



Unit 1: Nature and Purpose of
Business

Name: _____

Date: __/__/__

Meaning of Business

Business is derived from the word busy. In a specific sense, it refers to an occupation in which people regularly engage in activities like production, purchase and or sale of goods and services for making profit. It includes two main branches:

- 1) Industry
- 2) Commerce

Concept of Business

In every society, people undertaking economic and non-economic activities.

- a) Economic Activities: any activity which we can earn our livelihood. Eg: Worker working in a factory. It can be further divided into:
 - i) Business
 - ii) Profession
 - iii) Employment
- b) Non-Economic Activity: any activity which is performed out of love, sympathy, sentiments, patriotism etc. Eg: helping an old man cross the street.

Characteristics of Business Activities

- 1) Economic Activity: It is undertaken for the sake of earning money or livelihood and not because of love or sentimental reasons. It might be undertaken as an individual (small scale) or as a company (large scale) in a formal and organized manner.
- 2) Production And Procurement Of Goods And Services: Before offering goods and services for consumption they need to be procured by a business. Thus, every business either manufactures goods and services or procures them from vendors and sold to consumers.
- 3) Sale And Exchange Of Goods And Services: Directly or indirectly businesses are involved in the transfer or exchange of goods and services for value. Goods produced for personal consumption cannot be called business activity.
- 4) Dealing With Goods And Services: A single transaction does not constitute a business. Trading must be a regular and continuous activity for it to be called a business.
- 5) Profit Earning: No business can survive without earning profit. Businessmen make all possible efforts to minimize cost and maximize sales to earn profit.
- 6) Risk: Risk is any uncertainty with exposure to loss. It may be caused by factors within the business or factors external to the business.
- 7) Capital Investment: No business can be established without capital investment. Capital invested may be small or large.

Profession

Profession includes all activities which require special knowledge and skill to be applied by individuals in their occupation. They are subject to guidelines or codes of conduct laid down by a professional body. Those engaged in professions are known as professionals.

Employment

Employment refers to the occupation in which people work for others and get remuneration in return. Those who are employed by others are known as employees. They receive wages or salaries for the work they do.

Sl No	Basis	Business	Profession	Employment
1	Mode of Establishment	Entrepreneur's decision	Membership with a professional body	Appointment letter
2	Work	Provision of goods and services	Rendering expert services	Performing work according to the contract
3	Qualification	No minimum qualification	Expertise and training in respective field	As prescribed by the employer
4	Reward	Profit earned	Professional fees	Salary or wages
5	Capital	Investment as per size and nature of business	Limited or no capital needed for establishment	No capital investment needed.
6	Risk	Profits are uncertain or irregular	Fee is regular and risk is negligible	No risk and pay is fixed
7	Transfer of interest	Possible with some formalities	Not possible	Not possible
8	Code of conduct	No code of conduct prescribed	Strict code of conduct to be followed	Norms laid down by employer

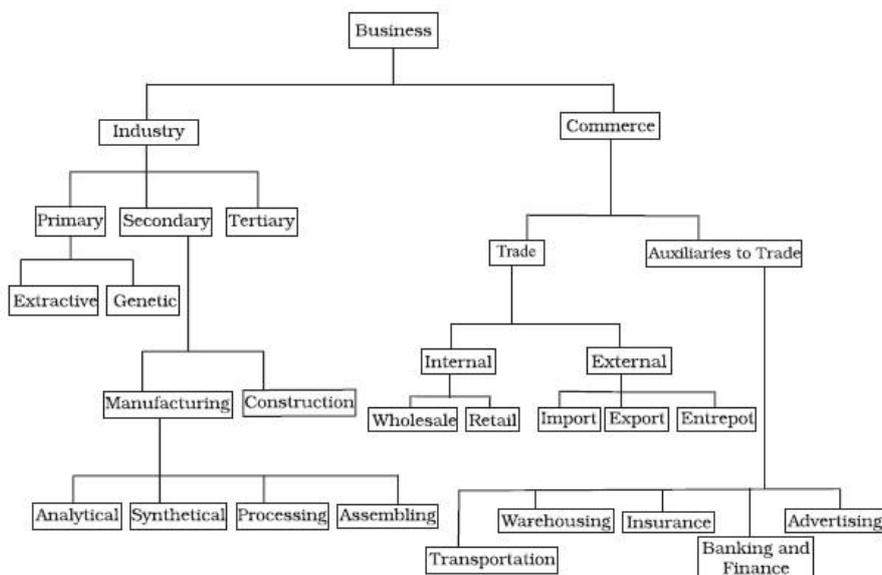


CHART SHOWING BUSINESS ACTIVITIES

Industry

Meaning

Industry refers to economic activities which are related to conversion of resources into useful goods. It includes activities related to manufacturing of goods and services and breeding of animals.

