

BUSINESS ACTIVITIES

Learning Objectives

After studying this chapter, you should be able to :

- 2.1. Define business and explain its meaning
- 2.2. Explain the characteristics of business activities
- 2.3. Classify types of business activities
- 2.4. Describe the nature and types of industries
- 2.5. Discuss the meaning, nature and importance of commerce
- 2.6. Explain the types of commerce — trade and aids to trade
- 2.7. Explain types of trade
- 2.8. Describe types of aids to trade
- 2.9. Examine the relationship between trade, commerce and industry
- 2.10. Distinguish between organisation, firm and company.

It has been pointed out in the previous chapter that there are two types of human activities — Economic or commercial activities. and Non-economic or non-commercial activities. Economic or commercial activities are of three types.

1. Business
2. Profession
3. Employment.

Let us discuss the meaning, nature and types of business activities.

2.1 MEANING AND DEFINITION OF BUSINESS

Business is an economic activity. It involves sale, transfer or exchange of goods and services with the purpose of earning money. Goods and services are provided to satisfy human wants rather than for personal use. Business is an occupation and it comprises a wide range of activities. It is the sum total of all those activities by which desirable things are extracted from the nature, transformed and processed by man and machine, carried from place to place, stored through times and placed in the hands of those who are willing to pay for them.

Business is different from other economic activities which are professions and employment. A profession is an occupation requiring formal education and training. It involves rendering personal and expert services in exchange of some fee. Chartered accountants, doctors, architects, lawyers carry on professions. Employment is an occupation wherein a person works under an employer to earn wages or salary.

Some popular definitions of business are given below :

L.H. Haney : "Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling of goods. Business consists of those processes by which desirable things are extracted from earth, fashioned and transformed by man and machine, carried from place to place and stored through time and placed in the hands of those who are ready to pay for them."

B.O. Wheeler : "Business is an institution organised and operated to provide goods and services to society under the incentive of private gain."

L.R. Dicksee : "Business is a form of activity pursued primarily with the object of earning profits for the benefit of those on whose behalf the activity is conducted."

Urwick and Hunt : "Business is any enterprise which makes, distributes or provides any article or service which the other members of the community need and are able and willing to pay for."

R.N. Ownes : "Business is any enterprise engaged in the production and distribution of goods for sale in market or rendering services for a price."

A. Keith and Carlo : "Business is a sum of all activities involved in production and distribution of goods and services for private profits."

James Stephenson : "Economic activities performed for earning profits are termed as 'Business'."

W.R. Spriegal : "All the activities involved in the production and sale of goods or services may be classified as business activities."

Koontz and O'Donnell : "Business is any activity concerned with production or purchase of scarce goods and services."

Peterson and Plowman : "Business may be defined as an activity in which different persons exchange, something of value, whether goods or services for mutual gain or profit."

Thus, business may be defined as an economic commercial activity concerned with production and distribution of goods and services with the purpose of earning profits. A person engaged in business is known as businessman. The unit formed for the purpose of carrying on some business is called a business firm or enterprise.

2.2 CHARACTERISTICS (NATURE) OF BUSINESS ACTIVITIES

The salient features of business activities are given below :

1. Sale, Transfer or Exchange : All business activities involve sale or exchange of goods and services for some consideration. Buying and selling of goods and services for a price are the essence of business. If there is no sale, transfer or exchange for price, it will not be a business activity. For instance, cooking food for personal consumption does not constitute business. But cooking food and selling it to others for a price becomes business.

2. Dealings in Goods and Services : Every business enterprise produces or buys goods and services for selling them to others. Goods may be consumer goods or producer goods. Consumer goods are meant for direct use by the ultimate consumers, e.g. bread, cloth, shoes, etc. Producer goods are used for the production of consumer goods, e.g. materials, machinery, etc. Services are intangibles such as electricity, insurance, banking, etc.

3. Regular Dealings : Business involves a series of dealings. A single transaction cannot be called business. Recurring purchase and sale is the hallmark of business. For instance, if a person sells his old scooter, it is not business. But if he sells scooters on a regular basis, it will become business.

4. Profit Motive : A business is not charity. The primary objective of business is to earn money and acquire wealth. A business that does not earn profits cannot survive for long. Profits are also essential for the growth and expansion of business. Business must, however, earn profits by serving the society.

