

# UNIT I FUNDAMENTALS OF BUSINESS

## CHAPTER

## 2

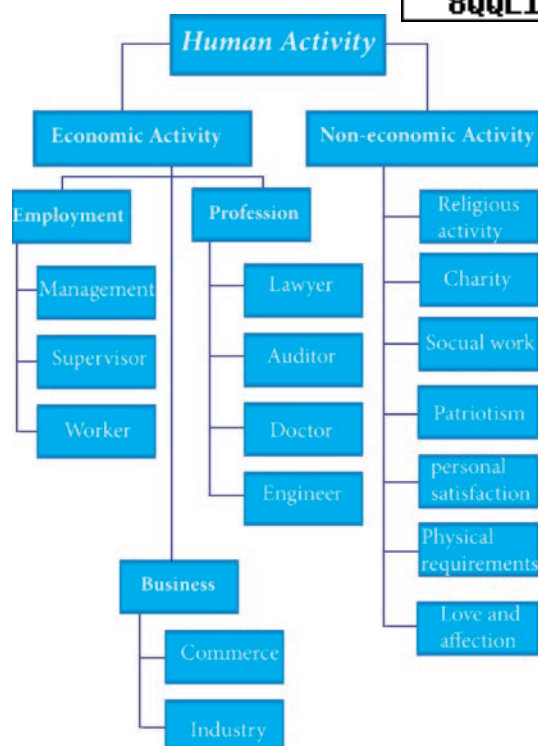
## OBJECTIVES OF BUSINESS



### Learning Objectives

To enable the students to

- know the meaning of human activities and its kinds
- learn the Economic Vs Non-Economic Activities
- know the types of Economic Activities Employment, Profession and Business
- understand the concept of business
- explain the characteristics of business activities
- analyse the objectives of business
- elucidate the comparison of business, profession and employment



## 2.01 Introduction

### Human Activities

Human activity is an activity performed by a human being to meet his/her needs and wants or may be for personal satisfaction. Human activities can be categorised into economic and non-economic activities. The chart below gives a snapshot of human activities.

#### I. Economic Activities

Activities undertaken with the object of earning money are called economic activities.

#### Examples:

- Production of goods by manufacturers
- Distribution of goods by wholesalers
- Selling by retailers
- Medical advice rendered by physicians
- Accounting practice by chartered accountants

#### II. Non-Economic Activities

Activities undertaken to satisfy social and psychological needs are called non-economic activities.

#### Examples:

- Cooking food for family
- Celebrating festivals

## Economic Activity Vs. Non-Economic Activity

Economic Activities	Non-Economic Activities
<b>1. Definition:</b> Economic activities are those activities which are undertaken to earn money or financial gain for livelihood. e.g., Fruit seller selling fruits	Non-economic activities are those activities which are undertaken for the sake of pleasure, performed out of love, sympathy, sentiments etc. e.g., Mother cooks for her family
<b>2. Motive:</b> Sole motive is to earn money or financial gain. e.g., Working as a lawyer.	Undertaken for satisfaction of social, psychological or emotional needs. e.g., Visit to a temple
<b>3. Money Measurement:</b> All economic activities can be valued in monetary terms. e.g., Doctor charges ₹500 as consultation fee.	Non-economic activities cannot be valued in monetary terms. These are an expression of a thought, feeling or a gesture. e.g., An NGO distributes free clothes to poor children
<b>4. Relationship:</b> Economic activities are related to creation of wealth. e.g., Ram saved part of his salary to purchase a house of his own.	Non-economic activities do not create wealth. e.g., Money received as donation is spent on charity work.
<b>5. Outcome:</b> All economic activities result in production, procurement, distribution and consumption of goods and services. e.g., Nokia produces cell phones and sells across India through its distributors.	The end result of a non-economic activity is the mental, emotional or psychological satisfaction of the person doing the activity. e.g., Sona enjoys teaching orphans in an orphanage.
<b>6. Duration:</b> Economic activities are repetitive. They are done on a regular basis to earn a living. e.g., Kulfi ice cream seller sells ice creams every evening.	Non-economic activities may not be undertaken regularly. Usually they are done during free time. e.g., Sankar visits orphanage in his free time.
<b>7. Source of Initiation:</b> Economic activities are initiated to satisfy human needs and wants.	Non-economic activities are initiated to satisfy emotional or sentimental pleasures.

iii. Watching movies in a theatre

iv. Doing meditation

### 2.02 Types of Economic Activities

Economic activities are undertaken to earn money. Generally, people engage themselves in such activities on a regular basis and are

said to be engaged in their occupation. Occupations may be classified into three categories based on the following:

- A. Employment
- B. Profession
- C. Business

## A. Employment

It refers to the occupation in which people work for others and get remuneration in the form of wages or salaries. The one who is employed by others are called employees and the one who employs others is called employer.

