Chapter- 1

Nature & Purpose Of Business

Business is not merely an activity to earn income or profit. Value of business is more than just a profit making activity. Business activities led to growth and development of any country. Is it possible to think a week without business firms? It is closely connected with our life. They satisfy our needs and wants by providing various types of goods and services. The purpose of business is to earn profit through customer satisfaction. This chapter is divided into two sections.

Section- I deals with the history of trade and commerce in ancient India.
Section- II deals with the concept, nature and purpose of business

SECTION- I

History of Trade and Commerce

Trade and commerce have played a vital role in making India to evolve as a major player in the economic world in ancient times. Archaeological evidences have shown that trade and commerce was the basis of the economy of ancient India. Commercial cities like Harappa and Mohenjodaro were founded in 3300 B.C. The civilisation had established commercial connections with Mesopotamia and traded in gold, silver, copper, coloured gemstones, pearls, sea shells, terracotta pots, etc. There were diverse types of coins and weighing practices.

1.1 Indigenous Banking System

As economic life progressed, money served as a medium of exchange, the introduction of metallic money and its use accelerated economic activities. Documents such as *Hundi* and *Chitti* were in use for carrying out transactions in which money passed from hand to hand. *Hundi* as an instrument of exchange, which was famous in the subcontinent. It involved a contract which — (i) warrant the payment of money, the promise or order which is unconditional (ii) capable of change through transfer by valid negotiation.

Hundi

Hundi refer to financial instruments (as bill of exchange) evolved on the Indian sub-continent used in trade and credit transactions. They were used:-

-As remittance instruments (to transfer funds from one place to another),

-As credit instruments (to borrow money),

-For trade transactions (as bills of exchange).

Hundi **as practised by Indian Merchant Communities**		
Name of *Hundi*	**Broader Classification**	**Functions of *Hundi***
Dhani-jog	*Darshani*	Payable to any person—no Liability over who received payment.
Sah-jog	*Darshani*	Payable to a specific person, someone 'respectable'. Liability over who received payment.
Firman-jog	*Darshani*	*Hundi* made payable to order.
Dekhan-har	*Darshani*	Payable to the presenter or bearer.
Dhani-jog	*Muddati*	Payable to any person—no liability over who received payment, but payment over a fixed term.
Firman-jog	*Muddati*	*Hundi* made payable to order following a fixed term.
Jokhmi	*Muddati*	Drawn against dispatched goods. If goods lost in transit, the drawer or holder bears the coasts, and the Drawee carries no liability.

Rise of Intermediaries

Intermediaries played a prominent role in the promotion of trade. They helped manufacturers especially in foreign trade. Intermediaries consist of commission agents, brokers and distributors both for wholesale and retail goods. Bankers began to act as trustees and executors of endowments. Foreign trade was financed by loans.

The emergence of credit transactions and availability of loans and advances enhanced commercial operations. The Indian subcontinent enjoyed the fruits of favorable balance of trade, where exports exceeded imports with large margins and the indigenous banking system benefitted the manufacturers, traders and merchants with additional capital funds for expansion and development. Commercial and Industrial banks later evolved to finance trade and commerce and agricultural banks to provide both short-and long-term loans to finance agriculturists.

TRANSPORT

Transport by land and Sea (maritime) was popular in the ancient times. Roads as a means of communication had assumed key importance in the entire process of growth. The northern roadway route is believed to have lengthened originally from Bengal to Taxila. There were also trade routes in the south spreading east and west.

Pepper was particularly valued in the Roman Empire and was known as 'Black Gold'. Various empires conflict each others to dominate the route for this trade. It was in the search for an alternate route to India for spices that led to the discovery of America by Columbus in the closing years of 15th century and also brought Vasco da Gama to the shores of Malabar in 1498.

Calicut was such a busy market, it was even visited by Chinese ships to acquire items, like essential oils and myrrh (used in perfumes, medicines)from the Middle East, as well as, pepper, diamonds, pearls and cotton from India. On the Coromandel Coast, Pulicat was a major port in the 17th century. Textiles were the principal export from Pulicat to Southeast Asia

Major Trade Centres

There were all kinds of towns—port towns, manufacturing towns, mercantile towns, the holy centres , and pilgrim mage towns. Their existence is an index of prosperity of merchant communities and professionalclasses.

The following were the leading trade centres in ancient India:

Pataliputra: Known as Patna today. It was not only a commercial town, but alsoa major centre for export of stones.

