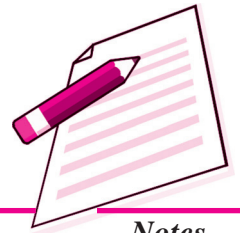




319en01

1

NATURE AND SCOPE OF BUSINESS



Notes

In your day-to-day life you may be engaged in several activities. However, when some one asks you as to what you want to become in your life or what you want to do in future, your answer may be – “I want to join a suitable job or I want to become a doctor, an engineer, a dancer or a musician”, or you may say, “I want to do my own business”. But why do you want to do any of such activities? Obviously, it is mainly to earn your livelihood. Broadly speaking, every human activity in which one is engaged for the purpose of earning one’s livelihood is known as economic activity. In this lesson we shall learn about all such activities, their categorisation and some other related aspects.



OBJECTIVES

After studying this lesson, you will be able to:

- define human activities;
- classify human activities as economic and non-economic activities;
- explain the role of profit in business;
- explain the meaning and characteristics of different categories of economic activities;
- explain the concept of business and distinguish it from profession and employment;
- describe the objectives and importance of business in modern society; and
- identify different types of business activities.

1.1 HUMAN ACTIVITIES

Every human being is engaged in one activity or the other. It may be cultivating land, preparing food, playing football, reading storybooks, studying in a school, teaching in a

MODULE - 1

Business Around Us



Notes

Nature and Scope of Business

college, working in an office, jogging in the park and so on. If you try to ascertain as to why individuals engage themselves in one activity or the other, you will find that by doing such activities they are trying to satisfy some of their needs or wants. All these activities which human beings undertake to satisfy their needs or wants are called human activities.

However, even if all human activities satisfy the needs and wants, they differ among each other in terms of the purpose for which they are undertaken and the end result. For example, let us take the activity of preparing food – one prepared by a mother at home for her family and the other by a cook in a hotel. Here you will notice that the purpose and end result of the activity of preparing food (a) by a mother and (b) by a cook varies. In the first case, the purpose is to feed the family members without any expectation of monetary return while in the second case, cooking food is a part of his job so as to earn money in terms of salary or wage. The end result in the first case is 'self-satisfaction' and looking after the family, while in the second case it is 'earning money' for livelihood.

The human activities that are undertaken with an objective to earn money or livelihood are called **economic activities**. Whereas the other types of activities that are undertaken to derive self-satisfaction, are called **non-economic activities**. A farmer growing crops, a worker working in a factory for wage/salary, a businessman engaged in buying and selling of goods are examples of economic activities. While activities like meditation, engaging in sports for physical fitness, listening to music, providing relief to flood victims etc., are examples of non-economic activities.



INTEXT QUESTIONS 1.1

1. Define 'economic activities'.
2. Below are given certain non-economic activities. Convert them into economic activities.

Example: A nurse attending her ailing son. (Non-economic activity)

A nurse attending patients in her hospital. (Economic activity)

- (a) A person working in his own garden.
- (b) A lady preparing food for her husband.
- (c) A man white-washing his own house.
- (d) A teacher teaching his son at home.
- (e) A chartered accountant preparing his own accounts.

1.2 CLASSIFICATION OF ECONOMIC ACTIVITIES

Economic activity can be a one-shot affair or a continuous one. For example, you know how to stitch clothes and one day you stitch a shirt for your friend and he pays some money to you. Of course, this is an economic activity as you have some monetary gain but it is a one-shot affair. But, if you start stitching shirts on a continuous basis and charge money for that, you are said to be engaged in some continuous or regular economic activity. It may be noted that by getting themselves engaged regularly in a particular economic activity people try to earn their livelihood. So, the activities in which individuals engage themselves on a regular basis and earn their livelihood are known as their '**occupations**'.

In fact everyone is engaged in one occupation or the other, and these can be broadly categorised as –

- (a) Profession;
- (b) Employment; and
- (c) Business.

Let us know a few more details about these occupations.

1.2.1 Profession

You are aware of doctors. What are they and what do they do? They are basically individuals who have a special knowledge and training to examine the patients, find out the ailment, if any, and then treat them to be cured from such ailment. And, for doing all these they charge a fee from patients. Similarly, we have Chartered Accountants who specialise in matters related to accounts, taxes etc. and help people and organisations for such jobs for a fee. If we look further, we find Engineers, Architects, Film-stars, Dancers, Artists and many others engaged in their own field having specialised knowledge and training. They are all known as professionals and the activities they are engaged in are called profession.

In order to gain clarity on the concept of a profession, let us look at its basic features which can be summarised as follows:

- (a) Profession is an occupation for which the individual has to acquire a special knowledge and skill.
- (b) The money they get for providing such a service is usually known as 'fee'.
- (c) Most of the professionals are regulated by a professional body, which frames the code of conduct to be followed by the member professionals. For example, Chartered Accountants in India are regulated by a professional body known as Institutes of Chartered Accountants of India, Cricketers by International Cricket Council (ICC), and so on.



Notes

MODULE - 1

Business Around Us



Notes

Nature and Scope of Business

- (d) Professionals acquire the specialised knowledge mostly from colleges, universities or specialised institutes. In some cases, individuals also acquire such knowledge and skill through training or coaching by an expert in the same field, say for example, dancers and musicians, etc.
- (e) Professionals usually work on their own and get a fee for their services and termed as those in practice. However, some of them may work in organisations as employees or consultants.
- (f) The primary objective of every profession is to provide service though they may charge a fee. They should not exploit the people using their knowledge of expertise.

All those economic activities which involves the rendering of personal service of specialised and expert nature based on professional training and skill and require the observance of certain rules and regulations (code of conduct) are termed as Professions.

