Contents

CHAPTER 1

INTRODUCTION TO BUSINESS

1 BUSINESS

1.1 Concept and Meaning of Business

All human beings require different types of goods and services to satisfy their needs. Different goods and services can be purchased by visiting the stores or online. A business produces the goods and services and ends with the consumption by the consumers. Between production and consumption there are several steps. Production comes under industry and rest of the steps is part of commerce. To summarize business is a broad concept under which comes.trade, industry and commerce.

Business: Business is derived from the word ‘busy”. Thus business means being busy. Any organized economic activity that engages in production, purchase, sale or distribution of goods & and services. Business can be referred to the mechanism of exchanging of goods and services which of value to the humans and can generate profit by satisfying the human need, want and desires.

According to William Pride: “Business is the organized effort of individuals to produce and sell for a profit the goods and services that satisfies the need of society”

According to W.R.Lewis: “Business is any human activity directed towards producing or acquiring wealth through buying and selling goods.”

According to L.R.Dickesee;”Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted.”

1.2 Core Elements of Business

The success of Business depends upon three core elements

Core Element	Description
Economic Element	This involves exchange of goods and services with intention to generate profit
Social Element	Satisfying market or social needs through an organized human effort
Systematic Element	Proper execution of Business planning, allocation resources and funds with proper management of and setting of SMART goals for the success of business.

1.3 Core Concepts of Business

Goods Vs Services: Goods are tangible products which can be touched, while services are intangible that cannot be touched physically.

Revenue Vs Profit: Revenue is the total money coming from the sales. Profit is the amount left after subtracting all the operating expenses.

Risk and Uncertainty: Changing consumer preferences, increased competition and economic factors are the uncertain conditions that the business owners face.

2 Features of Business

Economic Motive: The activities carried out to sustain financially and earn livelihood

Regularity and Continuity: The business transactions must be regular and continuous rather than being an isolated transaction.

Creation of Utility: Business creates utility for the society by procuring raw materials, finishing the goods, moving and storing the goods.

Mitigating the Risk: Making profit is never guaranteed. However business needs to take calculated risk to withstand the uncertain conditions.

3. Stages of Development of Business

Business has evolved based on social, legal and technological need shifting from basic survival to complex global network. Business has played a vital role since time immemorial. According to the archaeological studies the trading activities were carried out both through land and sea. Bulk of trade was carried out through the silk route and maritime trade. The trading was done to serve both the domestic and the international market. Various economic activities such as agriculture, domestication of animals. Weaving cotton, making clay pots, etc.Money was circulated freely which led to development of indigenous banking system to give credit facilities to the business. Since carrying huge sum of money while travelling long distances to carry out trade was risky which led to the use of intangible form of money which was known as “Hundi” & “Chitties”.The ease of doing business and free availability of loans led to balance of trade where exports exceeded the imports. Many travelers including Megasthenes,Al Beruni & Ibn Batuta praised Indian trading system. With the arrival of East India Company, under the British rule the Indian economy deteriorated. From being exporter of finished goods, India became exporter of raw materials and importer of finished goods. After gaining independence from British rule India inherited fragile economy, the financial system was weak, huge fiscal deficit, more allocation of budget money on defense the fiscal deficit gap started to broadening as a result India liberated the economy in 1991.Post 1991 Indian economy has been growing as one of fastest economies of the world. The recent initiative of the government on “Make in India”, “Made in India”, “Skill India”, “Digital India “has helped the Indian economy with balance of trade.

Stages of Development in Nutshell

- ✓ Self Sufficiency & Hunting Stag

There was no business, trade orxmarket. Whatever was produced was consumed independently

- ✓ Barter System

There was exchange or swapping of goods e.g wheat for rice

- ✓ Invention of Money and Trading

The money in form of shell, salt,cattle which eventually led to minting of metal coins. Standard prices were set for commodity & trading was done through trade routes.

- ✓ Guild System

Traders organized themselves to guilds to protect their economic interest, regulate the trade quality and control prices within a specified town to keep out the outside competition. Towns flourished giving birth to merchant class.

- ✓ Age of Mercantilism and Growth of Global Trading Companies

Maritime trade or the trade through sea route grew, Nations began to adopt mercantilism where governments maximized exports, minimizing the imports and began accumulating precious metals. Duch East India Company and British East India Company were the world’s first public joint stock companies who began issuing shares on the stock exchanges.

