PART I

Foundations of Business

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CHAPTER 1

NATURE AND PURPOSE OF BUSINESS

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- explain the concept and characteristics of business;
- compare the distinctive features of business, profession and employment;
- classify business activities and clarify the meaning of industry and commerce;
- state various types of industries;
- explain the activities relating to commerce;
- discuss the objectives of business;
- describe the nature of business risks and their causes; and
- discuss the basic factors to be considered while starting a business.

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Imran, Manpreet, Joseph and Priyanka have been classmates in Class X. After their exams are over, they happen to meet at a common friend Ruchika's house. Just when they are sharing their experiences of examination days, Ruchika's father, Mr. Raghuraj Chaudhury intervenes and asks about their well-being. He also enquires from each one of them about their career plans. But none of them has a definite reply. Mr. Raghuraj, who himself is a businessman, suggests to them that they can opt for business as a promising and challenging career. Joseph gets excited by the idea and says, "Yes, business is really good for making lots of money even more than is possible by becoming an engineer or a doctor." Mr. Raghuraj opines, "Let me tell you, young man, there is a lot more to business than merely money". He then gets busy with some other guests. However, the four classmates begin raising many questions: What exactly business is all about? What else is there in business besides money? How is business different from non-business activities? What does one require to start a business? And, so on.

1.1 Introduction

The conversation among the four classmates is obviously focused on the meaning, nature and purpose of business. All human beings, wherever they may be, require different types of goods and services to satisfy their needs. The necessity of supplying goods and services has led to certain activities being undertaken by people to produce and sell what is needed by others. Business is a major economic activity in all modern societies concerned as it is with the production and sale of goods and services required by people. The purpose behind most business activities is to earn money by meeting people's demands for goods and services. Business is central to our lives. Although our lives are influenced by many other institutions in modern society such as schools, colleges, hospitals, political parties and religious bodies, business has the major influence on our daily lives. It, therefore, becomes important that we understand the concept, nature and purpose of business.

1.2 Concept of Business

The term business is derived from the word 'busy'. Thus, business means being busy. However, in a specific sense, business refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services with a view to earning profits. The activity may consist of production or purchase of goods for sale, or exchange of goods or supply of services to satisfy the needs of other people.

In every society people undertake various activities to satisfy their needs. These activities may be broadly classified into two groups — economic and non-economic. Economic activities are those by which we can earn our livelihood whereas non-economic activities are those performed out of love, sympathy, sentiments, patriotism, etc. For example, a worker working in

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a factory, a doctor operating in his clinic, a manager working in the office and a teacher teaching in a school—are doing so to earn their livelihood and are, therefore, engaged in an economic activity. On the other hand, a housewife cooking food for her family or a boy helping an old man cross the road are performing non-economic activities since they are doing so out of love or sympathy. Economic activities may be further divided into three categories, namely business, profession and employment. Business may be defined as an economic activity involving the production and sale of goods and services undertaken with a motive of earning profit by satisfying human needs in society.

1.3 Characteristics of Business Activities

In order to appreciate how business activity is different from other activities in society, the nature of business or its fundamental character must be explained in terms of its distinguishing characteristics, which are as follows:

(i) An economic activity: Business is considered to be an economic activity because it is undertaken with the object of earning money or livelihood and not because of love, affection, sympathy or any other sentimental reason. It may be mentioned here that this activity can be undertaken either at small and individual level, e.g. (purchase and sale by a shopkeeper) or on large scale in a more formal and organised level (purchase and sale by a cooporative society or company).

(ii) Production or procurement of goods and services: Before goods are offered to people for consumption, these must be either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods it deals in or it acquires them from producers, to be further sold to consumers or users. Goods may consist of consumable items of daily use such as sugar, ghee, pen, notebook, etc. or capital goods like machinery, furniture, etc. Services may include facilities offered to consumers, business firms and organisations in the form of transportation, banking, electricity, etc.

