II. Commerce

I. Industry

Industry refers to that part of business activities which is concerned with the production of goods and materials. It includes business activities like raising, producing, processing or manufacturing of products.

Industry may be divided into three broad categories namely primary, secondary and tertiary.

A. Primary Industries

What is a primary industry?

Primary Industry is when natural resources are extracted directly from the Earth or Sea.

Example of Primary Industry:

- Coal Mining
- Oil Drilling
- Farming
- Fishing
- Forestry



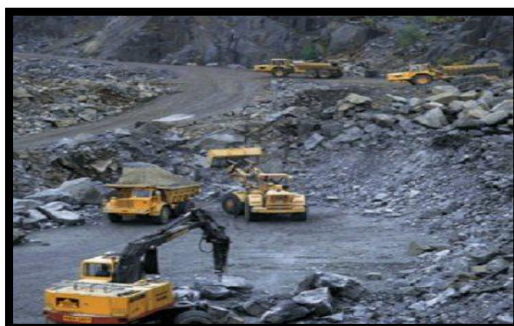



It includes all those business activities, which are concerned with extraction of natural resources, reproduction and development of living organisms, plants etc. Primary industries can be classified into two namely extractive industries and genetic industries.

(a) Extractive Industries

Extractive industries extract or draw out products from natural sources like earth, water, air etc. It extract timber from forest, fish from sea, coal and iron are from soil etc. Primary industries supply basic raw materials to manufacturing industries and manufacturing industries convert these raw materials into finished goods.

Eg. Mining, hunting, fishing from natural sources, fruit gathering, agriculture etc.



(b) Genetic Industries

Genetic Industry, which undertakes reproduction or multiplication of animals and plants with the aim of earning profit.

Eg : Agriculture nursery, poultry farming, cattle breeding, pisciculture(fish farming).



B. Secondary Industries

These industries engaged in the process of manufacturing goods or constructing building roads etc. Secondary Industries use the raw materials supplied by the primary industry. For Example, the mining of iron ore is related to primary industry, but manufacturing of steel is related to secondary industry. Secondary industries may be further subdivided into two namely.



- a) Manufacturing Industry (b) Construction Industry

(a) Manufacturing Industry

Manufacturing Industries are engaged in the process of converting raw materials into finished good and create form utilities. They convert cotton into textile, timber into steel and so on.

On the basis of methods of operation used for production, we can classify manufacturing industries into four categories.

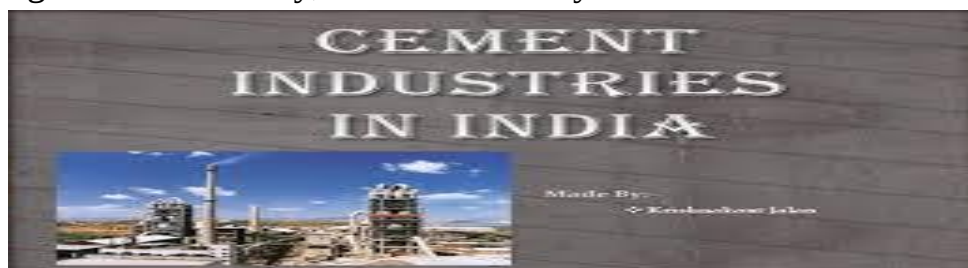
- 1) Analytical industries – which analyze and separates different elements from the same materials.

Eg .Oil refinery – they separate diesel, petrol etc from crude oil



- 2) Synthetical Industry – Which combines various ingredients to produce a new product

Eg. Cement industry, fertilizer industry etc..



- 3) Processing Industry – Which involves successive stages for manufacturing finished products

Eg. Sugar industry, paper Industry.