1.2.2 Employment

You have seen people going regularly to offices, factories, firms etc. for work. These are individuals who are engaged by organisations or individuals to work for them in return for a wage or salary. They are said to be in employment. Thus, we find a postman is in employment in the department of posts to deliver letters. Here the department is called the employer and the postman is the employee. The postman works on the basis of certain terms and conditions and gets a monthly salary in return. The main features of employment are:

- (a) It is an occupation where a person (called employee) is to work for another (called employer).
- (b) There are certain terms and conditions of work like hours of work (how many hours a day), duration of work (how many days or hours in a week or month etc.), leave facility, salary/wages, place of work etc.
- (c) The employees get salary (normally paid on a monthly basis) or wage (normally paid on daily/weekly basis) in return of their work. This amount is normally predetermined, mutually agreed upon and may increase over time.
- (d) Legally the employer-employee relationship is based on a contract and any deviation from any side permits the other party to take legal recourse.
- (e) There are jobs for which no technical education or specialised skill is required for employment. But, for skilled jobs, specialised jobs and technical jobs, a certain level of basic/technical education is required.
- (f) The main purpose behind employment is to secure assured income through wages and salaries.

Nature and Scope of Business

The economic activity, rendered by one person to another, under a contract of service, for some remuneration, is called employment.

1.2.3 Business

You must have heard about Tata Companies. They manufacture so many things from salt to trucks and buses and sell these to individuals like you and me. In the process, they earn a profit. Look at a shopkeeper nearby. What does he do? He buys products in bulk and sells us in small quantities. He also earns some profit in the process. Similarly, the cable TV operator provides us a connection at a price so that we watch various channels on our television set. In this process the cable TV operator earns a profit. All of them are said to be engaged in business and are called businessmen. They all perform their activities regularly to earn profit. Thus, the term 'business' refers to human activities which involve production or exchange of goods and services regularly with the object of earning profit.

Business may be defined as an activity involving regular production or purchase of goods and services for sale, transfer and exchange with the object of earning profit.

We find people like mill owners, transporters, bankers, traders, tailors, taxi operators etc. doing business. All of them are engaged in an activity of manufacturing or trading (buying and selling) or providing some service. They have invested their money, bear the risks involved and work for earning some profit. Thus, the main characteristics of business are:

- (a) It is an occupation where a person is engaged in manufacturing or buying and selling of goods and services. The goods may be consumer goods or capital goods. Similarly the services may be in the form of transportation, banking, insurance etc.
- (b) The activities must be carried on regularly. A single transaction is usually not treated as a business. For example, if a person sells his old car at a profit, it is not treated as a business activity. However, if he is engaged in the activity of buying old cars and selling them on a regular basis, he shall be treated as engaged in business activity.
- (c) The sole objective of business is to earn profit. It is essential for the survival of business. Of course, it is through provision of some goods or some services.
- (d) Every business requires some investment in cash or kind or both. It is usually provided by the owner or is borrowed by him at his own risk.
- (e) The earnings are always uncertain, because the future is unpredictable and a businessman has no control over certain factors that affect his earnings. Thus, every business involves an element of risk and the same is borne by the businessman, the owner.

MODULE - 1

Business Around Us



Notes



INTEXT QUESTIONS 1.2



Notes

1. Define the term 'profession' in your own words.
2. Following is a list of activities. Classify these activities as Business, Profession or Employment by putting their number in the circles provided at the end of the question.
 - (a) Policeman on duty at your local police station.
 - (b) Teacher working in an educational institution.
 - (c) A driver driving a bus of a State Road Transport Corporation.
 - (d) A taxi-driver who runs his own taxi.
 - (e) A fisherman selling fish in a village.
 - (f) Gopal stitching cloth of the customers regularly at home.
 - (g) A daily-wager working in a factory.
 - (h) A gardener maintaining the lawns in a college.
 - (i) A lawyer practising in a court.
 - (j) An engineer running his consultancy firm.

Business

Profession

Employment

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

1.2.4 Comparison of Business, Profession and Employment

Having learnt about the essential characteristics of business, let us distinguish it from profession and employment.

Basis	Business	Profession	Employment
(a) Establishment	Decision to start the business and compliance of legal formalities like registration, wherever required.	Membership of a professional body is essential.	Enter into service contract with the employer.
(b) Qualification	Specific qualification is not required.	Professional knowledge and training in the same field is essential.	As per the needs of the employer and the job involved.

Nature and Scope of Business

(c) Capital	Capital investment is a must. Its amount depends on the nature and scale of business operation.	Some amount of capital investment is required for establishment.	No capital investment is required.
(d) Nature of work	Production or purchase and sale of goods or services.	Expert service.	Performance of job.
(e) Return or reward	Profit.	Professional fee.	Wage or Salary.
(f) Risk	There is risk of loss.	Risk of not getting sufficient fee.	No risk, so long as business /office continues its operations.
(g) Motive	Profit motive.	Service motive, though fee is charged.	Motive is to earn a livelihood.

MODULE - 1

Business Around Us



Notes

1.3 IMPORTANCE OF BUSINESS

Business is an integral part of modern society. It is an organised and systematic activity for earning profit. It is concerned with activities of people working towards a common economic goal. Modern society cannot exist without business. The importance of business can be described as follows:

- (a) Business improves the standard of living of the people by providing better quality and large variety of goods and services at the right time and at the right place.
- (b) It provides opportunities to work and earn a livelihood. Thus, it generates employment in the country, which in turn reduces poverty.
- (c) It utilises the scarce resources of the nation and facilitates mass production of goods and services.
- (d) It improves national image by producing and exporting quality goods and services to foreign countries. By participating in international trade fairs and exhibitions it also demonstrates the progress and achievements of its own country to the outside world.
- (e) It enables the people of a country to use quality goods of international standard. This is possible by way of importing goods from foreign countries or by producing quality goods in the country by applying modern methods of production.
- (f) It gives better return to the investors on their capital investment and also provides opportunities to grow and expand the business.
- (g) It promotes social interest by providing tourist services, sponsoring cultural programmes, trade shows etc. in the country, which enable people of different

MODULE - 1

Business Around Us



Notes

Nature and Scope of Business

parts of the country to exchange their culture, traditions and practices. Thus, it promotes national integration.

