

# INTRODUCTION

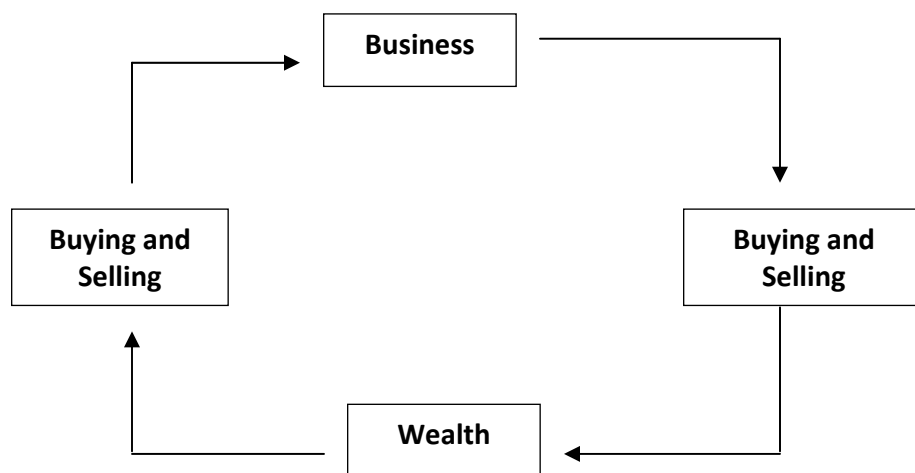
## CONCEPT OF BUSINESS

Literally, the word “business” means the state of being busy. Generally, the term business includes all human activities concerned with earning money. In other words, business is an activity in which various persons regularly produce or exchange goods and services for mutual gain or profit. The goods and services produced or purchased for personal use are not included in “business”.

## DEFINITION

1. **According to L. H. Haney**  
*“Business may be defined as human activities directed toward providing or acquiring wealth through buying and selling of goods.”*
2. **James Stephenson** says that:  
*“Every human activity which is engaged in for the sake of earning profit may be called business.”*
3. **In the words of B. W. Wheeler**  
*“An institution organized and operated to provide goods and services to the society, under the incentive of private gain” is business.*

## Structural Diagram



## **CHARACTERISTICS**

Following are the essential characteristics of a good business:

### **1. Capital**

Capital is the lifeblood of every business. It is the most essential and important element of business. In case of deficiency, loans can be taken from various financial institutions.

### **2. Creation of Utility**

Utility is an economic term referring to that characteristic of a certain commodity, which can satisfy any human need. Business creates utility, which gives benefit to the entire society as well as the businessmen.

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

Every business deals with sale, purchase, production and exchange of goods and services for some consideration.

### **4. Employment**

Business is a good source of employment for its owners as well as for other people, for example, employees, agents, transporters etc.

### **5. Islamic Process**

Business is an Islamic way of earning living. Income from business is known as profit, which is Rizq-e-Halal. The Holy Prophet Muhammad himself did prosperous business.

### **6. Motive**

The motive of business is to earn profit. Otherwise it will not be termed as business.

### **7. Organization**

Every business needs an organization for its successful working. A proper organization is helpful in the smooth running of business and achieving the objectives.

### **8. Productions or Purchase of Goods**

A businessman deals in production or purchase of goods. These goods are supplied to the people. So, it is necessary that more goods should be produced so that demand of people may be fulfilled.

**9. Regular Transaction**

Business has a nature of regular dealings and series of transactions. So, in business, only those transactions included which have regularity and continuity.

**10. Risks and Uncertainty**

Business involves a large volume of risk and uncertainty. The risk element in business keeps a person vigilant and he tries to ward off his risk by executing his policies properly.

**11. Sale or Transfer for value**

Another characteristic of business is the sale or transfer of goods for value.

**12. Social Welfare**

Business does not only satisfy the producer, but also the consumer when products are offered for sale at low prices in markets.

**NATURE OF BUSINESS**

The following points state the nature of business in brief:

**1. Economic Activity**

Business is an economic activity as it is concerned with creation of wealth through the satisfaction of human wants.

**2. Human Activity**

Business is an economic activity and every economic activity is done by human beings. Thus, business is one of the most important human activities.

**3. Social Process**

Business is run by owners and employees with the help of professionals and customers. Thus, business is a social process.

**4. System**

Business is a systematic arrangement of various elements, which leads to the attainment of particular objective, according to a well-established plan.

## COMPONENTS AND SCOPE OF BUSINESS

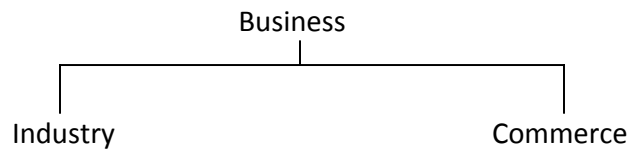
### BUSINESS

The word “Business” includes all human activities concerned with earning money. In other words, business is an activity in which various persons regularly produce or exchange goods and services for mutual gain or profit.

