



Centre for Distance and Online Education  
Punjabi University, Patiala

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Class: BBA-Part-I Semester: I  
Paper: BBA-104 (Business Organization Unit : I  
And Management Principles-I)  
Medium: English

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***Lesson No.***

- 1.1 : NATURE AND SCOPE OF A BUSINESS
- 1.2 : FORMATION OF COMPANY
- 1.3 : BUSINESS ETHICS
- 1.4 : SOCIAL RESPONSIBILITY OF BUSINESS

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# **BBA-104: BUSINESS ORGANIZATION AND MANAGEMENT PRINCIPLES -I**

Time Allowed: 3 Hrs.

Max Marks: 100

Theory: 60

Internal assessment :40

## **Instructions for Paper-setters/Examiners**

The question paper covering the entire course shall be divided into three sections as follows:

### **Section-A**

It will consist of four essay type questions set by the examiner from Part-I and the candidate shall be required to attempt two. Each question shall carry ten marks; total weight of the section is 20 marks.

### **Section-B**

It will consist of four essay type questions set by the examiner from Part-II and the candidate shall be required to attempt two. Each question shall carry ten marks; total weight of the section is 20 marks.

### **Section- C**

It will consist of ten short answer questions. All questions are compulsory. Each question shall carry two marks; total weight of the section is 20 marks.

## **Course Input :**

### **Part-I**

Nature and Scope of Business. Forms of Business Organizations: Sole Trading Concerns, Partnership ,Joint Stock Company, Co-operative Societies. Formation of a Company, Government and Business, Public Enterprise, Small Business, Business Ethics ,Social Responsibility of Business.

### **Part-II**

Management: Meaning Scope and Importance, Functions of Management. Planning: Definition , Levels of Planning, Steps Involved in Planning. Organization Structure: Formal and Informal Organization Structure. Managerial Control and Techniques. Management by objective (MBO). Span of Control. Delegation of Authority: Principles, Process and problems. Delegation Vs Decentralization. Morale meaning and importance.

## **Recommended readings:**

Robbins :Organisation Behaviour (Prentice Hall)  
Fred Luthans :Organisation Behavior(Mc.Graw Hill)

L.M Prasad :Organisation Behavior(Sultan Chand and sons)  
Gupta Joshi :Organisation Behavior(Kalyani)  
R.N. Gupta :Business Organisation and Management(S.Chand)  
Koontz And Weihrich :Essentials Of Management (Tata Mc Graw Hill)  
P.C Tulsian : Business organisation and Management  
C.B Gupta : Modern Business organisation and Management(Sultan Chand and Sons)

## Nature And Scope of A business

- 1.1.1 Introduction
- 1.1.2 Objectives
- 1.1.3 Human Activities and Business
- 1.1.4 Nature and Purpose of Business
- 1.1.5 Self check exercise
- 1.1.6 Significance of Business in Modern Society
- 1.1.7 Classification of Business Activities
- 1.1.8 Transport and Communication
- 1.1.9 Self check questions
- 1.1.10 Glossary
- 1.1.11 Summary
- 1.1.12 Exercise
- 1.1.13 Answers to self check exercise

### 1.1.1 introduction

The word business technically means a state of being busy. Every person is engaged in some kind of occupation. A farmer works in the field. A worker works in the factory. A clerk does his office work in an office. A teacher teaches in the class. A salesman is busy in selling goods. An entrepreneur is busy in running his factory.

The primary aim of all these persons is to earn their livelihood while doing some work. All creative human activities relating to the production of goods or services for satisfying human wants are known as business. It is also a gainful procedure through which individuals and groups exchange goods and services. Human activities may be categorized as economic and non-economic.

### 1.1.2 Objectives

After studying this lesson, you will be able to :

- recall the meaning and scope of human activities;
- enumerate the types of economic activities and their characteristics;

- differentiate between business and other economic activities and explain the meaning and characteristics of business;
- explain the significance of business in modern society;
- Launching of new products from competitors;
- establish the relationship between production and distribution and identify different types of industries;
- identify the auxiliaries that facilitate trade and commerce.

**Definition of Business :** An organization or economic system where goods and services are exchanged for one another's or for money.

