
PART I

Foundations of Business



11108CH01

CHAPTER 1

BUSINESS, TRADE AND COMMERCE

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- i. Appreciate the development of trade and commerce in historical past;
- ii. Understand the role of indigenous banking system in trade and commerce;
- iii. Explain the concept and objectives of business;
- iv. Discuss types of industries;
- v. Explain the activities relating to commerce;
- vi. Describe the nature of business risks and their causes; and
- vii. Discuss the basic factors to be considered while starting a business.

Imran, Manpreet, Joseph and Priyanka have been classmates in Class X. After their exams are over, they happen to meet at a common friend Ruchika's house. Just when they were sharing their experiences of examination days, Ruchika's father Raghuraj Chaudhary intervenes and asks about their well-being. He also enquires about their career plans. But none of them had a definite reply. Raghuraj who himself is a successful businessman tells them about business as a career opportunity. Joseph gets excited by the idea and says "yes, business is really good for making lots of money". Raghuraj tells them that 'there is a lot more to business than merely money'. Business activities lead to growth and development of any country, he added. He further tells them that the roots of business activities can be traced back to ancient times and how trading helps in the prosperity of the Indian subcontinent. Priyanka said that they have read about the Silk Route in their history textbooks. Raghuraj then gets busy with his day-to-day tasks. However, the four classmates begin raising questions. The conversation of the four classmates focused on how trading activities were conducted during ancient times. How far can the roots of trading activities be traced? Why was the Indian subcontinent referred to as '*Swaran Bharat and Swaran Dweep*' by the then travellers to India? What made Columbus and Vasco da Gama undertake journeys to locate India? They decided to meet the commerce teacher of their school to find out answers to many such questions about the development, nature and purpose of business.

1.1 INTRODUCTION

All human beings, wherever they may be, require different types of goods and services to satisfy their needs. The necessity of supplying goods and services has led to certain activities being undertaken by people to produce and sell what is needed by others. Business is a major economic activity in all modern societies concerned as it is concerned with the production and sale of goods and services required by people. The purpose behind most business activities is to earn money by meeting people's demands for goods and services. Business is central to our

lives. Although our lives are influenced by many other institutions in modern society, such as schools, colleges, hospitals, political parties and religious bodies, business has a major influence on our daily lives. It, therefore, becomes important that we understand the concept, nature and purpose of business.

The 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

The economic and commercial evolution of any land depends upon its physical environment. This stands true for the Indian subcontinent as a whole which has Himalayas in the North bordered by water in the South. A network of roads merging into the Silk Route helped in establishing commercial and political contacts with adjoining foreign kingdoms and empires of Asia, in particular, and the world, in general. The maritime routes linked the east and the west by sea and were used for the trade of spices and known as 'spice route'. Due to the flow of wealth through these routes, the chief kingdoms, important trade centres and the industrial belt flourished, which in turn further facilitated the progress of domestic and international trade in ancient India.

Trade and commerce have played a vital role in making India to involve as a major actor in the economic world in ancient times. Archaeological evidences have shown that trade and commerce was the mainstay of the economy of ancient India carried out by water and land. Commercial cities like Harappa and Mohenjodaro were founded in the third millennium B.C. The civilisation had established commercial connections with Mesopotamia and traded in gold, silver, copper, coloured gemstones, beads, pearls, sea shells, terracotta pots, etc.

The period was marked by substantial commercial activities and urban development. Political economy and military security during ancient times united most of the Indian subcontinent and trade regulations were carefully planned. There were diverse types of coins and weighing practices which used to vary from place to place with the help of money changers and by resorting to certain commonly accepted weights and measures.

1.1 Indigenous Banking System

As economic life progressed, metals began to supplement other commodities as money because of its durability and divisibility. As 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 prominent 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.

Indigenous banking system played a prominent role in lending money and financing domestic and foreign trade with currency and letter of credit. With the development of banking, people began to deposit precious metals with lending individuals functioning as

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

bankers or *Seths*, and money became an instrument for supplying the manufacturers with a means of producing more goods.