- (h) It also facilitates exchange of culture among the people of different nations and thus, maintains international harmony and peace.
- (i) It helps in the development of science and technology. It spends large amount of money on research and development in search of new products and services. Hence a number of innovative products and services are developed through industrial research.

1.4 OBJECTIVES OF BUSINESS

Business objectives are something, which a business organisation wants to achieve or accomplish over a specified period of time. It is generally believed that a business has a single objective, that is, to make profit and safeguard the interests of its owners. However, no business can ignore the interests of its employees, customers as well as the interest of society as a whole. Business objectives also need to be aimed at contributing to national goals and aspirations as well as towards international well-being. Thus, the objectives of business may be classified as –

- (a) Economic objectives
- (b) Social objectives
- (c) Human objectives
- (d) National objectives
- (e) Global objectives

Now let us discuss these objectives in detail.

- (a) **Economic objectives** of a business refer to the objective of earning profit and those which have a direct impact on the profit-earning objective of business. Some of the main economic objectives of business are:
 - (i) earning of adequate profits;
 - (ii) exploring new markets and creation of more customers;
 - (iii) growth and expansion of business operation;
 - (iv) making innovations and improvements in goods and services; and
 - (v) making use of available resources in the best possible manner.
- (b) **Social objectives** of business are those, which are desired to be achieved for the benefit of the society. Some of the major social objectives are:

Nature and Scope of Business

- (i) production and supply of quality goods and services to the society;
 - (ii) making goods available at reasonable prices;
 - (iii) avoidance of unfair practices like hoarding, black-marketing, over-charging, etc.;
 - (iv) contributing towards the general welfare and upliftment of the society;
 - (v) ensuring fair return to the investors;
 - (vi) taking steps in the direction of consumer education; and
 - (vii) conserving natural resources and wild life and protecting the environment.
- (c) **Human objectives** of business primarily refer to the objectives aimed at safeguarding the interest of its employees and their welfare. Some of the major human objectives are:
- (i) providing fair remuneration and incentives to the employees;
 - (ii) arrangement of better working conditions and proper work environment for the employees;
 - (iii) providing job satisfaction by making the jobs interesting and challenging, putting the right persons in right job;
 - (iv) providing the employees with more and more promotional opportunities;
 - (v) organising training and development programmes for the growth of the employees; and
 - (vi) providing employment to the backward classes of the society and people who are physically and mentally challenged.
- (d) **National objectives** of business are the objectives of fulfilling the national goals and aspirations like:
- (i) creation of employment opportunities;
 - (ii) promotion of social justice;
 - (iii) produce and supply goods in accordance with the national interest and priorities;
 - (iv) payment of taxes and other dues honestly and regularly;
 - (v) helping the state in maintaining law and order by promoting good industrial relations; and
 - (vi) implementing government's economic and financial policies framed from time to time.

MODULE - 1

Business Around Us



Notes

MODULE - 1

Business Around Us



Notes

Nature and Scope of Business

- (e) **Global objectives** of business are the objectives of facing the challenges of global market. Some of the global objectives are:
- (i) making available globally competitive goods and services; and
 - (ii) reducing disparities among rich and poor nations by expanding its operations.

1.4.1 Role of Profit in Business

Profit plays an important role in business. Following points indicate the role of profit in business :

1. **Survival** : Profit helps an organization to replace old assets and increases the capacity of an organization to survive.
2. **Future Growth and Expansion** : Extra profit earned can be utilized for expansion purpose. Entry in new areas helps an enterprise to grow.
3. **Incentive** : Profit is an incentive for businessmen who put hard work. Profit motivates the businessmen to put maximum efforts.
4. **Prestige** : Profit making organizations can afford to give higher wages/salaries and other facilities to their employees. This can retain employees and attract highly competent persons to join the enterprise. So profit making concern enjoys goodwill in the society.
5. **Achievement of Goals** : Only a profit making concern can achieve the goals of an enterprise because achievement of economic objectives require expenditure.
6. **Measure of Efficiency** : The success of an organization can be evaluated by looking at its profit. So profit is an index of success in business. It measures the efficiency of business.
7. **Means of Livelihood to Businessmen** : Profit is a regular income to the family of business persons.

1.4.2 Business Risks

Business is full of uncertainties. Uncertainties can be of different forms like loss due to change in fashion; fall in market price; goods produced may be destroyed by fire, storm, cyclone, theft etc. Thus, while running a business enterprise, there is an element of risk. Business risk means chance of loss due to uncertain events in future.

Nature of Business Risk

1. **Uncertainty** : Business risks is due to uncertainty of the future course of action. Natural calamities such as flood, earthquake etc. result in loss. Loss may also arise due to human causes like strike, lockouts, accidents, theft, bad-debts etc. There are other uncertainties such as competition, technological changes, price fall etc.

Nature and Scope of Business

- 2. Profit is the Reward for Risk :** A business concern which is willing to take risk earns handsome profits. Heavy risk results in higher profits.
- 3. Difficult to Measure :** A businessman may anticipate some risks. He cannot predict all the risks which will occur in future. Therefore, risk cannot be measured accurately.
- 4. Essential Element of Business :** Business activities cannot be conducted without some element of risk. Risk bearing is an essential element of business.
- 5. Variability :** According to the nature and size of business, the degree of risk varies. If the amount invested is high, there will be high degree of risk. The degree of risk varies with time and competition.

