

1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 01 (Class XI, Part- 1)
Module Name/Title	Concept and characteristics of business Classification of business activities: Industry and Commerce – Part 3
Module Id	kebs_10103
Pre-requisites	Knowledge about economic and non-economic activities, trade
Objectives	<ol style="list-style-type: none">1. Explain various auxiliaries to trade like Banking, insurance, transportation, warehousing, communication, and advertising2. Objectives of business3. Identify Multiple objectives of business4. Role of profit in business5. Meaning of Business risks6. Types of Business risks7. Nature of Business risks8. Causes of Business risks9. Factors to be considered while starting a business
Keywords	Services, Auxiliaries to trade, Objectives of Business, Business Risk

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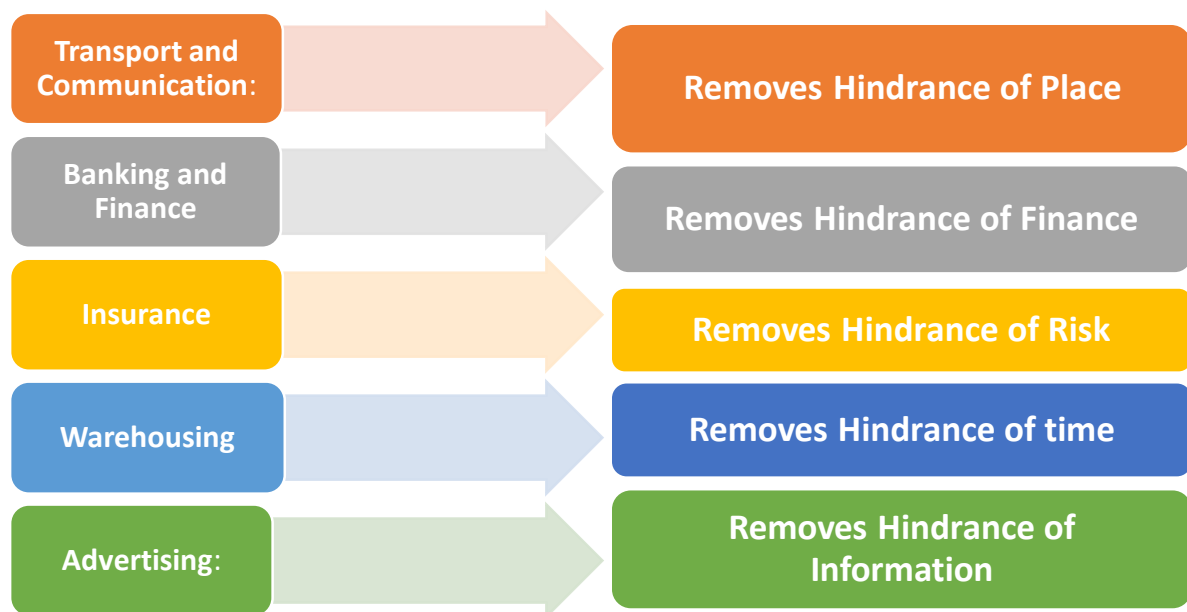
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Auxiliaries to Trade

Activities which are meant for assisting trade are known as auxiliaries to trade. These activities are generally referred to as services because these are in the nature of facilitating the activities relating to industry and trade.

- In fact, these activities not only support trade but also industry and hence, the entire business activity.



Transport, banking, insurance, warehousing, and advertising are regarded as auxiliaries to trade, i.e., activities playing a supportive role. In fact, these activities support not only trade, but also industry and hence, the entire business activity. Auxiliaries are an integral part of commerce in particular and business activity in general. These activities help in removing

various hindrances which arise in connection with the production and distribution of goods. Transport facilitates movement of goods from one place to another. Banking provides financial assistance to the manufacturer and trader. Insurance covers various kinds of business risks. Warehousing creates time utility by way of storage facilities. Advertising provides information to the consumers. In other words, these activities facilitate movement, storage, financing, risk coverage and sales promotion of goods. Auxiliaries to trade are briefly discussed below:

(i) **Transport and Communication:** Production of goods generally takes place in particular locations. For instance, tea is mainly produced in Assam; cotton in Gujarat and Maharashtra; jute in West Bengal and Orissa; sugar in U.P, Bihar and Maharashtra and so on. But these goods are required for consumption in different parts of the country. The obstacle of place is removed by transport through road, rail or coastal shipping. Transport facilitates movement of raw material to the place of production and the finished products from factories to the place of consumption. Along with the transport facility, there is also a need for communication facilities so that producers, traders and consumers may exchange information with one another. Thus, postal services and telephone facilities may also be regarded as auxiliaries to business activities.