(iii) Sale or exchange of goods and services: Directly or indirectly, business involves transfer or exchange of goods and services for value. If goods are produced not for the purpose of sale but say for personal consumption, it cannot be called a business activity. Cooking food at home for the family is not business, but cooking food and selling it to others in a restaurant is business. Thus, one essential characteristic of business is that there should be sale or exchange of goods or services between the seller and the buyer.

(iv) Dealings in goods and services on a regular basis: Business involves dealings in goods or services on a regular basis. One single transaction of sale or purchase, therefore, does not constitute business. Thus, for example, if a person sells his/her domestic radio set even at a profit, it will not be considered a business activity. But if he/she sells radio sets regularly either through a shop or from his/her

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residence, it will be regarded as a business activity.

(v) Profit earning: One of the main purpose of business is to earn income by way of profit. No business can survive for long without earning profit. That is why businessmen make all possible efforts to maximise profits, by increasing the volume of sales or reducing costs.

(vi) Uncertainty of return: Uncertainty of return refers to the lack of knowledge relating to the amount of money that the business is going to earn in a given period. Every business invests money (capital) to run its activities with the objective of earning profit. But it is not certain as to what amount of profit will be earned. Also, there is always a possibility of losses being incurred, in spite of the best efforts put into the business.

(vii) Element of risk: Risk is the uncertainty associated with an exposure to loss. It is caused by some unfavourable or undesirable event. The risks are related with certain factors like changes in consumer tastes and fashions, changes in methods of production, strike or lockout in the work place, increased competition in the market, fire, theft, accidents, natural calamities, etc. No business can altogether do away with risks.

1.4 Comparison of Business, Profession and Employment

As has been mentioned earlier, economic activities may be divided into three major categories viz.,

(i) Business
(ii) Profession
(iii) Employment

Business Functions at Enterprise Level

Business includes a wide variety of functions performed by many different kinds of organisations called business enterprises or firms. Financing, production marketing and human resource management are the four major functions which are performed by business enterprises to carry on business. Financing is concerned with mobilising and utilising funds for running a business enterprise. Production involves the conversion of raw materials into finished products or generation of services. Marketing refers to all those activities which facilitate exchange of goods and services from producers to the people who need them, at a place they want, at a time they require and at a price they are prepared to pay. Human resource management aims at ensuring the availability of working people who have necessary skills to perform various tasks in enterprises.

Business refers to those economic activities, which are connected with the production or purchase and sale of goods or supply of services with the main object of earning profit. People engaged in business earn income in the form of profit.

Profession includes those activities, which require special knowledge and skill to be applied by individuals in

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their occupation. Such activities are generally subject to guidelines or codes of conduct laid down by professional bodies. Those engaged in professions are known as professionals. For example, doctors are engaged in the medical profession and are subject to the regulations of the Medical Council of India, the concerned professional body. Similarly, lawyers are engaged in the legal profession, governed by the Bar Council of India and Chartered Accountants belong to the accounting profession and are subject to the regulations of the Institute of Chartered Accountants of India.

Employment refers to the occupation in which people work for others and get remunerated in return. Those who are employed by others are known as employees. Thus, people who work in factories and receive wages and

COMPARISON OF BUSINESS, PROFESSION AND EMPLOYMENT

Basic	Business	Profession	Employment
1. Mode of establishment	Entrepreneur's decision and other legal formalities, if necessary	Membership of a professional body and certificate of practice	Appointment letter and service agreement
2. Nature of work	Provision of goods and services to the public	Rendering of personalised, expert services	Performing work as per service contract or rules of service
3. Qualification	No minimum qualification is necessary	Qualifications, expertise and training in a specific field as prescribed by the professional body is a must	Qualification and training as prescribed by the employer
4. Reward or return	Profit earned	Professional fee	Salary or wages
5. Capital investment	Capital investment required as per size and nature of business	Limited capital needed for establishment	No capital required
6. Risk	Profits are uncertain and irregular; risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no or little risk
7. Transfer of interest	Transfer possible with some formalities	Not possible	Not possible
8. Code of conduct	No code of conduct is prescribed	Professional code of conduct is to be followed	Norms of behaviour laid down by the employer are to be followed.

