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Nature and Scope of Business

1.1 Introduction

All of us live in families and depending on the income, we have different standards of living. We require various types of goods and services to satisfy our needs and wants. Some members in your family have to work to earn and provide for the needs of the family. Thus, people engage in different activities which are known as economic activities. In ancient times, people had limited wants to satisfy. In modern times however, we need a large variety of goods and services to satisfy our needs and to raise our standard of living. On the one hand the supply of goods and services has led to various activities. On the other hand, activities of different types are undertaken by people to earn sufficiently to fulfil their increasing wants. Thus we find large numbers of people engaged in business, industry, and profession. Such economic and business activities satisfy various needs and demands for goods and services.

In this lesson you will learn about the nature and purpose of business.

1.2 Objectives

After studying this lesson, you will be able to :

- recall the meaning and scope of human activities;
 - enumerate the types of economic activities and their characteristics;
 - identify business as an economic activity;
 - differentiate between business and other economic activities and explain the meaning and characteristics of business;
 - distinguish between different types of business activities;
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- explain the significance of business in modern society;
- establish the relationship between production and distribution and identify different types of industries;
- state the concept of retail and whole-sale trade and export and import; and
- identify the auxiliaries that facilitate trade and commerce.

1.3 Human Activities and Business

You know that man always keeps himself engaged in some kind of activity to satisfy his needs and wants. All human activities may be broadly divided into two categories: (i) economic activities, and (ii) non-economic activities.

The work of a farmer, manufacturer, teacher, doctor, trader etc. are some examples of **economic activities**. They are primarily concerned with the production, distribution and consumption of goods and services. **Economic activities are undertaken to earn one's living and for the production of wealth.**

Besides economic activities, people also undertake a number of activities for mental satisfaction. They engage in charitable work, practice religion, undertake recreational activities and also do many things out of love for others or out of patriotic feelings. These activities are known as **non-economic activities**. These activities are undertaken not for any material reward or gain but for one's happiness, pleasure or satisfaction which can not be measured in terms of money.

Distinction between economic and non-economic activities

Following are the points of distinction between economic and non-economic activities.

Economic	Non-economic
1. Economic activities are motivated by economic gain.	Non-economic activities are motivated by a desire to achieve mental satisfaction or happiness.
2. Monetary gain is expected from economic activities.	There is no such satisfaction from non-economic activities.
3. Economic activities lead to creation of wealth.	Non-economic activities lead to personal satisfaction.

However, a particular kind of activity which is non-economic in one case may be economic in the other. Cooking by a housewife is non-economic but cooking in a hotel is an economic activity.

Types of Economic Activities

When a person is regularly engaged in a particular economic activity, it is known as his or her occupation or vocation. Occupations may be classified into three categories —

- (i) Business,
- (ii) Profession and
- (iii) Employment (Service).

Business:

Activities connected with the production or purchase and sale of goods or services with the object of earning profit are called **business activities**. Mining, manufacturing, trade, transportation, insurance, banking are business activities. Thus business may be defined as **an economic activity involving regular production or purchase and distribution of goods and services with the object of earning profits**.

Profession:

Any activity which requires special knowledge and skill to be applied by an individual to earn a living is known as **profession**. For example doctors, teachers, lawyers, engineers and accountants are engaged in profession. Profession involves intellectual activity. It is not a mechanical or routine operation.

The main characteristics of profession are

- (i) Every profession requires special knowledge and training.
- (ii) The primary objective is to render service.
- (iii) The service cannot be substituted by another individual.
- (iv) Every profession is regulated by a professional body. For example the profession of Chartered Accountants is regulated by the Institute of Chartered Accountants of India.

Employment

When a person works regularly for others and gets wages/salary in return, he is said to be in **employment**. Thus factory workers, office assistants and managers are said to be in employment. Those in employment are called **employees**. Employment may be in government department or in private organisation. It may be full-time or part-time, permanent or temporary. The main features of employment are :

- (i) Employees always work for others.
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- (ii) There are certain terms and conditions of work.
- (iii) The people involved earn fixed income.

