

BUA 101 (INTRODUCTION TO BUSINESS I)

DEFINITIONS OF A BUSINESS

The word “Business” has several meanings:

1. Business could mean any establishment, regardless of its size that serves the public through the manufacture or distribution of goods and services.
2. Business can also be referred to “as the commercial life of a nation”. In essence, we are saying that business includes the sum total of all economic activities, such as Banking, Production, distribution, transportation, and various economic pursuits undertaken by man to provide himself with a standard of living”.
3. Fry, Stoner and Hatturick (2004) defined “a business as any organisation that strives for profit by providing goods and services that meet customer needs”.
4. McNaughton (1960) says “business is the sum total of those activities that have as their main purpose, the creation, maintenance and extension of a concern, which continues to exist because it earns profits or other benefits of money”.

FEATURES OF BUSINESS.

Business is generally characterized by the following features:

1. **Exchange, Sale or Transfer of Goods and Services for a Price:** All legal business involve in the production and exchange of goods and services that meet consumers’ needs and demand. These goods and services are exchanged with the consumers’ purchasing power that is, **money**. This exchange must involve or transfer of goods and services for a value in form of price. However, goods produced and consumed by self or given out as gifts are not regarded as business goods service exchange does not take place.
2. **Profit Motive:** All business organisations employ various resources to produce goods and services that meet consumers’ desires. With the exemption of non-profit seeking and charitable organisations, a business is undertaken primarily with the view of producing goods and services to make profit in order to survive and remaining business.
3. **Production of Goods and Services:** Business involves the production and exchange of goods and services. Goods produced or exchange may be consumer goods such as bread, oil, shoe, cloth etc. or producer goods such as machinery and tools. Consumer goods are meant for direct consumption while producer goods are those used for further production. Services however include the supply of water, electricity, insurance, warehousing, transport, finance etc.

4. **Consumer Satisfaction:** The ultimate aim of business is to supply goods and services to the consumers. If the consumer is satisfied, then he will purchase the same thing again, otherwise, he will go in for an alternative commodity. The business should try to satisfy the consumers so that the demand for his products maintained. The existence and expansion of business depends upon the liking of the consumers for the products of that business.
5. **Regularity and continuity of Transactions:** Businesses include only those transactions which have regularity and continuity. An isolated transaction will not be called business, even if the person earns from that deal.
6. **Financing:** Business enterprises cannot be undertaken without finances. The finances are required for providing fixed and working capital. The availability of other factors of production also depends upon the availability of finances. After estimating its financial requirements, the businessman tries to find out the sources from which these requirements will be met.
7. **Uncertainty and Risk Bearing:** Business activities are characterised by the element of uncertainty and risk. In all business endeavours, the businessman or investor needs to bear risk that may arise due to uncertainty in business cycles. Risk involves the possibility of loss i.e. uncertainty of return on investment made in business. Business risk are brought about by the following factors:
 - Changes in consumer demand due to changing consumer tastes and fashion, income etc.
 - Unfavourable government policies (fiscal and monetary policies, Bans, Sanctions, Embargoes etc).
 - Intensity of competition in the market.
 - Inflation: rising prices of goods and services especially that of raw materials and spare parts.
 - Unethical business practices – smuggling.
 - Faulty managerial decisions.
 - Price fluctuations and other economic exchanges etc.
 - Continuity of operation – A scale of a product once does not constitute business except it is undertaken continually and regularly.

OBJECTIVES OF BUSINESS

The main objective of a business undertaking is to earn profits. Profit earning is considered necessary for the survival of the business. Now-a-days, the values of society have changed and society expects more from the business than merely earning profits. The objectives of the business may be categorised under following headings.

