

# Business question

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Essay: Business The role of profits in business Profits are rewards for taking risk in business. Business is thus the wealth-generating institution of society. The main aim of a business is making profit. The following are reasons why an investment should generate profit;

Generation of employment-profits is an inducement to innovate and continue investing. The more an entrepreneur forecasts more profits, the more investments he makes which in turn lead to creation of more employment. Profits are essential for the survivals of business-profits are necessary for the growth and survival of any business enterprise.

Reward for taking risk-profit is the reward an investor gets for taking risks. It is a return for investment undertaken. A firm that has invested money expects higher returns on its investment.

Profits indicate efficiency-profit is a tool that measures the efficiency of any business. Thus the success of any business is judged by its profit earning capacity.

Profits are reserves for meeting future contingencies-businesses are mostly subject to many uncertainties and risks such as increased competition, sudden change in customer preferences, and change in government regulation and so on and so forth. It is a time as such when profits are used to meet such unfavorable difficulties in business.

Profits have the effect of increasing business volume-profit retention is generally the internal source of capital. This can be utilized for increasing business volumes through diversification and expansion. Thus the portion of profits business is ploughed back for future and further development.

The following people could be interested in profits for the business; shareholders need more profits since they expect higher returns in form of  
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dividend. Employees too are entitled to profits in terms of bonuses and increased pay perks, since they contributed to the same.

2. A government regulates businesses for public welfare and safety so as to avoid malpractices by greedy investors. The second reason is so as to protect the industry and ensure security and protection of those who operate their business correctly. Regulation will ensure there are proper inspections by the government to weed out criminal or undesirable practices, licensing and proper permits. Third reason for regulation is revenue generation- businesses pay for licenses and certificates so as to operate. This creates revenue for the government.

The advantages for regulation include protection of the society from unscrupulous business people who could harm citizens. It also ensures there is healthy competition leading to lower prices for goods and services.

Regulation is disadvantageous because consumers could be charged more for commodities and services due to taxation and increased cost of doing business.

3. A business should be as efficient as possible so as to reduce wastages and maximize its profits. An efficient business uses fewer inputs and produces more outputs, thus increasing its profits and value to the shareholders and also its competitiveness in the market. The shareholders and employees of the business usually benefit when a business is efficient and competitors are harmed by an efficient business since they may be forced out of business, sooner or later.

#### References

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