

BBA : Semester-I

**NEW
SYLLABUS**

BUSINESS ORGANISATION AND SYSTEMS

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Advancement of knowledge

A Book Of

BUSINESS ORGANISATION AND SYSTEMS

**For
BBA (Semester - I)
As Per Revised Syllabus
Effective from June 2013**

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Preface ...

Business Organisation and Systems is a developing science. It is concerned with ensuring that the job gets done, its whole task centres on planning and guiding the operations that are going on in the organisation. Business Organisation and Systems has now come to be regarded as a very important subject in the curriculum of all advanced universities and many professional bodies in India. This book is written to serve as a basic text for the students appearing for the B.B.A. Semester I Examination of Savitribai Phule Pune University.

This textbook of Business Organisation and Systems has been written according to the new and revised syllabus of B.B.A. Course of Savitribai Phule Pune University, 2013 keeping in mind the needs of students. The main intention of this book is to enable the students to face the examination with full confidence and hence, every effort has been made to make the book most useful and highly indispensable.

This book has been specially written to meet the needs of commerce students. It would also be very useful to the teachers who would otherwise have to prepare their lectures from various sources. The main purpose of this book is to provide the essentials of the principles and theories of Business System. An attempt has been made to use simple and easily understandable language. Topics are logically arranged in numbered paragraphs exactly according to the New Syllabi. Utmost care has been taken to cover the entire syllabus and hence in each chapter topics are arranged as per the syllabus.

We are very thankful to our Publishers Mr. Dineshbhai Furia, Mr. Jignesh Furia and the entire staff of Nirali Prakashan for their help in the preparation of this book. We are fully conscious of the fact that a few gaps might have been left uncovered and we will feel obliged, if such deficiencies are pointed out to us by the students as well as our colleagues.

The most important contribution was made by our family members, students and very close friends. We are also thankful to Nirja Sharma, Prasad Chintakindi, Amol Mahabal, Akbar Shaikh, Sarika and Neha Deshpande for their help and assistance in the preparation of the book. Without their help and whole-hearted cooperation this book would not have been published.

Any suggestions for the further improvement of the book will be warmly welcomed.

– Authors

Syllabus ...

Business Organisation and Systems B.B.A. - Semester I : Course Code 101

Unit 1: Nature and Evolution of Business [10 L]

- 1.1 Human Occupations – characteristics of Business – Divisions of Business – Objectives of Business – Requisites for success in Business.
- 1.2 Development of Commerce – Evolution of Industry – The Industrial Revolution – Globalisation – Emergence of MNCs.
- 1.3 Recent Trends – Mergers and Acquisitions, Networking, Franchising, BPOs and KPOs, E-Commerce, On-line trading, Patents, trademarks and copy rights – Challenges before Indian business Sector.

Unit 2: Forms of Business Organisations [10 L]

- 2.1 Mixed Economy – Private Sector – Public Sector – Cooperative sector – Joint sector, Service Sector.
- 2.2 Forms of Business Organisations – Sole Proprietorship – Partnership firm – Joint stock company – Features – Merits demerits and suitability of various forms of business.

Unit 3: Setting up of a Business Enterprise [10 L]

- 3.1 Decision in setting up of an enterprise – Opportunity and idea generation – Role of creativity and innovation.
- 3.2 Project Report – Business size and Location decisions – Factors to be considered in starting a new unit – Government policies.

Unit 4: Domestic and Foreign Trade [10 L]

- 4.1 Wholesale and Retail Trade – Emergence of Foreign players in trading – Government policy – Effects of FDI on retail trade
- 4.2 Organisation of finance – Insurance – Transportation and communication and other Services – Import and Export procedure

Unit 5: Business and Society [08 L]

- 5.1 Objectives of Business – Changing concept, Professionalisation
 - 5.2 Business Ethics and culture – Technological and social changes – Social responsibility of business – CSR – Social Audit
-

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Chapter 1...

