

Q1. What are the essential features of business? List different objectives of business.

As we know, business refers to the economic activities engaged in production and/or exchange or want satisfying goods and services carried out with the intention of earning profit. Some important characteristics features of business can be listed as:

Economic activity

It is one of the main or important feature as business is clearly defined as the economic activity of production and distribution of goods and services. It creates employment opportunities in different sectors like banking, insurance, transport industries, trade etc.

Buying and Selling

Trading is one of the basic activities of any business. Business involves in buying raw materials, plants and machinery, stationary, property etc. Along with the buying, it also involves in selling of finished products and/or services to the consumers, wholesaler and retailer. Business makes available various goods and services to the different sections of the society.

Continuous process

Business is not a onetime activity. It is a continuous process of producing and distributing goods and/or services. Only one transaction of trade can't be a business. A business should be a regular working process of growing and gaining regular returns.

Profit Motive

Profit of the business indicates its success and failure. Profit means the actual gain from business summing up all income subtracting all expenses. The primary goal of business activities is to obtain the highest possible profit through

the production and sales of goods and services with a good customer satisfaction. As it is a return on investment, it acts as a driving force behind all business activities and is required for survival, growth and expansion of the business.

Risk and Uncertainties:

Every business has its association with risk. Risk can be defined as the uncertainty arising on the objectives of business. There are two types of risk some predictable and some not. Some predictable factors includes tax, ~~change in expected sales volume, inflation of cost of supplies and equipment, overhead costs, salaries, cost of goods and customer base services offered.~~

Some other factors like change in trends, tastes of customers, impact of the local economy on customer base, any unexpected action taken by your competitors are unpredictable. Calculation of predictable factors and suppression of some unpredictable factors can be managed or reduced with risk management and insurance.

Creative and Dynamic:

Dynamic and creative ideas holding with business can take the business to next limit, innovation of a different idea so as to change the current economic social and technological environment satisfying the growing needs of the consumer is supposed to be the main focus of successful business.

Customer Satisfaction

Consumer-oriented approach is adopted as a new modern concept in business. Customer satisfaction is to be the main goal of all economic-activities. Every step taken to the business should focus on creating and retaining

the customers. The identification and satisfaction of the customer plays vital role of a successful business.

Social Activity

Every person should be responsible towards the society. As every business runs within society, it should be responsible towards the society. So, business need to support different section of the society for its proper functioning.

Government Control:

Some business may go to the wrong track of just gaining profit with some out of law activities, so they need some upper level of governance. Some laws are enforced, so as to look into and govern the business. The law may differ on different localities, states and countries. There should be government control over any business running.

Optimum utilisation of resources

Business means production of goods, exchange of goods and/or services. It requires different resources like human, good etc. They should be used in it optimum taking care of its availability so as to benefit the society and business both.

Objectives of business

Every business has its own objectives based on its type of business and its nature. According to their specific industry, team, product, financial standing, business objectives often fall into four main below listed categories. Different objectives falling under each category are listed on each of them

Economic

- Business Survival:

The business should survive first. The major objective of a business is to continue its activities and gives a suitable return on investment.

- Profit Earning:

The return on investment is only the profit. So, profit earning should also be an objective. It helps in business survival.

- Growth:

The company's growth is another objective. It must keep on growing. A stable company without a growth is also a dead company. So, the company should get going.

Human

- To pay competitive salaries
- To offer employee perks, like unlimited vacation or team appreciation events.
- To provide safer and more health conscious working environment.
- To provide personal growth and development opportunities.
- To provide incentives to motivate employees.

Organic

- To use profits to raise capital or strengthen the business
- To use growth models to contribute to business success
- To drive innovative ideas through focused activities.
- To improve brand and reputation
- To grow production size to meet demand.

Social

- To ensure better quality products for customers.
- To ensure fair prices for customers.
- To ensure fair trade practices.
- To ensure fair employment practices (anti-discriminatory).
- To protect the environment by taking reasonable steps to limit corporate carbon footprint.
- To serve the local community (schools, charities, social programs etc.)

Q2. What is capital structure? Describe factors that determine the capital structure.