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salaries are in the employment of factory owners and are employees of the factory. Similarly, people who work in the offices of banks, insurance companies or government department, as managers, assistants, clerks, peons or security guards are the employees of these organisations.

1.5 Classification of Business Activities

Various business activities may be classified into two broad categories — industry and commerce. Industry is concerned with the production or processing of goods and materials. Commerce includes all those activities which are necessary for facilitating the exchange of goods and services. On the basis of these two categories, we may classify business firms into industrial and commercial enterprises.

Let us examine in detail the activities relating to business.

1.6 Industry

Industry refers to economic activities, which are connected with conversion of resources into useful goods. Generally, the term industry is used for activities in which mechanical appliances and technical skills are involved. These include activities relating to producing or processing of goods as well as breeding and raising of animals. The term industry is also used to mean

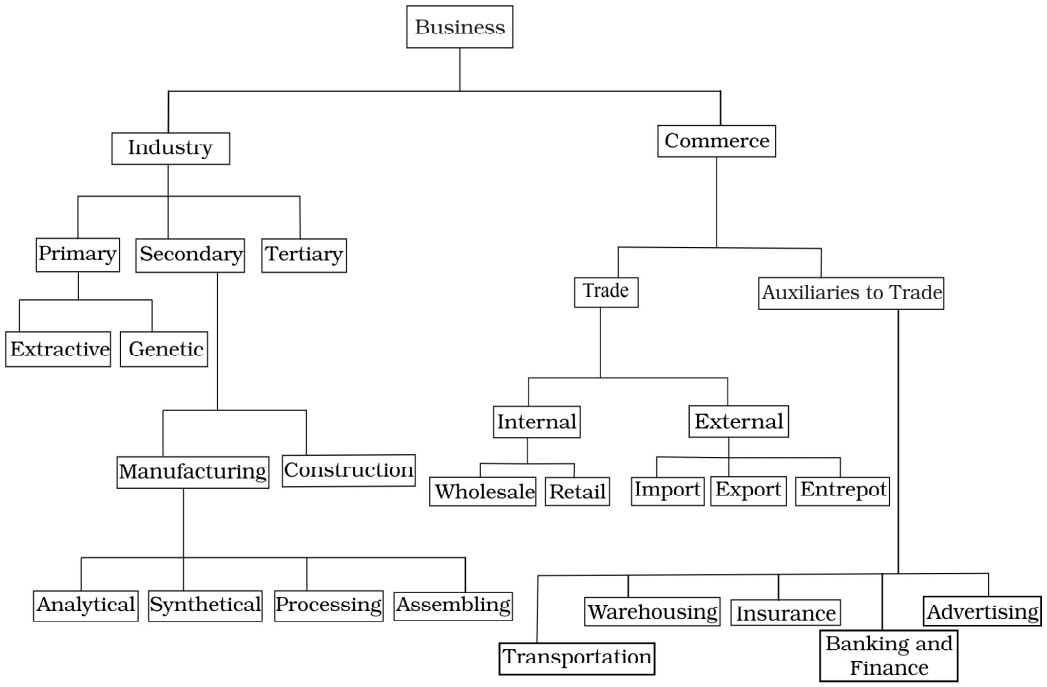

CHART SHOWING BUSINESS ACTIVITIES

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groups of firms producing similar or related goods. For example, cotton textile industry refers to all manufacturing units producing textile goods from cotton. Similarly, electronic industry would include all firms producing electronic goods, and so on. Further, in common parlance, certain services like banking and insurance are also referred to as industry, say banking industry, insurance industry etc.