Causes of Business Risks

- 1. Natural Causes :** Fire, flood, storm, cyclone, earthquake, famine, lightning, snowfall, tide etc. result in loss of life, property and income. Therefore, natural causes are beyond the control of business.
- 2. Economic Causes :** It refers to change in market conditions. Economic causes can be in the form of fluctuation in demand, fluctuation in price, availability of cheap substitutes, competing business firms etc.
- 3. Political Causes :** Fall of government may change license policy and tax policy. This may result in loss to the business. Import and export restrictions, high taxes, rise in interest rate on borrowings etc. may cause loss to the business. Political causes refer to changes in government policies and laws.
- 4. Human Causes :** Inefficient management and carelessness of employees may result in loss. Workers may damage machines. They may involve in strike, lockout etc. which may also result in loss. If the management fail in estimating demand for products, loss may arise. Uncertainties caused by human actions e.g. forgery, misappropriation of cash, theft of goods, riots, wars, etc. can also result in loss.
- 5. Physical and Technical Causes :** Change in technology may make the machines obsolete before their expected life. Mechanical failures arise due to leakage of gas, bursting of a boiler etc. Value of assets may be reduced due to loss in weight, vaporisation etc. Another kind of physical cause is the loss of goods in transit.



INTEXT QUESTIONS 1.3

1. Mohan has recently completed his MBBS course. He finds difficulty in choosing his occupation. Guide him by filling up the following table:

MODULE - 1

Business Around Us



Notes

MODULE - 1

Business Around Us



Notes

Nature and Scope of Business

If he chooses	What should he do?	What will he get as return?
(a) Business		
(b) Profession		
(c) Employment		

2. Correct the following sentences, if necessary:

- Business minimizes opportunities to work and, thus, generates employment in the country.
- By producing and exporting quality goods and services, the national image of a country goes down.
- Business objectives should concentrate on profit earning only.
- Creation of employment opportunities and paying taxes and other dues honestly to the government are the national objectives of a business.
- A businessman should prepare a false statement of accounts in order to save taxes.
- Profit plays no role in business.

3. Identify the causes of business risk in the following causes :

- X Ltd. suffered a loss due to bursting of boiler.
 - Natural Cause
 - Political Cause
 - Physical Cause
 - Economic Cause
- Auditor identified misappropriation of cash by a group of workers in Y Ltd.
 - Natural Cause
 - Human Cause
 - Physical Cause
 - Political Cause
- Suzuki Ltd. suffered a loss due to tsumami
 - Natural Cause
 - Human Cause
 - Economic Cause
 - Political Cause

1.5 CLASSIFICATION OF BUSINESS ACTIVITIES

Let's look around and find out the various types of business activities that usually take place in an economy. Some of these are:

- extraction of oil, natural gas or minerals;

Nature and Scope of Business

- manufacturing of commodities;
- buying of goods from one place/country and selling it at different place/country;
- construction of buildings, roads, and bridges etc.
- providing services like ticketing, warehousing, transportation, banking, insurance etc.

When we analyse the above business activities we find that most business activities are concerned with production and/or processing of goods and services or distribution of goods and services. The former is known as ‘Industry’ and the latter as ‘Commerce’. So we can classify business as Industry and Commerce. Let us now know details about these two categories.

1.6 INDUSTRY

Industry primarily refers to all such business activities concerned with production/raising or processing of goods and services. It processes raw materials or semi-finished goods into finished goods. Extracting raw materials from earth’s surface, manufacturing goods and commodities, producing crops, fish, flowers, etc., constructing buildings, dams, roads etc. are all examples of industry. These activities are called industrial activities and the units engaged in these activities are known as industrial enterprises. However in a broader sense, provision of services like banking, insurance, transport also form part of industries known as tertiary industries.

Classification of Industries

Before classifying industry on the basis of nature of activity, let us have a broad idea of different approaches of its classification.

<i>On the basis of nature of activity</i>	<i>On the basis of nature of goods produced</i>	<i>On the basis of level of investment</i>	<i>On the basis of size of activity</i>
(a) Primary	(a) Consumer goods industries	(a) Heavy industries industries	(a) Small scale industries
(b) Secondary industries	(b) Producers’ goods or Capital goods	(b) Light industries industries	(b) Large Scale industries
(c) Tertiary industries			

Let us now discuss in detail about the classification of industry based on nature of activity involved.

MODULE - 1

Business Around Us



Notes

MODULE - 1

Business Around Us



Notes

Nature and Scope of Business

- (a) **Primary Industries :** Primary industries refer to the activities of extraction of natural resources like coal, oil, minerals etc. and reproduction and development of living organisms like plants and animals etc. Primary industries can be categorised as extractive and genetic industries. You must have heard about ONGC – it is a company that extracts oil and natural gas from earth. Similarly we have farmers growing crops, business houses engaged in extracting raw materials/minerals from earth (coal-mines, iron-ore mines etc.), extracting materials from forest for further processing (like collecting natural honey, timber etc.), extracting items from sea/river (like fish, crab, prawn, sea foods etc.). All these are examples of extractive industries.

Have you seen poultry farms, or apple orchards or nurseries? All these are industries engaged in rearing and breeding animals and birds and growing plants or flowers for sale and are known as genetic industries. Now-a-days genetic industries are growing in number which include Horticulture (growing fruits and vegetables), Floriculture (growing flowers), Dairy Farming, Poultry Farming, Pisciculture (breeding fish) etc.