5. Creation of Utilities : A business makes goods more useful to satisfy human wants. It adds time, place, form and possession utilities to various types of goods. In the words of Roger, "A business exists to create and deliver value satisfaction to customers at a profit."

6. Economic Activity : Business is primarily an economic activity as it involves production and distribution of goods and services for the satisfaction of human wants. However, business is a part of society and it reflects the aspirations, values and beliefs of people. Therefore, business may be described as a socio-economic function.

7. Risk : Risk is an essential part of business. It implies the uncertainty of profits or the possibility of loss. In business, risk arises due to several factors, e.g. changes in demand, theft, fire, natural calamities, bad debts, etc., some of these risks (e.g., loss by fire, blood, theft, etc.) can be insured while other risks (e.g., loss due to change in demand, change of fashion, etc.) cannot be insured.

CHARACTERISTICS OF BUSINESS

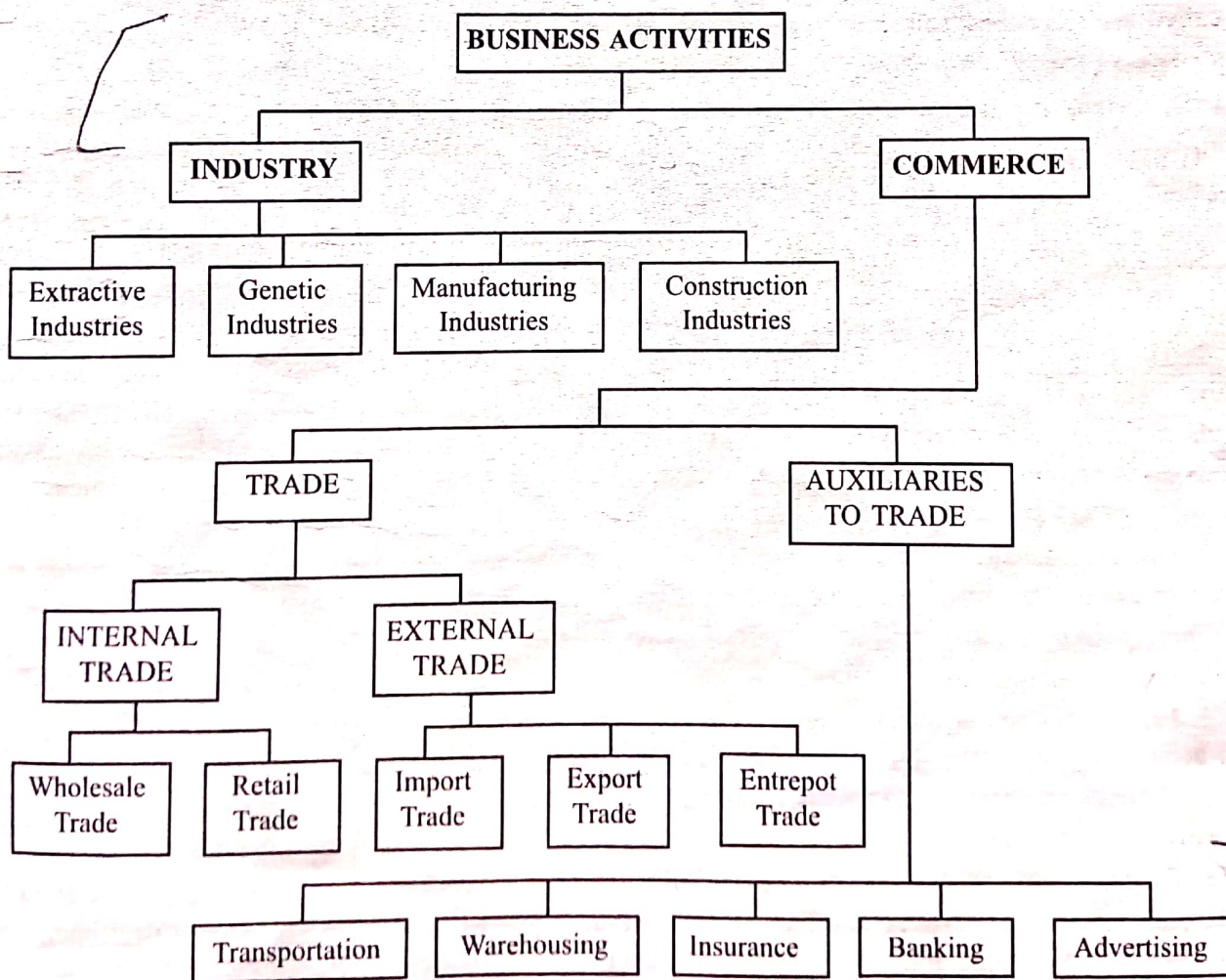
- (i) Sale, transfer or exchange (ii) Dealings in goods and services (iii) Regular dealings
(iv) Profit motive (v) Creation of utilities (vi) Economic activity (vii) Risk