(ii) **Banking and Finance:** Business activities cannot be undertaken unless funds are available for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance. Commercial banks generally lend money by providing overdraft and cash credit facilities, loans and advances. Banks also undertake collection of cheques, remittance of funds to different places, and discounting of bills on behalf of traders. In foreign trade, commercial banks help exporters in collecting money from importers. Commercial banks also help promoters of companies to raise capital from the public.

(iii) **Insurance:** Business involves various types of risks. Factory building, machinery, furniture etc. must be protected against fire, theft and other risks. Materials and goods held in stock or in transit are subject to the risk of loss or damage. Employees are also required to be protected against the risks of accident and occupational hazards. Insurance provides protection in all such cases. On payment of a nominal premium, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.

(iv) **Warehousing:** Usually, goods are not sold or consumed immediately after production. They are held in stock to make them available as and when required. Special arrangement must be made for storage of goods to prevent loss or damage. Warehousing helps business firms to

overcome the problem of storage and facilitates the availability of goods when needed. Prices are thereby maintained at a reasonable level through continuous supply of goods.

(v) Advertising: Advertising is one of the most important methods of promoting the sale of products, particularly, consumers goods like electronic goods, automobiles, soaps, detergents etc. Most of these goods are manufactured and supplied in the market by numerous firms — big or small. It is practically impossible for producers and traders to contact each and every customer. Thus, for promoting sales, information about the goods and services available, their features, price, etc., must reach potential buyers. Also there is a need to persuade potential buyers about the uses, quality, prices, competitive information about the goods and services etc. Advertising helps in providing information about available goods and services and inducing customers to buy particular items.

Objectives of Business

An objective is the starting point of business. Every business is directed to the achievement of certain objectives. Objectives refer to all that the business people want to get in return for what they do. It is generally believed that business activity is carried on only for profit. Business persons themselves proclaim that their primary objective is to produce or distribute goods or services for a profit. Every business is said to be an attempt on the part of business people to get more than what has been spent or invested or, in other words, to earn profit which is the excess of revenue over cost. However, it is being increasingly realised nowadays that business enterprises are part of society and need to have several objectives, including social responsibility to survive and prosper in the long run. Profit is found to be a leading objective but not the only one.

Although earning profit cannot be the only objective of business, its importance cannot be ignored. Every business is an attempt to reap more than what has been invested, and profit is the excess of revenue over cost.

Role of Profit in Business



Profit may be regarded as an essential objective of business for various reasons: (i) it is a source of income for business persons, (ii) it can be a source of finance for meeting expansion requirements of business, (iii) it indicates the efficient working of business, (iv) it can be taken as society's approval of the utility of business, and (v) it builds up the reputation of a business enterprise.

However, too much emphasis on profit to the exclusion of other objectives can be dangerous for good business.