- (b) **Secondary Industries :** The products of primary industries are normally used as raw materials to produce a variety of finished goods. And it is the secondary industry that uses the products of primary industry as its raw materials. The activities of secondary industries may be of manufacturing or construction. Manufacturing industries are engaged in producing finished goods out of raw materials or semi-finished products. For example, cotton is used to produce textile, timber to produce furniture, bauxite to produce alumina. The industries engaged in erection of buildings, dams, bridges, roadways, railways, canals, tunnels etc. are known as construction industries. They make use of the products of other industries and construct different types of structures as per the requirements of the customers.
- (c) **Tertiary Industries :** These industries are basically concerned with generating or processing of various services and facilitate the functioning of primary industries and secondary industries as well as activities of trade. These include service industries like banking, insurance, transport etc. Film industry which provides entertainment to the individuals, produces films; tourism industry which provides services to the individual by facilitating their travel, booking of tickets and hotel rooms etc. are also included in this category.

Manufacturing industries may be divided further into the following categories:

- (i) **Analytical Industries** manufacture different types of products by analysing and separating different elements from the same product. Petrol, diesel, kerosene, lubricating oil etc. are produced from the crude oil in oil refinery industry.

Nature and Scope of Business

- (ii) **Synthetic Industries** put together various ingredients and manufacture a new product. For instance, soap is produced by combining potassium carbonate and vegetable oil. Similarly, cement is produced by using limestone, coal and other chemicals.
- (iii) **Processing Industries** are those in which raw materials are processed through successive stages to get the final products. Textile, sugar and paper are the examples of processing industry.
- (iv) **Assembling Industries** put together various manufactured products and make a new product as in the case of car, scooter, bicycle, radio and television etc.

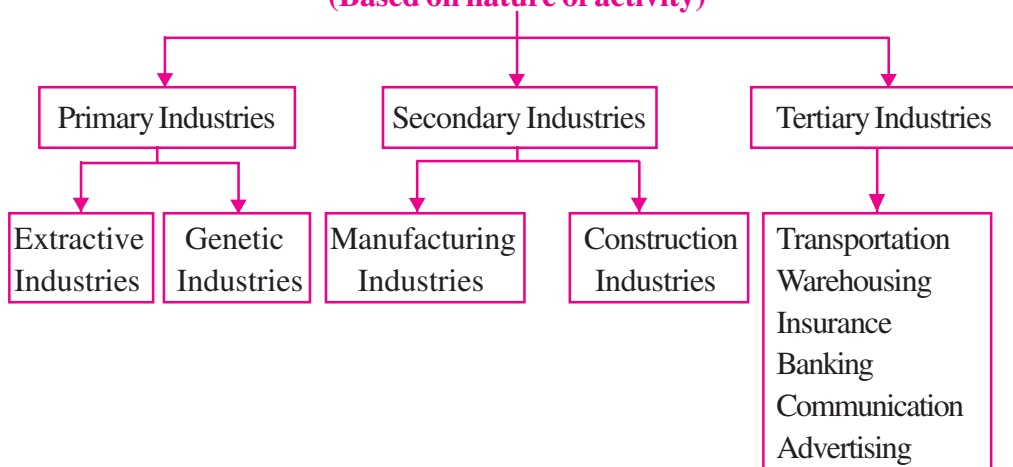
MODULE - 1

Business Around Us



Notes

Classification of Industries (Based on nature of activity)



INTEXT QUESTIONS 1.4

1. Below are given certain groups of industries. In each group, one industry does not match with the group. Find out that industry and underline it. The first one has been done for you. In this all industries except textile belong to extractive industries.
- (a) Agriculture, forestry, textile, fishery.
- (b) Dams, roads, canals, cement.
- (c) Poultry farming, hunting, mining, forestry.
- (d) Iron & steel, textile, chemical works, pisciculture.
- (e) Oil exploration, agriculture, dairy farming, hunting.
- (f) Floriculture, films, transport, banking.

MODULE - 1

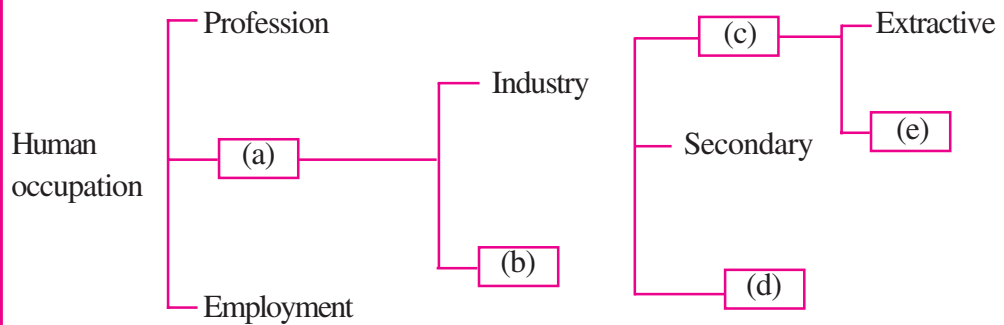
Business Around Us



Notes

Nature and Scope of Business

2. Complete the following Chart:



1.7 COMMERCE

All goods and services produced are to be made available by those who need them. This involves a number of additional activities. For example when somebody produces bread, he has to make it available at convenient locations at right time. This involves activities like making people aware about the product, storing the product at right places, arranging retail outlets, packaging the product, transportation of the product, selling the product and so on. All these activities taken together are known as Commerce. It provides the necessary link between producers and consumers of goods and services and facilitates the purchase and sale of goods and services. In fact, it performs all functions, that are essential for maintaining a smooth and uninterrupted flow of goods and services to the customers. Thus, commerce involves:

- (a) Buying and selling of goods and services; and
- (b) Activities essential for the smooth and uninterrupted flow of goods and services from the point of production to the point of consumption.

