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STUDY COURSE MATERIAL

SESSION-2020-
21CLASS-XI

TOPIC: FUNDAMENTAL OF BUSINESS

DAY-1

❖ TEACING MATERIAL

OBJECTIVES OF BUSINESS

Every business is directed to the achievement of certain objectives. *Objectives refer to the end points towards which all business activities are directed.* . Objectives lay down the guidelines for various activities and decide the direction and amount of efforts needed for these activities.

Objectives should be feasible and must be expressed in specific terms with a time limit for achievement

- For example, the objective of a mobile company can be to increase the mobile users by 10% in 2 years.

Business Objectives may be broadly classified into three categories:

1. Economic Objectives
2. Social Objectives
3. Human or Individual Objectives

Economic Objectives

Business is an economic activity and its objectives are mainly economic in nature. The main economic objectives are:

1. Profit Earning: Every entrepreneur undertakes business activities primarily to earn profits. No business can survive for long without earning sufficient profits. A business needs profits not only for its existence but also for expansion and diversification. Profits provide a means of livelihood for the entrepreneur and a reward for bearing the risk.
2. Survival: Every business aims to ensure that it continues to survive and exist in the future. Survival is possible only when organisation is able to earn enough revenue to cover its costs.
3. Growth: A business needs to add to its prospects in the long run. For this, the business must grow and expand to survive in the long run.
 - Growth of a business indicates how well it is able to exploit its potential opportunities.
 - Growth is measured in terms of sales volume, increase in number of employees, market share, number of products, etc.

DAY-2

❖ **TEACING MATERIAL**

Social Objectives

- Social objectives refer to the objectives, which are desired to be achieved for the benefit of the society. Business makes use of scarce resources of the society. So, society expects something in return for its welfare. Social objective deals with fulfilling obligations towards the society.
- Some of the major social objectives are:
- 1. Supply of Quality products at Fair Prices: The business should ensure that there is a regular supply of useful products with fair quality and at reasonable prices. Supply of adulterated goods, inferior quality goods, vinusable or harmful products are detrimental to the survival of business. It must be noted that customer is now more educated and quality conscious and expects value for his money spent.
- 2. Avoidance of Unfair Trade Practices: Business enterprise should not indulge in anti-social and unfair trade practices like black marketing, hoarding, adulteration, etc. Such practices are not only illegal but also hamper the image of business community. So, every business organisation should aim to avoid such undesirable activities.

Human or Individual Objectives

Human or individual objectives refer to the objectives related to the individual needs of the employees of an organisation. As employees are one of the most valuable resources for an organisation, satisfaction of their objectives is very important. Individual objectives include the following objectives:

1. To provide healthy and safe working conditions.
2. To pay fair and competitive salaries and perks.
3. To provide opportunities for personal growth and development of employees.
4. To provide reasonable security of service.
5. To provide various financial and non-financial incentives in order to motivate the workers.
6. To encourage employees to take initiative and participation in management.

Role of Profit in Business

Profit is the main motive of every economic activity. As business is an economic institution, it must earn sufficient profits to cover its costs and to provide for growth. The following reasons justify the role of profit in business:

1. **Survival:** The basic objective of any organisation is to ensure that it continues to survive and exist in the future. Survival in long run is possible only when organisation is able to earn adequate profits.
2. **Expansion and Growth:** Every business enterprise wants to expand its business. Expansion needs sufficient amount of capital. Profit acts as a source of finance to meet expansion requirements of the business.
3. **Measure of Efficiency:** The efficiency and prosperity of a business is measured through the profit it earns. Higher profits indicate the efficient working of business.
4. **Reward of Risk Bearing:** An entrepreneur assumes a lot of risk while carrying out business activities. Profit is considered as a reward for bearing these risk. If there is no profit in business activity, no one would like to assume risk of running business.
5. **Better Reputation and Goodwill:** A profit-making company enjoys better goodwill in the market as compared to loss-making company. A company with better goodwill is able to attract and retain talented work force. It becomes easy for such a firm to raise loans and obtain credit.