### 1.1.3 Human Activities and Business

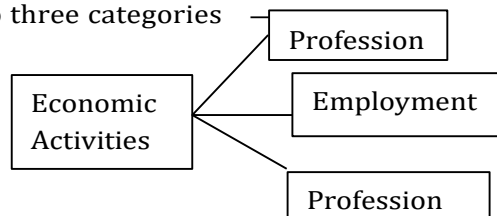
You know that man always keeps himself engaged in some kind of activity to satisfy his needs and wants. All human activities may be broadly divided into two categories:

- economic activities,
- non-economic activities.

Actions that involve the production, distribution and consumption of goods and services at all level within a society. Gross domestic product or GDP is one way of assessing economic activities. The work of a farmer, manufacturer, teacher, doctor, trader etc. are some examples of economic activities. They are primarily concerned with the production, distribution and consumption of goods and services. Economic activities are undertaken to earn one's living and for the production of wealth. Besides economic activities, people also undertake a number of activities for mental satisfaction. They engage in charitable work, practice religion, undertake recreational activities and also do many things out of love for others or out of patriotic feelings. These activities are known as non-economic activities. These activities are undertaken not for any material reward or gain but for one's happiness, pleasure or satisfaction which can not be measured in terms of money.

**Types of Economic Activities** When a person is regularly engaged in a particular economic activity, it is known as his or her occupation or vocation. Occupations may be classified into three categories

- Business,



- (ii) Profession and
- (iii) Employment (Service).

**Business:**

Activities connected with the production or purchase and sale of goods or services with the object of earning profit are called business activities. Mining, manufacturing, trade, transportation, insurance, banking are business activities. Thus business may be defined as an economic activity involving regular production or purchase and distribution of goods and services with the object of earning profits.

**Profession:**

Any type of work that needs special training or a particular skill e.g. doctor or lawyer. Any activity which requires special knowledge and skill to be applied by an individual to earn a living is known as profession. For example doctors, teachers, lawyers, engineers and accountants are engaged in profession. Profession involves intellectual activity. It is not a mechanical or routine operation. Economists say there are four basic types of economic activities :

- The primary sector, i.e. raw materials.
- The secondary sector, which includes industry and manufacturing.
- The tertiary sector i.e. services
- The quaternary sector, which we also call the knowledge sector.

The main characteristics of profession are

- (i) Every profession requires special knowledge and training.
- (ii) The primary objective is to render service.
- (iii) The service cannot be substituted by another individual.
- (iv) Every profession is regulated by a professional body. For example the profession of Chartered Accountants is regulated by the Institute of Chartered Accountants of India.

**Employment**

In simple words, the State of having a paid job. Employment is a relationship between two parties, usually based on a contract where work is paid for, where on party, which may be a corporation for profit, not for profit organization, co-

operative is the employer and other is the employee. When a person works regularly for others and gets wages/salary in return, he is said to be in employment. Thus factory workers, office assistants and managers are said to be in employment. Those in employment are called employees. Employment may be in government department or in private organisation. It may be full-time or part-time, permanent or temporary. The main features of employment are :

- (i) Employees always work for others
- (ii) There are certain terms and conditions of work.
- (iii) The people involved earn fixed income.

#### 1.1.4 Nature and Purpose of Business

##### Nature of Business:

The nature of business is best understood on the basis of its characteristics or features which are as follows:

1. Business is an economic activity
2. It includes the activities of production or purchase and distribution.
3. It deals in goods and services.
4. It implies regularity of transactions.
5. It aims at earning profits through the satisfaction of human wants.
6. It involves risk; it is not certain that adequate profit will be earned.
7. It creates utilities.
8. It serves a social purpose by improving people's standard of living.

##### Objectives of business

Success in business depends on proper formulation of its objectives. Objectives must be clear, and attainable. Objectives may be divided into two parts -

- (i) economic and
- (ii) social.

### **Economic Objectives :**

Economic objectives of business include earning adequate profit or satisfactory return on capital invested, survival in the case of competition and growth to maintain progress.

### **Social Objectives:**

Social objectives include providing employment opportunities, supply of quality goods and services at reasonable price, improving the standard of living and contributing to environmental protection. It also includes justice to workers in terms of wages, welfare amenities, improved service conditions and professional growth.