Nature and Evolution of Business

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- 1.2 Business
 - 1.2.1 Characteristics of Business
 - 1.2.2 Objectives of Business
 - 1.2.3 Requisites for Success in Business
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- 1.3 Meaning, Scope and Evolution of Commerce and Industry
 - 1.3.1 Meaning of Industry, Commerce and Trade
 - 1.3.2 Evolution of Commerce and Industry
 - 1.3.3 Scope of Commerce and Industry
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 - 1.3.5 Industry
- 1.4 The Industrial Revolution
- 1.5 Emergence of MNCs
- 1.6 Globalisation
- 1.7 Challenges for Indian Business in the New Millenium
- 1.8 Recent Trends—Mergers and Acquisitions
 - 1.8.1 Types of Mergers
 - 1.8.2 Motives and Benefits of Mergers
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- 1.11 BPOs
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- 1.13 E-Commerce
- 1.14 On-line Trading
- 1.15 Patents, Trademarks and Copyrights
 - 1.15.1 Patents
 - 1.15.2 Copyrights
 - 1.15.3 Trademark
 - Points to Remember
 - Questions for Discussion
 - Questions from Past Pune University Examinations

Learning Objectives ...

- To develop an understanding of the meaning of business and occupation
- To study the impact of the Industrial Revolution and globalisation
- To know the meaning of BPO, KPO, networking and franchising
- To understand the importance of patents, trademarks and copyrights
- To be aware of what MNCs are and how they emerged
- To discuss various challenges that the Indian Business Sector faces today
- To get a fair idea about Online Trading and its features
- To understand mergers and acquisitions

1.1 Human Occupations

We as human beings need various things. Needs or wants of human beings are unlimited, but the means to satisfy these wants are limited. In order to satisfy the never ending needs, human beings occupy themselves in various activities. These activities are called as human occupations. Any work performed by a human being for the purpose of serving his/her various needs amounts to human occupation. Food, shelter and clothing are the basic needs of human beings.

Occupation is a very broad term. According to **G. Keilhofner**, "*human occupation can be defined as doing culturally meaningful work, play or daily living tasks in the stream of time and in the contexts of one's physical and social world:*

1. *Implies action or doing in the physical and social world.*
2. *This action is infused with awareness or meaning provided by one's culture.*
3. *Action unfolds in time (it is temporal).*
4. *Work, play, and daily living skills."*

From the above definition, we can see that occupation is not only a money earning activity. It also involves playing and exercising daily living skills. Occupation thus can be understood as a set of those activities that not only satisfy basic needs, but also satisfies other psychological needs of a human being. The definition given by G. Keilhofner also clarifies that occupation is affected by one's culture and other elements in the environment.

Types of Occupation

There are three types of human occupations:

1. Primary Occupations:

A primary occupation means work that involves extracting or using raw material from the environment. Example: farming, fishing, mining, hunting etc.

The features of primary occupations are as follows:

- (i) They are activities related to natural aspects of the environment,
- (ii) Output obtained by these occupations is not directly useful to us and they have less economic value.
- (iii) These occupations are seen more in developing countries.
- (iv) They provide raw material to support secondary occupations.
- (v) Countries whose economy totally depends on primary occupation have a low economic status.

2. Secondary Occupations:

They are the set of those activities which are associated with processing and transforming of primary goods into goods more useful to man.

The features of Secondary Occupations are as follows:

- (i) They get their inputs from primary occupations.
- (ii) They provide consumers with finished goods which have a higher economic value.
- (iii) They are more common in developed nations.
- (iv) Countries whose economy depends more on secondary activities have a better economy.