Managers, Clerks, Bank officials, Factory workers etc., are examples of employees.

### Characteristics

There is a contract existing between the employer and the employee. Employee performs according to assigned task. Remuneration is given to employees for delivering value of services. An employee must abide by the rules and regulations of the organization.

## B. Profession

Professions are those occupations which involve rendering of personal services of a special and expert nature. A profession is something which is more than a job. It is a career for someone who is competent in their respective areas. It includes professional activities which are subject to guidelines or codes of conduct laid down by professional bodies. Those engaged in a profession are called professionals and they earn income by charging professional fee.

### Characteristics

There should be a systematic body of knowledge. There should be formal acquisition of knowledge by the members. There should be a code of conduct governing the conduct and behaviour of professionals. Service motive should be uppermost in the minds of people rendering professional service.

## C. Business

Business refers to any human activity undertaken on a regular basis with the object to earn profit through production, distribution, purchase and sale of goods and services.

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

According to **James Stephenson** business refers to “Economic activities performed for earning profits.”

According to **H.Haney**, “Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling of goods”.

Business activities are connected with raising, producing or processing of goods. Industry creates form utility to goods by bringing materials into the form which is useful for intermediate consumption (i.e., further use of material in order industry) or final consumption by consumers.

## Classification

Business activities are classified on the basis of size, ownership and function.

### 1. Activities on the Basis of Size

On the basis of size, business activities may be broadly grouped into two categories.

#### a. Small Scale

Small scale units require less capital. They employ small number of workers and produce the goods on small scale. Example: Manufacturing textiles in handlooms or power looms.



(i) Extraction of edible oil from seeds like groundnut, sesame, through traditional wooden churner.

#### **b. Large Scale**

Large scale units require huge capital. They employ large number of workers and produce the goods on large scale.

Examples

- (i) Manufacturing Textiles in a large Textile mill. Example. Raymonds, Ramraj Cotton
- (ii) Extraction of edible oil from oil seeds in oil mills. Example. Suffola, Sunflower

### **2. Activities on the Basis of Ownership**

On the basis of ownership business activities may be broadly grouped into three categories.

#### **a. Private Enterprises**

An enterprise is said to be a private enterprise where it is owned, managed and controlled by persons other than Government.

- (i) Sole proprietorship. Example - Sundar Stationeries
- (ii) Partnership firms. Example - Ramesh Bros.

#### **b. Public Enterprises**

An enterprise is said to be a public enterprise where it is owned, managed and controlled by Government or any of its agencies or both. Public enterprises may be organized in several forms such as,

- (i) Departmental undertaking - Public Works Department (PWD)
- (ii) Public Corporation - Oil and Natural Gas Corporation (ONGC)

- (iii) Government Company - State Trading Corporation (STC)

#### **c. Joint Enterprises**

An enterprise is said to be a joint enterprise where it is owned, managed and controlled by Government and private entrepreneurs. Example - Maruti Suzuki

### **3. Activities on the Basis of Function**

On the basis of functions, business activities may be broadly grouped into two categories.

#### **a. Industry**

Industry includes all those business activities which are connected with raising, producing or processing of consumer goods. Example - bread, butter, cheese, shoes, or capital goods like machinery.

#### **b. Commerce**

It establishes a link between the producers and consumers of goods and maintains a smooth and uninterrupted flow of goods from producers to consumers.

## **2.03 Characteristics of Business**

The essential characteristics of business are as follows:

#### **i. Production or Procurement of Goods**

Goods must be produced or procured in order to satisfy human wants.

#### **ii. Sale, Transfer or Exchange**

There must be sale or exchange of goods or services. When a person weaves cloth for his personal consumption, it is not business because there is no transfer or sale.