4) Assembling Industry

This industry assembles different components to make a new product
Eg. Computer industry, Car industry etc.



b) Construction Industry

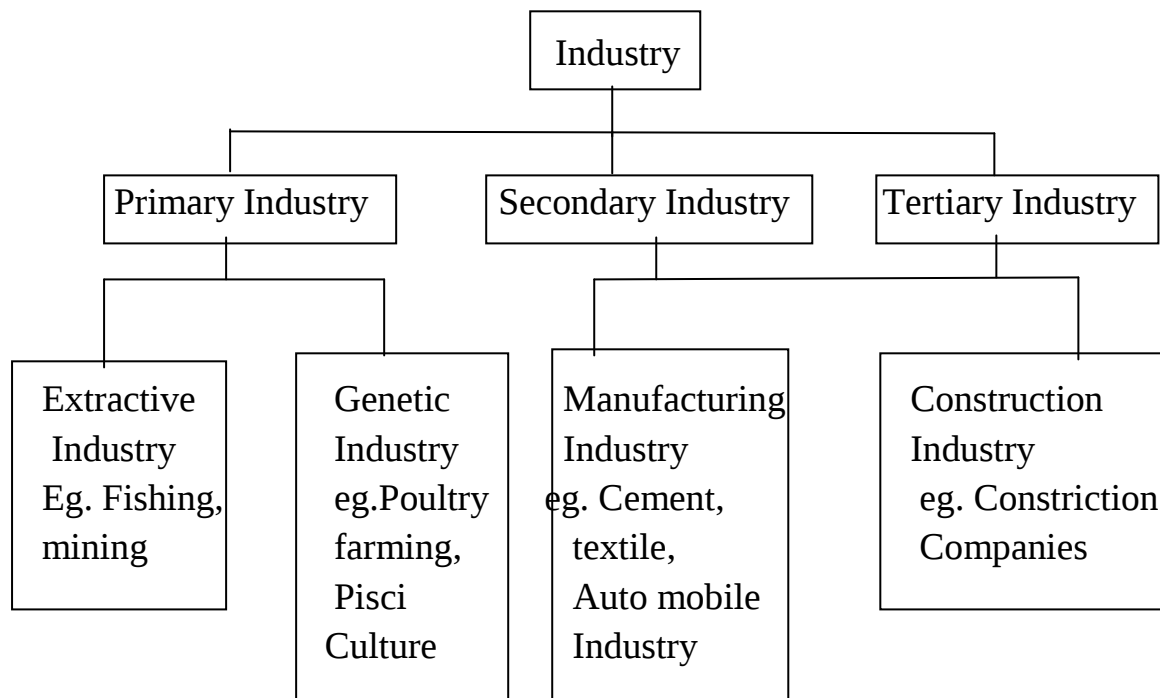
These industries are involved in the construction of buildings, dams, bridges, roads, canals etc. The raw materials required for these industries are supplied by the manufacturing industries (out put like cement, steel etc) and extractive industries. Their outputs are always immovable.



C. Tertiary Industries

Tertiary industries are providing support service to primary and secondary industries. Tertiary Industries consists of banking, Insurance, advertising, communication etc. They provide support service to primary and

secondary industries as well as trade related activities. For example, if a transporting company helps to move iron ore from mining place to manufacturing plant, it comes under industry and on the other hand if the same transporting company helps to move finished product (here steel) to different parts of the country, it is not an industry and it is a part of commerce.



II. Commerce

Commerce includes trade and auxiliaries to trade (aids to trade). Buying and selling of goods is termed as trade. But there are a lot of activities that facilitate the process of trade. These are called auxiliaries or aids to trade and include banking, insurance, communication, advertisement and warehousing.

Industry looks after the production aspect of business whereas commerce looks after the distribution aspect of the business. Whatever is produced, it must be consumed. To facilitate this consumption there must be a proper distribution channel. Commerce facilitates the transfer of goods from producers to consumers. Commerce is the connecting link between producers and consumers. Commerce includes all those activities which are necessary for maintaining a free flow of goods from producers to consumers.

Definition

‘Commerce means the sum total of those processes which are engaged in the removal of the hindrances of person, place and time in the exchange of commodities’.