1. Economic objectives
2. Social objectives

3. Human objectives
4. National objectives.

1. **ECONOMIC OBJECTIVES:** The economic objectives of business are as follows:
 - (a) **Profit Earning:** Business is a set of activities undertaken with the prospect of sale for the purpose of earning a profit. The main objective of any business is to earn a profit.
 - (b) **Survival:** Every business aims to ensure that it continues to survive and exist in the future. Survival is possible only when organization is able to earn enough revenue to cover its costs.
 - (c) **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.
 - (d) **Innovation:** It means developing new products and their multiple uses. Old customers can be maintained and new can be attracted by innovation only.
 - (e) **Creating Goodwill:** When a business is able to make good profits and other economic activities, its goodwill amongst investors and competitors goes up.
2. **SOCIAL OBJECTIVES:** The responsibility of the business is to understand the needs and requirements of the society and then direct its energies to fulfil them. Business should not undertake anything which is against the interests of society. So business and society are meant and exist for each other. The social objectives of the business are as follows;
 - (a) **Supply of Quality Goods:** The supply of quality goods and services to consumers at reasonable prices is the responsibility of the business. The business should aim at consumer satisfaction. The supply of adulterated business goods, poor ethics. It is the duty of the business to study needs of consumers and provide them with quality goods at reasonable prices.
 - (b) **Co-operation with the Government:** Business should co-operate with the government in helping to achieve the objective of socialistic pattern of society. The government has fixed priorities for the execution of major policies for the growth and development of the nation. The business community should adopt a positive approach towards policies of the government and should help it in solving national problems
 - (c) **Creation of More Employment:** The business can help the society by creating more and more job opportunities. The expansion of business not only helps in employing more persons in the factory but it has a multiple effect.
 - (d) **Utilising National Resources Properly:** The business should put the scarce national resources to the best possible use. Wastage of anything will not only be the loss of the enterprise but it will be a national loss.
3. **HUMAN OBJECTIVES:** Human objectives of business require that a workable balance should be maintained among the claims of various interested groups like employees, shareholders, consumers, government etc. These objectives are as follows:

- (a) **Welfare or Employees:** The businessman should look after the welfare of his workers. The workers should be provided with physical comforts, material incentives, appreciation, and dignity of labour and conditions which will motivate the workers to give their best.
 - (b) **Satisfaction or Consumers:** The consumers should be provided quality goods at reasonable prices. The tastes, likings and requirements of the consumers should be given due weightage. So, responsibility to consumers means setting up and maintaining standards of quality and service in addition to reasonable price.
 - (c) **Satisfaction of Shareholders:** The management should give reasonable return on the money invested by the shareholders. The shareholders should also feel that their money is not misused by the management.
 - (d) **Helpful to Government:** A business owes responsibility to government also. Every industrial house should use methods of controlling pollution at level. It will help in reducing and controlling this problem. Business should also pay various taxes to the government honestly and promptly. A government cannot be run without financial resources. Business is the main contributor to the government funds.
4. **NATIONAL OBJECTIVES:** A business enterprise does not exist for itself only, it contributes substantially to the national uplift. It should see the needs and requirements of the nation and meet national priorities fixed by the government. A business has the following national objectives:
- (a) **Helping National Efforts:** A business aims at helping the national efforts of improving economic position of the society. Every government fixes national priorities for the business. There may be some areas which are important for the nation but have not developed. The business should enter those fields of industrial activity which remained neglected so far. It is the duty of the business entrepreneurs to produce goods on the basis of needs and not on the basis of profit margins.
 - (b) **Development of Small Entrepreneurs:** Big business houses should help in the development of small undertakings. Big units may also help by encouraging ancillary units to sell their products to them and arranging industrial inputs for them.
 - (c) **National Self-sufficiency and Export Development:** Business can play an important role in produce all those goods which are imported from outside. Efforts should be made to produce those goods which find ready market in foreign countries. This will help in earning foreign exchange. A self-reliant nation has more prestige in international community.
 - (d) **Development of Skilled Personnel:** Every country needs trained and skilled personnel for the development of its industry. Business houses can provide technical knowledge and training to their employees. This helps in skill formation for the country's growth and development.