Vocation

Vocation means an occupation which involves the use of some basic skills which can be developed by practice. Type-writing, tailoring, laundering, carpentry etc. are some examples of vocation. Those who wish to get employed after completing secondary education may acquire the basic skills required for any vocation.

Distinction between Business, Profession and Employment

Basis	Business	Profession	Employment
1. Primary Objective	Earning profit	Rendering paid service	Earning wages/salary
2. Reward	Profit	Professional fee	Salary/wages
3. Nature of work	Prodeuction of purchase and sale	Expert serve	Job performance
4. Qualification	Undefined	Professional training	As per the need of the employer

1.4 Nature and Purpose of Business

Nature of Business:

The nature of business is best understood on the basis of its characteristics or features which are as follows:

1. Business is an economic activity
 2. It includes the activities of production or purchase and distribution.
 3. It deals in goods and services.
 4. It implies regularity of transactions.
 5. It aims at earning profits through the satisfaction of human wants.
 6. It involves risk; it is not certain that adequate profit will be earned.
 7. It creates utilities.
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8. It serves a social purpose by improving people's standard of living.

Objectives of business

Success in business depends on proper formulation of its objectives. Objectives must be clear, and attainable. Objectives may be divided into two parts -

- (i) economic and
- (ii) social.

Economic Objectives :

Economic objectives of business include earning adequate profit or satisfactory return on capital invested, survival in the case of competition and growth to maintain progress.

Social Objectives:

Social objectives include providing employment opportunities, supply of quality goods and services at reasonable price, improving the standard of living and contributing to environmental protection. It also includes justice to workers in terms of wages, welfare amenities, improved service conditions and professional growth.

1.5 Significance of Business in Modern Society

Business is an integral part of modern society. It is an organised and systematised activity for profit. It is concerned with activities of people working towards a common goal. The modern society can not exist without business. The need and importance of business in society can be described as follows:

1. Improvement in standard of living:

Business helps people in general to improve their standard of living.

2. Proper utilization of resources:

It leads to effective utilization of the scarce resources of society. It provides facility of mass production.

3. Better quality and large variety of goods and services:

It involves production, purchase and sale of goods and services

for price. Customer' satisfaction is the backbone of modern business. Services such as supply of water, electricity etc. may be considered highly significant for the community.

4. Creates utilities:

Business makes goods more useful to satisfy human wants. It adds to products the utilities of person, time, place, form, knowledge etc. Thus, people are able to satisfy their wants effectively and economically.

5. Employment opportunities:

It provides employment opportunities to large number of people in society.

6. Workers' welfare

Business organisations these days take care of various welfare activities for workers. They provide safer and healthier work environment for employees.

Intext Questions 1.1

I. Fill in the blanks

- (a) Economic activities may be divided into three categories :
(i) _____ (ii) _____ (iii) _____
- (b) Activities which require special knowledge and skill are known as _____.
- (c) The people who work regularly for others and get remuneration in return are known as _____.
- (d) Activities connected with production of goods for earning are known as _____ activities.
- (e) The main economic objective of business is earning _____.

II. Match the following statements with appropriate term:

Statement	Term
(1) An occupation which involves the use of some basic skills which can be developed by practice.	(a) Occupation

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|---|----------------|
| (2) It includes human activities of production, buying and selling. | (b) Profession |
| (3) When a person is regularly engaged in a particular economic activity. | (c) Employment |
| (4) Activities which require special knowledge and skill in work. | (d) Vocation |
| (5) When a person works regularly for others and gets wages in return. | (e) Business |
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1.6 Classification of Business Activities

Business activities are undertaken to satisfy human wants by producing goods or rendering services.

We may classify business activities on the basis of functions into two broad categories

- (a) Industry and
- (b) Commerce.

Industry is concerned with the production and processing of goods. This type of business units are called '**industrial enterprises**' which produce consumer goods as well as machinery and equipments. On the other hand, '**commerce**' includes all those activities which are necessary for the storage and distribution of goods. Such units are called '**commercial enterprises**' which include trading and service activities like transport, banking, insurance and warehousing.

Let us examine the characteristics of industry and commerce.

Industry and its Types

Industry means production of goods for sale by the application of human or mechanical power. In other words, **industry** refers to economic activities which are connected with raising, producing and processing of goods and services.