Agriculture and the domestication of animals were important components of the economic life of ancient people. Due to the favourable climatic conditions they were able to raise two or sometimes three crops in a year. In addition to this, by resorting to weaving cotton, dyeing fabrics, making clay pots, utensils, and handicrafts, sculpting, cottage industries, masonry, manufacturing, transports (i.e., carts, boats and ships), etc., they were able to generate surpluses and savings for further investment.

Workshops (*Karkhana*) were prominent where skilled artisans worked and converted raw materials into finished goods which were high in demand. Family-based apprenticeship system was in practice and duly followed in acquiring trade-specific skills. The artisans, craftsmen and skilled labourers of different kinds learnt and developed skills and knowledge, which were passed on from one generation to another.

1.2.1 Rise of Intermediaries

Intermediaries played a prominent role in the promotion of trade. They provided considerable financial

security to the manufacturers by assuming responsibility for the risks involved, especially in foreign trade. It comprised commission agents, brokers and distributors both for wholesale and retail goods. An expanding trade brought in huge amounts of silver bullion into Asia and a large share of that bullion gravitated towards India.

The institution of *Jagat Seths* also developed and exercised great influence during the Mughal period and the days of the East India Company. Bankers began to act as trustees and executors of endowments. Foreign trade was financed by loans. However, the rate of interest for longer voyages was kept high in view of the huge risk involved.

The emergence of credit transactions and availability of loans and advances enhanced commercial operations. The Indian subcontinent enjoyed the fruits of favourable 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.

1.3 TRANSPORT

Transport by land and water was popular in the ancient times. Trade was maintained by both land and sea. Roads

as a means of communication had assumed key importance in the entire process of growth, particularly of the inland trade and for trade over land. The northern roadway route is believed to have stretched originally from Bengal to Taxila. There were also trade routes in the south spreading east and west. Trade routes were structurally wide and suitable for speed and safety.

Maritime trade was another important branch of global trade network. Malabar Coast, on which Muziris is situated, has a long history of international maritime trade going back to the era of the Roman Empire. Pepper was particularly valued in the Roman Empire and was known as 'Black Gold'. For centuries, it remained the reason for rivalry and conflict between various empires and trade powers 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 bustling emporium that it was even visited by Chinese ships to acquire items, like frankincense (essential oil) and myrrh (fragrant resin 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.

1.4 Trading Communities Strengthened

In different parts of the country, different communities dominated trade. *Punjabi* and *Multani* merchants handled business in the northern region, while the *Bhats* managed the trade in the states of Gujarat and Rajasthan. In western India, these groups were called *Mahajan*. *Chatt* is were important traders from the South. In urban centres, such as Ahmedabad the Mahajan community collectively represented by their chief called *nagarseth*. Other urban groups included professional classes, such as *hakim* and *void* (physician), *wakil* (Lawyer), *pundit or mulla* (teachers), painters, musicians, calligraphers, etc.

1.4.1 Merchant Corporations

The merchant community also derived power and prestige from guilds, which were autonomous corporations formed to protect the interests of the traders. These corporations, organised on formal basis, framed their own rules of membership and professional code of conduct, which even kings were supposed to accept and respect. Trade and industry taxes were also a major source of revenue. Traders had to pay octroi duties that were levied on most of the imported articles at varying rates. They were paid either in cash or in kind.

Customs duties varied according to the commodities. Tariffs varied from province to province. The ferry tax was another source of income generation.

It had to be paid for passengers, goods, cattle and carts. The right to receive the labour tax was usually transferred to the local bodies.

The guild chief dealt directly with the king or tax collectors and settled the market toll on behalf of its fellow merchants at a fixed sum of money. The guild merchants also acted as custodians of religious interests. They undertook the task of building temples and made donations by levying a corporate tax on their members. The commercial activity, thus, enabled big merchants to gain power in the society.

1.4.2 Major Trade Centres

There were all kinds of towns—port towns, manufacturing towns, mercantile towns, the sacred centres, and pilgrimage towns. Their existence is an index of prosperity of merchant communities and professional classes.

