❖ BUSINESS

Meaning and Definition of Business

Business can be defined as an association involved in the trading of goods and services to customers with the intention of earning profits. It is also known as a firm or enterprise. For a capitalistic economy, business is the core factor. Majority of businesses are owned and managed privately. In simple terms, a business can be defined as a company (although the term 'company' has a particular description) run by a group of people having some ownership in it.

1. **According to Arthur M. Weimer,** "Business is that complex field of commerce and industry in which goods and services are created and distributed in the hope of profit within a framework of laws and regulations".
2. **According to Lewis H. Haney,** "Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling goods".

Stages of Development Business

Evolution of business can be understood by studying the stages given below:

1. **Feudalism:** It started in Medieval Europe in 9th century and continued up to 15th century. It was basically a set of customs (military as well as legal). In broader term, it was a system in order to structure society around relationships (those relationships which were developed by holding land in order to get labor or service in exchange). During this period, all property rights were controlled by the ruling class of nobility. Most of the times, land was captured forcefully. The person with maximum land ownership was believed to be most powerful.
2. **Mercantilism:** The period of mercantilism was from 16th to late-18th centuries and Western European economic policy was dominated by it. The business in which the differences in the price of the product can be demoralized by trading them across the markets and countries is termed as mercantilism. In this, bankers and merchants can also utilize their money made through trade to acquire lands.
3. **Capitalism:** Capitalism is an economic system where the trade, industries and means of production are completely privately owned. It can also be termed as free-market economy, or capitalist economy. This kind of economy involves no interference from the government.
4. **Commerce:** The driving force behind the capitalism is commerce. Commerce mainly relates with the exchange of services and goods. It incorporates all the direct and indirect activities that facilitate such exchange. The distribution facet of the business is tackled by the commerce.
5. **Property Rights:** Property rights are used to secure valuable resource like land, one's own labors; ownership of financial capital in the form of bank accounts & stock: patents & copyrights, etc.
6. **Industrial Revolution :** The evolution of new manufacturing Processes was termed as the industrial revolution. It started in 1760 and continued up to 1820-1840. During this, industrialization of Society began to exist due to arrival of steam power. The more efficient means of transportation like railways and canals, different manufacturing industries were created with the steam engine power.

Nature of Business

- Business is a Social Institution
- Sale, Transfer or Exchange
- Organization and management
- Risk- Taking
- Surplus Generation
- Recurring and perpetual
- Profit Motive
- Mutual Benefit
- Dealings in Goods and services
- Regularity in Dealings
- Capital, Investment and finance
- Involves forecasting
- Generation of values & Utilities
- Transferability and Inheritance
- Creativity
- Mission and Vision

Scope of Business

Scope of business is as follows:

(1) **Industry:** Industry is a concept which involves activities like extraction, processing, conversion, vi production, etc. The products of industry can be categorized under three heads which are as follows:

(i) **Consumer Goods:** Goods that are ultimately consumed by final consumers are known as 'consumer goods'. For example, Microwave oven, Television, Scooter, Car, Clothes, Pickles, Jam, Soft drinks, etc., are consumer goods.

(ii) **Capital Goods:** Goods used as raw materials in the production of other goods are known as 'capital goods'. **For example**, Steel acts as a capital good in the production of various parts of ships, motor engines, scooters, motor cycles, surgical instruments, etc.

(iii) **Intermediate Goods:** End products of one industry which are used as intermediaries in other industries so as to produce other products are known as 'intermediate goods. **For example**, end products of copper industries are used in different industries so as to produce different products like wires and cables, remotes, transformers, condensers, electrical appliances, etc.

(2) **Commerce:** The process of buying and selling of goods assisted by few supporting activities is called 'commerce'. Here, the buying and selling may be through export, import, retail, wholesale, etc., and the supporting activities include procurement, storing, grading, insuring, packaging, transporting, warehousing, etc.