Peshawar: It was an important exporting centre for wool and for the import of horses. It had a huge share in commercial transactions between India, China and Rome in the first century A.D.

Taxila: It served as a major centre on the important land route between India and Central Asia. It was also a city of financial and commercial banks. The city occupied an important place as a Buddhist centre of learning. The famous Taxila University flourished here.

Indraprastha: It was the commercial junction on the royal road where most routes leading to the east, west, south and north come together.

Mathura: It was a centre of trade and people here live depends on commerce. Many routes from South India touched Mathura and Broach.

Varanasi: It grew as a major centre of textile industry and became famous for beautiful gold silk cloth and sandalwood workmanship. It had links with Taxila and Bharuch.

Mithila: The traders of Mithila crossed the seas by boats, through the Bay of Bengal to the South China Sea, and traded at ports on the islands of Java, Sumatra and Borneo.

Ujjain: Cloths were exported from Ujjain to different centres. It also had trade relations through the land route with Taxila and Peshawar.

Surat: It was the centre of western trade during the Mughal period. Textiles of Surat were famous for their gold borders (zari). It is noteworthy that Surat *hundi* was honoured in far off markets of Egypt andIran.

Kanchi: Today known as Kanchipuram, it was here that the Chinese used to come in foreignshipsto purchase pearls, glass and rare stones and in return they sold gold and silk.

Madura: It was the capital of the Pandayas who controlled the pearl fisheries of the Gulf of Mannar. It attracted foreign merchants, particularly Romans, for carrying out overseas trade.

Major Exports and Imports

Exports consisted of spices, wheat, sugar, indigo, opium, sesame oil,cotton, parrot, live animals and animal products—hides, skin, furs,horns,tortoise shells, pearls, sapphires, quartz, crystal, lapis, lazuli,granites,turquoiseand copper etc.

Imports included horses, animal products, Chinese silk, flax and linen,wine, gold, silver, tin, copper, lead, rubies, coral, glass, amber,etc.

POSITION OF INDIAN SUBCONTINENT IN WORLD ECONOMY (1 AD UP TO 1991)

Between the 1st and the 7th centuries CE, India is estimated to have the largest economy of the ancient and medieval world, controlling about one- third and one-fourth of the world's wealth (timeline). The country was often referred to as '*Swaranbhumi*' and '*Swarndweep*' in the writings of many travelers, such as Megasthenes, Faxian (Fa Hien), Xuanzang (Huen Tsang) and others. They repeatedly refer to the prosperity of the country

SECTION-II

NATURE AND CONCEPT OF BUSINESS

Human wants are unlimited. In every society people undertake various activities to satisfy their needs. Human activities can be classified into two:-

(1) Economic Activities (2) Non Economic Activities

1. Economic Activities-Economic activities are those activities which are undertaken by people to earn money. Eg : A manager works in an office

2. Non Economic Activities- Non economic activities are those activities which are undertaken by people to get psychological satisfaction or as a hobby. Eg : House wife cooks food for her family,Gardening as a hobby, Playing football etc.

Differences Between Economic Activities and Non-economic Activities	
Economic Activities	**Non-economic Activities**
Undertaken by people to earn money	Undertaken by people to get mental satisfaction
Its benefit can be measured in terms of money	Its benefit can't be measured in terms of money
Money is the reward	Mental satisfaction is the reward

Economic activities can be classified into three:-

I. BUSINESS

II. PROFESSION

III. EMPLOYMENT

I Business

Business is an economic activity which involves production or purchase of good for sale, or exchange of goods or providing services, at profit.

Characteristics of Business

1. An Economic Activity- it is undertaken by people with the objective of earning profit.

2. Regularity in dealing-Business involves dealing in goods and services on a regular basis. One single transaction never constitutes a business.

3. Profit Motive- Profit Motive is an important distinguishing feature

of business. It must earn profit for its survival, growth and expansion.

4. Element of risk-Risk cannot be eliminated from business. Risk may be in the form of natural calamities, changes in consumer tastes, competition, fire etc.

II Profession

Profession is an occupation, in which application of special knowledge and skill of a person is necessary. It involves rendering of personal services of a special and expert nature. Eg Doctors are engaged in the medical profession, Chartered Accountants are engaged in the accounting Profession, Lawyers are engaged in the legal profession

III. Employment

Employment refers to an occupation in which people work for others regularly and get salary or wage in return.

