INDIAN SCHOOL MUSCAT

Senior Section

Department of Commerce and Humanities

ELEMENTS OF BUSINESS (154)

Class : IX **Notes-No 4 : Fundamental Areas of Business**

I. Production is also the process of making or growing something for sale. It is the process of creating utility. All goods and services produced must be able to give value to the consumers.

Types of Production

Production is grouped into 2 major categories. They are:

1. ***Direct Production:*** This involves production of goods and services on a small scale. It is usually done by an individual for the purposes of his/her family use or consumption. The goods produced are meant for the family use alone and not for sale.
2. ***Indirect Production*:** Goods and services are produced on a large scale. Indirect production is sub divided into: a. Primary Production. b. Secondary Production. c. Tertiary Production
    - ***Primary production*:** Primary production refers to the extraction of basic raw materials from their natural location as provided by nature. Examples of primary production are agriculture, fishing, mining etc.
    - ***Secondary Production*:** Secondary production involves the transformation or conversion of raw materials or semi-finished goods into final forms that are acceptable to the consumers. Examples are houses, cars, food, etc.
    - ***Tertiary Production*:** This ensures goods produced at the primary and secondary levels are distributed to the final consumers. This also includes all kinds of service industries such as transportation, communication and tourism.

Importance of Production

Production is important for the following reasons

1. Production helps to improve our standard of living
2. Provision of employment opportunity
3. Production makes goods and services available
4. Production helps to increase export potentials
5. Production increases the wealth of the people
6. Production helps people to acquire special skills
7. Production can lead to specialization

II. Business finance - Business finance refers to money and credit employed in business. It involves procurement and utilization of funds so that business firms may be able to carry out their operations effectively and efficiently.

Characteristics of Business Finance

The following characteristics of business finance will make its meaning more clear:-

a. Business finance includes all types of funds used in business.
b. Business finance is needed in all types of organisations large or small, manufacturing or trading.
c. The amount of business finance differs from one business firm to another depending upon its nature and size. It also varies from time to time.
d. Business finance involves estimation of funds. It is concerned with raising funds from different sources as well as investment of funds for different purposes.

Classification and Sources of Funds

A brief explanation of these classifications and the sources is provided as follows:

1. Period Basis On the basis of period, the different sources of funds can be categorised into three parts. These are long-term sources, medium-term sources and short-term sources.

(a) **The long-term sources fulfil the financial requirements of an enterprise for a period exceeding 5 years and include sources such as shares and debentures, long-term borrowings and loans from financial institutions.** Such financing is generally required for the acquisition of fixed assets such as equipment, plant, etc.

(b) **Where the funds are required for a period of more than one year but less than five years, medium-term sources of finance are used. These sources include borrowings from commercial banks, public deposits, lease financing and loans from financial institutions.** Short-term funds are those which are required for a period not exceeding one year. Trade credit, loans from commercial banks and commercial papers are some of the examples of the sources that provide funds for short duration.

(c) **Short-term financing is most common for financing of current assets such as accounts receivable and inventories.** Seasonal businesses that must build inventories in anticipation of selling requirements often need short term financing for the interim period between seasons. Wholesalers and manufacturers with a major portion of their assets tied up in inventories or receivables also require large amount of funds for a short period.

2. Ownership Basis

On the basis of ownership, the sources can be classified into 'owner's funds' and 'borrowed funds'.

(a) **Owner's funds means funds that are provided by the owners of an enterprise, which may be a sole trader or partners or shareholders of a company. Apart from capital, it also includes profits reinvested in the business.** E.g. Issue of equity shares and retained earnings are the two important sources from where owner's funds can be obtained.

(b) 'Borrowed funds' on the other hand, refer to the funds raised through loans or borrowings. The sources for raising borrowed funds include loans from commercial banks, loans from financial institutions, issue of debentures, public deposits and trade credit. E.g. Debentures

3. Generation Basis

Another basis of categorising the sources of funds can be whether the funds are generated from within the organisation or from external sources**.**

(a) **Internal sources of funds are those that are generated from within the business.** A business, for example, can generate funds internally by accelerating collection of receivables, disposing of surplus inventories and ploughing back its profit. E.g. Issue of equity shares and retained earnings are the two important sources of internal funds.

(b) **External funds – Sources of funds which are generated from outside the business.** External funds may be costly as compared to those raised through internal sources. In some cases, business is required to mortgage its assets as security while obtaining funds from external sources. Issue of debentures, borrowing from commercial banks and financial institutions and accepting public deposits are some of the examples of external sources of funds commonly used by business organisations.

II. Marketing - Refers to the activities of a **company** associated with buying and selling a product or service. It includes advertising, selling and delivering products to people.

Marketing mix" is a general phrase used to describe the different kinds of choices organizations have to make in the whole process of bringing a product or service to market. The 4Ps are:

Product (or Service).
Place.
Price.
Promotion.

The First P Stands for Product-Product refers to a good or service a company offers. Ideally, a product should meet a certain consumer demand or be so compelling that consumers believe they need it. The type of product also partially dictates how much businesses can charge for it, where they should place it, and how they should promote it.

The Second P Stands for Price-Price is the cost consumers pay for a product. Marketers must link the price to the product's real and perceived value, but they also must consider supply costs, seasonal discounts and competitors' prices.

The Third P Stands for Place -Place decisions outline where a company sells a product and how it delivers the product to the market. In some cases, this may refer to placing a product in certain stores, but it also refers to the product's placement on a store's display or where a product appears on a web page.

The Fourth P Stands for Promotion- Promotion includes advertising, public relations and promotional strategy. This ties into the other three Ps of the marketing mix as promoting a product shows consumers why they need it and should pay a certain price for it.

IV. Human Resource - Human resources is used to describe both the people who work for a company or organization and the department responsible for managing resources related to employees.

The term human resources was first coined in the 1960s when the value of labor relations began to garner attention and when notions such as motivation, organizational behavior, and selection assessments began to take shape.

Functions of Human Resource

While there are a large number of functions a given HR department might perform for a company, most of the responsibilities laid at their feet (especially the ones they're hired specifically to handle) can be boiled down to six basic functions:

1. **Tracking applicants & hiring strategically**—it's HR's job to supply the company with qualified, reliable talent.
2. **Managing benefits & time off**—it also falls to HR to manage schedules, time off, and benefits like health insurance.

3. **Training managers & employees**—part of what makes HR so valuable is that they can help elevate the workforce, training managers to be better leaders and training employees to have a deeper, wider skill set.
4. **Streamlining the on boarding process**—not every company environment is one you can jump into with both feet and stay afloat; some businesses have a steep cultural learning curve, and it's HR's responsibility to make culture integration easier.
5. **Resolving interoffice conflicts**—HR professionals receive specialized training to be able to mediate conflicts between employees and between employees and management.
6. **Handling legal concerns**—lastly, HR professionals are responsible for ensuring labor and employment laws are being followed, and for handling discrimination and harassment complaints.