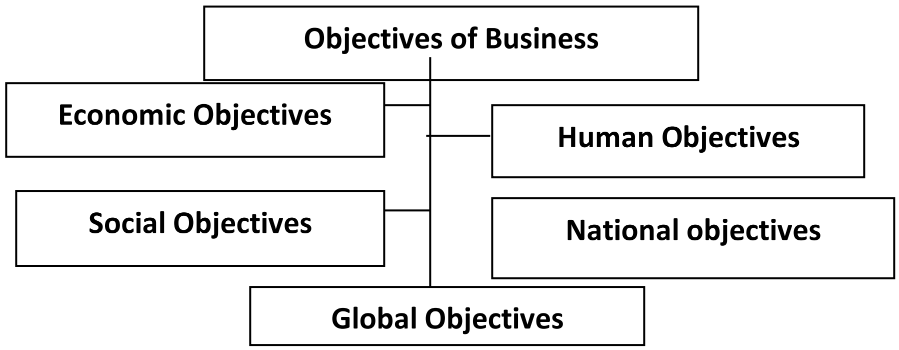
Trade and auxiliaries to trade are the two main components of commerce.

(i) **Trade:** Regular purchase and sale of different goods and services by an individual is termed as 'trade'. Goods and services are sold either in exchange of cash or on credit. The individuals involved in such activities are called 'traders'. For example, shopkeepers as well as agents purchase products from producers or other sellers and sell it in their locality.

(ii) **Aids or Auxiliaries to Trade:** In commerce, along with buying and selling, there are large varieties of supporting activities, which are performed to ensure the proper distribution of goods and services to the ultimate customer.
Such supporting activities are called 'aids to trade' or 'auxiliaries to trade'

<u>Objectives of Business</u>

Different types of business objectives are as follows :



1. **Economic Objectives :** Following are the economic objectives of the business :

- To earn Profit
- To Create Customers
- To Promote Innovation
- To use Scarce Resources Optimally
- To produce Goods and services

2. **Human Objectives**

- To Facilitate economic well- Being of Employees
- To provide Social and psychological satisfaction to employees
- To Develop Manpower
- To facilitate well being of socially and Economically backward People.

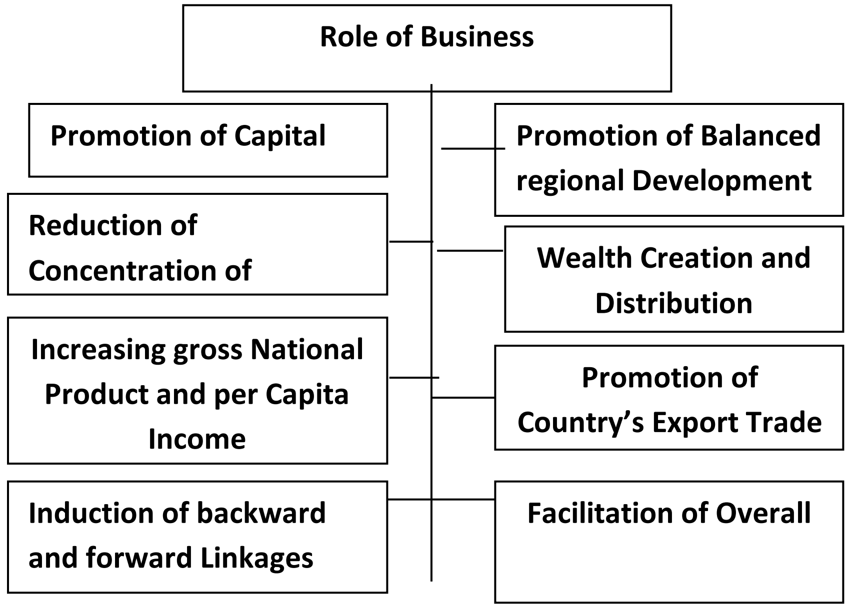
3. **Social Objectives :**
4. **National Objectives :**