Classification of Business Activities

On the basis of function we can classify business activities into two:-

I.Industry II. Commerce

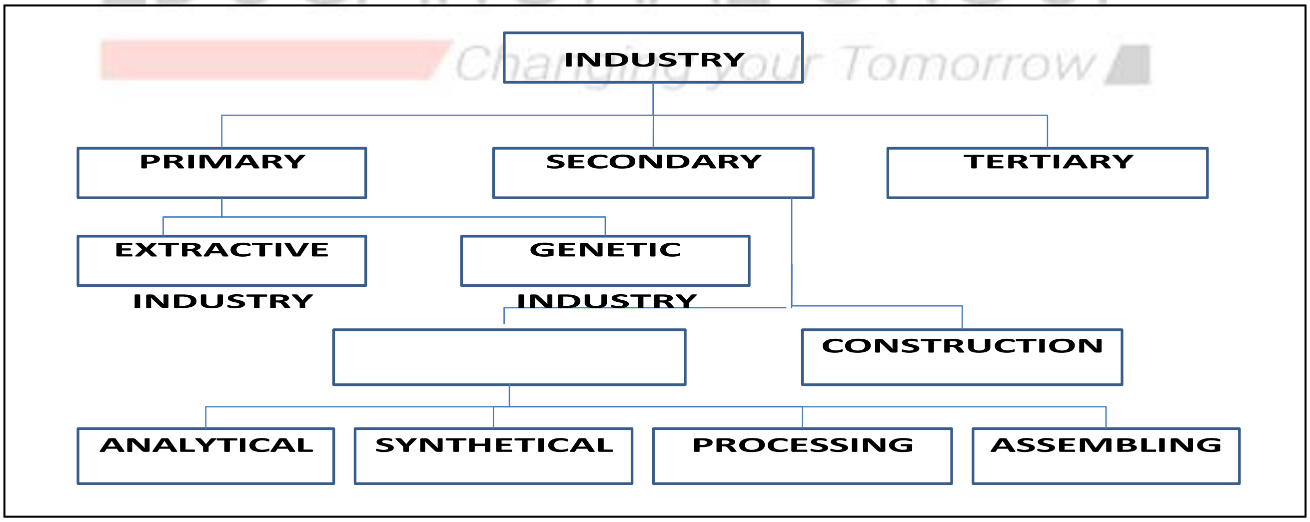
I. Industry

Industry refers to that part of business activities which is concerned with the production of goods and materials. It includes business activities like raising, producing, processing or manufacturing of products. Industries can be divided into three broad categories namely:

1. Primary industries

2. Secondary Industries

3. Tertiary Industries



1. Primary Industries

It includes all those business activities, which are concerned with extraction of natural resources, reproduction and development of living organisms, plants etc. Primary industries can be classified into two namely extractive industries and genetic industries.

1 (a) Extractive Industries: Extractive industries are those industries which extract something from natural sources like earth, water, air etc. It extract timber from forest, fish from sea, coal and iron are from soil etc. Primary industries supply basic raw materials to manufacturing industries and manufacturing industries convert these raw materials into finished goods.

Eg. Mining, hunting, fishing from natural sources, fruit gathering, agriculture etc.

1 (b) Genetic Industries: Genetic Industries are those industries which are undertakes activities like reproduction or multiplication of animals and plants with an objective of earning profit.

Eg : Agriculture nursery, poultry farming, cattle breeding, pisciculture (fish farming).

2. Secondary Industries

Secondary Industries are manufacturing products or constructing building, roads etc. by using raw materials provided by primary industries. Secondary industries can be divided into two:-

2 (a) Manufacturing Industry and 2 (b) Construction Industry

2 (a) Manufacturing Industry: Manufacturing Industries are engaged in the process of converting raw materials into finished good and create form utilities. They convert cotton into textile, iron ore into steel, timber into furniture and so on.

On the basis of methods of operation used for production, we can classify manufacturing industries into four categories.

a. **Analytical Industries b. Synthetical Industries c. Processing Industries d. Assembling Industries**

(1) Analytical industries – Analytical industry is engaged in the process of analysing and separating various components from the same material.

Eg .Oil refinery – they separate diesel, petrol etc from crude oil

(2) Synthetical Industry – Business engaged in this sector combines various ingredients to produce a new product

Eg. Cement industry, fertilizer industry etc.

(3) Processing Industry – Process of these industries involves successive stages for manufacturing finished products

Eg.Sugar industry, paper Industry.