Characteristics of Industry

The main characteristics of industry are as follows:-

- Industry refers to the productive aspect of business.
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- Production is done by the application of human or mechanical power.
- It creates form utility to natural or partly processed goods.
- It is concerned with the production of both producer and consumer goods.
- Industrial activities are regulated by different laws.
- It involves continuous operation.

Types of Industries

Industries are divided into two broad categories:

- (i) Primary industries
- (ii) Secondary industries.

Primary industries include all those activities which are connected with extraction, producing and processing of natural resources. These industries may be further sub-divided into two types: (a) extractive and (b) genetic. Secondary industries are concerned with the materials which have already been produced at the primary stage. For example, mining of iron ore is a primary industry, but manufacture of steel is a secondary industry.

a) Extractive Industries:

Extractive industries are concerned with the extraction of materials from the earth, sea and air such as mining, farming, fishing and hunting etc. Products of these industries are used either directly for consumption such as food grains, fruits and vegetables or as raw materials such as cotton, sugar-cane, etc.

b) Genetic Industries:

Genetic industries include activities connected with rearing and breeding of animals and birds and growing plants. Reproduction and multiplication is the main activity in these industries, such as, agriculture, animal husbandry, dairy, poultry, pisciculture etc. Main products are milk, wool, butter, cheese, meat, egg, fish, seeds of plants, etc.

Secondary industries may also be of two types: (a) manufacturing, and (b) construction.

a) Manufacturing Industries :

Industries engaged in the conversion of raw materials or semi-finished

products into finished product are called manufacturing industries. Cotton is converted into textiles and iron one is converted into in these industries. It creates a form utility of the product.

b) Construction Industries :

The activities of Construction industries include erection of buildings, bridges, roads, railways canals etc. Their output do not consists of movable goods. It makes use of the output of other industries like brick, cement, steel etc.

Characteristics of Commerce

Commerce is the sum total of all the activities connected with the placing of the product before the ultimate consumer. It provides the necessary link between the producer and the consumer of goods.

Commerce is defined 'as activities involving the removal of hindrances in the process of exchange'. Commerce includes all those business activities which are undertaken for the sale or exchange of goods and services and facilitates their availability for consumption and use - through trade, transport, banking, insurance, and warehousing. Thus commerce includes trade and auxiliaries to trade, that is transport, banking, insurance and warehousing.

The main characteristics of commerce are as follows:

- (i) Commerce is the sum total of activities which facilitate the availability of goods to consumers from different producers.
- (ii) It aims at ensuring proper distribution of goods.
- (iii) It adds different type of utilities to the goods by making goods available at the right time and the right place to the people who need them.
- (iv) It includes trade and auxiliary to trade.

Trade and its types

Trade is an integral part of commerce and refers to sale and transfer of goods. It involves actual buying and selling of goods. It means exchange of goods and services for cash or credit. Traders help in directing the flow of goods to the most profitable market. They also bring about equitable distribution of goods on a national and international scale. It is because goods are produced on a large scale and it is difficult for producers to reach individual customers, that trade is said to remove the hindrance of persons through traders. Goods acquire place utility through trade.

Characteristics of Trade

The main characteristics of trade are as follows:

- (i) Trade is regarded as the primary activity in commerce;
- (ii) It means exchange of goods and services for price;
- (iii) It helps in directing the flow of goods to the most profitable market;
- (iv) It helps to equalise the supply of and demand for goods in different markets both national and international.

Classification of Trade

Trade may be classified into (i) Home Trade or Internal Trade and (ii) Foreign Trade or External Trade.

i) Home Trade:

Home Trade means trade carried on within the boundaries of a country. The primary object of home trade is to bring about proper distribution of goods within the country. It may be divided into two types (a) Wholesale Trade and (b) Retail Trade

- (a) **Wholesale Trade:** Wholesale trade involves buying goods from producers and selling them in small quantities to retailers. The wholesaler generally deals in large quantities of goods of a limited number of varieties. He serves as a connecting link between the producer and the retail dealer.
- (b) **Retail Trade:** A retail trade consists of selling goods directly to the consumers in small quantities. A retailer usually purchases goods from wholesalers or manufacturers and deals in a variety of goods of different manufacturers.

ii) External Trade:

External trade refers to trade between two countries. It implies buying and selling of goods by traders of two different countries. It creates a very wide market for goods produced in different countries. External trade involves (a) Export and (b) Import.