Types of Industry

- 1) Primary Industries: These include all those activities, which relate to the extraction and production of natural resources and reproduction and development of living organisms, plants etc. These industries may be further subdivided as follows:
 - a) Extractive Industries: These industries extract or draw out products from natural sources. Extractive industries supply some basic raw materials that are mostly products of the soil.
 - b) Genetic Industries: These industries remain engaged in breeding plants and animals for their use in further reproduction. For the breeding of plants, the seeds and nursery companies are typical examples of genetic industries.
- 2) Secondary Industries: These are concerned with using the materials, which have already been extracted at the primary stage. These industries process such materials to produce goods for final consumption or for further processing by other industrial units. Secondary industries may be further divided as follows:
 - a) Manufacturing Industries: These industries are engaged in producing goods through processing of raw materials and thus creating form utilities. Manufacturing industries may be further divided into four categories based on method of operation for production.
 - i. Analytical Industry: which analyses and separates different elements from the same materials, as in the case of oil refinery.
 - ii. Synthetical Industry: which combines various ingredients into a new product, as in the case of cement.
 - iii. Processing Industry: which involves successive stages for manufacturing finished products, as in the case of sugar and paper.
 - iv. Assembling Industry: which assembles different component parts to make a new product, as in the case of television, car, computer, etc.
 - b) Construction Industries: These industries are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals. Engineering and architectural skills are an important part in construction industries.
- 3) Tertiary Industries: These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. These industries provide service facilities. As business activities, these may be considered part of commerce because as auxiliaries to trade they assist trade. Included in this category are transport, banking, insurance, warehousing, communication, packaging, and advertising.

Commerce and Trade

Meaning

Commerce includes two types of activities, viz.,

- 1) **Trade:** Buying and selling of goods is termed as trade.
- 2) **Auxiliaries to trade.** These are activities that are required to facilitate the purchase and sale of goods.

Trade

Trade is an essential part of commerce. It refers to sale, transfer or exchange of goods. It helps in making the goods produced available to ultimate consumers or users.

Types of Trade

Trade may be classified into two broad categories:

- 1) **Internal:** Internal or home trade is concerned with the buying and selling of goods and services within the geographical boundaries of a country. This may further be divided into:
 - a) **Wholesale:** When goods are purchased and sold in bulk, it is known as wholesale trade.
 - b) **Retail:** When goods are purchased and sold in comparatively smaller quantities, it is referred to as retail trade.
- 2) **External:** External or foreign trade consists of the exchange of goods and services between persons or organisations operating in two or more countries.
 - a) **Imports:** If goods are purchased from another country, it is called import trade.
 - b) **Exports:** If they are sold to other countries, it is known as export trade.
 - c) **Entrepot:** When goods are imported for export to other countries, it is known as entrepot trade.

Auxiliaries to Trade

1. Transport and Communication: Production of goods generally takes place in specific locations. But these goods are required for consumption in different parts of the country. Transport removes the obstacle of place. Along with the transport facility, there is also a need for communication facilities so that producers, traders, and consumers may exchange information with one another. Thus, postal services and telephone facilities may also be regarded as auxiliaries to business activities.
2. Banking and Finance: Business activities cannot be undertaken unless funds are available for acquiring assets and meeting the day-to-day expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance.
3. Insurance: Business involves various types of risks. Factory building, machinery, furniture etc. must be protected against fire, theft and other risks. Employees are also required to be protected against the risks of accident and occupational hazards. Insurance provides protection in all such cases.
4. Warehousing: Usually, goods are not sold or consumed immediately after production. They are held in stock to be available as and when required. Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed.
5. Advertising: Advertising is one of the most important methods of promoting the sale of products, particularly, consumer's goods like electronic goods, automobiles, soaps, detergents etc. Most of these goods are manufactured and supplied in the market by numerous firms— big or small. Advertising helps in providing information about available goods and inducing customers to buy items.