The following were the leading trade centres in ancient India:

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

2. 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.

3. 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.

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

5. Mathura: It was an emporium of trade and people here subsisted on commerce. Many routes from South India touched Mathura and Broach.

6. Varanasi: It was well placed as it lay both on the Gangetic route and on the highway that linked North with the East. 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.

7. 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. Mithila established trading colonies in South China, especially in Yunnan.

8. Ujjain: Agate, carnelian, muslin and mallow cloth were exported from Ujjain to different centres. It also had trade relations through the land route with Taxila and Peshawar.

9. Surat: It was the emporium 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 and Iran.

10. Kanchi: Today known as Kanchipuram, it was here that the Chinese used to come in foreign ships to

purchase pearls, glass and rare stones and in return they sold gold and silk.

11. 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.

12. Broach: It was the greatest seat of commerce in Western India. It was situated on the banks of river Narmada and was linked with all important marts by roadways.

13. Kaveripatta: Also known as Kaveripatnam, it was scientific in its construction as a city and provided loading, unloading and strong facilities of merchandise. Foreign traders had their headquarters in this city. It was a convenient place for trade with Malaysia, Indonesia, China and the Far East. It was the centre of trade for perfumes, cosmetics, scents, silk, wool, cotton, corals, pearls, gold and precious stones; and also for ship building.

14. Tamralipti: It was one of the greatest ports connected both by sea and land with the West and the Far East. It was linked by road to Banaras and Taxila.

1.4.3 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, turquoise and copper etc.

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

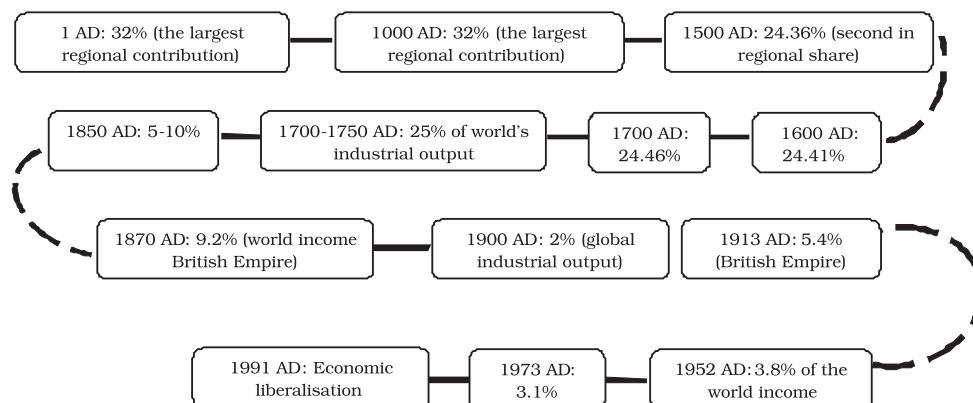
1.5 POSITION OF INDIAN SUBCONTINENT IN WORLD ECONOMY (1 AD UP TO 1991)

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 travellers, such as Megasthenes, Faxian (Fa Hien), Xuanzang (Huen Tsang), Al Beruni (11th century), Ibn Batuta (11th century), Frenchman Francois (17th century) and others. They repeatedly refer to the prosperity of the country.

The pre-colonial period in Indian history was an age of prosperity for

Indian economy and made the Europeans embark great voyage of discovery. Initially, they came to plunder but soon realised the rewards of trade in exchange of gold and silver. Despite the growing commercial sector, it is evident that the 18th century India was far behind Western Europe in technology, innovation and ideas. With the increasing control of the East India Company causing lack of freedom and no occurrence of agricultural and scientific revolution, limited reach of education to the masses, population growth and preference to machines over manual skills made India a country which was prosperous but with people who were poor.

The British empire began to take roots in India in the mid- 18th century. The East India Company used revenues generated by the provinces under its rule for purchasing Indian raw materials, spices and goods. Hence, the continuous inflow



Source: Angus Maddison (2001 and 2003), *The World Economy: A Millennial Perspective*, OECD, Paris; Angus Maddison, *The World Economy, Historical Statistics*

of bullion that used to come on account of foreign trade stopped. This changed the condition of the Indian economy from being an exporter of processed goods to the exporter of raw materials and buyer of manufactured goods.