Export is concerned with the sale of goods to foreign countries. Import trade relates to the purchasing of goods from other countries.

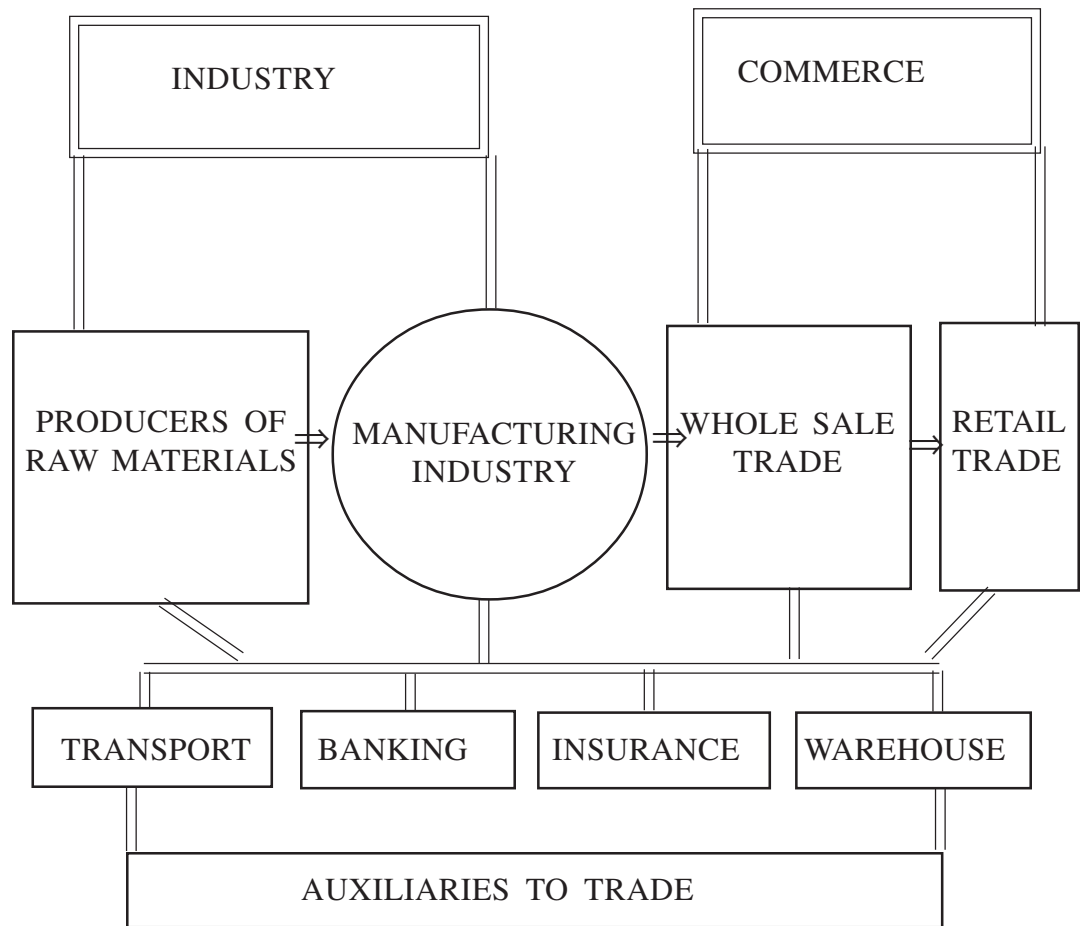
Distinction between Industry, Commerce and Trade

Basis of difference	Industry	Commerce	Trade
1. Meaning	Production of goods and services for sale	Sum total of activities connected with transfer of goods from producers to consumers	Exchange of goods for price through buying and selling
2. Utility	Creates form utility	Creates time and place utility	Creates time and place utility and removes hindrance of persons
3. Broad classification	Four types: genetic, extractive, manufacturing and construction	Two types: Trade and auxiliaries to trade	Two types: internal and external