Capital structure means the way or structure that a business is financed to start and run it. It refers to finance mixed with debt and equity that allows a business to keep the doors open and the shelves stocked. According to Wikipedia, "Capital structure in corporate finance is the mix of various forms of external funds, known as capital, used to finance business." A company's ideal capital structure will depend on its specific situation, including factors like the cost of capital, the business cycle, and any existing debt or equity.

Some factors that determine the capital structure are listed below with its basic description.

Trading on Equity

The word "equity" denotes the ownership of the company. Trading on equity means taking advantage of equity share capital to borrowed funds on reasonable basis.

It refers to additional profits that equity share holders earn because of issuance of debenture and preference shares.

It is based on the thought that if the rate of dividend on preference capital and the rate of interest on borrowed capital is lower than the general rate of the company's earnings, equity share holders are at the advantage which means a company should go for a judicious blend of preference shares equity shares as well as debentures. Trading on equity becomes more important when expectations of share holders are high.

Degree of control:

In a company; it is the directors who are so called elected representatives of equity shareholders. These members have got maximum voting rights in a concern as compared to the preference shareholders and debenture holders. Preference shareholders have reasonably less voting rights while debenture holders have no voting rights. If the company's management policies are such that they want to retain their voting rights in their hands, the capital structure consists of debenture holders and loans rather than equity shares.

Flexibility of financial Plan.

In an enterprise, the capital structure should be such that there is both contractions as well as relaxation in plans. Debenture and loans can be refunded back as the time requires. While equity capital can't be refunded at any point which provides rigidity to plans. Therefore, in order to make the capital structure possible, the company should go for issue of debentures and other loans.

Choice of investors.

The company's policy generally is to have different categories of investors for securities. Therefore, a capital structure should give enough choice to all kind of investors to invest. Bold and adventurous investors generally go for equity shares and loans and debentures are generally raised keeping into mind conscious investors.

Capital market condition

In the lifetime of the company, the market price of the shares has got an important influence. During the depression period, the company's capital structure generally consists of debenture and loans. While in period of booms and inflation, the company's capital should consist of share capital generally equity shares.

Period of financing

In a capital structure, the company has to look to the factors of cost when securities are raised. It is seen that debentures at the time ~~where~~ of profit earning of company prove to be a cheaper source of finance as compared to equity shares where equity shareholders demand an extra share in profits.

Period

Cost of financing

In a When company wants to raise finance for short period, it goes for loans from banks and other institutions; while for long period it goes for issue of shares and debentures.

Stability of sales

An established business which has a growing market and high sales turnover, the company is in position to meet fixed commitments. Interest on debentures has to be paid regardless of profit. Therefore, when sales are

high, thereby the profits are high and company is in better position to meet such fixed commitments like interest on debentures and dividends on preference shares. If company is having unstable sales, then the company is not in position to meet fixed obligations. So, equity capital proves to be safe in such cases.

Sizes of a company

Small size business firm's capital structure consists of loans from bank and retained profit. While on the other hand, big company having goodwill, stability and an established profit can easily go for issuance of shares and debentures as well as loans and borrowings from financial institution. The bigger the size, the wider is total capitalization.

Q.3. Discuss various arguments in support and against advertising

Advertising has become an inevitable tool for both new as well as existing companies. Advertising means simply presenting the product or ideas to the end user of the interest. The American Marketing Association has defined advertising as "any paid form of non-personal presentation of ideas, goods or services by an identified sponsor."

From social point of view, it may be said that advertisement has a positive effect on economic development. But, this is not accepted by all. There are different aspects of ^{discussions} advertisement having arguments for and against it. They are listed

as advantage; Arguments in support and disadvantage
: Arguments against advertising.

Advantage: Arguments in support of advertising

The arguments imply social significance or usefulness of advertising.

1. Stimulate Production:

Advertising has positive impact on demand. Increase in demand for products naturally stimulates production. More production means more prosperity.

2. Stimulate National Income

Advertising increases production by generating more consumption and demand. This automatically stimulate the national income through tax or other means.

3. Employment Opportunities

More employment opportunities will be generated for the increased production. As well it can ease unemployment problems creating opportunities for human resources.

