



Background of Business



The following facts are discussed in this chapter.

1.1 Basic concepts about businesses

- Business concept
- Business objectives
- Consumer needs and wants
- Manufacturing businesses
- Factors of production

1.2 Stakeholders of businesses

- Stakeholders
- Objectives of stakeholders

1.1 Basic Concepts about Businesses

When the social existence of a human develops, individual needs also widened gradually. When the needs and wants are diversified, it was difficult to produce all their needs and wants by themselves. As a remedy to this problem, people started to produce a large quantity of goods that they could produce the best, with the skills and resources they had. Therefore, an excess of goods was created. Then people exchanged their excess goods with others to obtain other goods they wanted. This system of exchanging goods was known as the 'Barter System'.

Even today, no one produces all what he or she wants. The farmer produces rice; the carpenter makes furniture; the teacher teaches. This individual is either a producer or a consumer in different instances. Such producers and consumers fulfill their needs and wants through businesses. Therefore, businesses are given immense importance in the modern society.

Business Concept

Man has needs and wants from birth to death. These needs and wants are fulfilled by the businesses. Businessmen manufacture and distribute various goods and services according to the human needs and wants. The way businesses manufacture and distribute goods and services and the way man fulfills his needs and wants have become different and complex today.

A business is an economic activity which manufactures or provides different goods and services in order to fulfill human needs. Most of the firms are profit oriented whereas some firms are not profit oriented. Especially, most of the businesses in the government sector are driven by the social welfare motive but not only by the profit motive. Even though a majority of private sector businesses are driven by the profit motive, some firms are also driven by the welfare motive.

A majority of production activities carried out manually in the history are now carried out using new technology. Most of the businesses do their transactions through electronic media. Therefore, today, any business activity such as ordering goods, paying money and advertising etc can be performed rapidly and easily through electronic media. Due to the accelerating growth in information and communication technology, the world has become a global village through electronic media. Any individual in any country is now consuming different goods produced in different countries in order to fulfill their needs and wants. The following activity will facilitate you to understand the extent to which your daily life has been connected to the global market today.



Activity 01

List down the names of different goods that you consume within a selected day and write down the country of manufacture of each good in front.

Business Objectives

As a consumer your objective is to obtain a quality product at a reasonable price to satisfy a need. Similarly, consumer and other different stakeholders of businesses have specific objectives to be fulfilled. Every business has a specific objective or set of objectives to be achieved, because the parties such as owners of a business, its managers, employees, customers, government and community expect different returns from a business.



Figure 1.1

The following are some business objectives that can be seen in common in a business

01. Earning profits

Profit earning objective is essential for a business because it has to pay a sufficient return to the owners for their invested money.

02. Increasing customer satisfaction

The survival of a business depends on how it satisfies the needs and wants of its customers.

In achieving the above objectives, businesses need to focus on sub objectives. Some of them are discussed below.

(a) Increasing the quality of goods and services

Businesses intend to provide quality goods and services at a reasonable price as well as fulfill consumer needs and wants.

(b) Generating employment opportunities

Another goal of the businesses is to generate different job opportunities from labourers to top managers.

(c) Employee welfare

Providing various welfare facilities in addition to wages to satisfy the employees is another objective of most of the businesses. Food, accommodation facilities, transportation facilities and medical facilities are some examples for those various welfare facilities offered by a business.

Consumer needs and wants

Needs

Human needs are requirements that must be fulfilled essentially for existence. Food, clothing and shelter are considered as the basic human needs and when the society develops, education, health, security, transportation, communication and entertainment are also recognized as human needs. The following characteristics can be seen in human needs.



Figure 1.2

Characteristics of needs

- * Being essential - It is essential to fulfill the needs for existence.
- * Being common - Needs are common to every individual.
- * Cannot be created - Needs will arise naturally and hence cannot be created by businessmen.
- * Being limited - Needs are relatively very low in number.

Wants

Wants are different ways of satisfying needs. A single need can be satisfied in different ways.

Examples :-

Needs	Wants
Food	- string hoppers, ice cream, cake
Clothes	- sarees, Uniforms, shoes

Businesses produce different types of goods and services to fulfill human needs and wants of consumers. These wants have following characteristics.

Characteristics of wants

- * Not essential
For existence it is not essential to fulfill a want as that need could be satisfied by another similar want instead.
- * Being diverse
Even though the needs are common to any individual, the way they satisfy them differs depending on their socio - economic condition.
- * Can be created
Businessmen can create wants.
- * Being complex
Due to being unlimited and diverse, fulfillment of wants are also complex.
- * Being unlimited
There are different wants that can be used to fulfill a single need.



Activity 02

01. Write down different ways you satisfy the following needs.

Need	Wants
Food	
Clothing	
Housing	
Education	
Health	
Safety	
Transportation	
Communication	
Entertainment	

Activity 03

Write down four differences between needs and wants

Activity 04

Today, businesses produce various goods and services creatively, which are required to fulfill human needs. Accordingly, compare the various goods and services used to fulfill human needs in the past with those at present.

Manufacturing Businesses

Businesses can be categorized as follows based on the nature of the product produced by a business.