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

(a) Primary industries: These include all those activities which are connected with the extraction and production of natural resources and reproduction and development of living organisms, plants etc. These industries may be further sub-divided as follows:

(i) Extractive industries: These industries extract or draw out products from natural sources. Extractive industries supply some basic raw materials that are mostly products of geographical or natural environment. Products of these industries are usually transformed into many other useful goods by manufacturing industries. Important extractive industries include farming, mining, lumbering, hunting and fishing operations.

(ii) 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. In addition, activities of cattle-breeding farms, poultry farms, and fish hatchery come under the class of genetic industries.

(b) 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. For example, mining of an iron ore is a primary industry, but manufacturing of steel by way of further processing of raw irons is a secondary industry. Secondary industries may be further divided as follows:

(i) Manufacturing industries: These industries are engaged in producing goods through processing of raw materials and thus creating form utilities. They bring out diverse finished products, that we consume, or use through the conversion of raw materials or partly finished materials in their manufacturing operations. Manufacturing industries may be further divided into four categories on the basis of method of operation for production.

Analytical industry which analyses and separates different elements from the same materials, as in the case of oil refinery.

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Synthetical industry which combines various ingredients into a new product, as in the case of cement.

Processing industry which involves successive stages for manufacturing finished products, as in the case of sugar and paper.

Assembling industry which assembles different component parts to make a new product, as in the case of television, car, computer, etc.

(ii) 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.

(c) 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 these activities assist trade. Included in this category are transport, banking, insurance, warehousing, communication, packaging and advertising.

1.7 Commerce

Commerce includes two types of activities, viz., (i) trade and (ii) auxiliaries to trade. Buying and selling of goods is termed as *trade*. But there are a lot of activities that are required to facilitate the purchase and sale of goods. These are called services or auxiliaries to trade and include transport, banking, insurance, communication, advertisement, packaging and warehousing. Commerce, therefore, includes both, buying and selling of goods i.e., trade, as well as auxiliaries such as transport, banking, etc.

Commerce provides the necessary link between producers and consumers. It embraces all those activities, which are necessary for maintaining a free flow of goods and services. Thus, all activities involving the removal of hindrances in the process of exchange are included in commerce. The hindrances may be in respect of persons, place, time, risk, finance, etc. The hindrance of persons is removed by trade, thereby making goods available to the consumers from the possession or ownership producers. Transport removes the hindrances of place by moving goods from the places of production to the markets for sale. Storage and warehousing activities remove the hindrance of time by facilitating holding of stocks of goods to be sold as and when required. Goods held in stock as well as goods in course of transport are subject to the risk of loss or damage due to theft, fire, accidents, etc. Protection against these risks is provided by insurance of goods. Capital required to undertake the above activities is provided by banking and financing institutions. Advertising

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makes it possible for producers and traders to inform consumers about the goods and services available in the market. Hence, commerce is said to consist of activities of removing the hindrances of persons, place, time, risk, finance and information in the process of exchange of goods and services.

1.7.1 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. These days goods are produced on a large scale and it is difficult for producers to themselves reach individual buyers for sale of their products. Businessmen are engaged in trading activities as middlemen to make the goods available to consumers in different markets. In the absence of trade, it would not be possible to undertake production activities on a large scale.

Trade may be classified into two broad categories — internal and external. Internal, domestic 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 wholesale and retail trade. When goods are purchased and sold in bulk, it is known as wholesale trade. When goods are purchased and sold in comparatively smaller quantities, for final consumption it is referred to as retail trade. External or foreign trade consists of the exchange of goods and services between persons or organisations operating in two or more countries. If goods are purchased from another country, it is called import trade. If they are sold to other countries, it is known as export trade. When goods are imported for export to other countries, it is known as entrepot trade.