Commerce = Trade + Aids to trade

Commerce is the combination of trade and aids to trade. Trade means purchase and sale of goods with profit motive. It is the connecting link between producer and consumer. In the process of trade there exist various hindrances like hindrances of place, hindrances of time, hindrances of knowledge, hindrances of finance, hindrances of risk etc. Aids to trade or auxiliaries to trade remove these hindrances. Hindrance of place can be removed with the help of transportation, hindrance of time can be removed with the help of warehousing, hindrance of knowledge can be removed with the help of advertising, hindrance of finance can be removed with the help of banking and hindrance of risk can be removed with the help of insurance and proper packaging.

Trade

Trade is the central activity (nucleus) of commerce. It refers to purchase and sale of goods. It helps the movement of goods from the producer to the ultimate consumers. Traders are the connecting link between producer and consumer. They purchase goods from the producer in bulk quantities and sell them to consumers according to their requirements. In the absence of trade, it would not be possible to undertake production activities on a large scale. Trade may be internal trade or external trade.

I. Internal trade

Internal trade means purchase and sale of goods within the country. Internal trade may be whole sale trade or retail trade.

(a) Which sale trader

Whole saler is the connecting link between producer and retailer. He purchases huge quantity of goods from producer, stores it in big godowns and sells in small quantities to retailers.

(b) Retail trade

Retail trade is the Connecting link between wholesaler and ultimate consumer. Retailer purchases goods from wholesaler and sells them to ultimate consumer. A retailer is the last link in the chain of distribution.

II.External trade

External trade or foreign trade means buying and selling of goods and services between two countries. External trade may be import trade, export trade or Entrecote trade.

- a. Import trade – If goods are purchased from another country, it is called import trade.
- b. Export trade – If goods are sold to another country, it is called export trade.
- c. Entrepot trade- When goods are imported from foreign countries with the object of re exporting them to some other countries, it is called entrepot trade.

Eg. Indian firms importing goods from Germany and Japan and exporting it to Nepal is enter pot trade.

I. Auxiliaries to trade (Aids to Trade)

The term Commerce includes trade and aids to trade. These are services which help in removing various hindrances which arise in the process of buying and selling of goods. Transportation, banking, insurance, warehousing, communication and advertising are regarded as aids to trade.

Transport facilitates movement of goods from one place to another. Banking provides financial assistance to the trader. Insurance covers various kinds of business risk. Warehousing creates time utility with storage facility. Advertising helps to remove the hindrance of knowledge and information in the process of trade.

Aids to trade are briefly discussed below

1. Transportation

Production of goods generally takes place in particular locations. But these goods are required for consumption in different parts of the country. For instance tea is mainly produced in Assam but it is consumed all over India. The hindrance of place is removed with the

help of various transportation facilities like road transport, rail transport, air transport etc.

2. Banking and Finance

Business activities can't be undertaken unless funds are available for acquiring assets and meeting day to day expenses. Banking helps business firms to overcome the problem of finance by giving necessary funds. Banks also undertake collection of cheque, remittance of funds to different places, discounting bills of exchange etc.

3. Insurance

Business involves various types of risks. Factory building, machinery, goods in stock or transit are subject to the risk of loss or damages. Risk may arise due to fire natural calamities, accidents etc. Employees are to be protected from risks of accidents. Insurance provides protection in all such cases. On payment of a nominal premium the amount of loss can be recovered from the insurance company.

4. Warehousing

Ware house is a building where large quantities of goods are stored, before they are sent to shop. There is time gap between the production and consumption of goods. They are to be kept in good condition and make them available as and when required. Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed. Warehousing provides safety to goods. Warehousing stabilises prices by equalizing the supply of goods to the market. Thus hindrance of time can be removed with the help of warehousing.

5. Advertising

Today production is carried out on a large scale in anticipation of demand. But there can be no mass production without mass marketing. Advertisement plays an important role in the process marketing. Through advertisement consumers get information about a particular product and its use. It is one of the most important devices designed to capture the attention of prospective customers and to create interest in the products which would ultimately turn into sales. Thus advertisement

removes hindrance of knowledge in the process of trade. Various means of advertisement are news paper, TV, magazine, radio, internet etc.