### COMPONENTS OF BUSINESS

Business bears the following components:

- Industry
- Commerce



### INDUSTRY

Industry is connected with the production and preparation of goods and services. It is a place where raw material is converted into finished or semi-finished goods, which have the ability to satisfy human needs or can be used in another industry as a base material. In other words, industry means that part of business activity, which is concerned with the extraction, production and fabrication of products.

### KINDS OF INDUSTRY

1. Primary Industry
2. Secondary Industry



## **1. PRIMARY INDUSTRY**

Primary industry is engaged in the production or extraction of raw materials, which are used in the secondary industry. Primary industry can be divided into two parts:

- (a) Extractive Industry
- (b) Genetic Industry

### **(a) Extractive Industry**

Extractive industries are those industries, which extract, raise or produce raw material from below or above or above the surface of the earth. For example, fishery, extraction of oil, gas and coal etc.

### **(b) Genetic Industry**

Genetic industries are those, which are engaged in reproducing and multiplying certain species of animals and plants. For example, poultry farm, fishing farm, dairy farm, plant nurseries etc.

## **2. SECONDARY INDUSTRY**

These industries use raw materials and make useful goods. Raw material of these industries is obtained from primary industry. Secondary industry can be divided into three parts:

- (a) Constructive Industry
- (b) Manufacturing Industry
- (c) Services Industry

### **a) Constructive Industry**

All kinds of constructions are included in this industry. For example, buildings, canals, roads, bridges etc.

### **b) Manufacturing Industry**

In this industry, material is converted into some finished goods or semi-finished goods. For example, textile mills, sugar mills etc.

### **c) Services Industry**

These industries include those industries, which are engaged in providing services of professionals such as lawyers, doctors, teacher etc.

## COMMERCE

Commerce is the second component of business. The term “commerce” includes all activities, functions and institutions, which are involved in transferring goods, produced in various industries, from their place of production to ultimate consumers.

In the words of Evelyn Thomas:

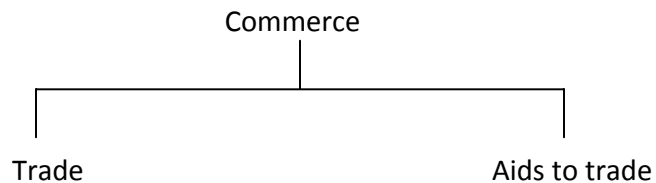
“Commercial occupations deal with the buying and selling of goods, the exchange of commodities and distribution of the finished goods.”

In simple words, “trade and aids to trade” is called commerce.

### SCOPE OF COMMERCE

The scope of commerce can be explained as:

1. Trade
2. Aids to Trade



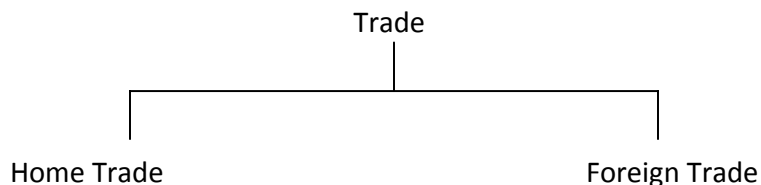
### 1. TRADE

Trade is the whole procedure of transferring or distributing the goods produced by different persons or industries to their ultimate consumers. In other words, the system or channel, which helps the exchange of goods, is called trade.

#### TYPES OF TRADE

There are two types of trade:

- (a) Home trade
- (b) Foreign Trade



- (i) Wholesale Trade
- (ii) Retail Trade

- (ii) Import Trade
- (ii) Export Trade

### **(a) Home Trade**

The purchase and sale of goods inside the country is called home trade. It is also known as 'domestic', 'local' or 'internal trade'. Home trade has two types:

- (i) Wholesale Trade
- (ii) Retail Trade

#### **(i) Wholesale Trade**

It involves selling of goods in large quantities to shopkeepers, in order to resale them to the consumers. A wholesaler is like a bridge between the producers and retailers.

#### **(ii) Retail Trade**

Retailing means selling the goods in small quantities to the ultimate consumers. Retailer is a middleman, who purchase goods from manufacturers or wholesalers and provide these goods to the consumers near their houses.

### **(b) Foreign Trade**

Trade or exchange of goods and services between two or more independent countries for their mutual advantages is called foreign trade. It is also called international trade. Foreign trade has two types:

- (i) Import Trade
- (ii) Export Trade

#### **(i) Import Trade**

When goods or services are purchased from other country it is called import trade.

#### **(ii) Export Trade**

When goods or services are sold to any other country it is called export trade.

## **2. AIDS TO TRADE**

Trade means buying and selling of goods, whereas, aids to trade means all those things which are helpful in trade.