1.7.2 Auxiliaries to Trade

Activities which are meant for assisting trade are known as auxiliaries to trade. These activities are generally referred to as services because these are in the nature of facilitating the activities relating to industry and trade. Transport, banking, insurance, warehousing, and advertising are regarded as auxiliaries to trade, i.e., activities playing a supportive role. In fact, these activities support not only trade, but also industry and hence, the entire business activity. Auxiliaries are an integral part of commerce in particular and business activity in general. These activities help in removing various hindrances which arise in connection with the production and distribution of goods. Transport facilitates movement of goods from one place to another. Banking provides financial assistance to the manufacturer and trader. Insurance covers various kinds of business risks. Warehousing creates time utility by way of storage facilities. Advertising provides information to the consumers. In other words, these activities facilitate movement, storage, financing, risk coverage and sales promotion of goods. Auxiliaries to trade are briefly discussed below:

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(i) Transport and Communication: Production of goods generally takes place in particular locations. For instance, tea is mainly produced in Assam; cotton in Gujarat and Maharashtra; jute in West Bengal and Orissa; sugar in U.P, Bihar and Maharashtra and so on. But these goods are required for consumption in different parts of the country. The obstacle of place is removed by transport through road, rail or coastal shipping. Transport facilitates movement of raw material to the place of production and the finished products from factories to the place of consumption. 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.

(ii) Banking and Finance: Business activities cannot be undertaken unless funds are available for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance. Commercial banks generally lend money by providing overdraft and cash credit facilities, loans and advances. Banks also undertake collection of cheques, remittance of funds to different places, and discounting of bills on behalf of traders. In foreign trade, commercial banks help exporters in collecting money from importers. Commercial banks also help promoters of companies to raise capital from the public.

(iii) Insurance: Business involves various types of risks. Factory building, machinery, furniture etc. must be protected against fire, theft and other risks. Materials and goods held in stock or in transit are subject to the risk of loss or damage. Employees are also required to be protected against the risks of accident and occupational hazards. Insurance provides protection in all such cases. On payment of a nominal premium, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.

(iv) Warehousing: Usually, goods are not sold or consumed immediately after production. They are held in stock to make them available as and when required. Special arrangement must be made for storage of goods to prevent loss or damage. Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed. Prices are thereby maintained at a reasonable level through continuous supply of goods.

(v) Advertising: Advertising is one of the most important methods of promoting the sale of products, particularly, consumers 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. It is practically impossible for producers and traders to contact each

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and every customer. Thus, for promoting sales, information about the goods and services available, their features, price, etc., must reach potential buyers. Also there is a need to persuade potential buyers about the uses, quality, prices, competitive information about the goods and services etc. Advertising helps in providing information about available goods and services and inducing customers to buy particular items.

1.8 Objectives of Business

An objective is the starting point of business. Every business is directed to the achievement of certain objectives. Objectives refer to all that the business people want to get in return for what they do. It is generally believed that business activity is carried on only for profit. Business persons themselves proclaim that their primary objective is to produce or distribute goods or services for a profit. Every business is said to be an attempt on the part of business people to get more than what has been spent or invested or, in other words, to earn profit which is the excess of revenue over cost. However, it is being increasingly realised nowadays that business enterprises are part of society and need to have several objectives, including social responsibility to survive and prosper in the long run. Profit is found to be a leading objective but not the only one.

Although earning profit cannot be the only objective of business, its importance cannot be ignored. Every business is an attempt to reap more than what has been invested, and profit is the excess of revenue over cost. Profit may be regarded as an essential objective of business for various reasons: (i) it is a source of income for business persons, (ii) it can be a source of finance for meeting expansion requirements of business, (iii) it indicates the efficient working of business, (iv) it can be taken as society's approval of the utility of business, and (v) it builds up the reputation of a business enterprise.

However, too much emphasis on profit to the exclusion of other objectives can be dangerous for good business. Obsessed with profit, business managers may neglect all other responsibilities towards customers, employees, investors and society at large. They may even be inclined to exploit various sections of society to earn immediate profit. This may result in the non-cooperation or even opposition from the affected people against the malpractices of business enterprises. The enterprises might lose business and may be unable to earn profit. That is the reason why there is hardly any sizable business enterprise whose only objective is maximisation of profit.