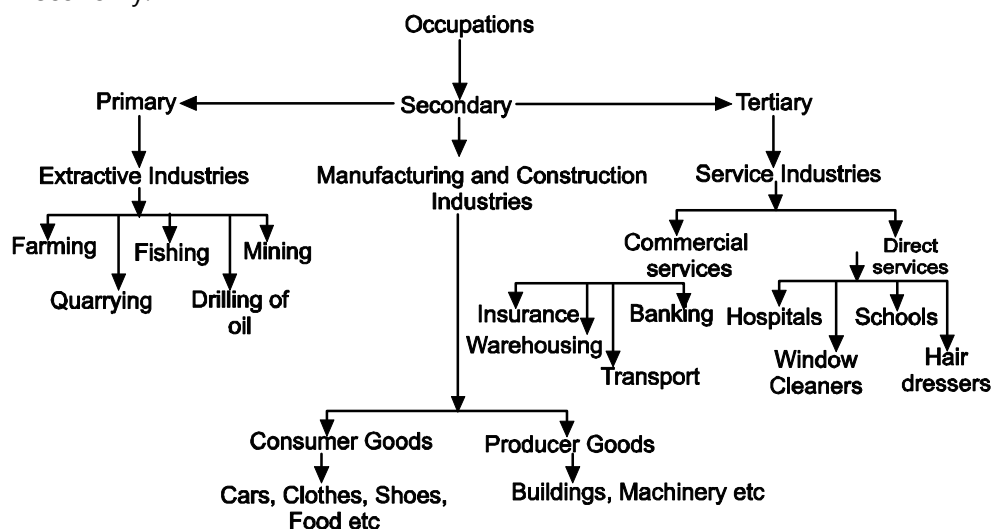


Fig. 1.1: Occupations

3. Tertiary Occupations:

They are concerned with the provision of services rather than the production of goods. The tertiary occupations include those in government, management, medicine, religion, transportation, communication, personal services and other professional activities.

The features of tertiary occupations are as follows:

- (i) No material is manufactured or obtained.
- (ii) In non-industrial countries only a very small proportion of the population is involved in tertiary occupations.
- (iii) In the early stages of industrialization, the growth in secondary occupations is much higher than that of tertiary occupations.
- (iv) In the later stages of industrialisation, there is a rapid rise in the tertiary occupations, people tend to give up primary and secondary occupations.

1.2 Business

Business is an economic activity, which is related with continuous and regular production and distribution of goods and services for satisfying human wants.

- **Stephenson** defines business as, "*The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants.*"
- According to **Dicksee**, "*Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted.*"
- **Lewis Henry** defines business as, "*Human activity directed towards producing or acquiring wealth through buying and selling of goods.*"

Business and occupation are different. Business is a narrower term which only includes buying and selling. Occupation includes business, profession, service and all other activities that are directed towards satisfying financial and other psychological needs of human beings. Business is profit oriented. All occupations may not necessarily be profit oriented. For example, Social Service is an occupation, but not a business.

1.2.1 Characteristics of Business

Characteristics or features of business are discussed in the following points:

- 1. Exchange:** All business activities involve the exchange of goods or services for money or money's worth
- 2. Nature:** In business, the swap of goods and services is a regular activity. The activities continue throughout the life cycle of the business. This exchange is called as a transaction. It can thus be said that business involves various transactions.
- 3. Profit:** The main objective of a business is profit. Profit is a reward for the services of a businessman and his activities are aimed directly towards the accomplishment of this objective.

4. **Entrepreneur/Owner:** A business cannot exist on its own. One or more people decide to start a business. In case of sole trading concerns, it is one person who makes all decisions. In case of huge companies, the members, who are the stakeholders, make these decisions collectively.
5. **Risks and Uncertainties:** Business is subject to risks and uncertainties. Insurance is one way to combat uncertainties and risks in business.
6. **Social Responsibility of Business:** We know that business is an economic activity, which is carried out on a regular basis to earn profit. Yet, the modern businessmen have to make sure that they do something for the society and the general public. The obligation of any business to protect and serve public interest is known as social responsibility of business.
7. **Capital:** Capital is the money or wealth needed to produce goods and services. In the most basic terms, it is money that is needed to start a business and run it. All businesses must have capital in order to purchase assets and maintain their operations.
8. **Creation of utilities:** Business makes goods more useful to satisfy human wants. It adds time, place, form and possession utilities to various types of goods.
9. **Continuity:** Transactions become business only if undertaken on a regular basis. According to Peterson and Plowman, "a single isolated transaction of purchase and sale will not constitute business recurring or repeated transaction of purchase and sale alone mean business." For example, a businessman sells an old typewriter, which is not of any use to him. He has no more typewriters, and will never sell one again to earn profit on a continual basis. In this case, one cannot say that the person who has sold the typewriter is into the business of selling old typewriters.
10. **It is an Art and a Science:** Business is an art as it requires skills and experience on the part of managers and owners. Certain principles and laws guide businesses. Therefore it is a science too.