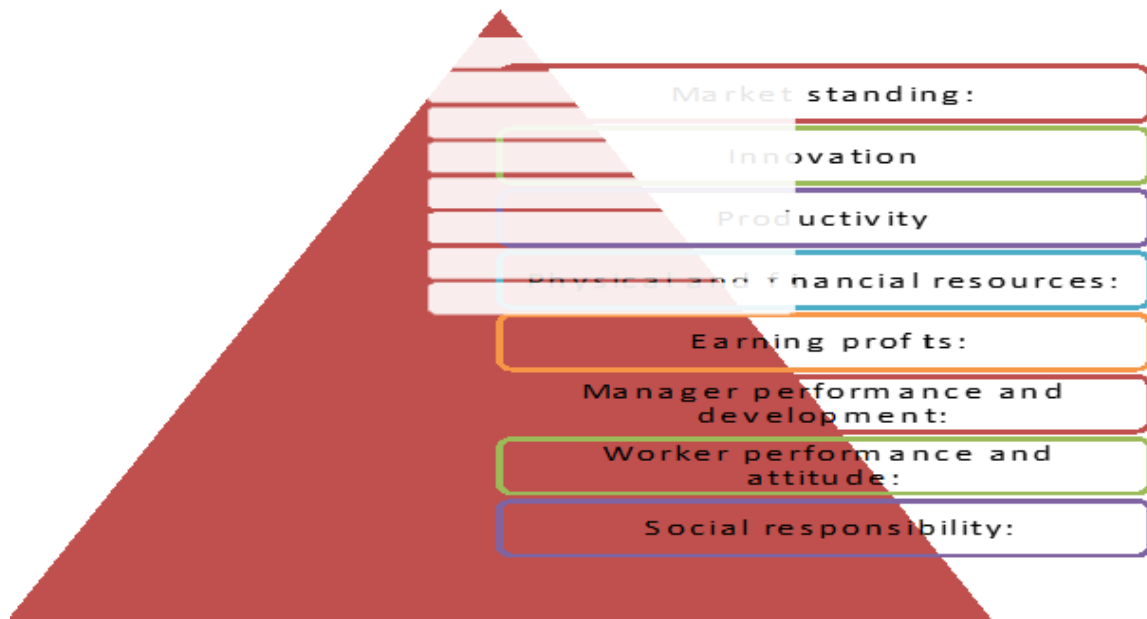


Obsessed with profit, business managers may neglect all other responsibilities towards customers, employees, investors and society at large. They may even be inclined to exploit various sections of society to earn immediate profit. This may result in the non-cooperation or even opposition from the affected people against the malpractices of business enterprises. The enterprises might lose business and may be unable to earn profit. That is the reason why there is hardly any sizable business enterprise whose only objective is maximisation of profit.

Objectives are needed in every area that influences the survival and prosperity of business. Since a business has to balance a number of needs and goals, it requires multiple objectives. It cannot follow only one objective and expect to achieve excellence. Objectives have to be

specific in every area and sphere of business. For example, sales targets have to be set, the amount of capital to be raised has to be estimated and the target number of units to be produced needs to be defined. The objectives define in concrete terms what the business is going to do. Objectives also enable the business to analyse their own performance and take steps as necessary to improve their performance in future.

Objectives are needed in every area where performance and results affect the survival and prosperity of business. Some of these areas are described below:



(a) **Market standing:** Market standing refers to the position of an enterprise in relation to its competitors. A business enterprise must aim at standing on stronger footing in terms of offering competitive products to its customers and serving them to their satisfaction.



(b) **Innovation:** Innovation is the introduction of new ideas or methods in the way something is done or made. There are two kinds of innovation in every business i.e., (i) innovation in product or service; and (ii) innovation in various skills and activities needed to supply products and services. No business enterprise can flourish in a competitive world without innovation. Therefore, innovation becomes an important objective.



Productivity: Productivity is ascertained by comparing the value of output with the value of inputs. It is used as a measure of efficiency. In order to ensure continuous survival and progress, every enterprise must aim at greater productivity through the best use of available resources.



(d) **Physical and financial resources:** Any business requires physical resources like plants, machines, offices, etc., and financial resources, i.e., funds to be able to produce and supply goods and services to its customers. The business enterprise must aim at acquiring these resources according to their requirements and use them efficiently.



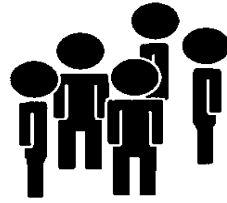
(e) **Earning profits:** One of the objectives of business is to earn profits on the capital employed. Profitability refers to profit in relation to capital investment. Every business must earn a reasonable profit which is so important for its survival and growth.