1.8.1 Multiple Objectives of Business

Objectives are needed in every area that influences the survival and prosperity of business. Since a business has to balance a number of needs and goals, it requires multiple objectives. It cannot follow only one objective and expect to achieve excellence. Objectives have

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to be specific in every area and sphere of business. For example, sales targets have to be set, the amount of capital to be raised has to be estimated and the target number of units to be produced needs to be defined. The objectives define in concrete terms what the business is going to do. Objectives also enable the business to analyse their own performance and take steps as neccessary to improve their performance in future.

Objectives are needed in every area where performance and results affect the survival and prosperity of business. Some of these areas are described below:

(a) **Market standing:** Market standing refers to the position of an enterprise in relation to its competitors. A business enterprise must aim at standing on stronger footing in terms of offering competitive products to its customers and serving them to their satisfaction.

(b) **Innovation:** Innovation is the introduction of new ideas or methods in the way something is done or made. There are two kinds of innovation in every business i.e., (i) innovation in product or service; and (ii) innovation in various skills and activities needed to supply products and services. No business enterprise can flourish in a competitive world without innovation. Therefore, innovation becomes an important objective.

(c) **Productivity:** Productivity is ascertained by comparing the value of output with the value of inputs. It is used as a measure of efficiency. In order to ensure continuous survival and progress, every enterprise must aim at greater productivity through the best use of available resources.

(d) **Physical and financial resources:** Any business requires physical resources like plants, machines, offices, etc., and financial resources, i.e., funds to be able to produce and supply goods and services to its customers. The business enterprise must aim at acquiring these resources according to their requirements and use them efficiently.

(e) **Earning profits:** One of the objectives of business is to earn profits on the capital employed. Profitability refers to profit in relation to capital investment. Every business must earn a reasonable profit which is so important for its survival and growth.

(f) **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.

(g) **Worker performance and attitude:** Worker's performance and attitudes determine their contribution towards productivity and profitability of any

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enterprise. Therefore, every enterprise must aim at improving its workers performance. It should also try to ensure a positive attitude on the part of workers.

(h) 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.

Thus, a business enterprise must have multiple objectives to satisfy different individuals and groups. This is essential for its own survival and prosperity.

1.8.2 Business Risks

The term 'business risks' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. For example, demand for a particular product may decline due to change in tastes and preferences of consumers or due to increased competition from other producers. Lower demand results in long sales and profits. In another situation, the shortage of raw materials in the market may shoot up its price. The firm using these raw materials will have to pay more for buying them. As a result, cost of production may increase which, in turn, may reduce profits.

Business enterprises constantly face two types of risk: speculative and pure. Speculative risks involve both the possibility of gain as well as the possibility of loss. Speculative risks arise due to changes in market conditions including fluctuations in demand and supply, changes in prices or changes in fashion and tastes of customers. Favourable market conditions are likely to result in gains whereas unfavourable ones may result in losses. Pure risks involve only the possibility of loss or no loss. The chance of fire, theft or strike are examples of pure risks. Their occurrence may result in loss, whereas non-occurrence may explain absence of loss, instead of gain.

1.9 Nature of Business Risks

Nature of business risks can be understood in terms of their peculiar characteristics:

(i) 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.

(ii) 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.

(iii) 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

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factors which determine the amount of risk in a business. For example, a business dealing in fashionable items has a high degree of risk. Similarly, a large-scale business generally has a higher risk than what a small scale has.

(iv) 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.

1.9.1 Causes of Business Risks

Business risks arise due to a variety of causes, which are classified as follows:

(i) Natural causes: Human beings have little control over natural calamities like flood, earthquake, lightning, heavy rains, famine, etc. These result in heavy loss of life, property and income in business.

(ii) 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.

(iii) 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.

(iv) 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.