#### **1.1.5 Self check exercise1**

- a) objectives of business
- b) profession

#### **1.1.6 Significance of Business in Modern Society**

Business is an integral part of modern society. It is an organised and systematised activity for profit. It is concerned with activities of people working towards a common goal. The modern society can not exist without business. The need and importance of business in society can be described as follows:

1. **Improvement in standard of living:** Business helps people in general to improve their standard of living.
2. **Proper utilization of resources:** It leads to effective utilization of the scarce resources of society. It provides facility of mass production.
3. **Better quality and large variety of goods and services:** It involves production, purchase and sale of goods and services for price. Customer' satisfaction is the backbone of modern business. Services such as supply of water, electricity etc. may be considered highly significant for the community.
4. **Creates utilities:**

Business makes goods more useful to satisfy human wants. It adds to products the utilities of person, time, place, form, knowledge etc. Thus, people are able to satisfy their wants effectively and economically.

#### **5. Employment opportunities:**

It provides employment opportunities to large number of people in society.

6. **Workers' welfare** Business organisations these days take care of various welfare activities for workers. They provide safer and healthier work environment



for employees.

### 1.1.7 Classification of Business Activities

Business activities are undertaken to satisfy human wants by producing goods or rendering services. We may classify business activities on the basis of functions into two broad categories

- (a) Industry and
- (b) Commerce.

An industry is a group of companies that are related based on their primary business activities. For example, while an automobile manufacturer might have a financing division that contributes 10% to the firm's overall revenues, the company would be classified in the automobile industry by most classification systems. Industry is concerned with the production and processing of goods. This type of business units are called 'industrial enterprises' which produce consumer goods as well as machinery and equipments. On the other hand, 'commerce' includes all those activities which are necessary for the storage and distribution of goods. Such units are called 'commercial enterprises' which include trading and service activities like transport, banking, insurance and warehousing.

Let us examine the characteristics of industry and commerce.

#### Industry and its Types

Industry means production of goods for sale by the application of human or mechanical power. In other words, industry refers to economic activities which are connected with raising, producing and processing of goods and services e.g. Textiles Industry, Iron Industry, Cosmetic Industry etc.

**Characteristics of Industry** The main characteristics of industry are as follows:-

- Industry refers to the productive aspect of business.
- Production is done by the application of human or mechanical power.
- It creates form utility to natural or partly processed goods.
- It is concerned with the production of both producer and consumer goods.
- Industrial activities are regulated by different laws.
- It involves continuous operation.

**Types of Industries** Industries are divided into two broad categories:

(i) **Primary industries** Primary industries include all those activities which are connected with extraction, producing and processing of natural resources. These industries may be further sub-divided into two types: (a) extractive and (b) genetic.

(ii) **Secondary industries.** Secondary industries are concerned with the materials which have already been produced at the primary stage. For example, mining of iron ore is a primary industry, but manufacture of steel is a secondary industry.

a) **Extractive Industries:**

Extractive industries are concerned with the extraction of materials from the earth, sea and air such as mining, farming, fishing and hunting etc. Products of these industries are used either directly for consumption such as food grains, fruits and vegetables or as raw materials such as cotton, sugar-cane, etc.

b) **Genetic Industries:**

Genetic industries include activities connected with rearing and breeding of animals and birds and growing plants. Reproduction and multiplication is the main activity in these industries, such as, agriculture, animal husbandry, dairy, poultry, pisciculture etc. Main products are milk, wool, butter, cheese, meat, egg, fish, seeds of plants, etc.

**Secondary industries may also be of two types:**

(a) **manufacturing, and**

(b) **construction.**

a) **Manufacturing Industries** :Industries engaged in the conversion of raw materials or semi-finished products into finished product are called manufacturing industries. Cotton is converted onto textiles and iron one is converted into in these industries. It creates a form utility of the product.

b) **Construction Industries :**

The activities of Construction industries include erection of buildings, bridges, roads, railways canals etc. Their output do not consists of movable goods. It makes use of the output of other industries like brick, cement, steel etc.

### Service Industry :

In modern times, service sector plays an important role in the development of the nation and therefore, it is named as Service Industry e.g. hotel industry, tourism industry etc.