BENEFICIARIES OF ECONOMIC OBJECTIVES OF A BUSINESS

The goals that business sets for itself are of great importance to everyone whether he or she is an employee, a consumer, an owner, or just a member of the general public. For instance, the attainment of the business goals affects the national economy system which affects everyone in the society. Hence, the parties who benefit from the economic objective of profit making include:

1. Owners.
2. Employees.
3. Customers.
4. Government.
5. The Public

1. **Owners:** The owners of business happened to be the first beneficiaries of business economic objectives. The owners of business must get adequate return on the money invested in the business and this must be in terms of profit or dividends. Thus, for the businessman to achieve his profit motive goal, means maximising the firm's potential and failure to do so would result in the business fetching-up.
2. **Employees:** Employees also benefits from benefits from business economic objective of profit maximisation. This rough fair remuneration and other welfare facilities such as housing, transportation, job security, educational facilities for children, medical care, leave bonus, access to soft loans and retirement benefits like gravity and pension. These benefits will motivate employees to work harder at making the organisation successful in the attainment of its set objectives. All these benefits will be made possible only if the organisation is able to make adequate profits to cover all its expenses.
3. **Customers:** Customers are the patrons of the business enterprise and hence their satisfaction is most important. These goods and services must be made to the satisfaction of customers as this will be determined by the patronage the business enjoys from the customers. Otherwise, they will not be sold or used. As long as the firm intends to survive, it has to satisfy its customers' need at a profit.
4. **Government:** Governments as well is the beneficiary of business economic objective of profit maximisation. The benefits government receives from business organisation are in form of taxes and other levies paid by business organisations to the government covers. This payment will continue as long the business is maximising its profits.
5. **The Public (General Society):** Business benefits the general public through what we call social responsibility. Businesses engages community welfare programmes such as provision of hospitals, electricity, roads, school facilities, water etc. Everyone is likely to benefit from a business whether he/she patronises the business or not. For instance, MTN provide computer centers to some secondary schools in Nigeria. These are some of the social responsibilities that the general society benefits from businesses.

BUSINESS RESOURCES.

Business resources can be defined as all inputs that can be acquired, processed and utilized by business organisation to produce goods and services or to create wealth. We look at business resources in terms of 6Ms: Man, Money, Materials, Machines, Methods and Market. All these resources and others, such as knowledge and information of goods and services. Business must acquire and make use of these resources to perform and achieve its set goals.

1. **Man:** This refers to the human resource commonly called labour. This resource involves the use of human efforts in the production process. Human efforts can be mental, physical, acquired or invented. Human efforts are necessary inputs for production to take place. The human efforts can be divided into three parts, viz:
 - (a) Skilled: These are human efforts and abilities that are human efforts and abilities that are acquired through formal, relatively long and specialised type of training e.g. efforts of a lawyer, an accountant or a business manager.
 - (b) Semi-Skilled – These are human efforts or abilities that are acquired through informal training or apprenticeship e.g. efforts of a bricklayer, a tailor or a plumber.
 - (c) Unskilled: These are human efforts or abilities that required little or no training or special knowledge e.g. the efforts of a gateman or a cleaner.
2. **Money:** Money is an important resource needed for production to take place. The reason is that all other resources are acquired with the help of money. Money comes in form of capital and can be in form of short-term fund or long-term fund. It can be described as man-made productive assets used for the creation of further wealth. Most times, businesses organisations obtained financial resources inform of loan capital or shareholders' fund.
3. **Materials:** These are the most visible part of production. They are the resources that are needed to facilitate the production of goods and services. In fact, production is seen as the conversion of input materials into finished goods and/or services. Materials as a class of resources have four components:
 - (a) Raw materials: These refer to unit of inventory awaiting conversion into output. In other words, they form the class of materials on which production process is yet to commence.
 - (b) Work – in – progress – This refers to element on conversion, that is, class of materials that are already put into process but for which production process is yet to be completed.
 - (c) Finished goods – These are fully converted materials, that is, elements that are processed into final output but which are yet to leave the factory or the job shop.
 - (d) Tools – These are generally spare parts maintenance items as well as other set of equipments that are usually kept for use in the course of normal operation.
4. **Machines:** These are used to represent technical equipment and facilities from the most simple to the very sophisticated that are used in the conversion of inputs to outputs. in

this wise, a broom is regarded as a machine just as cranes, conveyor belts, fork lift vehicle, appliances and other tools that are needed to transform raw materials into finished goods.

5. **Method:** This relates to the skills that are brought to bear in the process of determining resources, the magnitude and the direction of resources that are deployed for conversion. Consideration should also be given to the best techniques to be used in the process of transforming the inputs to outputs.
6. **Market:** In the context of business management a product makes sense only if there is demand for it. Market here refers to all potential buyers and the opportunities presented by the environment in which the business operates. Since the purpose of the business is normally accompanied with management criteria of effectiveness and efficiency, market becomes one of the crucial resources considered control to business. The opportunities available in the market can be used to expand the level of sales, profit, growth and success of the business.