The first activity, that is, purchase and sale of goods and services is termed as Trade, and the second activity i.e., the activities that ensure smooth flow of goods to customers are known as 'Auxiliaries to trade' or 'Aids to trade'. Thus, commerce is classified as:

- (1) Trade; and
- (2) Auxiliaries to trade.

Let us know in detail about the above two activities of commerce.

1.7.1 Trade

Trade is an integral part of commerce. It simply refers to sale, transfer or exchange of goods and services. It helps in making the goods and services available to ultimate consumers. The manufacturers of goods who produce in bulk or large quantity generally find it very difficult to sell those goods directly to the consumers. The reasons may be distance of the consumers from the place of manufacturing, or the quantity of the product

Nature and Scope of Business

bought at one point of time, the problem of payment and so on. Hence they utilise the services of some firms or individuals who buy goods from the manufactures and sell it to the consumers. For example, the local grocery shop owner sells grocery items to the consumers after buying it from the manufactures. Sometimes, he buys it from the wholesalers who buy goods in bulk from the manufactures and sell it to him. It may be noted that the wholesalers as well as the grocery shop owners are said to be engaged in trading. Thus, the features of trade can be summed up as follows:

- (a) It involves actual buying and selling of goods;
- (b) It refers to procuring goods from one place/person to sell it to another person or at another place;
- (c) Traders, also known as middlemen facilitate the distribution of goods;
- (d) Trading helps in equalising demand and supply. For example, the state of Punjab may be producing plenty of rice without much demand for it in its own state. Traders buy rice from Punjab and make it available to states like Orissa and West Bengal where there is a great demand for rice. Thus, the demand and supply ratio is maintained.

On the basis of area of operation, trade can be classified as under –

- (a) Internal Trade; and
 - (b) External Trade.
- (a) Internal Trade :** When trade takes place within the boundaries of a country it is called internal trade. It means both the buying and selling take place within the country. For example, a trader can buy woolen garments from the manufacturers at Ludhiana and sell it to the retailers in Delhi. Similarly a trader of a village can buy goods from the wholesale market of a city for sale in the village. From these two examples, we find that internal trade can be (a) buying from manufactures and selling it to retailers in bulk (known as wholesale trade); or (b) it can be buying from manufacturers or wholesalers and selling it to consumers (known as retail trade).
- (b) External Trade :** Trade that takes place between different countries is known as external trade. In other words, external trade refers to buying and/or selling of goods/services across national boundaries. This may take any of the following forms:
- (i) Firms of country ‘A’ purchase goods from firms of county ‘B’ to be sold in their own country. This is known as Import trade.

MODULE - 1

Business Around Us



Notes

MODULE - 1

Business Around Us



Notes

Nature and Scope of Business

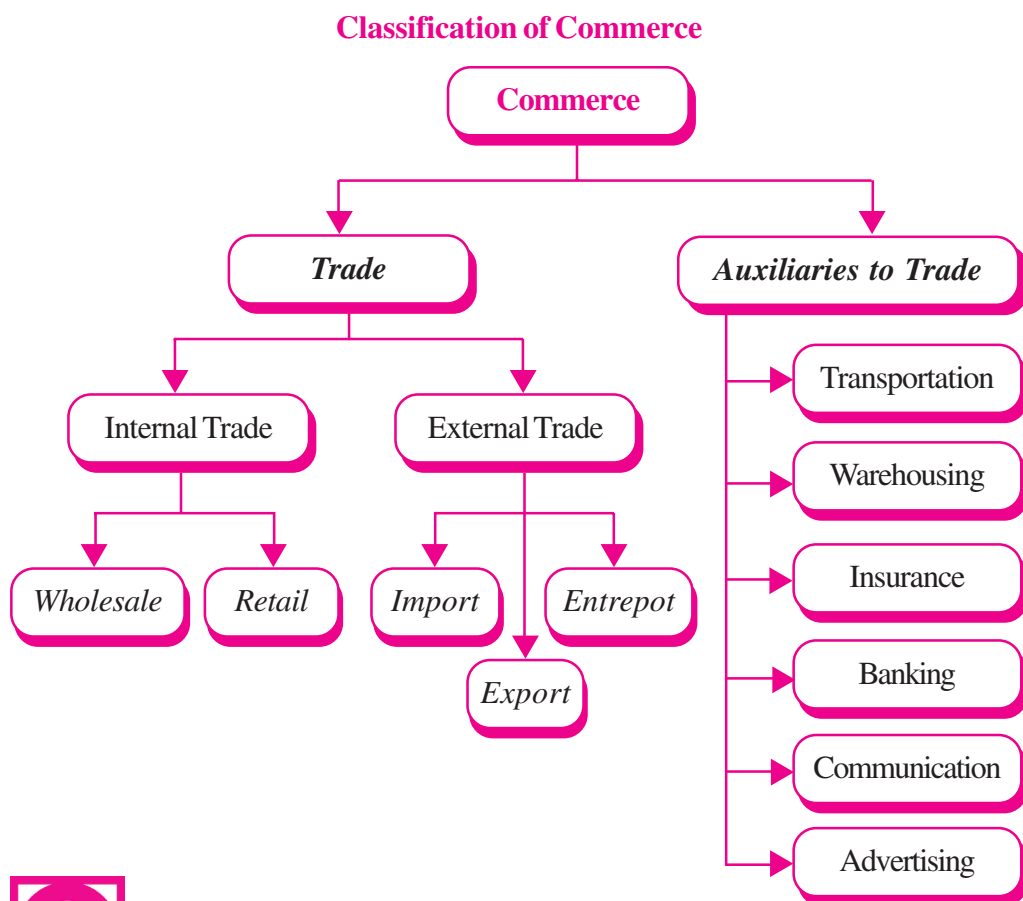
- (ii) Firms of country 'A' sell goods produced in their own country to firm of country 'B'. This is known as Export trade.
- (iii) Firms of country 'A' purchase goods from firms of country 'B' to be sold to firms of country 'C'. This is known as Entrepot trade.