1.5.1 India begins to Reindustrialise

After Independence, the process of rebuilding the economy started and India went for centralised planning. The First Five Year Plan was implemented in 1952. Due importance was given to the establishment of modern industries, modern technological and scientific institutes, space and nuclear programmes. Despite these efforts, the Indian economy could not develop at a rapid pace. Lack of capital formation, rise in population, huge expenditure on defence and inadequate

infrastructure were the major reasons. As a result, India relied heavily on borrowings from foreign sources and finally, agreed to economic liberalisation in 1991.

The Indian economy is one of the fastest growing economies in the world today and a preferred FDI destination. Rising incomes, savings, investment opportunities, increased domestic consumption and younger population ensures growth for decades to come. The high growth sectors have been identified, which are likely to grow at a rapid pace world over and the recent initiatives of the Government of India such as 'Make in India', 'Skill India', 'Digital India' and roll out of the Foreign Trade Policy (FTP 2015-20) is expected to help the economy in terms of exports and imports and trade balance.

Indian entrepreneurs began to set up their own modern textile mills after 1850 and, gradually, began to recapture the domestic market. In 1896, Indian mills supplied 8% of the total cloth consumed in India, 20% in 1913, 62% in 1936 and 76% in 1945. Thus, during 1913-1938 India's manufacturing output grew 5.6% during per year, which was above the world average of 3.3%. The British government, finally, provided tariff protection from 1920s, which helped industrialists to expand and diversify.

By the time of Independence in 1947, Indian entrepreneurs were strong enough and in a position to buy the businesses of departing British. Industry's share in India's GDP had doubled from 3.18% in 1913 to 7.5% in 1947 and the share of manufacturers in exports rose from 22.4% to 30% for the years 1913 and 1947, respectively.

Source: B.R. Tomlison, *The Economy of Modern India 1870-1970, The New Cambridge History of India, Volume 3.3.* Cambridge University Press, 1996.

SECTION II

NATURE AND CONCEPT OF BUSINESS

1.6 CONCEPT OF BUSINESS

The term business is derived from the word 'busy'. Thus, business means being busy. However, in a specific sense, business refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services with a view to earning profits. The activity may consist of production or purchase of goods for sale, or exchange of goods or supply of services to satisfy the needs of other people.

are those by which we can earn our livelihood, whereas, non-economic activities are performed out of love, sympathy, sentiment, patriotism, etc. For example, a worker working in a factory, a doctor operating in his clinic, a manager working in an office and a teacher teaching in a school are doing so to earn their livelihoods and are, therefore, engaged in an economic activity. On the other hand, a housewife cooking food for her family, or a boy helping an old man cross the road are performing non-economic activities since they are doing so out of love or sympathy. Economic activities may be further divided into three categories, namely business, profession and employment. Business

Try it yourself:

State whether each of the following is an economic activity:

- | | |
|---|--------------------------|
| 1. Farmer growing rice for her own consumption. | <input type="checkbox"/> |
| 2. A factory owner producing school bags for sale in the market. | <input type="checkbox"/> |
| 3. Person begging at a busy traffic intersection. | <input type="checkbox"/> |
| 4. Services of a domestic help doing household chores at an employer's house. | <input type="checkbox"/> |
| 5. Services of a housewife doing household chores at home. | <input type="checkbox"/> |

In every society, people undertake various activities to satisfy their needs. These activities may be broadly classified into two groups — economic and non-economic. Economic activities

may be defined as an economic activity involving the production and sale of goods and services undertaken with a motive of earning profit by satisfying human needs in society.

1.6.1 Characteristics of Business Activities

In order to appreciate how business activity is different from other activities in society, the nature of business or its fundamental character must be explained in terms of its distinguishing characteristics, which are as follows:

(i) An economic activity: Business is considered to be an economic activity because it is undertaken with the objective of earning money or livelihood and not out of love, affection, sympathy or any other emotion. It may be mentioned here that this activity can be undertaken either on small and individual level, e.g. (purchase and sale by a shopkeeper) or on large scale in a more formal and organised level (purchase and sale by a cooperative society or company).