### Meaning of Commerce

Commerce is the sum total of all the activities connected with the placing of the product before the ultimate consumer. It provides the necessary link between the producer and the consumer of goods. Commerce is defined 'as activities involving the removal of hindrances in the process of exchange'. Commerce includes all those business activities which are undertaken for the sale or exchange of goods and services and facilitates their availability for consumption and use - through trade, transport, banking, insurance, and warehousing. Thus commerce includes trade and auxiliaries to trade, that is transport, banking, insurance and warehousing. Most commerce is conduct of internationally and represents the buying and selling of goods between nations.

### Characteristics of Commerce :

The main characteristics of commerce are as follows:

- (i) Commerce is the sum total of activities which facilitate the availability of goods to consumers from different producers.
- (ii) It aims at ensuring proper distribution of goods.
- (iii) It adds different type of utilities to the goods by making goods available at the right time and the right place to the people who need them.
- (iv) It includes trade and auxiliary to trade.

### Importance of commerce

- (i) Commerce tries to satisfy increasing human living.
- (ii) Commerce helps to increase our standard of living.
- (iii) Commerce links producers and consumers.
- (iv) Commerce generates employment opportunities.

### Trade and its types

Trade is an integral part of commerce and refers to sale and transfer of goods. It involves actual buying and selling of goods. It means exchange of goods and services for cash or credit. Traders help in directing the flow of goods to the most

profitable market. They also bring about equitable distribution of goods on a national and international scale. It is because goods are produced on a large scale and it is difficult for producers to reach individual customers, that trade is said to remove the hindrance of persons through traders. Goods acquire place utility through trade. A system or network that allows trade is called a market.

### Characteristics of Trade

The main characteristics of trade are as follows:

- (i) Trade is regarded as the primary activity in commerce;
- (ii) It means exchange of goods and services for price;
- (iii) It helps in directing the flow of goods to the most profitable market;
- (iv) It helps to equalise the supply of and demand for goods in different markets both national and international.

### Classification of Trade

Trade may be classified into (i) Home Trade or Internal Trade and (ii) Foreign Trade or External Trade.

i) Home Trade: Home Trade means trade carried on within the boundaries of a country.

The primary object of home trade is to bring about proper distribution of goods within the country. It may be divided into two types

- (a) Wholesale Trade and
- (b) Retail Trade

(a) Wholesale Trade: Wholesale trade involves buying goods from producers and selling them in small quantities to retailers. The wholesaler generally deals in large quantities of goods of a limited number of varieties. He serves as a connecting link between the producer and the retail dealer.

(b) Retail Trade: A retail trade consists of selling goods directly to the consumers in small quantities. A retailer usually purchases goods from wholesalers or manufacturers and deals in a variety of goods of different manufacturers.

ii) **External Trade:**

External trade refers to trade between two countries. It implies buying and selling of goods by traders of two different countries. It creates a very wide market for goods produced in different countries. External trade involves

(a) Export and

(b) Import.

Export is concerned with the sale of goods to foreign countries. Import trade relates to the purchasing of goods from other countries.

#### Difference Between Wholesale and Retail Trade

Basis of Difference	Wholesale Trade	Retail Trade
1. Meaning	Wholesale is a business in which goods are sold in large quantities to the retailers, industries and others businesses.	When the goods are sold to final consumer in small lots, then this type of business is termed a retail trade.
2. Creates link between	Manufacture and retailer	Wholesaler and customer
3. Price	Lower	Comparatively higher
4. Competition	Less	Very high
5. Volume of transaction	Large	Small
6. Capital requirement	Huge	Little
7. Deals in	Limited products	Different products
8. Need for advertisement	No	Yes
9. Art of selling	Not required	Required

### Inter-relationship between Industry, Trade and Commerce

All the three branches of business are closely related to each other. Each depends upon the other for the achievement of aims and objectives of business. For example, industry is concerned with the production of goods and services, trade is related with sale and purchase of products, and commerce arranges for their distribution. Industry can succeed only if goods are marketed and without production of goods, there cannot be commerce and trade. Hence, trade provides necessary support to industry and commerce. Thus, industry, trade and commerce are inter-dependent and cannot operate in isolation. Service facilities also provide necessary support to trade.