1.2.2 Objectives of Business

Objectives define the purpose for which a particular business is established. The main objective of a business is to make profits. Profit is fortunately, not the sole objective of any business. Lyndall Urwick, who was an influential business management consultant and thinker in the United Kingdom in early 1960s, has truly stated that "earning of profit cannot be the objective of a business any more than eating is the objective of living".

The objectives of business can be classified under three heads:

- I. Economic objectives
- II. Social objectives
- III. Human objectives

- I. Economic Objectives:** Business, is an economic activity. The major economic objectives to be achieved by business are: (1) earning of profit (2) creation of market and innovation.
- (i) Profit earning:** Businesses target profits. Profit earning is the primary objective of all businesses. Businessmen sell goods and services to satisfy human wants. In the process of selling these goods every business makes sure that there are expenses less than their incomes. In the longer run, it is necessary that businesses continue to be profitable in order to survive.
 - (ii) Creating new markets:** Businesses have become globally active. In the early 1900s, business activities were limited to a small geographical area. With the development of infrastructure and transport, one of the major objectives of modern business is to capture new markets. A new market provides the businessmen with bigger opportunities for expansion.
 - (iii) Adapting to new technology:** Modern businessmen must be well aware of the latest developments in technology that are related to their business. They must employ new methods of production to achieve the objective of the reduction in production costs. They must think innovatively and invest in new products with better designs to survive in the markets.
- II. Social Objectives:** The social objectives of business are as given below:
- (i) Supply of standard quality of goods:** it is the social responsibility of a business to produce goods that are of standard quality and are robust in nature. Goods that are of dangerous nature should not be produced by businessmen.
 - (ii) Avoidance of anti-social practices:** Hoarding, black marketing, smuggling, etc., are some antisocial practices that some businessmen use. Businessmen should not sacrifice the principles of ethics.
 - (iii) Provision of more employment:** Today's businesses provide a number of opportunities to the members of the society. When a business grows, its primary responsibility is to employ more people and raise the standard of living of the entire society that surrounds it.
 - (iv) Cooperation with the government:** Businesses should pay their taxes on time. They must extend full cooperation to the government authorities. The financial statements and other reports should disclose all the information that is required under law of the country in which a particular business operates. A business should not be involved in illegal activities.
 - (v) Use of resources:** The business should use the national resources in the best interest of the environment. Methods that offer recycling and reusing raw material should be followed by businesses to make sure that the environment stays clean.
-

III. Objectives towards the Consumers

- (i) **Charging a fair price:** The consumers should not be charged an unreasonable price for the product or the service that has been offered to them.
- (ii) **Providing after sales support and service:** Wherever possible, the businessmen should offer some kind of after-sales service or support to the consumers.
- (iii) **Following good customer relationship management practices:** The businessmen should follow good customer relationship management practices. There are a set of practices for managing a company's interactions with current and future customers.
- (iv) **Not making false claims in advertisements:** Businesses should not make statements that are incorrect or likely to create a false impression about their own product or service. Making such claims, amounts to cheating and exploitation of the consumers. For example, a transport company uses a picture of aeroplanes to give you the impression that it takes freight by air, when it actually sends it by road.