(f) **Manager performance and development:** Business enterprises need managers to conduct and coordinate business activity. Various programmes for motivating managers need to be implemented. Manager performance and development, therefore, is an important objective. The enterprises must actively work for this purpose.



(g) Worker performance and attitude: Worker's performance and attitudes determine their contribution towards productivity and profitability of any enterprise. Therefore, every enterprise must aim at improving its workers' performance. It should also try to ensure a positive attitude on the part of workers.



(h) Social responsibility: Social responsibility refers to the obligation of business firms to contribute resources for solving social problems and work in a socially desirable manner.



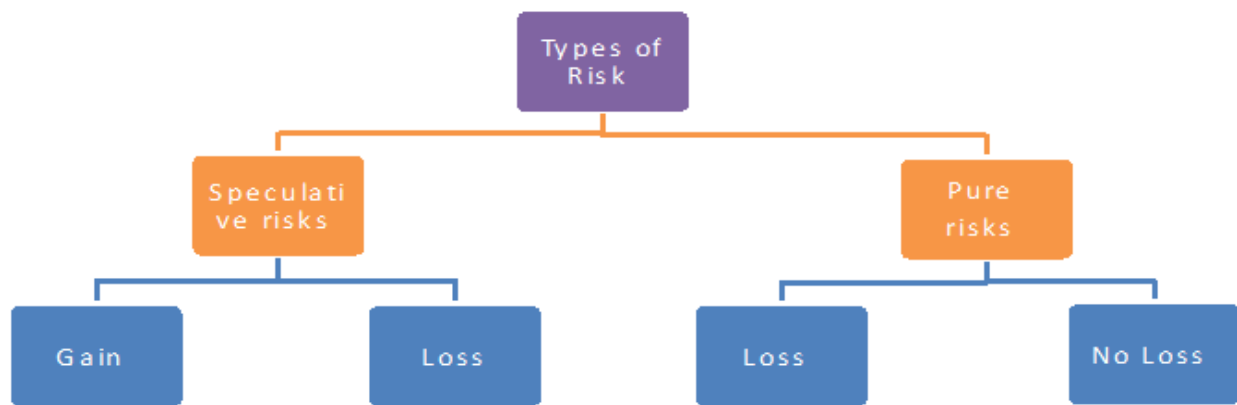
Thus, a business enterprise must have multiple objectives to satisfy different individuals and groups. This is essential for its own survival and prosperity.

Business Risks

The term 'business risks' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. For example, demand for a particular product may decline due to change in tastes and preferences of consumers or due to increased competition from other producers. Lower demand results in long sales and profits. In another situation, the shortage of raw materials in the market may shoot up its price. The firm using these raw materials will have to pay more for buying them. As a result, cost of production may increase which, in turn, may reduce profits.

Types of risk

Business enterprises constantly face two types of risk: speculative and pure.



Speculative risks: It involve both the possibility of gain as well as the possibility of loss.

Example: Speculative risks arise due to changes in market conditions including fluctuations in demand and supply, changes in prices or changes in fashion and tastes of customers.

Favourable market conditions are likely to result in gains whereas unfavourable ones may result in losses.

Pure risks: It involve only the possibility of loss or no loss.

Example: The chance of fire, theft or strike are examples of pure risks.

Their occurrence may result in loss, whereas non-occurrence may explain absence of loss, instead of gain.