6. Communication

Communication means exchange of ideas, facts, opinions, emotions, information etc. between two or more persons. The successful operation of the business requires that there must be proper communication between buyer and seller. Communication between them is required for placing order, making complaints, making payments, deciding the terms of transactions etc. The various means of communication are telephone, email, mobile phone, fax etc.

Objectives of Business.

Objectives of Business mean the purpose for which a business is established and carried on. Objective setting is the starting point of any business. Objective serves as the guidelines for future direction and management of business. Business activities are under taken primarily to earn profit because profit is the life blood of business. Profit is essential for business survival, growth, expansion etc. However, business activities can't be undertaken in isolation from the rest of the society. In fact, business is an economic activity carried on by the people (owners and managers) through the people (employees), and for the people (consumers and society at large). Thus business enterprises are part of the society and it should be conducted according to expectations of the society. So objectives of business can be broadly classified into two.

1. Economic Objectives
2. Social Objectives

I Economic Objectives

These are objectives which gives financial benefits to a business. The following are the important economic objectives of a business.

1) Earning profits

Main aim of any business is to earn profit. No business can survive for long without adequate profit. Business needs profit not only for its existence but also for growth and expansion. Profit is the ultimate test of business performance.

2) Innovation

Innovation means discovery of something. It includes discovery of a new product, introduction of new and improved methods of production, adoption of better distribution system etc. Making of colour television in the place of black and white television is an example of product innovation. Using the power looms instead of handlooms in weaving is an example of process innovation. Today business world is highly competitive. No business enterprise can flourish in a competitive world without innovation. So innovation became an important objective.

3) Market standing (creation of customers)

Creation of customers is an important objective of a business. It refers to the position of an enterprise in relation to its competitors. To ascertain the market standing, the business must analyze the market and find out where it stands. The business must state in quantifiable terms the present and prospective customers and the share of market it can capture. For this purpose, an objective has to be clearly laid down for sales figures, the size of the market and share in the market. Also business must look upon things in the light of competition.

4) Productivity

Productivity means the efficiency of a business firm to produce its output. It is ascertained by comparing the value of output with the value of inputs. Every business must aim at greater productivity by making the best possible use of scarce resources like men, money, machinery, materials etc. It can be achieved by employing competent personnel, making fuller utilization of machine capacities, reducing wastage of materials etc.

5) Secure good performance of managers

Good managers are needed by business enterprise to conduct and co-ordinate various business activities. Managers must be motivated well to get best out of them.

6) Worker performance and attitude

Workers performance and attitude are very much determined the productivity and profitability of any business enterprise. Therefore every business enterprise must provide the workers with incentives to improve their performance.

II Social objectives

Business is a social institution. The inseparable and intimate relationship between the business and society makes obligatory on the business to conduct its affairs according to the interest and expectations of the society. The business must honour social commitment. Important social objectives of business are.

1. Supply quality goods at reasonable price

The importance of the customers in the business has been recognized and accepted by every businessman. Every business has an obligation to supply sufficient quantity of standard commodities at reasonable rates and regularly. The goods provided by the business should be pure and unadulterated. Otherwise customers will avoid our business. In the world of competition customer is the king

2. Welfare of employees

It is an important responsibility of business to promote the welfare of its employees. Besides providing fair wages, the business should also provided good working conditions like canteen facilities, housing facilities, transport and medical facilities, create promotional avenues to the employees etc. This will help the business to win the confidence of employees and ensure their complete dedication to work. This definitely raises the profitability of the business.

3. Community Services

Business establishments sometimes undertake community services as part of their social obligations. These include setting up training centers for the unemployed, starting charitable hospitals and educational institutions, giving donations for social functions, promote arts and sports etc. All these activities add the reputation and public image of the business.