(ii) Production or procurement of goods and services: Before goods are offered to people for consumption, these must be either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods it deals in or acquires them from producers, to be further sold to consumers or users. Goods may consist of consumable items of daily use, such as sugar, ghee, pen, notebook, etc., or capital goods, like machinery, furniture, etc., Services may include facilities offered to consumers, business firms and organisations in the form of transportation, banking, electricity, etc.

(iii) Sale or exchange of goods and services: Directly or indirectly, business involves transfer or exchange of goods and services for value. If goods are produced not for the purpose of sale but for personal consumption, it cannot be called a business activity. Cooking food at home for the family is not business, but cooking food and selling it to others in a restaurant is business. Thus, one essential characteristic of business is that there should be sale or exchange of goods or services between the seller and the buyer.

(iv) Dealings in goods and services on a regular basis: Business involves dealings in goods or services on a regular basis. One single transaction of sale or purchase, therefore, does not constitute business. Thus, for example, if a person sells his/her domestic radio set even at a profit, it will not be considered a business activity. But if he/she sells radio sets regularly either through a shop or from his/her residence, it will be regarded as a business activity.

(v) Profit earning: One of the main purpose of business is to earn income by way of profit. No business can survive for long without profit. That is why, businessmen make all possible efforts to maximise profits, by increasing the volume of sales or reducing costs.

(vi) Uncertainty of return: Uncertainty of return refers to the lack of knowledge relating to the amount of money that the business is going to earn in a given period. Every business invests money (capital) to run its activities with the objective of earning profit. But it is not certain as to what amount of profit will be earned. Also, there is always a possibility of losses being incurred, despite the best efforts put into the business.

(vii) Element of risk: Risk is the uncertainty associated with an exposure to loss. It is caused by some unfavourable or undesirable

1.6.2 Comparison of Business, Profession and Employment

As has been mentioned earlier, economic activities may be divided into three major categories viz., Business, Profession and Employment. The difference between these three terms is given in the following table.

1.7 CLASSIFICATION OF BUSINESS ACTIVITIES

Various business activities may be classified into two broad categories — industry and commerce. Industry is concerned with the production or

Business Functions at Enterprise Level

Business includes a wide variety of functions performed by different kinds of organisations called business enterprises or firms. Financing, production, marketing and human resource management are the four major functions which are performed by business enterprises. Financing is concerned with mobilising and utilising funds for running a business enterprise. Production involves the conversion of raw materials into finished products or generation of services. Marketing refers to all those activities which facilitate exchange of goods and services from producers to the people who need them at a place they want, at a time they require and at a price they are prepared to pay. Human resource management aims at ensuring the availability of working people who have necessary skills to perform various tasks in enterprises.

event. Risks are related with factors, like changes in consumer taste and fashion, changes in method of production, strike or lockout at workplace, increased competition in market, fire, theft, accidents, natural calamities, etc. No business can altogether do away with risks.

processing of goods and materials. Commerce includes all those activities, which are necessary for facilitating the exchange of goods and services. On the basis of these two categories, we may classify business firms into industrial and commercial enterprises. Let us examine in detail the activities relating to business.

| Basic | Business | Profession | Employment |
|--------------------------|---|---|---|
| 1. Mode of establishment | Entrepreneur's decision and other legal formalities, if necessary | Membership of a professional body and certificate of practice | Appointment letter and service agreement |
| 2. Nature of work | Provision of goods and services to the public | Rendering of personalised, expert services | Performing work as per service contract or rules of service |
| 3. Qualification | No minimum qualification is necessary | Qualifications, expertise and training in specific field as prescribed by the professional body is a must | Qualification and training as prescribed by the employer |
| 4. Reward or return | Profit earned | Professional fee | Salary or wages |
| 5. Capital investment | Capital investment required as per size and nature of business | Limited capital needed for establishment | No capital required |
| 6. Risk | Profits are uncertain and irregular; risk is present | Fee is generally regular and certain; some risk | Fixed and regular pay; no or little risk |
| 7. Transfer of interest | Transfer possible with some formalities | Not possible | Not possible |
| 8. Code of conduct | No code of conduct is prescribed | Professional code of conduct is to be followed | Norms of behaviour laid down by the employer are to be followed |
| 9. Example | Shop, factory | Legal, medical profession, chartered accountancy | Jobs in banks, insurance companies, government departments |