Nature of Business Risks

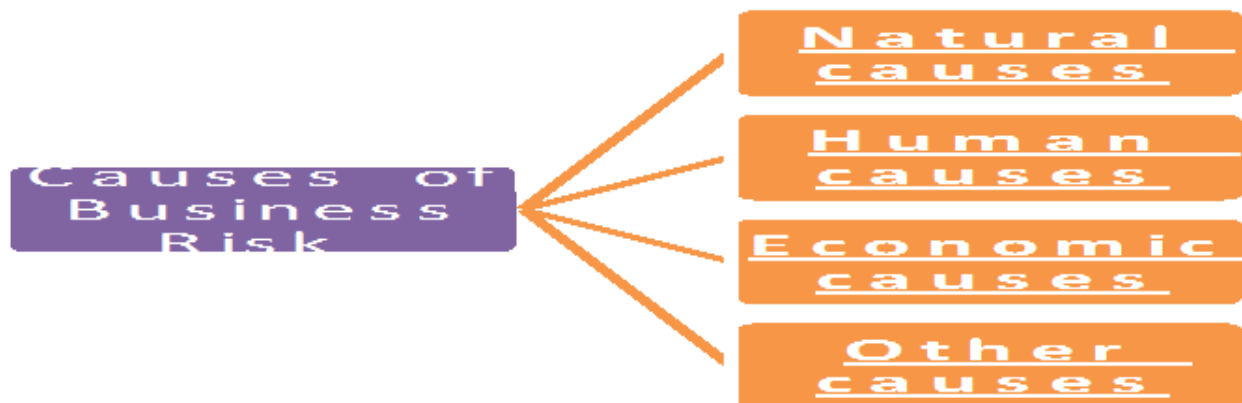
Nature of business risks can be understood in terms of their peculiar characteristics:

(i) Business risks arise due to uncertainties: Uncertainty refers to the lack of knowledge about what is going to happen in the future. Natural calamities, change in demand and prices, changes in government policy, improvement in technology, etc., are some of the examples of uncertainty which create risks for business because the outcome of these future events is not known in advance.

(ii) Risk is an essential part of every business: Every business has some risk. No business can avoid risk, although the amount of risk may vary from business to business. Risk can be minimised, but cannot be eliminated. (iii) Degree of risk depends mainly upon the nature and size of business: Nature of business (i.e., type of goods and services produced and sold) and size of business (i.e., volume of production and sale) are the main factors which determine the amount of risk in a business. For example, a business dealing in fashionable items has a high degree of risk. Similarly, a large-scale business generally has a higher risk than what a

small scale has. (iv) Profit is the reward for risk taking: 'No risk, no gain' is an age-old principle which applies to all types of business. Greater the risk involved in a business, higher is the chance of profit. An entrepreneur undertakes risks under the expectation of higher profit. Profit is thus the reward for risk taking.

Causes of Business Risks



(i) Natural causes: Human beings have little control over natural calamities like flood, earthquake, lightning, heavy rains, famine, etc. These result in heavy loss of life, property and income in business.

(ii) Human causes: Human causes include such unexpected events like dishonesty, carelessness or negligence of employees, stoppage of work due to power failure, strikes, riots, management inefficiency, etc.

(iii) Economic causes: These include uncertainties relating to demand for goods, competition, price, collection of dues from customers, change of technology or method of production, etc. Financial problems like rise in interest rate for borrowing, levy of higher taxes, etc., also come under these type of causes as they result in higher unexpected cost of operation of business.

(iv) Other causes: These are unforeseen events like political disturbances, mechanical failures such as the bursting of boiler, fluctuations in exchange rates, etc., which lead to the possibility of business risks.

Methods of Dealing Business Risks

Although no business enterprise can escape the presence of risk, there are many methods it can use to deal with risk situations. For instance, the enterprise may (a) decide not to enter into too risky transaction; (b) take preventive measures like firefighting devices to reduce risk; (c) take

insurance policy to transfer risk to insurance company; (d) assume risk by making provisions in the current earnings as is the case of provision for bad and doubtful debts; or (e) share risks with other enterprises as manufacturers and wholesalers may do by agreeing to share losses which may be caused by falling prices.

Starting a Business — Basic Factors

Starting a business enterprise is similar to any other human effort in which resources are employed to achieve certain objectives. Successful results in business depend largely upon the ability of the entrepreneurs or the starters of a new business to anticipate problems and solve them with minimum cost. This is especially true of the modern business world where competition is very tough and risks are high. Some of the problems, which business firms encounter, are of a basic nature. For example, to start a factory, plans must be made and implemented about such problems as the location of the business, the possible number of customers, the kind and amount of equipment, the shop layout, purchasing and financing needs, and hiring of workers. These problems become more complex in a big business. However, some of the basic factors, which must be considered by anybody who is to start the business are as follows:

(i) Selection of line of business: The first thing to be decided by any entrepreneur of a new business is the nature and type of business to be undertaken. He will obviously like to enter that branch of industry and commerce, which has the possibility of greater amount of profits. The decision will be influenced by the customer requirements in the market and also the kind of technical knowledge and interest the entrepreneur has for producing a particular product.

