

CLASS 11TH COMMERCE

SUB: BUSINESS STUDIES

CHEPTER -1 NATURE AND PURPOSE OF BUSINESS

OBJECTIVES OF BUSINESS – ECONOMIC, SOCIAL, HUMAN OR INDIVIDUAL AND NATIONAL OBJECTIVES

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.

CLASSIFICATION OF BUSINESS OBJECTIVES

1. Economic Objectives

3. Human or Individual Objectives

2. Social Objectives

4. National Objectives

1. Economic Objectives:

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

The main economic objectives are:

(i) **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.

(ii) **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.

(iii) **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.

(iv) Innovation:

Innovation is important as no business enterprise can flourish in a competitive world without innovation.

The innovation in business can be incorporated in many ways like:

a. **Product innovation** – The usability of a product may be enhanced by adding new features to it or modifying its packaging.

- b. **Production innovation** – The technique of production may be improved with the help of better technology.
- c. **Distribution innovation** – A business may explore new channels of distribution to enhance the marketability of its products.

(v) Productivity:

The productivity of a business is measured in terms of ratio between the inputs and outputs. Higher productivity indicates higher efficiency of the business. The productivity of a business should be high in order to ensure continuous survival and growth.

2. 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:

(i) **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, unusable 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.

(ii) **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.

(iii) **Generation of Employment Opportunities** – Every business enterprise should create sufficient employment opportunities without any discrimination as to caste, religion, sex, etc.

In India, unemployment is a serious problem and the business community can play a dominant role in solving this problem.

(iv) **Protection of Environment** – Business enterprise should take all reasonable steps to check and protect environment. It must make proper arrangement for disposal of effluents, smoke, wastes, etc. in order to avoid various types of pollution.

(v) **Community Service** – Many business organisations engage in various community services, like setting up schools, charitable dispensaries, donating money for social and religious activities, etc. Fulfillment of this objective helps to improve the reputation and public image of business.

(vi) **Welfare of Employees** – No business can succeed without the contribution of its employees. Thus, business should aim to provide fair wages and reasonable working and living conditions to workers.

3. 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:

- (i) To provide healthy and safe working conditions.
- (ii) To pay fair and competitive salaries and perks.
- (iii) To provide opportunities for personal growth and development of employees.
- (iv) To provide reasonable security of service.
- (v) To provide various financial and non-financial incentives in order to motivate the workers.
- (vi) To encourage employees to take initiative and participation in management.

4. National Objectives:

- i. Performing the business activities within the frame work of national priorities.
- ii. Strengthening the national economy by giving their adequate contribution.
- iii. Entering into new areas of production and distribution according to national priorities.
- iv. Improving import substitution.
- v. Promoting export in variety of products.
- vi. Achieving self-sufficiency and self-reliance.
- vii. Encouraging small scale business units and providing all facilities for their development.
- viii. Ensuring the community at large for productive investment.

ROLE OF PROFIT IN BUSINESS

Since business is an economic activity reasonable return on investments or profit is economic reward and it is essential not only for its survival but also for future a expansion and stability. Profit is a valuable source of finance. It is the primary driving force behind a business.

WHY PROFIT IS ESSENTIAL ?

Profit in business is essential due to the following reasons-

1. **MOTIVATING FORCE** : Profit is an incentive and such motivating force which inspire a businessman to do business .If there is no profit, there will be no business.
2. **REWARD OF ENTREPRENEUS'S ABILITY** : All factors of production get their rewards i.e. land gets rent, labour gets wages and capital gets interest. Similarly, the entrepreneur must get profit for his hard labour and ability.
3. **BASE OF BUSINESS TRANSACTIONS** : A business transaction i.e. exchange of goods and services is done for mutual benefit of both the parties. If there is no allurements of gain, no transaction will take place.
4. **SURVIVAL AND GROWTH OF BUSINESS** : Profit is essential for the survival and growth of business. Profit acts as a valuable source of finance for further expansion and smooth running of business. Accumulated profits and general reserves can be reinvested in business and so it can enjoy stability and prosperity.
5. **COVERING OF RISK** : As Peter Drucker says, the problem of any business is not maximization of profit but the achievement of sufficient profit to cover the rise of economic activity and thus to avoid the loss.

WHY PROFIT SHOULD NOT BE THE SOLE OBJECTIVE ?

Though profit earning is essential in business but maximization of profit should not be the sole objective of business. Maximisation of Profit is undesirable due to the following reasons.

1. **MAXIMISATION OF PROFIT GIVES RISE TO MAL-PRACTICES** : Profit is not an end of business but is a means to an end. The ultimate end of business is social welfare. If maximization of profit is considered the ultimate aim of business, it is bound to give rise to a number of mal-practices such as profiteering, black marketing, hoarding, exploitation of workers and consumers etc.

2. **MAXIMISATION OF PROFIT OVERLOOKS THE INTEREST OF OTHER GROUPS** : Profit maximization overemphasizes the reward of owners and neglects the interest of other groups- shareholders, labourers, consumers, government and community at large. As a matter of fact the success of business depends on the co-operation of labour, consumer, investors and government. Maximisation of profit overlooks the interest of these groups.

3. **MAXIMISATION OF PROFIT IGNORES THE INFRASTRUCTURAL DEVELOPMENT** : The motto of maximization of profit misguides the managers the firm's future. They can go to the extent of ignoring research and development, executive development, long term investment, etc. which constitute infrastructural development of business.

4. **EXPLOITATION OF POOR BY RICH** : Maximisation of profit is regarded as the capitalistic overtone. The advocates of socialism allege the maximization of profit results in the exploitation of poor by the rich. It aggravates the problem of inequality in the distribution of income and wealth.

5. **MAXIMISATION OF PROFIT IS INCONSISTENT WITH MODERN CONCEPT** : Maximisation of profit is not consistent with modern concept of social welfare and good of all in all walks of life. Profit maximisation may endanger long-term growth. It is against the ethics of business. '**Service to the Society**' should be the ultimate aim of business and then and there a business can be truly successful.

QUESTIONS:

1. Discuss the Social objectives of business.
2. "Profit is essential for business ." Explain.
3. Give arguments for and against essentiality of profit in business.
4. Discuss the economic objectives of business.
5. "profit should not be the sole objectives of business." Explain.