

# Nature and Range of Business Activities

## LEARNING OUTCOMES

After studying this chapter, the student shall be able to:

- ◇ Define economic and non-economic activities
- ◇ Explain the concept and characteristics of business
- ◇ Analyse range of business activities
- ◇ Learn types of industries
- ◇ Evaluate the role of commerce
- ◇ Explain different types of trade
- ◇ Analyse interrelationship between trade, commerce and industry

Most people are generally engaged in some activity or the other. Some of the activities are pursued with economic motives and they are called the **economic activities**. The examples are business, profession and employment. Many people are also engaged in certain social, cultural and religious activities. Such activities do not generate economic gain. They are termed as **non-economic activities** because they do not have any economic objective. Non-economic activities are undertaken by people to satisfy their social, cultural, religious and sentimental needs.

## 2.1 ECONOMIC AND NON-ECONOMIC ACTIVITIES

### 2.1.1 Economic Activities

**Economic activities are concerned with production, exchange and distribution of products and services.** Human beings undertake to perform economic activities to earn their livelihood and to acquire wealth. A manufacturer, a trader, an agriculturist, an icecream vendor, a doctor, a teacher and a labourer working in a factory are all doing economic activities. These activities enable people to earn a living and acquire wealth. In other words, these activities satisfy the economic needs of the people.



The essence of an economic activity is production and distribution of goods and services or rendering of some service. The return of economic activities can be expressed in terms of money. A businessman earns profits, a doctor charges fee for his services and an employee gets wages and salaries from the employer.

### 2.1.2 Non-economic Activities

*Non-economic activities are performed by human beings because of social, psychological and religious sentiments.* There is no place of economic gain in the non-economic activities. The examples of non-economic activities are : a housewife looking after the household, a person engaged in social work, a person engaged in serving the handicapped persons, etc. These activities are pursued not to earn any income or profit, but to derive personal satisfaction.

Non-economic activities are pursued by those people who have some social, cultural or religious mission of their life. The element of profit or income and wealth generation is totally absent from the non-economic activities. The satisfaction derived by a person by the performance of non-economic activities is intangible and it cannot be measured in terms of money.

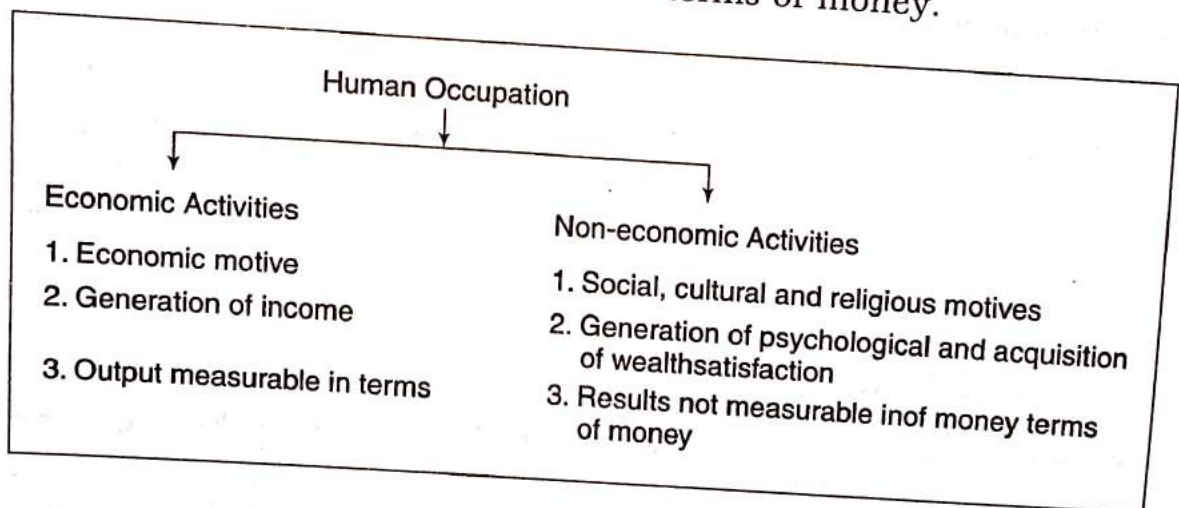


Fig. 2.1 Types of Human Activities.

### 2.1.3 Types of Economic Activities

People are engaged in different kinds of economic activities to earn income. These activities are also called occupations. Human occupations may be classified into three groups—(i) Business, (ii) Profession and (iii) Employment. These are discussed below:

- (i) **Business.** The term 'business' denotes *economic activities pursued primarily with the purpose of earning profits.* These activities include production and exchange of goods and services on a regular basis and carry an element of risk and uncertainty. Manufacturing, trading, mining, banking, transport, insurance, etc. are business activities.