Role of Profit in a Business

Profit may be regarded as an essential objective for various reasons:

- 1) It is a source of income for business persons
- 2) It can be a source of finance for meeting expansion requirements of business.
- 3) It indicates the efficient working of business
- 4) It can be taken as society's approval of the utility of business
- 5) It builds up the reputation of the business.

Social Objectives

1. Manager Performance And Development: Business enterprises need managers to conduct and coordinate business activity. Various programmes for motivating managers need to be implemented. Manager performance and development therefore, is an important objective. The enterprises must actively work for this purpose.
2. Worker Performance And Attitude: Worker's performance and attitudes determine their contribution towards productivity and profitability of any enterprise. Therefore, every enterprise must aim at improving its workers performance.
3. Social Responsibility: Social responsibility refers to the obligation of business firms to contribute resources for solving social problems and work in a socially desirable manner.
4. Providing Employment: Businesses may be interested in cutting costs and increasing profits using automation and computerization. But creating job opportunities to improve the status of people is an important aspect of social development.
5. Prevention Of Pollution: Pollution affects hygiene and health of human beings and the environment. One of the social objectives must be to either minimize or eliminate the pollution caused by a business.

Business Risk

Meaning of Business Risk

The term 'business risks' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events.

Nature of Business Risk

1. Business Risks Arise 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 government policy, improvement in technology, etc., are some of the examples of uncertainty which create risks for business because the outcome of these future events is not known in advance.
2. Risk Is an Essential Part Of Every Business: Every business has some risk. No business can avoid risk, although the amount of risk may vary from business to business. Risk can be minimised but cannot be eliminated.
3. Degree of Risk Depends Mainly Upon The Nature And Size Of Business: Nature of business (i.e., type of goods and services produced and sold) and size of business (i.e., volume of production and sale) are the main factors which determine the amount of risk in a business.
4. Profit Is the Reward for Risk Taking: No risk, no gain is an age-old principle, which applies to all types of business. Greater the risk involved in a business, higher is the chance of profit. An entrepreneur undertakes risks under the expectation of higher profit. Profit is thus the reward for risk taking.

Causes of Business Risks

1. Natural Causes: Human beings have little control over natural calamities like flood, earthquake, lightning, heavy rains, famine, etc. They result in heavy loss of life, property, and income in business.
2. Human Causes: Human causes include such unexpected events like dishonesty, carelessness or negligence of employees, stoppage of work due to power failure, strikes, riots, management inefficiency, etc.
3. Economic Causes: These include uncertainties relating to demand for goods, competition, price, collection of dues from customers, change of technology or method of production, etc. Financial problems like rise in interest rate for borrowing, levy of higher taxes, etc., also come under these type of causes as they result in higher unexpected cost of operation of business.
4. Other Causes: These are unforeseen events like political disturbances, mechanical failures such as the bursting of boiler, fluctuations in exchange rates, etc., which lead to the possibility of business risks.

Starting a Business – Basic Factors

- 1) Selecting the line of business: The decision will be influenced by the customer requirements in the market and the kind of technical knowledge and interest the entrepreneur has for producing a product.
- 2) Size of the firm: Size of the firm or scale of its operation is another important decision to be taken at the start of the business. Some factors favour a large size whereas others tend to restrict the scale of operation
- 3) Choice of form of ownership: With respect to ownership, the business organisation may take the form of a sole proprietorship, partnership, or a joint stock company.
- 4) Location of business enterprise: An important factor to be considered at the start of the business is the place where the enterprise will be located. Any mistake in this regard can result in high cost of production, inconvenience in getting right kind of production inputs or serving the customers in the best possible way
- 5) Financing the proposition: Financing is concerned with providing the necessary capital for starting as well as for continuing the proposed business. Capital is required for investment in fixed assets like land, building, machinery, and equipment
- 6) Physical facilities: Availability of physical facilities including machines and equipment, building and supportive services is a very important factor to be considered at the start of the business.
- 7) Plant layout: Once the requirement of physical facilities has been determined, the entrepreneur should draw a layout plan showing the arrangement of these facilities.
- 8) Competent and committed work force: Every enterprise needs competent and committed work force to perform various activities so that physical and financial resources are converted into desired outputs.
- 9) Tax planning: Tax planning has become necessary these days because there are many tax laws in the country and they influence almost every aspect of the functioning of modern business.
- 10) Launching the enterprise: After the decisions relating to the above-mentioned factors have been taken, the entrepreneur can go ahead with actual launching of the enterprise