- * Commodity manufacturing businesses
- * Service providing businesses

Commodity manufacturing businesses

Tangible and physically existing things can be called as commodity whereas, the establishments which produce the commodity required for the fulfillment of human needs and wants are called as commodity manufacturing businesses. These manufacturing businesses produce different types of goods that can satisfy a single need. They produce different goods by considering various tastes of consumers, income level and social status to ease the life style of humans. The following are some examples for different goods produced by businesses.



Figure 1.3

Examples :-

Processed food, automobiles, electric ovens, mobile phones, washing machines, furniture

Activity 05

There are number of goods you consume day-to-day in your house. Prepare a list of goods consumed by you, produced within your area.

Activity 06

Using goods with different brand names to fulfill the same need can be seen in the market. List the brand names of goods you consume at home under each category of goods mentioned bellow. Discussed about your answers comparing the answers with your friend.

Category of goods	Brand name	Reasons for the choice
Soap		
Tooth paste		
Chocolate		
Exercise books		
Pens		

Service Providing Businesses

Any activity or a process rendered to consumers by a business in order to fulfill their needs and wants are known as services. The businesses providing these services are known as service providing businesses.

Examples :-

- Wholesale businesses
- Retail businesses
- Insurance Institutions
- Banking Institutions
- Beauty salons
- Education Institutions



Figure 1.4



Activity 07

You are required to obtain different services in order to ease the work in your house. Write down different services provided by the businesses in your area.

Factors of Production

Businesses require different resources to produce goods and services. These resources required are known as factors of production. The factors of production can be categorized basically as land, labour, capital and entrepreneurship.

Land

All the natural resources available are considered as land. It includes resources on the surface of the land as well as resources beneath the land.

Examples :-

Minerals, forests, soil

Labour

The mental and physical contribution in a business can be considered as labour in simple terms.

Examples :-

- Individuals rendering physical efforts - Workers in the mines
Sanitary labourers
- Individuals rendering mental efforts - Accountants
Managers

Capital

Anything produced by man in order to facilitate manufacturing process is known as capital.

Examples :-

Machinery, buildings, motor vehicles, money.

Entrepreneurship

Entrepreneurship encompasses the role of organizing factors of production such as land, labour and capital required for production in order to start and conduct a manufacturing process. An entrepreneur takes the risk, creates innovations and takes decisions with regard to the business.



Activity 08

01. Select a business in your area and prepare a list of resources used by that business.
02. Categorize the above identified resources into land, labour, capital and entrepreneurship.
03. Explain the entrepreneurial roles carried out within that business.

1.2 Stakeholders of businesses

Stakeholders are the different parties who are interested in the business activities. These parties are interested in the business operations in order to fulfill various objectives.



Figure 1.5 - Stakeholders of a business

Let us study about the stakeholders mentioned in the above figure in detail.

- Owners - Owners are the individuals providing resources to the business. The owner of a business can be either a single person or a group of persons.
- Managers - The business operations are conducted and decisions of the owners are implemented by the managers. In large scale businesses, there can be number of managers such as finance manager, marketing manager, etc.
- Customers - Customers are the individuals who buy goods and services from a business. They can buy these goods either with the re-selling motive or with the motive to use on own consumption.
- Suppliers - Suppliers are the providers of raw materials, transport facilities, etc, to a business.
- Competitors - Competitors are other businesses producing or selling similar goods or services to a business in operation.
- Financial institutions - Financial institutions are the institutions providing required loans, consultancy services etc to a business.
- Employees - Individuals performing the operations of a business are known as employees.
- Government - The government propagates policies required to achieve economic growth of a country.
- Community - Includes the population living outside of the business in the society

Examples :-

Journalists, environmentalists
pressure groups

All these stakeholders intend to achieve various objectives from the business. Some selected objectives of them are depicted in Table 1.1.

Table 1.1 Stakeholders and examples for their objectives

Stakeholders	Example
Owners	Security of investment Earning a sufficient profit Growth of the business operations in future
Managers	Taking decisions required to achieve the objectives Implementing those decisions Promotions and job satisfaction
Employees	Receiving a fair wage or a salary Job security
Customers	Obtaining products at a reasonable price Obtaining quality products
Suppliers	Securing orders continuously Obtaining money without any delay
Financial Institution	Collecting loans and advances given Providing more loans and advances
Government	Collecting taxes due Generating employment opportunities Increasing the domestic production
Competitors	Determining the prices of own products To face competition
Community	Analysing whether the business activities are conducted in an environmentally friendly manner Analysing whether business contributes to the social welfare

A business is required to conduct its operations in a way that it satisfies various objectives of its stakeholders. In this regard, business also expects certain contributions from its stakeholders. Table 1.2 depicts examples of some contributions expected by a business from some selected stakeholders.

Table 1.2 Expected contributions from stakeholders

Stakeholders	Example for contributions
Owners	Contributing adequate capital Being dedicated and enthusiastic about business activities Supervising business activities
Managers	Implementing business plans appropriately Taking correct decisions
Employees	Appropriately completing the tasks assigned Increasing the productivity of labour
Suppliers	Supplying quality raw materials continuously Supplying raw materials in time
Government	Providing business - friendly incentives

Accordingly, the ability and the future success of a business depends on the mutual relationship between the business and its stakeholders.



Activity 09

Name different stakeholders of your school. Prepare a table indicating the objectives of those stakeholders expected from your school and the expected contribution from them towards the school.



Activity 10

Identify the stakeholders of the following institutions located in your area.

- A commercial bank
- A factory