- (ii) **Profession.** A profession may be defined as an *occupation which involves rendering of personal services of a specialised nature, based on professional knowledge, education and training*. The examples are physicians, lawyers, accountants, etc. The professionals charge fee from their clients for the services rendered to them. The important features of a profession are listed below:
- (a) A professional requires *specialised knowledge and training* about the concerned field. He must acquire the prescribed qualifications such as C.A., LL.B., M.B.B.S., etc.
  - (b) The membership of the *professional body* is compulsory in case of a profession.
  - (c) There is an established *code of conduct* which is enforced by the professional body.
  - (d) A professional is responsive to the needs of the society and so enjoys social status.
  - (e) A professional charges fee for the services rendered to his clients.
- (iii) **Employment or Service.** A person is said to be in the employment of an organisation when he undertakes to render personal services under a contract of employment or service. He receives wages of salaries, allowances, bonus and other employment benefits for his services. Employment may be in a Government department or undertaking, or in a private firm. Even professionally qualified persons serve as employees in various organisations. The employee perform the duties assigned to them by their employers.

## 2.2 CONCEPT OF BUSINESS

Business literally means *to be busy*. However, the meaning of business more specifically is that of being busy to earn income. Thus, business includes all occupations in which people are busy earning income either by production or purchase and sale or exchange of goods and services to satisfy the needs of other people. Since the main objective of business is to earn an income or profits through business transactions, it is an economic activity.

According to Lewis H. Haney, "**Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling goods**". L.R. Dicksee has defined business as "a firm of activity pursued primarily with the object of earning profit for the benefit of those on whose behalf the activity is conducted". Business involves production and/or exchange of goods and services to earn profits or, in a broader sense, to earn a living. Profit is not the sole objective of the business. It may have other objectives like promotion of welfare, of the workers and the general public. Business achieves its objectives by producing and distributing those goods and services which can satisfy human wants.



**Box 1: Definitions of Business**

“Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling goods”. —Lewis H. Haney

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

“All the activities including the production and sale of goods or services may be classified as business activities”. —William Spriegel

“Business is a form of activity pursued primarily with the object of earning profit for the benefit of those on whose behalf the activity is conducted”. —L.R. Dicksee

**Business embraces those human activities which are directed towards producing or acquiring wealth through manufacturing, buying and selling goods.** It includes all activities from production to distribution of goods and services. It includes industry, trade and other activities like banking, transport, insurance and advertising which facilitate trade. In other words, the scope of business is wider than that of industry and trade.

Business activities are concerned with creation of three kinds of utilities as follows:

- (i) *form utility* through processing or manufacturing,
- (ii) *time utility* through storage, and
- (iii) *place utility* through transportation.

**2.3 CHARACTERISTICS OF BUSINESS**

The nature of business can be described in terms of the following characteristics:

- 1. Economic Activity.** Business is an economic activity or occupation as it consists of producing and purchase and sale of goods and services to earn income in the form of profits. It is concerned with the creation and acquisition of wealth through satisfaction of human wants. The purpose behind every business activity is to manufacture and sell goods at a profit. They are not performed voluntarily, *i.e.*, without any expectation of reward or income.
- 2. Production and/or Exchange.** Every business is concerned with production and exchange of goods and services for value (price). Thus, goods produced or purchased for personal consumption or for presenting to others as gifts do not constitute business because there is no sale or transfer for value. For example, if a person cooks at home for personal consumption, it is not a business activity. But if he cooks for others in his restaurant and receives payment from them, it becomes his business.



3. **Dealing in Goods and Services.** Business deals in goods and services. Goods produced and sold may be : (i) consumer goods such as bread, cloth, cold drinks and sugar, or (ii) capital goods such as tools and machines. Services include supply of water, electricity and gas, insurance, transportation, etc.
4. **Regularity and Continuity in Dealings.** Regularity of economic transactions is the essence of business. There should be continuity or regularity of exchange of goods and services for money. An isolated transaction cannot be called a business. For example, if a person sells his house and earns some profit, it cannot be called a business. But if he purchases and sells houses regularly to earn his livelihood, it will be called his business.
5. **Profit Motive.** The chief objective of a business is to earn reasonable profits. The survival of a business depends upon its ability to earn profits. Every businessman wants to earn profits to receive interest on his capital and to reward himself for his services. Actually, profit is the spur that helps in continuing the business. Profit is also essential for growth. Recreation clubs and religious institutions cannot be called business enterprises as they have nothing to do with the profit motive.
6. **Uncertainty of Profit or Return.** Every business requires some amount of money (capital) to be invested to run the activities. Profits are expected to be earned in proportion to the amount of investment in the business. But it is not certain that adequate profit will be earned. There is always a possibility of losses being incurred inspite of best efforts. This is because the market conditions may change because of severe competition, reduced sales and decreased profits.
7. **Business Risks.** All business activities involves some element of risk and uncertainty. There may be uncertainty in regard to success of business, taste of people, availability of raw materials and other factors when a businessman invests his resources in some business activity. There is no guarantee that he will be earning sufficient profits to reward himself and keep his capital intact. Thus, every business activity involves some degree of risk and uncertainty.
8. **Creation of Utility.** All business activities create utilities for the society. Form utility is created when raw materials are converted into finished goods and services. Place utility is created when goods are transported from the place of production to the place of consumption. Storage of goods creates time utility. This helps in keeping stock of goods to meet their demand in future.