### Inter Relationship Between Industry, Commerce and Trade

Basis of Difference	Industry	Commerce	Trade
1. Meaning	It means production of goods services	It means distribution of output of goods and services produced by industry	It menas sale, transfer or exchange of goods and services
2. Nature	It represents the supply side of goods and services	It represents demand side of goods and services	It represents exchange of goods and services i.e., both supply and demand
3. Creation of utility	It creates utility by changing the form of materials	It creates place and time utility by movement of goods & services from one place to another	It creates possession utility through the process exchange
4. Scope	It includes all productive activities i.e. extractive, genetic, manufacturing and construction industries	It includes trade as well as auxilliaris to trade	It includes home and foreign trade
5. Place of operations	It may be carried on at factory, workshop	It involves movement of goods & services	It is carried on the market

	or home	from centres of production to centres of distribution	
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### 1.1.8 Transport and Communication

#### Transport:

It is one of the most important auxiliaries to trade. Transportation helps trade by facilitating the movement of goods and passengers from one place to another. Transport creates 'place utility' of the goods and remove the problem of distance. All kinds of goods can be transported in large quantities over long distances. A business can depend upon a number of modes of transportation – land transport (road, railways, and pipeline), water transport (inland waterways, coastal and sea) and air transport (domestic and international).

#### Communication :

Now-a-days it is not possible to have business without communication. Communication implies transmission of information, ideas, opinions, etc between two or more persons. It is a systematic and continuing process of telling, listening and understanding. Communication may be of two types –

- (i) **Internal** : Internal communication refers to transmission of information by a person to another of the same organisation.
- (ii) **External** : External communication refers to transmission of information by persons to others outside the organisation. Methods of communication may include face toface, by telephone, postal mail, etc. On the basis of means of communication, there are two types of communication –oral and written.

#### Banking and Finance

Banking provides safe, efficient and convenient mode of payment for goods in inland trade as well as in foreign trade. Banking helps business firms to overcome the problem of finance by lending money as and when required. Banks accept deposits and lend money. The other services of banks are: discounting of bills, collection of cheques, acting as agent. A bank accepts deposits on various accounts such as fixed deposit, savings, recurring deposit, and current. Loans are granted through over-draft, cash credit, loans and advances, discounting of

bills. Other services of banks include collection of payments on cheques, bills, drafts etc., sending money from one place to another, buying and selling securities, payment of insurance premium, issuing travellers cheques, providing locker systems and providing information on credit worthiness. Banks are of various types: commercial, agricultural, indigenous, rural, cooperative, exchange, central, etc. In fact banking is the lifeline of business.

### Finance:

Finance is the life blood of business. It implies provision of money at the time it is required by business. Provision of funds is essential for every type of trade. Finance needed by business is called "Business Finance". It means arrangement of cash and credit to carry out business activities.

Types of finance required by business are long-term, medium-term and short-term. Long-term finance (more than 10 years) is required for buying fixed assets; medium-term finance (one to 10 years) is required for modernization and expansion of business, and short-term finance (upto one year) is needed for working capital. Sources of finance may be owned funds and borrowed funds. Special financial institutions which provide finance to business are IFCI, SFCs, ICICI, IDBI, SIDBI, and IRBI. They provide long-term and medium-term finance. Warehousing refers to storage of goods which are generally produced on a large scale in anticipation of demand. Goods have to be stored for some time before transportation by manufacturers, wholesalers and retailers.

Thus warehousing creates 'time utility'. Thus, finance is the study of money management and the process of acquire needed funds. Webster's Ninth New Collegiate dictionary has given two definitions of finance. The first one says, "Finance is the money resources, income, etc. of a nation, organization or person". The latter one is "Managing or science of managing money matters, credit etc".

### 1.1.8 self-check questions

1. What are the types of economic activities?
2. What is the difference between business, profession and employment?
3. What are the features of business?

### 1.1.9 glossary

**Business-** business is the economic activity of production or trade of goods and services for the purpose of earning profit.

**Industry:** it is the group of companies engaged in the activity of making products from raw material.

**Commerce:** commerce includes all activities performed to transfer the goods from place of production to the place of consumption.

### 1.1.8 Summary:

Business means engagement in an economic activity involving exchange, purchase and sale of goods and services. The main motive of the business is to earn profit and to satisfy the needs of the customers. Business activities can be classified into industry and trade & commerce. Industrial activities involve converting raw material into finished goods. Industry creates form utility by converting raw material into finished goods. Trade means purchase and sale of finished goods for earning profit. Commerce includes all those activities which facilitate movement of goods from producers to consumers. Commerce includes facilitation services such as transport, communication, warehousing, advertisement, banking and insurance. Warehouse creates time utility by storing the goods and providing when needed. Transport creates place utility by providing goods at place of consumption.