1.7.1 Industry

Industry refers to economic activities, which are connected with conversion of resources into useful goods. Generally, the term industry is used for activities in which mechanical appliances and technical skills are involved. These include activities relating to producing or processing of goods, as well as, breeding and raising of animals. The term industry is also used to mean groups of firms producing similar or related goods. For example, cotton textile industry refers to all manufacturing units producing textile goods from cotton. Similarly, electronic industry would include all firms producing electronic goods, and so on. Further, in common parlance, certain services, like banking and insurance, are also referred to as industry, say banking industry, insurance industry, etc. Industries may be divided into three broad categories namely primary, secondary and tertiary.

- (i) **Primary industries:** These include all those activities which are concerned with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc. These are divided as follows.
- (a) **Extractive industries:** These industries extract or draw products from natural sources. Extractive industries supply some basic raw materials that are mostly products of geographical or natural environment. Products of these

industries are usually transformed into many other useful goods by manufacturing industries. Important extractive industries include farming, mining, lumbering, hunting and fishing operations.

- (b) **Genetic industries:** These industries are engaged in breeding plants and animals for their use in further reproduction. Seeds and nursery companies are typical examples of genetic industries. In addition, activities of cattle breeding farms, poultry farms, and fish hatchery come under genetic industries.
- (ii) **Secondary industries:** These are concerned with using materials, which have already been extracted at the primary state. These industries process such materials to produce goods for final consumption or for further processing by other industrial units. For example, mining of iron ore is a primary industry, but manufacturing of steel by way of further processing of raw irons is a secondary industry. Secondary industries may be further divided as follows:
 - (a) **Manufacturing industries:** These industries are engaged in producing goods through processing of raw materials and, thus, creating form utilities. They bring out diverse finished products, that we consume, or use through the conversion of raw materials or partly finished materials

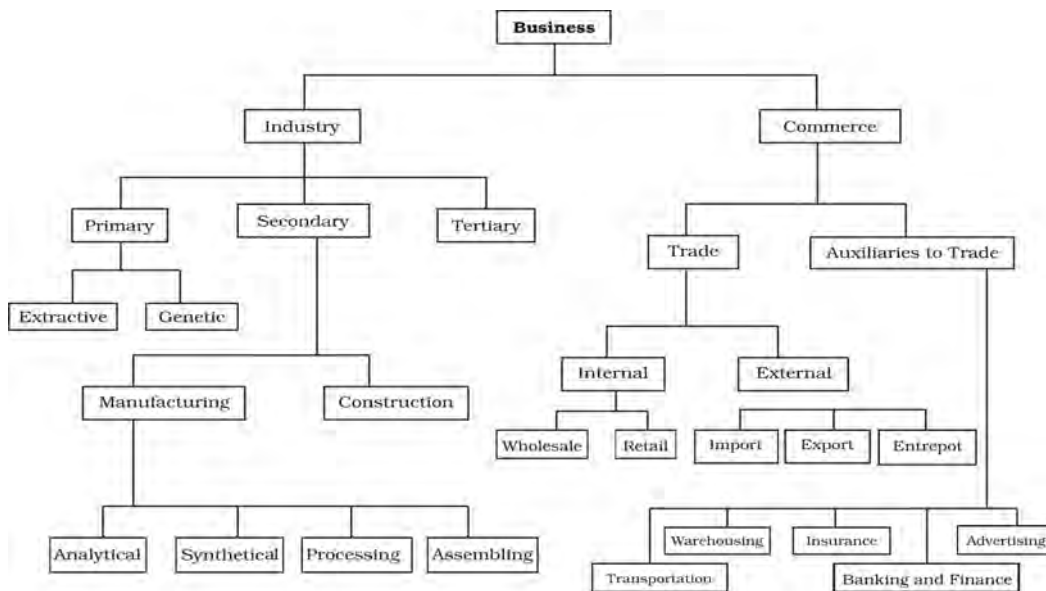
in their manufacturing operations. Manufacturing industries may be further divided into four categories on the basis of method of operation for production.