Profit Maximisation should not be the Sole Objective

1. **Corrupt Practices:** Business may engage in malpractices or unfair means like hoarding, black marketing, adulteration, etc. in order to achieve the aim of profit maximisation.
2. **Leads to Exploitation:** A business trying to earn more and more profits may exploit workers by paying them less and low quality goods may be provided to consumers to increase the profits.
3. **Long-term interest:** Too much emphasis on profit may lead to ignorance of social responsibility. It is in the long-term interest of business to pursue social responsibilities along with earning profit. Finally, it can be concluded that profit earning through service to society should be the real objective of business.

BUSINESS RISK

The term 'business risk' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events.

There always exists the possibility of danger of incurring a loss in the process of carrying on the business activities.

- For example, demand for a particular product may decline due to change in fashion, tastes or preferences of consumers or due to increased competition from other producers.

A businessman tries to control or minimise the risk, but they cannot altogether be avoided. In the words of Wheeler, "Risk implies uncertainty about the future course of events".

NATURE OF BUSINESS RISK

1. Business risk arises due to uncertainties: Business risk arises due to uncertainties.

- Uncertainty means lack of knowledge about what is going to happen in the future.
- Fluctuations in demand and supply of products, changes in government policy, natural calamities, improvement in technology, etc., are all uncertainties, which creates risk for business as their outcome is not known in advance.

2. Risk is an essential part of every business: Every business involves some degree of risk.

No businessman can totally escape from the risk, although the amount of risk may vary from business to business. Business risk can be minimised but cannot be eliminated.

In the words of Peter F. Drucker, "Bearing of risk is the essential element of the business".

3. Degree of risk depends on nature and size of business: The nature and size of business determine the degree of risk in a business. For example, an entrepreneur dealing in fashionable items has a high degree of risk as compared to business involved in necessity goods as fashion keeps on changing and does not last long. Similarly, a large scale business has a higher risk as compared to small scale business.

4. Profit is the reward for risk taking: 'No risk no gain' is an important principle which applies to all types of business. Greater the risk involved in a business, higher is the chance of profit. An entrepreneur assumes risk under the expectation Profit is the reward to a business of higher profit.

Causes of Business Risk

Business risk arises due to following causes:

- 1. Natural Causes:** Natural causes are beyond the control of human beings. Natural calamities like flood, earthquake, lightning, heavy rains, famine, etc. can lead to huge losses. They result in heavy loss of life, property and income in business.
- 2. Human Causes:** Human causes include chance of loss due to human resources of the organisation. There may be carelessness, misunderstanding, dishonesty, ill intentions on the part of human beings or stoppage of work due to strikes, riots, management inefficiency, etc.

Some Examples of Human Causes

1. Bad debts due to non-payment of debts by debtors.
2. Misappropriation of cash by employees.
3. Strike or low productivity by workers.
4. Damage of Machines by employees.
5. Leakage of business secrets to competitors.

3. Economic Causes: They include chance of loss due to change in market conditions. These causes relate to risk of change in demand and supply, market competition, price fluctuations, change of technology or method of production, etc. It also includes financial problems like rise in interest rate for borrowing, levy of higher taxes, etc.

4. Other Causes: There are also a number of other factors which causes business risk. A business may suffer losses due to changes in government policies, fluctuations in exchange rates or mechanical failures such as the bursting of boiler.

How to Deal with Risk? Risk is an inherent part of business and no business enterprise can escape from it. However, the entrepreneur can deal with risk situations in the following ways:

- (i) Avoid too risky transactions.
- (ii) Use Preventive measures (like firefighting devices to reduce risk from fire).
- (iii) Take Insurance Policy to transfer risk to insurance company.
- (iv) Make provisions in the current earnings.

For example, provision for bad and doubtful debts.

(v) Share risk with other enterprises. For example, agreement with other enterprises to share losses in case of falling prices.