- ✓ Industrial Revolution

The invention of steam engine completely revolutionized manufacturing. Production moved out of the homes to the factories. Business shifted from individual artisans to assembly line production. To distribute the huge surplus of goods business adopted branding and mass marketing strategies.

- ✓ Corporate and Management Professional Age

Instead of business being run by family salaried professionals were hired as managers. There was rise in multinational corporations and supply chain became more complex. The era saw specialized business education (MBA’s)

- ✓ Digital and E-Commerce age

The birth of internet and mobile phones has redefined the speed and accessibility of business transactions. With the rise of E-commerce platforms such as Amazon,Alibaba , cloud computing and digital payments physical borders have disappeared.

4. Features of Business

To distinguish business from other activities of society the nature of business are as follows:

a. As Social Institution: It relies on society for the raw material, labour and provides goods as output to the society. It looks after the interest of various social groups such as consumers, employees and community. It operates under the laws of the society and ensures that the business has the trust of the society.

b. As economic activity: Business is not driven by love, emotion or affection but it is purely an economic activity with the objective of earning livelihood or making profit.

c. Production/Procurement: Goods meant for consumption must either be produced or procured. If the goods are meant for self consumption then it is not business. For business there must be two parties-buyers & seller the goods should be transferred between buyer and seller for money or exchanged through barter system.

d. Dealing in goods & services: Business deals with goods and services. The goods may be final goods meant for consumption by either customers or consumers or they may be producer goods such as machinery meant for further consumption. Business is also concerned with the services such as banking, insurance etc.

e. Continuity & Regularity: A single transaction is not considered as business. Any activity which happens at regular interval is considered to be business. If a person sells his jewelry once is not considered as business however he repeatedly purchases and sells his jewelry is considered as business. How frequently the transaction happens depend on the nature of the business. A newspaper hawker sells his newspaper daily but a construction company takes years to build the housing society.

f. Profit Earning: Profit earning is the basis of any business. If the business is not able to generate the profit then the business would shut down. It is the profit which drives the business to take financial risk and is essential for long term growth of any business.

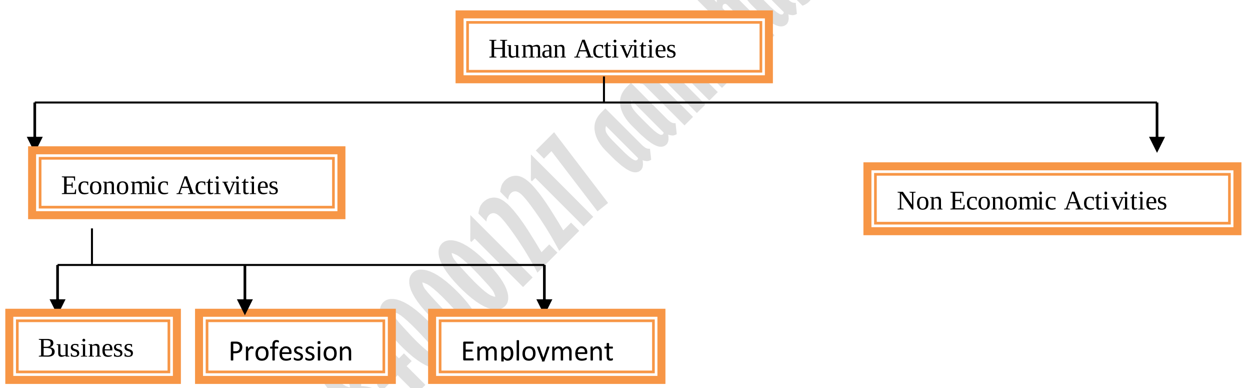
g. Element of risk: In every business there is possibility of incurring losses not only due to bad decisions but due to uncertain conditions and changing preferences of consumers, competition or economic changes. Losses due to such uncertain conditions can be termed as risk for the business owners. There are two types of risk(i) Risk whose probability can be calculated e.g. floods, fire theft etc.(ii) Risk whose probability cannot be calculated and they cannot be insured e.g. changing technology would render your technology as obsolete, changing fashion or fad.