2.3/TYPES OF BUSINESS ACTIVITIES

Business activities may broadly be classified into two categories :

1. Industry

2. Commerce



Industry involves the production of goods whereas commerce is concerned with the distribution of goods. *finished goods for example - plant, machinery, cloth etc.*

1.4 NATURE AND TYPES OF INDUSTRIES

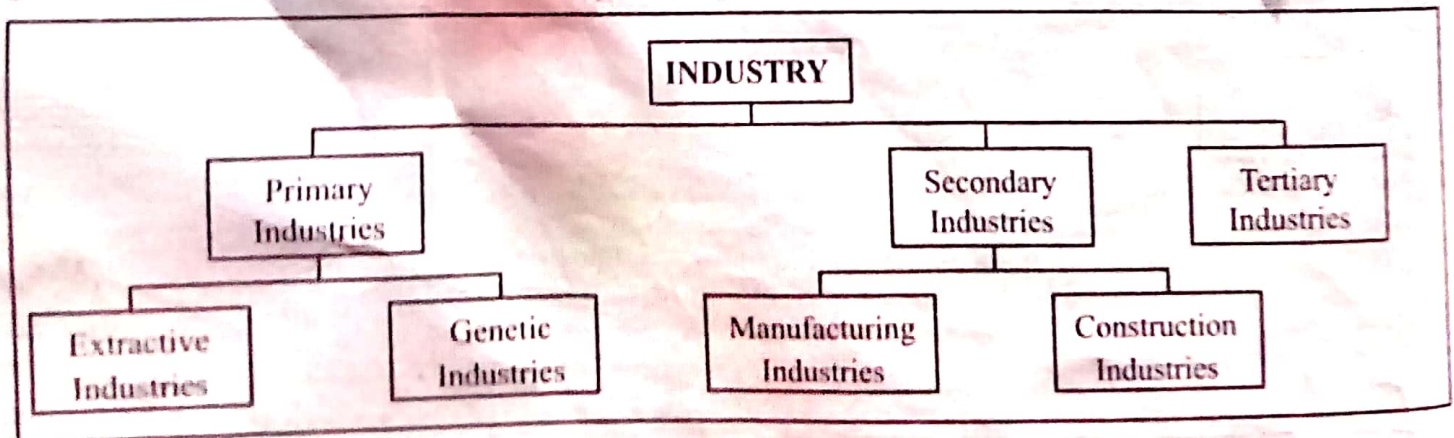
Industry means the production of products with the help of human beings and other resources. It involves the application of men, machinery, materials, and money. Industry refers to that part of business which produces want satisfying goods. Goods produced by industry may be capital goods or consumer goods. Capital goods, e.g., machine, tools, etc., are used for further production of goods. Consumer goods, e.g., books, toothpaste, etc., are directly used by consumers. Industry is concerned with the processes of extraction, multiplication, processing, conversion, fabrication and construction of products. Industry is of the following types :

1. Primary Industries *1st step*

Industries which are involved in the extraction and multiplication of natural resources are known as primary industries. These industries are the original occupations of people. They provide raw materials for secondary industries. Primary industries are of two types – genetic industries and extractive industries.

(a) Genetic Industries : The term 'genetic' has been derived from the word 'genetics' which refers to the study of heredity. Genetic industries are, therefore, engaged in the reproduction or multiplication of certain species of plants and animals to earn profits from their sale. Plant nurseries, poultry farms, cattle breeding farms (animal husbandry), and commercial kernels are the main examples of genetic industries.