#### **iii. Dealing in Goods and Services**

Goods produced or procured may be consumer goods like cloth, pen, brush, bag etc., or producer-goods like plant

## Comparison of Business, Profession and Employment

Business	Profession	Employment
<b>1. Mode of Establishment:</b> Promoter's decision registration and other formalities as prescribed by law	Membership of a professional body or certificate of practice	Service contract or letter of appointment
<b>2. Nature of Work:</b> Goods and services provided to the public	Personalized service of expert nature	Performing work assigned by the employer
<b>3. Qualifications:</b> No minimum qualification is essential	Education and training in specialized field	Minimum qualification is essential
<b>4. Basic Motive:</b> Earning profits by satisfying needs of society	Rendering service	Earning wages or salary by serving the employer
<b>5. Capital:</b> Capital investment required as per size of the firm	Limited capital necessary for establishment	No capital required
<b>6. Reward:</b> Profits	Professional fee	Salary or wages
<b>7. Risk:</b> Profits are uncertain and irregular	Fee is regular and certain, never negative	Fixed and regular pay, no risk
<b>8. Transfer of Interest:</b> Transfer possible with some formalities	Not possible	Not transferable
<b>9. Code of Ethics:</b> No specific code of conduct, moral and ethical dealings only	Professional code of ethics	Rules and regulations of the employing organization

and machinery. Services refer to activities like supply of electricity, gas or water, transportation, banking, insurance etc.

### iv. Regularity of Dealings

An isolated dealing in buying and selling does not constitute business. The transactions must be regular. For example, if a person buys a scooter for his use and later on disposes it of at a profit, he cannot be said to have been engaged in business. The buying and selling must be recurrent to constitute business.

### v. Profit Motive

An important feature of business is profit motive. Business is an economic activity by which human beings make their living. It is,

in fact, the attraction of profit which spurs people to do business.

### vi. Element of Risk

The profit that is expected in a business is always uncertain because it depends upon a number of factors beyond the control of the businessman. For example, change in consumer preference, shortage of raw materials, transport bottlenecks, power-crisis etc., may upset business calculations and result in loss. That is why profit is said to be reward for risk-taking. Thus any business activity includes an element of risk too.

## 2.04 Objectives of Business

Every business enterprise has certain objectives which regulate and generate



its activities. Objectives are needed in every area where performance and results directly affect survival and prosperity of a business. Various objectives of business may be classified into five broad categories as follows;

#### A. Economic Objectives

Economic objectives of business refer to the objective of earning profit and also other objectives that are necessary to be pursued to achieve the profit objective, which includes creation of customers, regular innovations and best possible use of available resources.

#### B. Social Objectives

Social objectives are those objectives of business, which are desired to be achieved for the benefit of the society. Since business operates in a society by utilizing its scarce resources, the society expects something in return for its welfare. No activity of the business should be aimed at giving any kind of trouble to the society.

#### C. Organizational Objectives

The organizational objectives denote those objectives an organization intends to accomplish during the course of its existence in the economy like expansion and modernization, supply of quality goods to consumers, customers' satisfaction, etc.

#### D. Human Objectives

Human objectives refer to the objectives aimed at the well-being as well as fulfillment of expectations of employees as also of people who are disabled, handicapped and deprived of proper education and training. The human objectives of business may thus include economic well-being of the employees, social and psychological

satisfaction of employees and development of human resources.

#### E. National Objectives

Being an important part of the country, every business must have the objective of fulfilling national goals and aspirations. The goal of the country may be to provide employment opportunity to its citizen, earn revenue for its exchequer, become self-sufficient in production of goods and services, promote social justice, etc. Business activities should be conducted keeping these goals of the country in mind, which may be called national objectives of business.

#### Key Terms

Human Activities  
Economic Activities  
Non-Economic  
Activities  
Business  
Profession  
Employment



#### For Own Thinking

Do you know that there are white collar, blue collar, pink collar jobs? Collect the information and discuss.



#### Exercise

##### I. Choose the Correct Answer

1. The Primary objective of a business is
  - a. Making Profit
  - b. Not Making Profit
  - c. Special skill
  - d. None of the above

2. Occupation of a Doctor is
  - a) Employment
  - b) Business
  - c) Profession
  - d) Sole Proprietor
3. The following does not characterise business activity?
  - a) Production of goods and services
  - b) Presence of Risk
  - c) Sale or exchange of goods and services
  - d) Salary or wages
4. Activities undertaken out of love and affection or with social service motive are termed as:
  - a) Economic activities
  - b) Monetary activities
  - c) Non Economic Activities
  - d) Financial Activities

### Answers

1. a      2. c      3. d      4. c

## II. Very Short Answer Questions

1. Define Economic Activities.
2. What do you mean by Business?
3. Define Profession.
4. What do you mean by Employment?

## III. Short Answer Questions

1. What do you mean by human activities? Explain.
2. Write short notes on:
  - a) Business   b) Profession
3. Explain the classification of 'Business'.
4. Briefly state the human objectives of a business.

## IV. Long Answer Questions

1. Explain the characteristics of Business
2. Compare business with profession and employment
3. Discuss any five objectives of business
4. Distinguish between economic and non economic activity.

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