- To create employment
- To promote Social Justice
- To follow Production and Supply policy of nation
- To contribute to the revenue of the country

5. **Global Objectives :**

- To raise general standard of living
- To reduce Disparities among nations

• Role of Business



• PARTNERSHIP

Introduction

Partnership is a contractual agreement between two or more persons who are willing to share the profits of a business which is owned by all or a single person acting for all. In general, it a business relationship between different persons having a common ownership or management of a business enterprise. The minimum number of persons required for a partnership is 2 and the maximum limit can be of 10 members (for banking industries) and 20 members (for other industries.

According to Section 4 of the Indian Partnership Act, 1932, "The relation between persons who have agreed to share profits of a business carried-on by all or any of them acting for all".

According to J.L. Hauson, "A partnership is a form of business organisation in which two or more person's upto a maximum of twenty join together to undertake some form of activity".

Characteristics of Partnership

Following are the distinctive characteristics of partnership firms:

(1) **Two or More Persons:** At minimum two persons, and maximum 10 (in banking industry) and 20 (in other industries), are required for establishing a partnership firm. An individual cannot form a partnership with himself.

(2) **Agreement or Contract:** There is an agreement or contract held between persons who are willing to share the business ownership. Usually, no legal problems are associated with these contracts or agreements as they are registered under specific terms and conditions.

(3) **Lawful Business:** Partnership is an act of managing a business and earning profit, which is legally permitted by the government. Whereas, partnership formed for other purposes such as social or charitable work, or any illegal activity like black marketing, smuggling, etc. does not come under partnership law.

(4) **Profit Sharing:** Under the partnership firm, all the profits are equally or proportionally shared between the partners as mentioned in the agreement. In the same way, losses are shared as well in the same proportion among the partners.

(5) **Mutual Agency:** Mutual agency is considered as a fundamental characteristic of partnership firms. As it is essential to have confidence, good faith, and mutual trust between the partners.

Merits of Partnership

The advantages of partnership firms are as follows:

(1) **Easy to Establish:** These types of firms require no special permissions from the government and hence are easy to establish. Only an agreement is set between the partners and the firm has to get registered. There is no compulsion for a firm to get registered, it entirely depends on the will of the partners whether they want to get registered or not.

(2) **Right and Prompt Decision-making:** Under partnership firms, all decisions are made with the consent of all the partners. As the partners remain in direct contact with each other, it is easy to make decisions. There is no or least possibility of misjudgment or wrong decision, because a single problem is scanned by all the partners of the firm.

(3) **Use of Diverse Skills and Knowledge:** A partnership firm comprises of individuals having varied talents and skills which can be fully utilized by dividing the work among partners. For example, if a partnership firm has four partners, one can manage marketing and sales, second partner can manage finance, third can look over human resources, and the other can control the transport and logistics department.

(4**) Business Confidentiality:** Business secrecy can be maintained under partnership firms as there is no need to disclose its profit and loss statement, investments, expenditures, etc. to the public or government.

The demerits of partnership firms are as follows:

(1) **Uncertain Existence**: The existence of a partnership firm is uncertain. In case of a partner's death, retirement or insanity, the partnership comes to an end or has to be dissolved.

(2**) Disputes between Partners:** For having a successful partnership firm, it is essential for partners to maintain a code of harmony and cooperation among themselves. At times, many clashes or conflicts occur due to the misunderstanding or differences on any problem and this may lead to the dissolution of a firm.

(3) **Inappropriate for Large-scale Business:** A partnership concern is not suitable for large-scale businesses. Since, there are limited number of partners with limited capital resources and managerial skills. Large-scale businesses such as oil and steel plants, shipping, banks, etc., require huge amount of investments that a partnership firm cannot afford.

4**) Weak Management:** Under partnership business, some partners become self-centered. They want to put in minimum efforts in the business and receive maximum out of it.