(b) Extractive Industries : These industries are engaged in the extraction of useful materials from beneath the surface of the earth and sea. In these industries the products gifted by nature are extracted and collected for the benefit of human beings. Agriculture (farming), mining, fishing, quarrying, forestry (procuring timber and wood products from forests), and hunting are the main examples of extractive industries. These industries are characterised by four distinctive features. *First*, these are among the oldest occupations and provide raw materials for other industries. *Secondly*, human beings simply collect the natural resources from the earth, air or sea and, therefore, their role is less important than that of nature. *Thirdly*, only the location of materials keeps changing over a period of time. *Fourthly*, materials once extracted cannot be replaced. Extractive industries are different from genetic industries. In extractive industries man cannot add to the wealth which he withdraws from the earth, sea or air. But in genetic industries, man contributes not only to the growth but also to reproduction of natural goods.



gap between producers and consumers. Quick and economical means of transport such as railways, roadways, airways and shipping have widened the scope of trade to include international transactions.

2. Warehousing : Nowadays goods are produced in anticipation of demand. It is, therefore, necessary to store the goods until they are sold. Many products such as wheat, sugar, rice, etc. are produced in a particular season but they are needed throughout the year. Proper storage arrangements must be made in order to make the goods available throughout the year. Besides, it is necessary to store commodities such as woollen garments and umbrellas to meet the desired seasonal demand. Warehousing removes the hindrance of time and thereby creates time utility. It helps to stabilise prices. Warehouses are of three types, namely, private, public and bonded. *Private warehouses* are owned by merchants and producers for their own storage needs. *Public warehouses* are owned by wharfingers, port trusts, etc. *Bonded warehouses* are set up by customs authorities to store goods which are liable to custom duty.

3. Banking : There is usually a time gap between production, purchase and sale of goods. During this period businessmen need funds to carry on their business. Banks and other financial institutions provide required credit in various forms. Banks also facilitate business activity by providing safe and quick means for the remittance of money. Banking removes the hindrance of raising finance and credit on one's own.

4. Insurance : Business involves several types of risk. Insurance removes the hindrance of risk. With the help of insurance, a businessman can protect himself from several types of risks. Insurance is based on the "pooling of risks". A large number of people who are subject to a particular risk contribute to a common fund, out of which compensation is paid to those few who actually suffer the loss. There are various types of insurance, e.g. fire insurance, marine insurance, workmen's compensation insurance, life insurance, etc.

5. Advertising : Advertising and publicity inform the consumers about the availability of various products and services. They remove the hindrance of knowledge. The main purpose of advertising is to create and sustain demand. In the absence of advertising, consumers may remain ignorant of the availability of goods and services and businessmen may not be able to sell their products. There are various forms of advertising and publicity such as the press, outdoor displays, radio, television, letters to customers, fairs, exhibitions, cinema, etc.

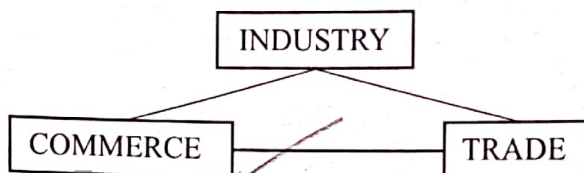
6. Packaging : Packaging means designing and producing suitable packages for different products. Packing means putting goods in wrappers, containers, etc. Packing helps to protect the goods from damage during transport and warehousing. It also makes the goods attractive. Packing helps in the conveyance and handling of goods. It removes the hindrance of risk by keeping goods safe and free from spoilage. Trade and transport of goods have become easier and safer due to improvements in the art and methods of packaging.

2.9 INTER-RELATIONSHIP BETWEEN TRADE, COMMERCE AND INDUSTRY

Trade, industry and commerce are elements of business. Trade implies buying and selling of goods and services in order to earn profits. Trade refers to sale, transfer or exchange and it is a part of commerce. Commerce consists of trade and auxiliaries to trade or services which facilitate trade. Industry is concerned with the production of goods.

Trade, commerce and industry are closely related to each other. Each of these components of business depends upon the other for the realisation of its objectives. Industry produces goods which are distributed by commerce. No commercial activity is possible in the absence of industry. At the same time, industrial production is meaningless without the distribution of goods through commerce. If industry is the back-bone of commerce, commerce serves as the lifeline of industry.