- *Analytical industry* which analyses and separates different elements from the same materials, as in the case of oil refinery.
- *Synthetical industry* which combines various ingredients into a new product, as in the case of cement.
- *Processing industry* which involves successive stages for manufacturing finished products, as in the case of sugar and paper.
- *Assembling industry* which assembles different component parts to make a new product, as in the case of television, car, computer, etc.

(b) Construction industries: These industries are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals. Engineering and architectural skills are an important part in construction industries.

(iii) Tertiary industries: These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. These industries provide service facilities. As business activities, these may be considered part of commerce because as auxiliaries to trade these activities assist trade. Included in this category are transport, banking, insurance, warehousing, communication, packaging and advertising.

Chart Showing Business Activities



1.7.2 Commerce

Commerce includes two types of activities, viz., (i) trade and (ii) auxiliaries to trade. Buying and selling of goods is termed as trade. But there are a lot of activities that are required to facilitate the purchase and sale of goods. These are called services or auxiliaries to trade and include transport, banking, insurance, communication, advertisement, packaging and warehousing. Commerce, therefore, includes both, buying and selling of goods i.e., trade, as well as, auxiliaries, such as transport, banking, etc.

Commerce provides the necessary link between producers and consumers. It embraces all those activities, which are necessary for maintaining a free flow of goods and services. Thus, all activities involving the removal of hindrances in the process of exchange are included in commerce. The hindrances may be in respect of persons, place, time, risk, finance, etc. The hindrance of persons

is removed by trade, thereby, making goods available to consumers from the possession or ownership producers. Transport removes the hindrances of place by moving goods from the place of production to the markets for sale. Storage and warehousing activities remove the hindrance of time by facilitating holding of stocks of goods to be sold as and when required. Goods held in stock, as well as, goods in course of transport are subject to a risk of loss or damage due to theft, fire, accidents, etc. Protection against these risks is provided by insurance of goods. Capital required to undertake the above activities is provided by banking and financing institutions. Advertising makes it possible for producers and traders to inform consumers about the goods and services available in the market. Hence, commerce is said to consist of activities of removing the hindrances of persons, place, time, risk, finance and information in the process of exchange of goods and services.



'Make in India' is an initiative launched by the Government of India on 25 September 2014, to encourage national, as well as multinational companies to manufacture their products in India. The major objectives behind the 'Make in India' initiative are job creation and skill enhancement in 25 sectors of the economy, which are as follows.

Trade may be classified into two broad categories – internal and external. Internal, domestic or home trade is concerned with the buying and selling of goods and services within the geographical boundaries of a country. This may further be divided into wholesale and retail trade. When goods are purchased and sold in comparatively smaller quantities, for final consumption it is

| | | |
|-----------------------------|--|-----------------------------|
| 1. Automobile | 2. Automobile Components | 3. Aviation |
| 4. Biotechnology | 5. Chemicals | 6. Construction |
| 7. Defence | 8. Electrical Machinery | 9. Electronic Systems |
| 10. Food Processing | 11. Information Technology and Business Process Management | 12. Leather |
| 13. Media and Entertainment | 14. Mining | 15. Oil and Gas |
| 16. Pharmaceuticals | 17. Port and Shipping | 18. Railways |
| 19. Renewable Energy | 20. Roads and Highways | 21. Space and Astronomy |
| 22. Textiles and Garments | 23. Thermal power | 24. Tourism and Hospitality |
| 25. Wellness | | |

1.7.3 Trade

Trade is an essential part of commerce. It refers to sale, transfer or exchange of goods. It helps in making the goods produced available to the consumers or users. These days goods are produced on a large scale and it is difficult for producers to themselves reach out to individual buyers for selling their products. Businessmen are engaged in trading activities to make the goods available to consumers in different markets. In the absence of trade, it would not be possible to undertake production activities on a large scale.

referred to as retail trade. External or foreign trade consists of the exchange of goods and services between persons or organisations operating in two or more countries. If goods are purchased from another country, it is called import trade. If they are sold to other countries, it is known as export trade. When goods are imported for export to other countries, it is known as entrepot trade.