Inter-relationship between Industry, Trade and Commerce

All the three branches of business are closely related to each other. Each depends upon the other for the achievement of aims and objectives of business. For example, industry is concerned with the production of goods and services, trade is related with sale and purchase of products, and commerce arranges for their distribution. Industry can succeed only if goods are marketed and without production of goods, there cannot be commerce and trade. Hence, trade provides necessary support to industry and commerce. Thus, industry, trade and commerce are inter-dependent and cannot operate in isolation. Service facilities also provide necessary support to trade.

FIG. RELATIONSHIP OF INDUSTRY, COMMERCE AND TRADE



Intext Question 1.2

1. Fill in the blanks:
 - 1) Business may be divided into two broad categories:
(i) _____ (ii) _____.
 - 2) Primary industries are subdivided into two groups:
(i) _____ (ii) _____.
 - 3) Secondary industries may be divided into two groups:
(i) _____ (ii) _____.
 - 4) On Geographical basis trade may be classified as:
(i) _____ (ii) _____.
 - 5) Foreign trade may include
(i) _____ (ii) _____.
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- II. Fill in the blanks with appropriate words selected from those given within brackets:
- (i) The enterprises which are concerned with the production and processing of goods are _____ (public enterprises/private enterprises/industrial enterprises)
 - (ii) The industries which are connected with extraction, producing and processing of natural resources are _____ industries (primary/secondary/cottage)
 - (iii) Fishing is _____ industry. (genetic/extractive/construction)
 - (iv) The trade carried on within the boundaries of a country is _____ (import trade/home trade/retail trade)
 - (v) A trader who sells goods directly to the consumer is known as a _____ (wholesaler/retailer/producer)
 - (vi) The trade which relates to the purchasing of goods from other countries is known as _____. (export trade/import trade/enterepot trade)
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1.7 Transport and Communication

Transport:

It is one of the most important auxiliaries to trade. Transportation helps trade by facilitating the movement of goods and passengers from one place to another. Transport creates '**place utility**' of the goods and remove the problem of distance. All kinds of goods can be transported in large quantities over long distances.

A business can depend upon a number of modes of transportation - land transport (road, railways, and pipeline), water transport (inland waterways, coastal and sea) and air transport (domestic and international).

Communication :

Now-a-days it is not possible to have business without communication. **Communication implies transmission of information, ideas, opinions, etc between two or more persons.** It is a systematic and continuing process of telling, listening and understanding. Communication may be of two types - (i) internal and (ii) external. Internal communication refers to transmission of information by a person to another of the same organisation. External

communication refers to transmission of information by persons to others outside the organisation. Methods of communication may include face to face, by telephone, postal mail, etc. On the basis of means of communication, there are two types of communication—oral and written.

Banking and Finance

Banking provides safe, efficient and convenient mode of payment for goods in inland trade as well as in foreign trade. Banking helps business firms to overcome the problem of finance by lending money as and when required. Banks accept deposits and lend money. The other services of banks are: discounting of bills, collection of cheques, acting as agent. A bank accepts deposits on various accounts such as fixed deposit, savings, recurring deposit, and current. Loans are granted through over-draft, cash credit, loans and advances, discounting of bills. Other services of banks include collection of payments on cheques, bills, drafts etc., sending money from one place to another, buying and selling securities, payment of insurance premium, issuing travellers cheques, providing locker system, and providing information on credit worthiness. Banks are of various types: commercial, agricultural, indigenous, rural, cooperative, exchange, central, etc. In fact banking is the lifeline of business.

Finance:

Finance is the life blood of business. It implies provision of money at the time it is required by business. Provision of funds is essential for every type of trade. Finance needed by business is called “**Business Finance**”. It means arrangement of cash and credit to carry out business activities. Types of finance required by business are long-term, medium-term and short-term. Long-term finance (more than 10 years) is required for buying fixed assets; medium-term finance (one to 10 years) is required for modernization and expansion of business, and short-term finance (upto one year) is needed for working capital. Sources of finance may be owned funds and borrowed funds. Special financial institutions which provide finance to business are IFCI, SFCs, ICICI, IDBI, SIDBI, and IRBI. They provide long-term and medium-term finance.