4. Commercialization of Inventions

Advertising is useful to commercialize or materialize new useful inventions. Some useful and necessary inventions may be out of knowledge of customers. Advertising educate them which benefit the society.

5. Public Acceptance

Advertising prepares people to accept and use new and standard products.

6. Mass production and Mass Distribution

Advertising has significant role for mass production and mass distribution. It affects positively in all aspects of mass production and distribution.

7. Informative

Advertisement is a good source of information. It can increase awareness about different products and special offers related to products. Availability of adequate information can help customers select the most suitable products/brands.

8. Educative Value

It can educate the society about new products, new and proper uses, improvements in products, and other aspects. People can learn a lot of useful things by advertising.

9. Adaptive Value

Advertising makes people start using new product. It has a high convincing value. Customers & company have benefits.

10. Improved standard of living

Naturally, availability of useful information, mass production and mass distribution, and many other such positive outcomes of advertising improve living standard of people.

11. National and international Market

Advertisement is instrumental in generating national and international trade. People of the globe can access useful products easily. In this global market, Now a days advertising increases the scope of the market from a community to the whole world.

12. Entertaining Value

Most advertisements are capable of entertaining people. People like to see, hear or read advertisements in different media. It provides the useful information

in an interesting way. It helps release tension & stress.

Disadvantage: Arguments against advertising

The arguments imply the adverse impact of advertising on society.

1. High Price to Consumers

Advertising is overhead cost to the product. It automatically increases the cost of product which makes customer pay high price for the products which are highly advertised. Companies do not forget their profits. Thus, business can earn more at a cost of customers.

2. Wastage of National Resources

Due to excessive use or proliferation of advertising valuable national resources are wasted. In many cases, company, ^{under} take ~~several~~ rigorous advertising efforts without specific needs.

3. Impulsive Buying

It creates unnecessary needs. People are emotionally forced to buy the products which are not essential or immediate use. Sometimes, it instigates people to buy unnecessary products.

4. Materialist Implications

It promotes materialism. It makes people mad after things, whether useful or not.

5. Fraud to customers

It has misleading/deceptive implications. Most claims are exaggerated. Some advertisement has little truth and a lot of false. This may mislead & creates confusion to the customers.

6. Erotic, Unrealistic and Exaggerated.

It is difficult to justify the company's claim

made in advertisement. Some claims or appeals are completely baseless. Advertising appeals related to biscuits, tonic foods and herbal and pharmaceutical products are far from reality. Some advertisements are so vulgarly presented that have only erotic appeal than commercial.

7. Company-oriented

It is erroneous to believe that advertisement is always useful to customers. In most cases, it benefits only to advertiser, sometimes even at a cost of buyers.

8. Creation of Monopoly

Effective advertising campaign creates permanent place for certain brands in the market. It blocks the entry of other competitors. Monopoly always has ill-effect on buyer's interest.

9. Compulsion to customers to view, read or hear.

It is a disturbance to people. Advertising carries nuisance value. People are not interested to watch, read or hear commercial ads, but they have to do it. It would have an adverse effect on some people creating irritation.

10. Source of confusion and stress

Due to over bombarding of advertising on different mass media, people are confused and feel stress in regard to selection of products. As well it creates stress who couldn't buy the products.

Q4. Discuss the pervasiveness of risk in business. Describe briefly the management of business risks.

The pervasiveness of risk in business

There is presence of different risks in all kind of business activities which can be identified and traced by the management in time. The management has to identify, recognize and deal with risk. There is a normal tendency of over emphasizing the profit ignoring the risk factors. We can examine how risk prevails in the different aspect of business and discuss each of them in the following headings.

Property and Personnel Risks

There can be loss of the property and personnel in any business firm through some common perils such as fire, explosion, wind storm, flood, earthquake, business liability damage suits, landslides, death and disability of its human resources. Losses may occur due to the occurrence of some of the perils. Insurance is the major task to be carried out to minimize these risk.