- a) Banking
- b) Transportation

- c) Insurance
- d) Warehousing
- e) Agents
- f) Finance
- g) Advertising
- h) Communication

**(a) Banking**

In daily business routine, commercial banks and other financial institutions help the seller and the buyer in receiving and the buyer in receiving and making payments.

**(b) Transportation**

The goods which are manufactured in mills and factories, reach the consumers by different means of transportation like air, roads, rails, seas etc.

**(c) Insurance**

The transfer of goods from one place to another is not free from risk of loss. There is a risk of loss due to accident, fire, theft etc. The insurance companies help out the traders with this problem through insurance policy.

**(d) Warehousing**

The manufacturers today, produce goods in large quantity. Therefore, a need for warehouses arises in order to store the manufactured goods.

**(e) Agents**

They are the persons who act as the agents of either buyer or seller. They perform these activities for commission.

**(f) Finance**

A large amount is needed to set up an industry. Financial institutions provide long-term finance to the producers. The producers alone are unable to manufacture goods without financial help.

**(g) Advertising**

The consumer may sometimes, not know about the availability of goods in the market. The producer must sell his goods in order to remain in business. Advertisement is an easy way to inform the large number of customers about the goods. This can be done through TV, newspapers, radio etc.



#### **(h) Communication**

The producers, wholesalers, retailers, transporters, banks, warehouse-keepers, advertisers and consumers live at different place. This post office, telephone and other similar media is very useful for promotion of trade and industry.

### **FACTORS OF PRODUCTION:**

Factors of production are the resources or inputs that are required for the production of goods or services. The components of factors of production are:

- i. Labor
- ii. Capital
- iii. Entrepreneurship
- iv. Physical resources

#### **i. Labor**

Labor is the most important factor of production. Labor are the people who work in an organization and provide physical and mental efforts in production process.

#### **ii. Capital**

Capital is the amount or property which is invested by investor(s) in the business to produce goods and services.

#### **iii. Entrepreneurship**

Entrepreneurship is the management ability of the people to run the business.

It involves:-

- (a) Identification of opportunity
- (b) Allocation of resources,
- (c) and creation of wealth by assuming the necessary risk.

#### **iv. Physical resources**

Physical resources include land, natural resources, building, vehicles and machinery that are used in the production process.

## **ECONOMIC SYSTEM**

Economic system is defined a system for allocation of resources. Commonly, it has following two types as below:

- a) Planned economy
- b) Free market economy

### **a) Planned economy**

In planned economy the government decides that how many resources are to be generated and how these resources will be allocated. In this system government determines the key economic functions. How the factor of production will be utilized and how much will be the economy's output is decided by the government.

### **b) Free market economy**

In free market economy demand and supply in the market determines the allocation for resources with little or no government intervention. In this economy market mechanism decides the key economic functions (what, for whom and how to produce). Free market economy increases the efficiency and productivity, firms and organizations with better quality products and low costs (produced efficiently) will survive in the market.

## **ENVIRONMENTAL FORCES**

Forces that influence the performance of organizations can be divided into two categories as under:

- 1) External Factors (External Environment)
- 2) Internal Factors (Internal Environment)

### **External Factors:**

External factors are the factors which are found outside the organization. These factors are not controllable by the organization. External factors bring the opportunity or threat for the organization. External factors include technological factors, economy of the country, political and legal factors, socio-cultural factors and demographic factors.

### **Internal Factors:**

Internal factors are the factors within the organization that affect the performance of business. Strengths or weaknesses of the organization are the internal factors. Strengths may include experienced and trained workers, strong financial resources, strong brand name, good reputation and organizational culture and weaknesses of an organization may

include lack of sufficient capital, weak brand name, poor reputation, inexperienced and untrained workers.

### **SWOT Analysis:**

SWOT analysis is an analysis of an organization's strengths, weaknesses, opportunities, and threats. Strengths and weaknesses are the part of internal environment and opportunities and threats are the part of external environment. SWOT analysis helps an organization to focus on strengths, to reduce weaknesses, to exploit the opportunities and to neutralize threats.

#### **Strengths:**

Strengths are the capabilities of an organization that enable it to perform efficiently. Strengths may include skilled manpower, strong financial resources, strong brand name, good reputation and organizational culture, well established distribution network etc.

#### **Weaknesses:**

Weaknesses are the internal characteristics of an organization that prohibit it to perform well. Organization's weakness may include lack of sufficient capital, weak brand name, poor reputation, unskilled manpower, inefficient management, poor distribution channels etc.

#### **Opportunities:**

Opportunities are the external environmental factors that may bring the prospects for growth and higher performance. For example: technological advancement, market developments, changes in lifestyle, changes in government regulation related to your business.

#### **Threats:**

Threats are the external environmental factors that may undermine the organization's performance. For example, new regulation that may affect the business, changes in consumer tastes, if an organization does not adopt new developed and modern technology it will become a threat for the organization.