Methods of Dealing with Risks

Although no business enterprise can escape the presence of risk, there are many methods it can use to deal with risk situations. For instance, the enterprise may (a) decide not to enter into too risky transaction; (b) take preventive measures like firefighting devices to reduce risk; (c) take insurance policy to transfer risk to insurance company; (d) assume risk by making provisions in the current earnings as is the case of provision for bad and doubtful debts; or (e) share risks with other enterprises as manufacturers and wholesalers may do by agreeing to share losses which may be caused by falling prices.

1.9.2 Starting a Business — Basic Factors

Starting a business enterprise is similar to any other human effort in which resources are employed to achieve certain objectives. Successful results in business depend largely upon the ability of the entrepreneurs or the starters of a new business to anticipate problems and solve them with

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minimum cost. This is especially true of the modern business world where competition is very tough and risks are high. Some of the problems, which business firms encounter, are of a basic nature. For example, to start a factory, plans must be made and implemented about such problems as the location of the business, the possible number of customers, the kind and amount of equipment, the shop layout, purchasing and financing needs, and hiring of workers. These problems become more complex in a big business. However, some of the basic factors, which must be considered by anybody who is to start the business are as follows:

(i) Selection of line of business: The first thing to be decided by any entrepreneur of a new business is the nature and type of business to be undertaken. He will obviously like to enter that branch of industry and commerce, which has the possibility of greater amount of profits. The decision will be influenced by the customer requirements in the market and also the kind of technical knowledge and interest the entrepreneur has for producing a particular product.

(ii) 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. If the entrepreneur is confident that the demand for the proposed product is likely to be good over time and he can arrange the necessary capital for business, he will start the operation at a large scale. If the market conditions are uncertain and risks are high, a small size business would be better choice.

(iii) Choice of form of ownership: With respect to ownership, the business organisation may take the form of a sale proprietorship, partnership, or a joint stock company. Each form has its own merits and demerits. The choice of the suitable form of ownership will depend on such factors as the line of business, capital requirements, liability of owners, division of profit, legal formalities, continuity of business, transferability of interest and so on.

(iv) 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. Availability of raw materials and labour; power supply and services like banking, transportation, communication, warehousing, etc., are important factors while making a choice of location.

(v) 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

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and in current assets like raw materials, book debts, stock of finished goods, etc. Capital is also required for meeting day-to-day expenses. Proper financial planning must be done to determine (a) the requirement of capital, (b) source from which capital will be raised and (c) the best ways of utilising the capital in the firm.

(vi) 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. The decision relating to this factor will depend on the nature and size of business, availability of funds and the process of production.

(vii) Plant layout: Once the requirement of physical facilities has been determined, the entrepreneur should draw a layout plan showing the arrangement of these facilities. Layout means the physical arrangement of machines and equipment needed to manufacture a product.

(viii) Competent and committed worked force: Every enterprise needs competent and committed work force to perform various activities so that physical and financial resources are converted into desired outputs. Since no individual entrepreneur can do everything himself, he must identify the requirement of skilled and unskilled workers and managerial staff. Plans should also be made about how the employees will be trained and motivated to give their best performance.

(ix) 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. The founder of the business has to consider in advance the tax liability under various tax laws and its impact on business decisions.

(x) 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 which would mean mobilising various resources, fulfilling necessary legal formalities, starting the production process and initiating the sales promotion campaign.

Key Terms

Economic Activity	Employment	Commerce
Business	Industry	Profit
Profession	Trade	Risk

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SUMMARY

Concept and characteristics of business: Business may be defined as an economic activity involving the production and sale of goods and services undertaken with the motive of earning profit by satisfying human needs in society. It's distinguished characteristics are: (i) an economic activity, (ii) production or procurement of goods and services, (iii) sale or exchange of goods and services for the satisfaction of human needs, (iv) dealings in goods and services on a regular basis, (v) profit earning, (vi) uncertainty of return, and (vii) element of risk.