Marketing Risks

As we know marketing activity refers to all the activities carried out to move the goods from the producers to consumers. Mainly it includes buying, selling, transport and ^{of the} store ~~research~~ goods. Along with these activities like standardization, marketing information and ~~research~~ research are also important function of marketing. The goods can be lost, damaged, stolen or destroyed due to common perils for which transporter is not liable during any kind of major marketing activities. Not only the perils but also due to some improper facilities or negligence during storage, there may be loss in business. These

kind of risk can be minimized by proper insurance and proper lookup and arrangements made to facilitate the storage, transportation and distribution.

Financial Risk

We can't run a business without the credit received as well as credit extensions. The continuous problem in business is due to bad debts. Bad debts insolvency by the customer is one of the major risk causing high loss in business. Not only this, sometimes bank and financial institution don't extend the loan or refuse to provide loan on crucial time which may affect regular activities causing loss in business. Similarly unexpected rise in interest rates on bank loan reduces profits. Business firm's investment in stocks and bonds always face risk. These risk can be minimized by proper followup with the customers and vendors.

Production Risk

Production risk includes risk in faulty or defective production due to breakdown of machinery, machines fault or poor quality raw materials. It causes an unexpected loss in business. Sometimes under utilization of installed capacity or over utilization of the machine, inventory build up to the level much higher than demand, improper plant layout, uneconomical plant capacity etc. These risk can be minimized by proper caring and careful planning.

The management of Business Risk

There are various types of risk involved during business

activities. Those risks can't be wiped off just they can be reduced or can expect a minimum loss on it. So, we need to handle each of the risk properly using different steps of risk management process. They are listed and described below.

Step 1 : Identification

The first step of risk management is to identify all the loss exposer of the business firm. If we fail to identify risk factors in the regular or exceptional activities, we can't be involved to deal with those risks. Therefore as the primary task of risk management, it is to observe each activity closely and trace the risk factor and all types of loss exposer.

Step 2 : Analysis

After the identification, we need to analyse the risk factors and find out the probability of occurrence and expected financial loss. After getting close information on every risk factors, we can the plan for its remedy. After proper analysis, we can identify the seriousness of the risk. Then we can pay more attention on the risk which are more serious.

Step 3 : Tools consideration

After the proper analysis, we need to choose one or more tools of risk management for handling the risk factor or minimizing the risk occurrence. The six major tools of risk management is listed below with some examples and basic description.

Risk Assumption or Retention

The most common way of handling the risk is risk assumption or retention. All kind of business firms assume or retain risks consciously or unconsciously

There are some kind of risk which don't have any kind of remedy. Special provision of financial reservation are made for such kind of risk. E.g. there is a chance of landslides in a marble mine. Whatever may be the preventive measures taken there is probability of landslide at any time. So, some assumptions are made and planned accordingly. In case of unconscious risk assumption, risk is not recognized. So, can't be traced & may cause a surprise loss in the business.

Loss Prevention:

Another method of handling risk is to take preventive measure for the occurrence of a peril or minimize its financial impact on business. This approach is called loss prevention. E.g. creating a fire resistant building, earthquake resistance building for preventing loss due to fire and earthquake respectively. Through this approach, it can't be completely reliable, as the prevention couldn't completely stop the occurrence just it can minimize the risk and avoid more losses.

Avoidance:

Avoiding the situation which is the potential cause of the risk, is one of the suitable approach for risk management. E.g. factories to be removed from terrorism prone zone to avoid terrorism, stop all credit transactions to avoid bad debts, stop mining during rainy seasons to avoid chance of high landslides etc.

Transfer:

Transferring the risk to another party is a very widely used approach to handle risks. Insurance is the most common method of transferring the pure risk such as fire,

windstorm, floods, riot, theft etc. This approach helps to focus on the business ignoring the risk on these areas.

Separation:

The separation of exposures to loss instead of concentrating them at one location can also reduce the risk. This is one of the technique which may not avoid but surely minimize the loss. E.g. instead of storing goods in a single warehouse, it is stored in different warehouses. Further minimization of risk can be done by keeping different warehouses in different zone or location. This will keep minimum effect during natural calamities and different perils. It is also a kind of loss prevention.