(1) Assembling Industry-Assembling industry is engaged in the process of assembling different components to make a new product

Eg. Computer industry, Car industry etc.

2 (b) Construction Industry

These industries are involved in the construction of buildings, dams, bridges, roads, canals etc. The raw materials required for these industries are supplied by the manufacturing industries and extractive industries. Their outputs are always immovable.

C. Tertiary Industries

Tertiary industries are providing support service to primary and secondary industries. Tertiary Industries consists of banking, Insurance, advertising, communication etc. For example, if a transporting company helps to move iron ore from mining place to manufacturing plant, it come under industry and on the other hand if the same transporting company helps to move finished product (here steel) to different parts of the country, it is not an industry and it is a part of commerce.

COMMERCE

Commerce is concerned with the buying, selling and distribution of commodities and it is an organized system for the exchange of goods and services in between the businessman and the customers. It is also concerned with the marketing aspects of business, i.e. supply of right type of goods to the right persons, at the right time and at the right price. Thus commerce includes trade and aids to trade.

Definition – Commerce can be defined as the sum total of all those activities which are involved in the removal of hindrances in the process of exchange of goods.

Functions of Commerce –

1. **Removal of Hindrance of Person:** It refers to the lack of contact between the producers and customers. Here the trader acts as an intermediary among them and customers are able to find out the products which they are wanted from the market.

2. **Removal of Hindrance of Place:** It is a common problem that the producers and customers are in distant places, hence the commodities should be transferred from the production centre

to the hands of customers. This problem can be solved by the system of commerce by means of transport, packing and insurance.

3. **Removal of Hindrance of Risk:** Goods and properties of business are subject to various risk such as fire, theft, damage etc., and they have to be protected by insuring the goods and properties.

4. **Removal of Hindrance of Time:** There may be a gap between the production and consumption as the production is carried out in anticipation of future demands. Therefore, it becomes necessary to store the goods until they are sold. This problem can be solved by warehousing.

5. **Removal of Hindrance of Knowledge:** Advertising helps in the removal of hindrance of knowledge among the buyers.

6. **Removal of Hindrance of Finance:** The problem of finance can be handled by banks, which form part of commerce. It will also help the businessman in exchange of money between different persons at different places.

TRADE

Trade means buying and selling of goods, which involves the exchange of commodities for money or money's worth.

Types of Trade:

1. Home Trade - It is also known as domestic trade or internal trade. It means that the buying and selling of goods within the country and both the buyer and seller should belong the same nation. Home trade is of two types:

a. Wholesale Trade - It implies that the buying and selling in large quantities. A wholesaler buys goods directly from the producers and sells them to the retailers.

b. Retail Trade – It involves buying and selling of goods in small quantities. A retail trader buys goods from the wholesalers and sells them to the customers.

2. Foreign Trade – It is also known as External trade or international trade. It involves the buying and selling of goods and services in between the persons belonging to two or more countries. Foreign trade is of the following types:

a. Export Trade – It implies the sale of goods to foreign countries.

b. Import Trade – It refers to the purchase of goods from foreign countries.

c. Entrepot Trade – It means importing goods from one country for the purpose of exporting them to some other countries.

Aids to Trade (Auxiliaries to Trade)

The activities which assist trade are called aids to trade or Auxiliaries to Trade. It includes Transport, Banking, Insurance, Warehousing, Advertising etc. These service enterprises facilitate movements, storage, finance, risk coverage and sales promotion of goods.

1. **Transport and Communication –** Usually production takes place in certain locations and consumption all over the country, for instance tea is produced in Kerala and Assam, Jute in West Bengal, here there is an obstacle or barrier of place. This is removed by transport through various modes such as road, rail or water transport.

Along with transport there arises the need for communication. This will help producers, traders and consumers in exchange of information. Postal service, telephones and other modern means of communication may be regarded as auxiliaries to business activities.

2. **Banking and Finance –** All business concerns need fund for acquiring assets, raw materials and meeting day today expenses. Finance is the foundation of all business provided by banks. The banks accepts deposits from the public and provide credit facilities for business. They generally lend money by providing overdraft and cash credit facilities, loans and advances and discounting of bills. Besides, they undertake collection of cheques, remittance facilities and various other services to the business community.

3. **Insurance –** In business, there are a lot of chances of risks such as damage to property and human resource (employees), such as fire, earthquake, theft, damage of goods in stock and transit. Insurance has been emerged for the fulfillment of this need. On payment of a nominal amount called premium, the amount of loss or damage is compensated by the insurance company.