## 2.4 BUSINESS, PROFESSION AND EMPLOYMENT —DISTINCTIVE FEATURES

### 2.4.1 Business

Business means any human activity done with a profit motive. According to L.H. Haney, "Business may be defined as human activity directed towards providing



or acquiring wealth through buying and selling of goods". Business includes all those economic activities which are concerned with production and distribution of goods and services and further it also includes all those activities which indirectly help in production and exchange of goods like banking, transport, insurance and warehousing, etc.

The nature of **business as an economic activity** is as under:

1. Business is an economic occupation. It is a means of livelihood for the people.
2. Business is run for economic gains. Profit is the main motive behind business.
3. Business involves use of economic resources such as money, materials, machines, methods, etc. for production of goods and services.

### 2.4.2 Profession

A profession may be defined as an occupation which involves the rendering of personal services of a specialised nature, based on professional knowledge, education and training. The examples are physicians, lawyers, accountants, etc. The professionals charge fee from their clients for the services rendered to them.

The important features of a profession are listed below:

- (i) A profession requires **specialised knowledge and training** about the concerned field. The level of knowledge and training is laid down by the professional body.
- (ii) The membership of the **professional body** is compulsory in case of a profession. For example, a chartered accountant must be a member of the Institute of Chartered Accountants of India.
- (iii) There is an established **code of conduct** enforced by the professional body. It contains norms of behaviour by the members.
- (iv) Professionals charge **fee** for the services rendered to their clients.

#### Box 2: Leading Professions and their Associations

Professions	Professional Associations
1. Medical Profession	Medical Council of India
2. Law Profession	Bar Council of India
3. Accounting Profession	The Institute of Chartered Accountants of India (ICAI)
4. Engineering Profession	The Institution of Engineers (India)

### 2.4.3 Employment

Employment refers to an activity in which an individual works regularly for another for an agreed remuneration under the rules of service. The persons who are engaged in the employment or service are known as employees. The



persons who engage others to work regularly for them are known as employees. The remuneration paid by employer to employee is called salary or wage. Some examples of employment are given below :

1. Working as a nurse/doctor in a hospital.
2. Working as a legal officer in the legal department of a company.
3. Working as an accounts officer in the accounts department of a company.
4. Working as an engineer in a municipal corporation.

**Table 2.1** Comparison of Business, Profession and Employment

<i>Basis</i>	<i>Business</i>	<i>Profession</i>	<i>Employment</i>
1. Commencement or Establishment	Entrepreneur's decision and legal formalities (if necessary)	Membership of a professional body and certificate of practice	Letter of appointment and service agreement
2. Nature of Work or Duties	Production or purchase and sale or exchange of goods and services	Personalised service of expert nature	Performing the work assigned by the employer
3. Qualifications	No formal qualifications are required	Prescribed qualifications and training are essential	Qualifications and training not necessary in all cases
4. Capital	Capital is needed according to the nature and size of the firm	Limited capital is required for establishment	No capital is required
5. Basic Motive	Earning profit	Rendering service besides earning income	Earning salaries or wages
6. Return or Reward	Profits	Professional fee	Salary and other benefits
7. Element of Risk	Present	Present	Absent
8. Code of Conduct	No prescribed code of conduct to be followed	Professional code of conduct to be followed	Rules laid down by the employer to be followed
9. Transfer of Interest	Possible	Not possible	Not possible

## 2.5 CLASSIFICATION OF BUSINESS ACTIVITIES

We may classify business activities into two broad categories : (a) industry; and (b) commerce. Industry is concerned with the production or processing of goods and materials. Commerce includes all those activities which are necessary for the storage and distribution of goods and services. On the basis of these two categories, we may classify business firms into **industrial enterprises** and **commercial enterprises**. Both industrial activities and commercial activities may be further sub-classified as shown in Fig. 2.2.