We can conclude that, in a business there are number of objective. Economic objective is the primary objective without which a business can't survive. At the same time it should also remember its commitment to society. This is because business which does not act in the best of the society can neither be tolerated nor allowed to continue. Thus economic objectives of business can be better achieved by serving the society in a committed manner.

Role of profit in business

Securing profit is the basic requirement of a business. The profit is the driving force which initiates, activates, and sustains the efforts of the business man. It is the reward for risk bearing. Profit is necessary for the survival, growth, prosperity and prestige of the business. Profit is the sun, which enlighten every corner of the business. Profit making is essential in business due to the following reasons.

1) Profit is a source of Income

Profit is a source of income and it provides the means for livelihood for the businessman. Nobody can undertake business activities without earning income to satisfy his needs

2) Profit is essential for growth and expansion

Profit provide necessary fund for growth and expansion of business activities. Retention of profit as an internal source of funds is more dependable than external sources like banks and financial institutions.

3) Profit is the index of business performance

Profit earning ability is considered to be the index of business success. It measures the performance of the business. It is accepted as the yardstick for the evaluation of the efficiency of those who manage the business.

4) Profit is the reward for risk taking

Profit is the reward for the entrepreneur who takes business risk. He invests money in the business it involves a lot of uncertainties which

may lead to losses. He runs the business with the hope of earning sufficient profit by overcoming all such possible risks. Thus profit represents a reward for risk bearing.

5) Profit enhances prestige

Profit provides economic power and prestige to a business. It improves the credit worthiness as well as the bargaining strength of the business. A profit making firm can raise funds on easy terms. It is in a better position to offer attractive pay to attract qualified and trained personnel. They can also serve the society and consumer in a better way by applying new technologies, by applying proper pollution control measures etc.

6) Profit Increases the efficiency of business

Good profit earning concerns are in a better position to pay good salaries and perks to employees. This will motivate the workers and they will work hard for the business. This will improve the overall efficiency of the business.

Business risks

Risk means the possibility of loss. In business risk is unavoidable. For example, there are chances of decline in demand for product due to change in tastes of consumers or due to cut-throat competition in the market etc. Low demand results in a decrease in turnover and profit.

Business enterprises usually face two types of risks – speculative risk and pure risk.

a. Speculative risk

Speculative risk involves both the possibility of gain as well as loss. It may arise due to change in demand. In this, demand may increase or decrease. Another example, change in the price of raw material may increase or decrease. Favorable market conditions are likely to result in gains whereas unfavorable ones may result in losses.

b. Pure risks

Pure risk involves only the possibility of loss or no loss. The chance of fire, theft, etc. is examples of pure risk. Their occurrence may

result in loss whereas non- occurrence may explain absence of loss, instead of gain.



Nature of Business risk

Nature or characteristics of business risks are as follows.

1) Business risks arises due to uncertainties

Uncertainty refers to the lack of knowledge about what is going to happen in the future. Natural calamities, change in demand and prices, changes in technologies, government decisions etc are examples of uncertainty. The outcome of this future event is not known in advance.

2) Risk is an essential part of every business

In business risk is unavoidable. Risk may vary from business to business. Risk can be minimized or shared with the help of insurance but can't be eliminated.

3) Profit is the reward for risk taking

Actually profit is the reward for risk bearing. No risk, no gain is an age old principle and is applicable to all kinds of business. Greater the risk more is the reward. A businessman shoulders risks in anticipation of better returns.

4) Risk depends mainly upon the nature and size of business

Nature and size of business very much determine the degree of risk involved in a business. Nature of business means the type of goods produced or sold. A large scale business involves more risks than small scale unit. Similarly, a firm dealing in fashionable items does have high degree of risk than a firm dealing in essential commodities.

Methods of dealing with risks

No business enterprise can escape from the presence of risk. There are many ways for a businessman to deal a risk situation.

- 1) Take Precautionary measures like firefighting equipments.
- 2) Take an Insurance policy to cover various types of risks.
- 3) Decide not to enter high risk business transaction.