Comparison of business, profession and employment: Business refers to those economic activities which are connected with the production or purchase and sale of goods or supply of services with the main object of earning profit. Profession includes those activities, which require special knowledge and skill to be applied by individuals in their occupation. Employment refers to the occupation in which people work for others and get remunerated in return. The three can be compared on the basis of mode of establishment, nature of work, qualification required, reward or return, capital investment, risk, transfer of interest and code of conduct.

Classification of business activities: Business activities may be classified into broad categories: industry and commerce. Industry refers to economic activities which are connected with conversion of resources into useful goods. Industries may be: primary, secondary or tertiary. Primary industries are connected with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc. Primary industries may be: extractive (like mining) or genetic (like poultry farms). Secondary industries are concerned with using the materials which have already been extracted at the primary stage. These industries could be: manufacturing or construction. Manufacturing industries may be further classified into analytical, synthetical, processing and assembling industries. Tertiary industries are concerned with providing support services to primary and secondary industries as well as activities relating to trade.

Commerce includes activities relating to trade and auxiliaries to trade. Trade refers to sale, transfer or exchange of goods. It could be classified as internal (domestic) and external (foreign) trade. Internal trade may be wholesale trade or retail trade. External trade could be import, export or entrepot trade. Auxiliaries to trade are activities which assist trade. These include transport and communication, banking and finance, insurance, warehousing, and advertising.

Objectives of business: Although earning of profit is considered to be the primary objective, objectives are needed in every area where performance results affect the survival and prosperity of business. Some of these areas are: market standing, innovation, productivity, physical and financial

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resources, earning profits manager performance and development, worker performance and attitude, and social responsibility.

Business risks: The term 'risk' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. Its nature can be explained with the help of its peculiar characteristics which are:

(i) Business risks arise due to uncertainties,
(ii) Risk is an essential part of every business,
(iii) Degree of risk depends mainly upon the nature and size of business, and
(iv) Profit is the reward for risk taking. Business risks arise due to a variety of causes including natural, human, economic and other causes.

Starting a business — basic factors: Some of the basic factors which must be considered by anybody who is to start the business are: selection of line of business, size of the firm, choice of form of ownership, location of business enterprise, financing the proposition, physical facilities, plant layout competent and committed workforce, tax planning and launching the enterprise.

EXERCISES

Multiple Choice Questions

1. Which of the following does not characterise business activity?
   (a) Production of goods and services
   (b) Presence of risk
   (c) Sale or exchange of goods and services
   (d) Salary or wages

2. Which of the broad categories of industries covers oil refinery and sugar mills?
   (a) Primary
   (b) Secondary
   (c) Tertiary
   (d) None of these

3. Which of the following cannot be classified as an auxilliary to trade?
   (a) Mining
   (b) Insurance
   (c) Warehousing
   (d) Transport

4. The occupation in which people work for others and get remunerated in return is known as
   (a) Business
   (b) Employment
   (c) Profession
   (d) None of these

5. The industries which provide support services to other industries are known as
   (a) Primary industries
   (b) Secondary industries
   (c) Tertiary industries
   (d) None of these

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6. Which of the following cannot be classified as an objective of business?
   (a) Investment (b) Productivity
   (c) Innovation (d) Profit earning
7. Business risk is not likely to arise due to
   (a) Changes in government policy (b) Good management
   (c) Employee dishonesty (d) Power failure

Short Answer Questions

1. State the different types of economic activities.
2. Why is business considered an economic activity?
3. State the meaning of business?
4. How would you classify business activities?
5. What are various types of industries?
6. Explain any two business activities which are auxiliaries to trade.
7. What is the role of profit in business?
8. What is business risk? What is its nature?

Long Answer Questions

1. Define business. Describe its important characteristics.
2. Compare business with profession and employment.
3. Define Industry. Explain various types of industries giving examples.
4. Describe the activities relating to commerce.
5. Explain any five objectives of business.
6. Explain the concept of business risk and its causes.
7. What factors are important to be considered while starting a business? Explain.

Projects/Assignments

1. Visit any business unit in your locality. Interact with the owner to find out the steps in starting the business. Prepare a project report of your visit.

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