1.2.3 Requisites for Success in Business

1. **Well defined Objectives:** For any business, it is essential that the objectives are properly defined. This should not only be properly defined but also neatly communicated to the employees of the organisation. If the business has no definite objectives it can be said that the business is aimless.
2. **Organisational structure:** A proper organisational structure is essential for medium-sized and huge organisations. It is the hierarchical arrangement of lines of authority, communications, rights and duties of an organisation. Rights and duties of every individual within the organisation must be clearly defined. Every person must know his scope of authority. If rights and duties are not properly defined, individuals would remain idle and would not know about their responsibility. Therefore, for a business to be successful it is essential that lines of authority and responsibility are clear.
3. **Adequate Finances:** For success in business it is essential that it is adequately financed. Finance is one of the most critical elements for business success. If finances are not adequate, it leads to loss of business opportunities. Businesses can close down due to under-financing. On the other hand, over-financing is also very dangerous. Over-financing happens when businesses borrow huge amount of funds, even when they're actually not required. Increased borrowing can lead to bigger interest rates and tighter repayment schedules, consequently reducing the owner's control of the business.
4. **Innovativeness:** For success in business, it is necessary that the proprietor must be innovative. The proprietor must exercise his intuition and foresight for making the right predictions of demand and supply. He must imply sophisticated techniques of demand forecasting. Therefore, it is necessary that a businessman must be skilled enough to understand and make use of techniques of forecasting.

5. **Leadership Skills:** The owners or managers must possess leadership qualities. A leader is a person who starts any task by communicating the policies and plans to the subordinates from where the work actually starts. He should have personal contacts with employees and should listen to their problems and solve them. He should treat employees on humanitarian terms. He should motivate the employees with economic and non-economic rewards and thereby get the work from people.
6. **Planning:** Business planning is critical for the success of a business. Skipping the planning function can leave the owner uninformed about the firm's place in the market. The type of information gathered during the planning process can help owners to foresee potential risks and develop strategies for dealing with them before they occur.
7. **Research and Development:** Research and Development (R&D) is a key element of many organisations and, when well planned and used, enables a business to generate increased wealth over a period of time. Research and development helps to develop new products and services. The development of existing products is of equal significance because consumer preferences continually change. The task of product research and development is to come up with the goods and services that meet the needs of tomorrow's customers.
8. **Proper Location:** The location and the layout of the business should suit the nature of the business. An ideal location is one where the cost of the product is kept to minimum, with a large market share, the least risk and the maximum social gain. It is the place of maximum net advantage or which gives lowest unit cost of production and distribution.

1.2.4 Divisions of Business

Business activities may be classified into two broad categories (a) Industry, and (b) Commerce. Industry involves the production of goods and materials, while commerce is concerned mainly with their distribution. The next section deals with the meaning of commerce and industry in detail.

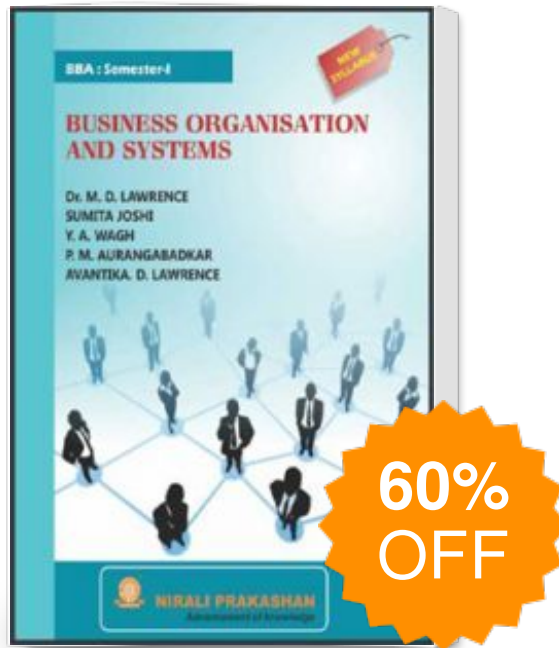
1.3 Meaning, Scope and Evolution of Commerce and Industry

1.3.1 Meaning of Industry, Commerce and Trade

(a) Industry

A specific branch of manufacture and trade is known as industry. An industry or sector (from Latin "*industrius*", which means "diligent, industrious") is the manufacturing of a good or service inside a particular category. Although industry is a broad term for economic activity and trade, in economics and urban planning, industry is a synonym for the secondary sector, which is a type of economic activity involved in the manufacturing of raw materials into goods and products.

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