1.7.2 Aids/Auxiliaries to Trade

To facilitate buying and selling of goods (trade) a variety of other activities are required to be performed. These include, transport of goods, storage of goods, financial transactions, insurance of goods etc. For example, when a company at Chennai buys goods from Delhi or imports it from Singapore, it needs to undertake most of the following activities, in addition to buying and selling of goods. These activities are–

- Carrying of goods physically from Delhi/Singapore to Chennai (called **Transportation**)
- Systematic storage of goods once the goods are received at Chennai (called **Warehousing**).
- Arranging money and making payments to the seller through banks and other sources (called **Banking**).
- Covering risk of damage/loss of goods in transit from Delhi/Singapore or while it is in store (called **Insurance**)
- Exchange of information with each other through postal and telecom services (called **Communication**).
- **Advertising** : In today's competitive market, it is not possible for a businessman to sit and wait for customer after investing heavily in business. To attract customers towards his product, a producer has to provide full knowledge of his product to the customer. Advertising does this properly. Advertisement enhances the knowledge of the customer about the products available in the market and with the help of this knowledge, a customer takes decision about the purchase of the product. In this way, advertisement enhances the knowledge of the customers and eliminates the hindrance of information.

All the above activities help in facilitating the trading activities or providing support to the trading activities. That is why these are called auxiliaries to trade. So auxiliaries to trade refer to those activities that facilitate trade. These activities not only facilitate the trading activities, but also provide the necessary support to the entire business in its successful functioning. Hence, these are also called support services of business. In the next lesson we shall discuss about all these support services of business in detail.



Notes



INTEXT QUESTIONS 1.5

1. Give one word substitute for the following sentences:
 - (a) The process of exchange and distribution of goods and services.
 - (b) Buying and selling of goods and services.
 - (c) Buying and selling of goods in large quantities.
 - (d) Import of goods for exporting.
 - (e) Buying and selling of goods between different countries.

2. Complete the following incomplete words by taking clues from the statements given for each. Every blank represents one letter only. First one has been done for you.
 - (a) ___ M M ___ C ___ (COMMERCE)
 - (b) ___ A ___ E
 - (c) W ___ H ___ I N ___

MODULE - 1

Business Around Us



Notes

Nature and Scope of Business

- (d) ___ X ___ ___ T
 (e) E ___ ___ E ___ ___ T
 (f) ___ H ___ ___ E ___ ___ E
 (g) ___ ___ T ___ ___ L

Clues:

- (a) All activities that facilitate availability of goods and services for consumption.
 (b) Buying and selling of goods.
 (c) Storage of goods whether raw material or finished goods.
 (d) Selling of goods to foreign countries.
 (e) A company of one country buys goods from a company of another country to be sold to a company of some third country.
 (f) Goods are bought and sold in bulk quantities.
 (g) Goods are sold in small quantities to consumer.



WHAT YOU HAVE LEARNT

- Human beings undertake various activities to satisfy their needs and wants. These activities are known as Human Activities.
- Human activities that are undertaken with an objective to earn the livelihood are called Economic Activities.
- Activities undertaken to derive mere satisfaction are known as Non-Economic Activities.
- All activities that require special knowledge and skill to be applied by an individual to earn a living are known as Profession.
- When people render their services regularly for others and get the return in terms of wages/salary, we call it Employment.
- Activities involving regular production or purchase of goods and services for sale, transfer and exchange with an object of earning profit are known as Business.
- Earning of adequate profits, exploring new markets, growth and expansion of business, innovation and optimum utilisation of available resources are the Economic objectives of a business.

Nature and Scope of Business

- Social objectives of a business include production of quality goods, reasonable pricing, general welfare and upliftment of the society, fair dealings and good return to the investors.
- Human objectives include fair remuneration and incentives to the employees, better working conditions, job satisfaction, training, development and promotional opportunities etc.
- National objectives of a business are creation of employment opportunities, social justice, national interest and priorities, and payment of taxes to the government honestly.
- Global objectives of a business include making available globally competitive goods/services and reducing the gap between rich and poor nations by way of expansion of business.
- Profit is needed for survival, future growth and expansion, creating prestige, achieving goals and to measure the efficiency of business firm.
- Business risk means chance of loss due to happening of uncertain events in future.
- Business risk is uncertain, difficult to measure, variable and an essential element of business.
- Business risks arise due to natural, economic, political, human, physical and technical causes.
- Industry refers to production/raising or processing of goods and services. On the basis of nature of activity it is divided into primary, secondary and tertiary industries.
- Primary industry is concerned with extraction of natural resources, and reproduction and development of living organisms. It can be classified as extractive and genetic industries.
- Secondary industry uses the products of primary industry as its raw material. It can be either manufacturing or construction.
- Manufacturing industries are engaged in producing finished goods. It can further be classified as Analytical, Synthetic, Processing and Assembling Industries.
- Tertiary industries are concerned with generating and processing various services to the customers.
- Commerce is the sum total of all activities involving removal of hindrances in the process of exchange of goods and services and facilitates the availability for consumption. So it consist of trade and other support services that facilitate trade.