TYPES OF BUSINESS

The three major types of a business are:

1. **Service Business:** A service type business provides intangible products (products with no physical form). Service type firms offer skills, labor, expertise, and other similar work in return for professional or talent fees. Examples of service businesses are:
 - Business services, such as accounting, advisory, taxation, advertising, engineering, legal, research agencies, computer programming, etc.
 - Personal services, such as laundry, beauty salon, photography
 - Automotive repairs, car rental, car wash, parking spaces
 - Fitness facilities, amusement parks, bowling centers, golf courses, theatres
 - Hospitals and clinics, schools, museums, banks
 - Hotel and lodging, and more.
2. **Merchandising (Trading) Business:** This type of business buys products at wholesale price and sells the same at retail price. They are known as "buy and sell" or "reseller" businesses. They make profit by selling their goods at prices higher than their purchase costs. A merchandising business buys a product and sells it without changing its form. Examples include all distribution and retail stores such as: department store, grocery, hardware, clothes and accessories shop, consumer electronics, home furniture, appliance stores, drug stores, etc.
3. **Manufacturing Business:** Unlike a merchandising business, a manufacturing business buys products with the intention of using them as raw materials to make a new product. Thus, there is transformation of the products purchased. A manufacturing business

combines raw materials, labor, and overhead costs in its production process. The goods produced are then be sold to customers. Examples include:

- Food processing, such as producing canned meat, frozen goods, dairy products, bottled drinks, also bakeries and oil mills
- Fabric mills and textile production from cotton, wool, polyester; and also clothing factories that use textile as raw material
- Wood and metal works, such as in building cabinets, tables, chairs
- Oil refineries, chemical labs, plastic and rubber production
- Ship builders, aircraft manufacturers, car makers and many other producers and factories

BUSINESS SECTORS

The sectors of business are very broad. It covers a large number of activities which may be looked into from two perspectives, namely:

1. Industry
2. Commerce
3. Service

1. **INDUSTRY:** The activities of extraction, production, conversion, processing or fabrication of products are described as industry. These products of an industry may fall under any one of the following three categories: Consumers goods, capital goods and intermediate goods. Consumer goods are goods used by final consumers are called consumers goods. Example of consumer goods Laptop, handset, bags, pencil, biro, cleaner, cloth, television, radio, motor car, refrigerator, etc. Capital goods are goods used in the production of other goods are described as capital goods. For example, steel produced by steel plant is used for fabrication into a variety of products such as motor cars, rail Locomotive engines, ships, blades, etc. Intermediate goods are certain materials which are the finished products of one industry and become the intermediate products of other industries. An example of this is the copper industry, the finished products of which are used in manufacturing electrical appliances, electricity wires, toys, baskets, containers, and buckets. Broadly speaking, industrial activities may be classified extractive industry, manufacturing industry and constructive industry

(a) Extractive Industries: In extractive industries, the industries extract or draw their products from natural sources such as earth, sea, air. The products of such industries are generally used by other industries such as manufacturing and construction industries for producing finished goods. Farming, mining, lumbering hunting, fishing, etc., are some of the examples of extractive industries.

(b) Manufacturing Industries: These are engaged in producing goods through the creation of what is known as ‘form utility’ such industries are engaged in the

conversion or transformation of raw materials or semi-finished products into finished products. The products of extractive industries generally become the raw-materials of manufacturing industries. Factory production is the outcome of manufacturing industry. Manufacturing industries may take any one of the following forms: Analytical, Synthetic, Processing, and Assembly Line.

(c) **Construction Industries:** These types of industries are focused on the making of constructing of buildings, bridges, dams, roads, canals, etc. These industries use the products of manufacturing industries such as Iron and Steel, Cement etc., and also the products of extractive industry such as timbers, stone, marble, granite, etc. one of the remarkable features of these industries is that their products are not sold in the sense of being taken to the markets. They are constructed and fabricated at fixed sites.