Warehousing

Warehousing refers to storage of goods which are generally produced on a large scale in anticipation of demand. Goods have to be stored for some time before transportation by manufacturers, wholesalers and retailers. Thus warehousing creates ‘**time utility**’.

Insurance

Insurance occupies a prominent and valuable place as an aid to business and commerce. Insurance provides security against risks. It makes trade and business secure by making provision against all probable losses. Insurance is based on the principle of '**pooling of risks**'. Insurance helps the businessman to conduct his business with confidence and peace of mind.

There are two major types of insurance coverage - (i) insurance of life of people and (ii) insurance of property.

Intext Questions 1.3

I. Match the following :-

Statement	Terms
(1) It provides security against risks	(a) Banking
(2) It provides place for storage of goods	(b) Insurance
(3) It implies provision of money at the time it is required by business	(c) Transport
(4) It helps business firms to overcome the problem of finance	(d) Warehousing
(5) It refers to the means of physical movement of goods and passengers	(e) Finance

II. Tick the correct answer

- (a) It provides scientific storage facilities to manufacturers. (Transporter/Warehousekeeper/Banker)
 - (b) It is an agreement between two parties whereby one agrees to protect the other against a loss (Insurance/Warehousing/Transport)
 - (c) It is based on an important principle of utmost good faith. (Business/Insurance/Trade)
 - (d) It finances internal and external trade. (Insurance company/Bank/Transport company)
 - (e) It implies exchange of facts or ideas by two or more persons. (Transport, Communication, Finance)
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1.8 What You Have Learnt

Human activities involve efforts under taken to satisfy human needs, to earn one's livelihood, or to derive mental satisfaction. Economic activities are undertaken by people to earn one's living and for production of wealth.

Non-economic activities are social activities which people undertake to derive personal satisfaction. Economic activities are of three kinds (i) profession, (ii) employment and (iii) business. Activities which require special knowledge are known as profession. When people work for remuneration, they are said to be in employment. Activities connected with production, purchase or sale with the object of earning profit are called business activities. Business activities may be classified as (i) industry and (ii) commerce. Industry includes production of goods. Commerce is related with sale, exchange and transfer of goods and services.

On the basis of functions there are two broad categories of business : (i) industry, (ii) commerce. Industry may be of two types - primary and secondary. Primary industries may be extractive and genetic. Secondary industries are of two types: manufacturing and construction. Commerce includes trade and aids to trade. Trade is classified as home trade and foreign trade. Home trade may be retail trade and wholesale trade. Foreign trade is of two types: import and export. Industry, trade and commerce are closely related to each other. Transport provides for movement of goods. Banking provides financial facilities to business. Insurance provides security against risks. Warehousing provides storage facilities.

1.9 Terminal Exercises

1. Name two divisions of human activities.
 2. Give examples where cooking can be an economic and a non-economic activity.
 3. Name two industries which are connected with extraction of natural resources.
 4. Distinguish between business and profession.
 5. Distinguish between economic and non-economic activities.
 6. What is banking?
 7. State the purpose of warehousing.
 8. Define 'Business'. Explain business as an economic activity.
 9. What do you understand by the term 'Industry'?
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10. What is commerce? Show how the various divisions of commerce are related to each other.

1.10 Answers to Intext Questions

- 1.1 I. (a) business, profession, employment
(b) profession (c) employees (d) business (e) profit

- II (1) d (2) e (3) a (4) b (5) c

- 1.2 I. (1) Industry, commerce
(2) Extractive, Genetic
(3) Manufacturing, Construction
(4) Internal, External
(5) Import, Export

- II. (i) Industrial
(ii) Primary
(iii) Extractive
(iv) Home Trade
(v) Retailer
(vi) Import Trade

- 1.3 I. (1) b (2) d (3) e (4) a (5) c

- II. (a) Warehousekeeper
(b) Insurance
(c) Insurance
(d) Bank
(e) Communication
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