4. **Warehousing –** Production is always in anticipation of future demands, so that the products are to be kept in good condition until they are sold. Storage of goods is done by warehouses specially constructed for this purpose. They facilitate the availability of goods when required. Thus warehousing stabilizes prices by equalizing supplies.

5. **Advertising –** It is an important device for promoting sales. It is not an easy task to reach millions of customers; therefore, promoting sales, information about the product must be made available to the potential buyers though advertising. Thus advertising makes possible marketing of goods and services on a large scale.

Objectives of Business (Multiple Objectives of Business)

A business enterprise must have multiple objectives to satisfy different individuals and groups for its own survival and prosperity.

a. Market Standing – It refers to the position of an enterprise in relation to its competitions by providing quality products and better service to its customers.

b. Innovations (Novelty) – Innovation means the introduction of something new to the market. It may be a new design, new quality for the existing product, new method of production etc.

c. Productivity – Every enterprise should aim at greater efficiency and productivity by the best use of available resources.

d. Physical and financial resources – The business enterprise must aim at acquiring physical resources like buildings, plant and machinery, offices etc. and financial resources or fund for its operations and ensure its efficient use.

e. Earning profits - It is the most important aim of every business. Profit is regarded as the life-blood of a business to survive and to make growth and development of the enterprise.

f. Manager performance and development – The enterprise should take much initiative to improve the efficiency of its managers by conducting various programs to motivate them.

g. Worker performance and attitude – Every enterprise should aim at improving its workers performance and their positive attitude.

h. Social responsibility – It refers to the social obligations of business firms to contribute resources for solving social problems and to work in a socially desirable manner.

BUSINESS RISK

In simple words risk means the possibility of loss. It can be defined as the chances of loss due to certain uncertain events in the future. It may be of two types, such as speculative risk and pure risk.

Speculative risk – It involves both chances of gain or loss. It arises due to change in demand and supply, change in taste and habits of customers etc. If the market condition is favourable it will result in gain, otherwise, loss.

Pure risk – It involves the possibility of loss or even no loss. Fire, theft, earthquake, strike etc. are the examples of pure risks. If such events take place, it may result in loss, non-occurrence of which is explain absence of loss, instead of gain.

Nature of Business Risks

1. It arises due to uncertainties.
2. It is an essential part of every business (Unavoidable).
3. Degree of risk depends on the nature and size of business.
4. Profit is the reward for bearing risk.

Methods of dealing with risk

1. Not to enter high risky transactions.
2. Take precautionary measures like firefighting equipments etc.
3. Take an insurance policy to cover various risks.
4. Take measures like provision for bad debts, investment fluctuation fund etc.

Causes of Business Risk

1. **Natural Causes:** It may include damages from flood, fire, earthquake etc.
2. **Human Causes:** It may arise due to certain human activities, such as theft, bad debt, mistakes, accidents etc.
3. **Economic Causes:** It include uncertainties relating to demand for products, competition, price, change in technology, rise in interest rate, higher taxes etc.
4. **Other Causes:** Political disturbances, mechanical failures, change in exchange rates, etc. come under this category.

Starting a business – Basic Factors

1. Selection of line of business – It means the nature and type of business that an entrepreneur should choose to start his business.

2. Size of the firm – The promoter has to decide the size of business, which may be either small scale, medium scale or large scale depends on the financial stability, future demand etc.

3. Choice of form of ownership – The promoter must decide whether he wants to start a sole proprietorship concern, partnership firm, private company, public company, or cooperative society.

4. Location of business – It must be decided by considering the factors like availability of land, electricity, water, accessibility to market, transportation, scope for expansion etc. Unscientific location affects the efficiency and profitability of business.

5. Financing the proposition (Capital needs) – The promoter has to decide about business capital requirements and also find out the sources of finance. It may include short term or long term capital requirements, sources like shares, debentures or bank loans, cost of capital (interest or dividend) etc.

6. Physical facilities – It means the resources used to convert raw material into finished goods, which includes buildings, machines and equipments, skilled and unskilled workers, good quality raw materials etc.

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Make in India

'Make in India' is an initiative launched by the Government of India on 25 September 2014, to encourage national as well as international companies to manufacture their products in India. The major objective behind this project is to create employment opportunities and enhance skill development in 25 sectors of the economy. Trade Policy (FTP 2015-20) is expected to help the economy in terms of exports and imports and trade balance.