MODULE - 1

Business Around Us



Notes

MODULE - 1

Business Around Us



Notes

Nature and Scope of Business

- Trade refers to the process of buying and selling of goods and services. When trade takes place within the boundaries of a country, it is called Internal trade. It is called Wholesale trade when goods are bought in bulk from manufacturers/ produces and sold in bulk to retailers. It is termed as retail trade when goods are bought from manufacturers or wholesalers and sold in small quantities to consumers. Trade that takes place between two countries is known as External trade. When goods are purchased from a foreign country, it is known as Import trade. Export trade is the process of selling goods to a foreign country. When goods are bought from one foreign country to be sold in some other foreign country it is known as Entrepot trade.
- Auxiliaries to trade are various activities that facilitate trade. They are Transport (carrying goods physically); Communication (gathering and sharing information); Warehousing (storage of goods); Banking (making arrangement of funds and facilitate its transaction); Insurance (opting for insurance to avoid the risk of loss); and Advertising (Communicating information to the consumers).



KEY TERMS

Advertising	Enterpot Trade	Processing Industry
Analytical Industry	Export Trade	Profession
Assembling Industry	Extractive Industry	Retail Trade
Auxiliaries to Trade	Genetic Industry	Secondary Industry
Banking	Human Activity	Synthetic Industry
Business	Import Trade	Tertiary Industry
Commerce	Industry	Trade
Communication	Insurance	Transport
Construction Industry	Internal Trade	Warehousing
Economic Activity	Non- economic Activity	Wholesale Trade
Employment	Primary Industry	



TERMINAL EXERCISE

Very Short Answer Type Questions

1. What is meant by 'human activity'?

Nature and Scope of Business

2. Define the term 'occupation'.
3. Distinguish between consumer goods and capital goods.
4. State the meaning of 'Genetic industry'.
5. What is 'Trade'?
6. Enumerate two physical causes of business risks.
7. List two examples of human causes of loss in business.

Short Answer Type Questions

8. Explain the different type of primary industries.
9. How would you classify business activities?
10. Distinguish between economic and non-economic activities.
11. State any two characteristics of business.
12. Mention any three economic objectives of business.
13. Mention any three characteristics of business risks.
14. Briefly describe physical causes of business risks.

Long Answer Type Questions

15. Describe the importance of business in modern society.
16. What is meant by profession? Explain its features in brief.
17. Explain the various human objectives of business.
18. State the meaning of 'Industry'. Explain the various classifications of industry.
19. Define the term 'Commerce'. Describe the various activities relating to commerce.
20. Explain the role of profit in business.
21. What do you mean by business risk? Explain the natural causes of business risks.
22. Describe the causes of business risks.

23. "Profit plays the same role in business as blood plays in human beings." Give your comments in the light of this statement.

24. Your friend Ramesh wants to starts a business. Therefore, he is interesting to know the business risks and their causes. Explain him the meaning and causes of business risks.

MODULE - 1

Business Around Us



Notes



ANSWERS TO INTEXT QUESTIONS



Notes

- 1.1** 1. All such activities that are performed with an object of earning money or livelihood are called economic activities.
2. (a) A person working in a school garden.
 (b) A lady preparing food in a restaurant.
 (c) A man white-washing the building of a trade centre.
 (d) A teacher teaching students in a school.
 (e) A chartered Accountant preparing accounts of a firm.

- 1.2** 2. **Business** **Profession** **Employment**

Business options: (d), (e), (f) in circles, with two empty circles below.

Profession options: (i), (j) in circles, with two empty circles below.

Employment options: (a), (b), (c) in circles, with (g), (h) in circles and one empty circle below.

1.3 1.

If he chooses	What should he do?	What will he get as return?
(a) Business	May open a chemist shop or Start a company to manufacture medicines	Profit
(b) Profession	Start his own clinic	Fee
(c) Employment	Get the job in a hospital	Salary

2. (a) Business maximises opportunities to work and thus, generates employment in the country.
 (b) By producing and exporting quality goods and services, the national image of a country improves.
 (c) Business objectives should not concentrate only on profit earning.
 (d) No correction required
 (e) The businessmen should prepare the true statement of accounts and the pay the taxes honestly.
 (f) Profit plays an important role in business.
3. (i) c (ii) b (iii) a

- 1.4** 1. (b) Cement (c) Poultry farming (d) Pisciculture
 (e) Dairy farming (f) Floriculture

2. (a) Business (b) Commerce (c) Primary (d) Tertiary (e) Genetic

Nature and Scope of Business

- 1.5 1. (a) Commerce (b) Trade (c) Wholesale trade
 (d) Entrepot (e) External trade
2. (b) TRADE (c) WAREHOUSING (d) EXPORT
 (e) ENTREPOT (f) WHOLESALE (g) RETAIL



DO AND LEARN

Make a list of atleast 10 business enterprises of your locality. Classify them as industry, trade and auxiliaries to trade. Take a note of the nature of their activity and prepare a chart.



ROLE PLAY

- Rameshwar's son, Rampal wants to become a government servant. He is not supported by his father who wants Rampal to start his own business. Following is a beginning of the discussion between Mr. Rameshwar and his son Rampal.

Rameshwar : Beta! I want you to be independent in life. So start doing some business.

Rampal : Papa! I am more concerned about my personal satisfaction in my career rather than being independent. I want to be a public servant.

Rameshwar : Listen to me, there is nothing like satisfaction. Business will give you more money and status. Please, be practical in life.

Rampal : Papa! I have always given money second preference in life. It would be more satisfying to serve the public honestly.

Choose a role for yourself and one for your friend and give your arguments in favour of, or against the protagonists in the example.

(You are free to select any other concept covered in this lesson to develop your own script. Start playing your roles and enjoy your study).

- Sameer is interested to start a business in the field of service industry. His friend Manya told him that there were so many opportunities in this field.

Sameer : Manya! I want to start a business in the field of service industry.

Manya : Very good, Sameer. This is a good idea. I have studied in my book of Business Studies that there are so many opportunities available in the field of service industry.

Sameer : Please tell me about these opportunities.

Choose a role for yourself and one for your friend and continue this conversation to explain the various types of service industry.

MODULE - 1

Business Around Us



Notes