(ii) Size of the firm: Size of the firm or scale of its operation is another important decision to be taken at the start of the business. Some factors favour a large size whereas others tend to restrict the scale of operation. If the entrepreneur is confident that the demand for the proposed product is likely to be good over time and he can arrange the necessary capital for business, he will start the operation at a large scale. If the market conditions are uncertain and risks are high, a small size business would be better choice.

(iii) Choice of form of ownership: With respect to ownership, the business organisation may take the form of a sole proprietorship, partnership, or a joint stock company. Each form has its own merits and demerits. The choice of the suitable form of ownership will depend on such factors as the line of business, capital requirements, liability of owners, division of profit, legal formalities, continuity of business, transferability of interest and so on.

(iv) Location of business enterprise: An important factor to be considered at the start of the business is the place where the enterprise will be located. Any mistake in this regard can result in high cost of production, inconvenience in getting right kind of production inputs or serving the customers in the best possible way. Availability of raw materials and labour; power supply and services like banking, transportation, communication, warehousing, etc., are important factors while making a choice of location.

(v) Financing the proposition: Financing is concerned with providing the necessary capital for starting as well as for continuing the proposed business. Capital is required for investment in fixed assets like land, building, machinery and equipment and in current assets like raw materials, book debts, stock of finished goods, etc. Capital is also required for meeting day-to-day expenses. Proper financial planning must be done to determine (a) the requirement of capital, (b) source from which capital will be raised and (c) the best ways of utilising the capital in the firm.

(vi) Physical facilities: Availability of physical facilities including machines and equipment, building and supportive services is a very important factor to be considered at the start of the business. The decision relating to this factor will depend on the nature and size of business, availability of funds and the process of production.

(vii) Plant layout: Once the requirement of physical facilities has been determined, the entrepreneur should draw a layout plan showing the arrangement of these facilities. Layout means the physical arrangement of machines and equipment needed to manufacture a product.

(viii) Competent and committed worked force: Every enterprise needs competent and committed work force to perform various activities so that physical and financial resources are converted into desired outputs. Since no individual entrepreneur can do everything himself, he must identify the requirement of skilled and unskilled workers and managerial staff. Plans should also be made about how the employees will be trained and motivated to give their best performance.

(ix) Tax planning: Tax planning has become necessary these days because there are a number of tax laws in the country and they influence almost every aspect of the functioning of modern business. The founder of the business has to consider in advance the tax liability under various tax laws and its impact on business decisions. (x) Launching the enterprise: After the decisions relating to the above mentioned factors have been taken, the entrepreneur can go ahead with actual launching of the enterprise which would mean mobilising various resources, fulfilling necessary legal formalities, starting the production process and initiating the sales promotion campaign.

Summary

Auxiliaries to trade are activities which assist trade. These include transport and communication, banking and finance, insurance, warehousing, and advertising

Objectives of business: Although earning of profit is considered to be the primary objective, objectives are needed in every area where performance results affect the survival and prosperity of business. Some of these areas are: market standing, innovation, productivity, physical and financial resources, earning profits manager performance and development, worker performance and attitude, and social responsibility.

Business risks: The term 'risk' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. Its nature can be explained with the help of its peculiar characteristics which are:

- i. Business risks arise due to uncertainties,
- ii. Risk is an essential part of every business,
- iii. Degree of risk depends mainly upon the nature and size of business, and
- iv. Profit is the reward for risk taking. Business risks arise due to a variety of causes including natural, human, economic and other causes.

Starting a business — basic factors: Some of the basic factors which must be considered by anybody who is to start the business are: selection of line of business, size of the firm, choice of form of ownership, location of business enterprise, financing the proposition, physical facilities, plant layout competent and committed workforce, tax planning and launching the enterprise.