2. **COMMERCE:** Commerce can be defined as the process of buying, selling and distribution of goods and. Commerce can also be defined as the study of how man buys, sells and distribute goods and services. The concept of commerce usually covers two important areas: (i) Trade (ii) aids to trade.

(i) Trade refers the act or process of buying, selling, and exchange of exchange of goods and services, at either wholesale or retail, within a country or between countries. It is also the process of transferring of goods and services. It is the central activity around which the ancillary functions such as banking, transportation, insurance, packaging, warehousing and advertising are surrounded. Trade can be categorized into two classifications: Domestic Trade and Foreign Trade

(a) **Domestic Trade:** This is also refer to as internal trade. It is internal because, it only focuses on buying and selling of goods within the boundaries of a country and the payment for the same is made in national or local currency either directly or through the banking system. Domestic trade can be further sub-divided into: Retail Trade and Wholesale trade.

- **Wholesale trade:** Buying of goods in large quantities from producers and selling the same in small quantities to retailers.
- **Retail trade:** Activities involved in the selling of commodities directly to consumers, i.e. an industry that sells primarily to individuals, not corporations

(b) **Foreign Trade:** This is the exchange of goods and services between two or more countries. It is also known as international trade. International trade allows expansion of markets for both goods and services that otherwise may not have been available. Foreign is classified into three main types: import, export and entrepot.

- **Import Trade:** Involves purchasing goods or services from another country for domestic consumption, such as importing machinery or raw materials.
 - **Export Trade:** Involves selling domestically produced goods or services to foreign nations.
 - **Entrepot Trade:** Involves importing goods from one country, not for consumption in the home country, but for re-exporting to another country, often after some processing or packaging
- (ii) **Aids to trade:** There are certain functions such as banking, transportation, insurance, ware-housing, advertising, communication, etc. which constitute the main auxiliary functions helping trade both internal and international. These auxiliary functions are discussed below.
- (a) **Banking:** A financial institution licensed as a receiver of deposits. Banks provide a device through which payments for goods bought and sold are made thereby facilitating the purchase and sale of goods on credit. Commercial banks are mainly concerned with managing withdrawals and deposits as well as supplying short-term loans to individuals and small businesses.
- (b) **Transportation:** It is any device used to move business items from one location to another. Common forms of transportation include planes, trains, automobiles, and other two-wheel devices such as bikes or motorcycles. It involved carrying goods from producers to wholesalers, retailers, and finally customers. It provides the wheels of business. It has linked all parts of the world together thereby enhancing international trade.
- (c) **Warehousing:** A warehouse is a planned space for the storage and handling of goods and materials until they are needed. There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouse. Storage creates time utility and removes the hindrance of time in trade. It performs the useful function of holding the goods for the period they move from one location to another.
- (d) **Insurance:** Insurance provides a cover against the loss of goods in the process of transit and storage. An insurance company performs a useful service of compensating for the loss arising from the damage caused to goods through fire, pilferage, thief and the hazards of sea, transportation and thus protects the traders from the fear of loss of goods. It charges insurance premium for the risk covered. Insurance industry provides intangible products in the same way as banks, hotels, etc. therefore the firms in the industry are regarded as service companies.
- (e) **Advertising:** Advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. When done effectively, advertising is better placed to meet the needs of its customers,

consumers and stakeholders. Advertising performs the function of bridging the information gap about the availability and uses of goods between traders and consumers. In the absence of advertising, goods produced by businessmen would not have been sold to a widely scattered market and customers would not be aware of the new products because of the paucity of time, physical-spatial distance, etc.

(f) Communication: This is another service area that aid business. It helps because up-to- date information is required. This information can be accessed through internet, television, radio, telephone, satellite links and fax machines

(g) Tourism: It is one of the aids to trade which affords tourists the opportunity of getting involved in business activities when they are visiting another country.

3. **SERVICES:** Services are intangible products that provide some forms of satisfaction to the consumers. Services can be classified as direct and Indirect Services.

(a) Direct Services: Direct services are the services paid for by those who enjoy the benefits of the services. Examples include the services of barbers, tailors, house maids, shoe repairers, doctors in private hospitals etc.

(b) Indirect Services: Indirect services are the services often paid for by the government or third parties. Examples include the services of policemen, soldiers, civil servants, shoe repairers, teachers etc.