1.7.4 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. 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 Odisha; 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 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. Material and goods help 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 the 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, consumer goods, like electronic and automobile goods, 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.

1.8 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 out only for profit. Business persons themselves proclaim that their primary objective is produce or distribute goods or services for 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 the society and need to fulfill 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. 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 the society's approval of the utility of business, and (v) it builds 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 who only objective is maximisation of profit.

1.9 Multiple Objectives of Business

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 as follows.

- (i) 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.
- (ii) 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 services; 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.
- (iii) 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.
- (iv) 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.

- (v) **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.
- (vi) **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.
- (vii) **Worker performance and attitude:** Workers' 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.
- (viii) **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.

1.10 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.

Business enterprises constantly face two types of risk : speculative and pure. Speculative risks involve both the possibility of gain, as well as, the possibility of loss. 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 involve only the possibility of loss or no loss. 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.

1.10.1 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 future. Natural calamities, change in demand and prices, changes in government policies and prices, improvement in technology, etc., are some of the examples of uncertainty which create risks for business because the outcomes of these future events are not known.
- (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.

1.10.2 Cause of Business Risks

Business risks arise due to a variety of causes, which are classified as follows:

- (i) Natural causes:** Human beings have little control over natural calamities, like flood, earthquake, lightning, heavy rains, famine, etc. 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 or 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 with Risks

Although no business enterprise can escape the presence of risk, there are many methods a business enterprise 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.

1.11 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 basic nature. For example, to start a factory, plans must be made about the location of the business, the possible number of customers, the kind of equipment required and the amount of money needed to procure them, the shop layout, purchasing and financing needs, and hiring of workers for its effective implementation. 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 business: The first thing to be decided by an entrepreneur is the nature and type of business to

be undertaken. He/she 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/she can arrange the necessary capital for business, he/she 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, books, 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 where the 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 an 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 workforce to perform various activities so that physical and financial resources are converted into desired outputs. Since no individual entrepreneur can do everything himself, he/she 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.

EXERCISES

Short Answer Questions

1. List any five major commercial cities of ancient India?
2. What is *Hundi*?
3. List the major exports and imports in ancient India.
4. What were the different types of *Hundi* in use by traders in ancient times?
5. What do you understand by maritime trade?
6. State the different types of economic activities.
7. Why is business considered as economic activity?
8. State the meaning of business.
9. How would you classify business activities?
10. What are the various types of industries?
11. Explain any two business activities which are auxiliaries to trade.
12. What is the role of profit in business?
13. What is business risk? What is its nature?

Long Answer Questions

1. Discuss the development of indigenous banking system in Indian subcontinent.
2. Define business. Describe its important characteristics.
3. Compare business with profession and employment.
4. Define Industry. Explain various types of industries giving examples.
5. Describe the activities relating to commerce.
6. Explain any five objectives of business.
7. Explain the concept of business risk and its causes.
8. What factors are to be considered while starting a business? Explain.

Projects/Assignments

1. Visit any business unit in your locality. Interact with the owner to find out the steps in starting the business. Prepare a project report of your visit.
2. Prepare a project report on the development of Trade and Commerce between 1st and 17th AD.
3. Collect information on any five sectors of the economy that *Make in India* focuses on. Find out the amount of investment in these sectors in the past two years. What were the possible reasons that led to an interest of investors in these sectors? Present your report in the following format:

| Sector | Investment in Year I | Investment in Year II | Possible reasons for the change |
|---------------|-----------------------------|------------------------------|--|
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