h. Creation of Utility: Business add value to the raw materials by changing their forms(form utility) store them until needed(time utility),or transporting them where they are required(place utility).

i. All activities related to production may be called as “Industry”

j. All activities related to exchange of goods and services may be called as “Commerce”

4.1 Human Activities



Human activities include whatever we do in our daily life. All human being are engaged in some or the other activities since the time we get up in the morning till the time we go to sleep. Children go to school, elders go to office, and farmers go to field. A child going to school does not produce any economic benefits however going to office or farm produce economic benefits. Thus we can classify human activities into (a) economic (b) non economic

Economic activities: Activities taken by human beings to earn livelihood or earn money. Economic activity is concerned with production or exchange of goods and services. For example doctor working in a hospital, farmer working in a field.

Economic activities may further be classified as (i) business (ii) profession (iii) employment

Non Economic activities: Activites done by human beings out of love, affection, social or religious obligation or out of patriotism but not for the sake of earning money. Children going to school, social worker working for the underprivileged poor

5. Objectives of Business

Profit making is an important criteria for the business to be successful however profit earning is not the only criteria for the business to be successful. As said by Henry Ford "Business is not only money chasing but should also aim at serving the community". Therefore serving the community is also important criteria for the business. According to some authors serving the community is the major objective of the business and this is the main justification for the existence of business as an important human activity. Therefore we can sum up that profit is the basic criteria for any business to stay in the competition but business should aim for something more for the survival and growth.

The objectives of the business can be categorized as:

i. Economic Objectives:

To achieve economic goals is the primary objectives of the business.Some of the economic objectives are

- Earning satisfactory profits
- Exploring more markets and creating new customers
- Growth and expansion of the business
- Increase market share
- Maximum utilization of 4M's(Men,Machine,Material,Money)

ii. Social Objectives:

Business being part of society has some obligations towards the society. Some of the major social objectives are:

- Supply quality goods to the society
- Provide the goods and services to the society at reasonable prices
- Ensure there is no profiteering and unfair practices
- Ensure welfare activities for the society such as building public facilities and promoting economic sustainability

iii. Human Objectives

Business activities are carried out by employees. The efficiency of business depends on the motivation and ability of the employees. Therefore business must also have some human objectives to safeguard the interest of the employees. Some of the major human objectives are:

- Fair wages to the employees
- Good working conditions to the employees
- Job satisfaction to the employees

- ➢ Provide better growth, training & career opportunities to the employees

iv. National Objectives

- ➢ Create jobs and reduce the unemployment rate
- ➢ Pay taxes to the government to fund the public infrastructure and services
- ➢ Protect environment and local resources

6. Business Employment and Profession

You have analyzed the business, mow let us differentiate between business. employment and profession

Features	Business	Profession	Employment
Establishment	An individual or group of individuals by fulfilling legal formalities can start business	Earn basic degree, training & become member of the professional body	Signs employment contract with the employer
Qualification	No basic qualification is required	Professional knowledge and training in the relevant field is required	In some jobs cerrain specialized qualification is required else in other jobs no specialized degree is required.
Investment	Capital is required	To establish office some capital is required	Capital is not required
Nature of work	Production/exchange of goods or services	Specialized nature of personalized job for the clients	Perform the work given by employer under the service contract
Motive	Earn Profit	Charge fee but giving good service is key	Mainly to earn livelihood
Reward	Profit	Professional fee	Salary
Transfer of ownership	Business can be transferred	Cannot Transfer	Cannot Transfer
Risk	Risk of loss	Fee not enough to sustain	No risk. Monthly salary is given

Question 1 what is the difference between economic & non economic activity?

Question 2 what is Business?

Question 3 what is Profession?

Question 4 what is employment?

Question 5 Classify the following activities into business. profession and employment

- Selling vegetables
- A person working in retail store
- A doctor working in a hospital
- A lawyer has started his own practice
- Manufacturing of soaps

Question 6 State whether True or False

1. Sole objective of business is to earn profit
2. Profession is non economic activity
3. Employment is economic activity
4. There is no element of risk in business
5. Industry is not part of business activity
6. Mother teaching her son is an economic activity
7. Activities taken up for earning money are called economic activity
8. In case of employment ownership can be transferred
9. Any activity can be termed as business if taken up continuously or recurrently
10. Industry and commerce together constitute business activity