Trade provides the necessary support to industry and maintains a smooth flow of commerce. Trade and commerce provide support to industry by maintaining a smooth flow of goods from producers to consumers. Trade is the nucleus of commerce as all commercial activities revolve around sale or exchange. Trade provides the solid foundation upon which the super structure of commerce is built. Thus, there is a high degree of interdependence between industry, commerce and trade.



Interdependence between industry, commerce and trade

Despite this interdependence, there are following points of difference between trade, commerce and industry :

- (i) Industry creates form utility by moulding resources into useful products. For example, cotton is converted into cloth. On the other hand, trade creates exchange utility by providing a link between producers and consumers. Commerce creates time, place and possession utilities through storage, transportation, insurance, etc.
- (ii) Trade depends upon industry and there can be no trade without industry. At the same time, industry cannot function without trade and commerce.
- (iii) Trade depends largely upon auxiliary services like transportation, warehousing, insurance, advertising, etc.

Comparison between Industry, Commerce and Trade

<i>Basis of Comparison</i>	<i>Industry</i>	<i>Commerce</i>	<i>Trade</i>
1. Meaning	Extraction, reproduction, processing and construction of useful products.	Activities concerned with distribution of products to consumers.	Buying and selling of goods and services.
2. Scope	Consists of all activities concerned with the production of commodities.	Comprises trade and auxiliaries to trade and sale.	Consists of activities involving purchase
3. Capital	Generally large capital required for large-scale industry.	Comparatively less capital required.	Capital required to keep stocks.
4. Risk	Greater degree of risk involved.	Comparatively less risk involved.	Comparatively less risk involved
5. Nature of utility	Creates form utility.	Creates time and place utilities.	Creates possession utility.
6. Classification	a. Genetic b. Extractive c. Manufacturing d. Construction	a. Trade b. Auxiliaries to trade	a. Home Trade b. Foreign Trade

7. Beginning of utility	Begins before commerce and trade.	Begins after industry.	Begins with commerce
8. Ownership and control	By industrialists	By merchants	By traders

2.10 DISTINCTION BETWEEN ORGANISATION, FIRM AND COMPANY

Organisation : The term 'organisation' refers to a group of persons who have common objectives. The members of the organisation work in cooperation to achieve the common objectives. The total work is divided among the members who communicate with one another. There is a central authority which prescribes rules and regulations and regulates the activities of the group. According to James D. Mooney, "*organisation is the form of every human association for the attainment of a common purpose*". There are two types of relationships among the members of the organisation— horizontal and vertical. Horizontal relationship refers to relationship between people working at the same level of authority. For example, there is a horizontal relationship among heads of departments. Vertical relationship refers to superior-subordinate relationship. For example, there is vertical relationship between head of the marketing department and branch managers. Vertical relationships from the top to the bottom of the organisation constitute the chain of command through which authority, responsibility and communications flow both downward and upward.

An organisation is a human group deliberately formed or designed to achieve specific goals. The activities of an organisation are coordinated rationally through assignment of duties and responsibilities. Size, complexity, formality, hierarchy and life span are the main characteristics of an organisation. An organisation draws inputs from its environment, transforms them in some manner, and then deposits its output back into the environment. The inputs consist of energy, information, raw materials, capital, manpower, etc. The output comprises goods and services, waste materials, profits, taxes, etc.

Company : The term 'company' means an association of many persons who contribute money or money's worth to a common stock and employ it for some common purpose. The common stock so contributed is denoted in money and is called the **capital of the company**. The persons who contribute it, or to whom it belongs are its members. The proportion of capital to which each member is entitled is his share. Shares are generally transferable. Company is a legal term because it is created by law. It is artificial, invisible and intangible. It exists irrespective of the persons who establish it. It has a separate legal entity independent of its members. The liability of a member is generally limited to the face value of his shares. A company is managed by a Board of Directors. Directors are the elected representatives of the members.

Every formal group of persons with common objectives can be treated as an organisation. On the other hand, a firm is an individual or a group of persons who carry on some business. A school, a college, a university, a hospital, a club, a charitable or religious trust are all organisations. But none of these can be called a firm because no business is carried on by them.

A firm can be a sole proprietorship, partnership or company. Proprietorship is owned and controlled by one person. Two or more persons own and control a partnership. Both proprietorship and partnership are non-legal entities and have no existence separate from their members. But a company is a legal entity and has an independent existence distinct from its members.