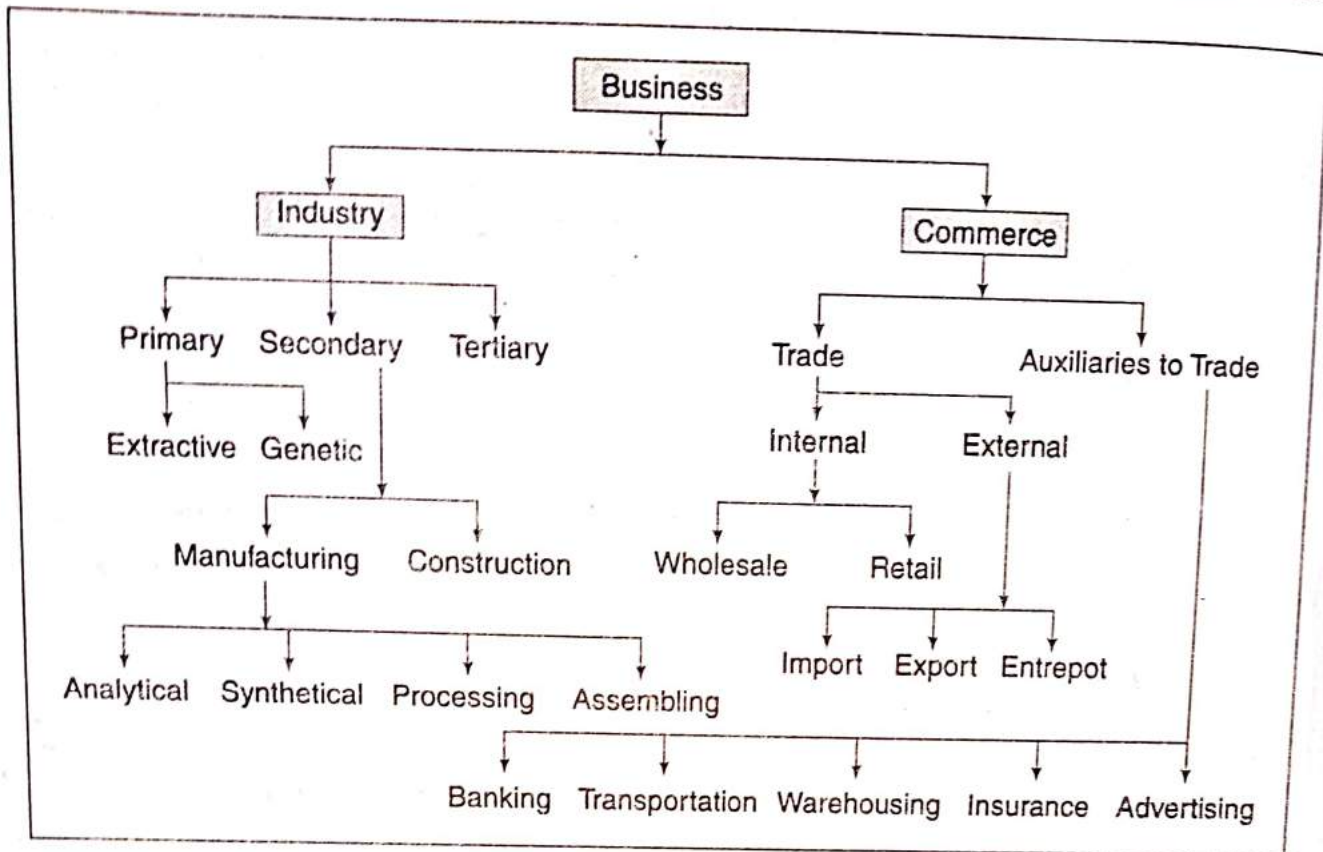


Fig. 2.2 Types of Human Activities.

Commercial enterprises include trading and service activities like transport, banking, insurance, warehousing and advertising. These services are also referred to as auxiliaries to trade.

## 2.6 INDUSTRY

*Industry is concerned with the production of goods and services. It is involved in changing the form of goods at any stage from raw material to the finished product, e.g., weaving woollen yarn into cloth. Thus, industry imparts 'form utility' to goods.*

The goods produced by an industrial enterprises may be either for final consumption by consumer or for use in other industrial enterprises for further production. In the former case, they are called **consumer goods**. For example, bread, butter, cheese, sugar, textiles, shoes, radio, TV, etc. are consumer goods. On the other hand, production of machinery or machine-tools by an engineering firm are called **capital goods**. It is because they are used by other industrial enterprises for manufacturing consumer goods.

### Types of Industries

Industries may be divided into three broad categories, namely : (1) *primary*, (2) *secondary*, and (3) *tertiary (service)*.