- 4) Take measures like create provisions in the current earning as the case of provisions for bad debts.

Causes of business Risk

Business risks arise due to variety of causes, which are discussed as follows:-

1. Natural causes

Natural calamities are unpredictable and are beyond the control of a businessman. Flood, earthquake, heavy rains, lightning famine, storm etc. are examples of natural risk. They result in heavy loss of life, property and income in a business.

2. Economic Causes

Economic causes include uncertainties relating to demand for goods, competition, price, collection of dues from customers, change of technology, etc. Financial problems like rise in interest rate for borrowings, high tax rates etc also come under economic causes as they result in higher unexpected cost of operation of business.

3. Human Causes

Human causes include unexpected events like dishonesty, carelessness, or negligence of employees, strikes, riots, stoppage of work due to power failure, management inefficiency etc.

4. Government policy

Government policy regulations, changes in import export policy, licensing policy, tax structure etc. may cause heavy losses to a business man.

5. Physical Cusses

Physical Cusses include loss due to mechanical defects, accidents from defective machinery etc.

6. Miscellaneous causes

This include destruction of goods due to sunshine, evaporation of liquid good etc.

7. Internal business environment

Personal failure from death, ill health etc. comes under this category. Dishonest behavior like embezzlement and theft etc caused heavy losses to the business.

Procedure for Starting up new business

The procedure of starting up of new business enterprises is very lengthy and time consuming. It includes many steps and formalities.

1. Discover a business opportunity

The promoter first finds out a business opportunity. He can get this information from news papers, market surveys, research etc. A business opportunity may be to start a business, expand or diversify the existing business, purchase another company etc.

2. Size of business

After select a particular business the promoter has to decide about the size of the business unit. He has to decide whether the business unit will be a small medium or large size. The size of the business depends on many factors such as capital, future demand, economies of scale etc.

3. Location of business

The promoter should also decide about the location of the business. He must consider factors like cost of land, availability of land, transportation facilities, electricity, water, nearness to market, scope for expansion and so on. Unscientific location affects the efficiency of business. It increases the cost of production and decreases the profitability.

4. Financing (Capital acquisition)

Financing is concerned with providing the necessary capital for starting as well as for acquiring the proposed business. Capital is required for acquiring fixed assets as well as for meeting day to day expenses. Proper financial planning is necessary to determine (1) the requirement of capital (2) source from which capital will be raised and (3) the best ways of utilizing the capital in the firm.

5. Organization of physical facilities

The promoter has to arrange physical facilities like machines, building, and workmen etc. Physical facilities are necessary to convert raw materials into finished goods. The promoter has to decide the type of machinery required for



production, the number of skilled and unskilled workers, the quality and quantity of raw materials etc.

6. Plant Layout

Once the requirement of physical facilities has been determined, the entrepreneur should draw a lay out plan showing the arrangement of these facilities. Plant layout is a scientific and systematic arrangement of machines and equipment within the factory .A good layout ensure minimum wastage, better use of available space, safety and security of workers etc. It also increases the profit of the business.

7. Organizational Structure

A business is divided into various departments according to their functions they performed. After making departments; the employees are assigned their duties to fix responsibility on employees.

8. Tax Planning

Tax Planning has become necessary these days because there are a number of tax laws in the country and they influence almost every aspect of the functioning of modern business. Tax planning does not mean nonpayment of tax. It means to minimize the taxes and the effect of the taxes on the business. Tax planning influences the promoter's decision about location, size and form of the business.

9. Starting the business

After the decisions relating to the above mentioned factors have been taken, the entrepreneur can go ahead with actual launching of the enterprise. Launching means brings together various factors of production fulfilling necessary legal formalities, starting the production process and initiating the sales promotion campaign.



.....

Thank you,
Dedicated to all commerce students
Binoy George
MKNM HSS Kumaramangalam,Idukki
Email:binoykuzhinjalil76@gmail.com