Combination:

Strategies like diversification of products, law of large numbers, formation of more companies with unrelated lines of business etc. come under this method. E.g. engagement on more ~~no~~ products will reduce the loss on a product with gain on the other. If there are more companies, the loss in one is covered by the other. Insurance companies work on this combination principle where a sufficiently large number of similar objects are combined to make the loss predictable with narrow limit. It is a part of risk assumption. Here risk is just predicted neither handled nor managed.

We can reduce the risk by having more knowledge about such perils. A person with better knowledge of the perils can handle them properly. This means the risk can be reduced or handled through knowledge and research.

Step 4: Implementation

After finalizing the tools to be used for risk management, we need to implement one or more tools as per the requirement. We should take proper care during implementation and should not rely on any one of the tools. We can use the combination if possible and required.

Step 5: Evaluation

The final step of risk management is to evaluate the effectiveness of the risk management tools we have implemented. Retrospection of the process and our analysis is also to be done during this evaluation. After the proper evaluation, if it seems not working or there is another tool required, we need to re-analyse and implement the next one which suits the best.

Q5. Comment briefly on the following statements

a) An entrepreneur is a good judge of which product will sell.

The one whose mind search the idea of doing business of a particular type first is the entrepreneur. He can foresee the business opportunities and highly imaginative. He is guided by the strong sense of achievement. He is a good judge of which product will sell. There is no one except the entrepreneur who knows about the product and its distribution process so as to gain profit on the business. Above all, he is the one who creates something new.

Something different. He innovates and combine resources in the form of men material and money and brings them together to make business venture profitable. A new innovation, all depends on the entrepreneur, his idea of the product is to be casted forming a business. So, he needs to have greater knowledge of the activity to be conducted now and then. Everything of the business will follow the way entrepreneur walks or directs to walk. So, an entrepreneur must be a good judge of which product will sell.

b) Stock exchange plays a very important role in the economic development of a country.

The stock exchange serves as a market where financial instruments like stocks, bonds, commodities are traded. It is a platform where buyers and sellers come together to trade financial tools during specific hours of any business day following some government guidelines. Stock exchange's easy marketability and liquidity ensure a quick and steady supply of capital to the business through provisioning the buying and selling of stocks and securities. This forum also helps the companies to generate additional capital funds without any collateral. Companies growing well and well functioned but stuck with financial crisis for enhancement can raise their funds through stock exchange. The transactional tax which is very high is also a source of income for government. Thus, stock exchange plays a very important role in the economic

development of a country.

c) There are various reasons of the government participating in business.

Government shouldn't get involved in business activities because of conflict of interest. The main motive of a business is to gain profit which conflicts with the responsibility of a government. Government is a law making body if when involved with business, there may be a making or modification made in the law so as to enhance the business. But in some critical cases the government gets involved in business.

Public interest:

Some companies which have high dependency for other companies to sustain should not get closed due to financial crisis being unprofitable. So, for public interest government should get involved with such business.

Promotion of trade and commerce

To remove ^{fear} and show the business idea on some specific condition rules, government should start and run the business, to promote the trade and commerce. As well, to encourage the investors, sometimes government should participate in business for industrial promotion.

Heavy investment

In some cases there will be a longer gestation period and heavy investment, those is not possible without government involvement.

Lack of incentive and employment.

In some cases, so as to generate the employment governments participates in business. As well lack of incentive is one of the reason for government participation.

d) The government company form of organization suffers from certain limitations.

Government company form of organization suffers from certain limitation which can be listed below:

1) The government company can be created without specific approval of parliament. There is no discussion in parliament for the reason of setting of the company. It evasion of constitutional responsibility.

2) Memorandum and articles of association can be revised whenever necessary without the consent of the public which is not the case in other corporation. Government interference is another limitation affecting the autonomy of the country.

3) There is fear of public accountability to the directors and executives which may block them to take the initiative in breaking new ground and in entering new areas of activities.

4) The performance is to be reported and shown publicly on the ministry concerned causing public criticism.

5) There will be lack of professional management as directors and executives are directly appointed ^{by} ~~by~~ the government who may not have good knowledge on concerned work.