**1.1.9 Exercise:**

**Short Questions:**

- Q.1 Define business.
- Q.2 what do you mean by trade and commerce?
- Q.3 what do you mean by time utility?
- Q.4 write down characteristics of industry.

**Long questions:**

- Q.1 Define business. Write down its characteristic and types.
- Q.2 Differentiate between industry, trade and commerce.
- Q.3 What do you mean by trade. Explain its types.

**1.2.0 Suggested readings:**

- Robbins: Organisation Behaviour (Prentice Hall)
- L.M Prasad: Organisation Behaviour (Sultan Chand and sons)
- Gupta Joshi: Organisation Behaviour (Kalyani)
- R.N. Gupta: Business Organisation and Management (S.Chand)
- Koontz And Weihrich: Essentials of Management (Tata Mc Graw Hill)

BBA PART-I  
SEMESTER-I

PAPER : BBA-104  
BUSINESS ORGANISATION AND  
MANAGEMENT PRINCIPLES-I

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Lesson No. 1.2

Author : Gurpreet Singh

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## Formation of Company

- 1.2.1 objectives
- 1.2.2 introduction
- 1.2.3 formation of company
  - 1.2.3.1 Promotion of a Company in India
  - 1.2.3.2 Incorporation
  - 1.2.3.3 Capital Subscription
  - 1.2.3.4 Commencement of Business
- 1.2.4 self-check exercise
- 1.2.5 glossary
- 1.2.6 Summary
- 1.2.7 Exercise
- 1.2.8 answers to self- check exercise
- 1.2.9 Suggested readings

1.2.1 The objective of this lesson is to explain what steps are followed in formation of company. It aims to clear meaning of promotion of company and functions of promoters. This lesson aims to explain documents required to form the company and meaning of incorporation of company and commencement of business.

### 1.2.2 INTRODUCTION

Formation of company is governed by the provisions contained in The Companies Act of 1956. The company form of organization is being preferred as being suitable by more and more business firms, particularly for setting up medium and large sized organizations. Formation of company involves several steps which are explained here under. The steps involved in Formation of company in India are required from the time a business idea originates to the time, a company is legally ready to commence business are referred to as stages in the formation of a company. Those who are taking these steps and the associated risks area promoting a company are called its promoters. It is advisable to avail the services of Indian company lawyer for the formation of company in India.

A Private Limited Company is a Company limited by shares in which there can be maximum 200 shareholders, no invitation can be made to the public for subscription of shares or debentures, cannot make or accept deposits from Public and there are restriction on the transfer of shares. The liability of each shareholder is limited to the extent of the unpaid amount of the shares face value and the premium thereon in respect of the shares held by him. However, the liability of a Director / Manager of such a Company can at times be unlimited. The minimum number of shareholders is 2.

A Public Limited Company is a Company limited by shares in which there is no restriction on the maximum number of shareholders, transfer of shares and acceptance of public deposits. The liability of each shareholder is limited to the extent of the unpaid amount of the shares face value and the premium thereon in respect of the shares held by him. However, the liability of a Director / Manager of such a Company can at times be unlimited. The minimum number of shareholders is 7.

### 1.2.3 STAGES IN FORMATION OF COMPANY IN INDIA

- (i) Promotion
- (ii) Incorporation
- (iii) Subscription of capital
- (iv) Commencement of business

Under the Indian laws, a private limited company can start its business immediately after obtaining the certificate of incorporation. As it is prohibited to raise funds from public, it does not need to issue a prospectus and complete the formality of minimum subscription. A public company, on the other hand, goes through the capital subscription stage and then receives the certificates of commencement. Thus, it has to undergo all the four stages. Formation of company in India thus involves the steps stated above and the formalities required therein for formation of company in India.

#### 1.2.3.1 PROMOTION OF A COMPANY IN INDIA

Promotion of a company in India is the first stage in the Formation of company. It involves conceiving a business opportunity and taking an initiative towards the direction of formation so that practical shape can be given to exploiting the available business opportunity. Thus, it begins with somebody having discovered a potential business opportunity. Any person or a group of persons or even a company may have discovered an opportunity. If such a person or a group of persons or a company proceeds in the direction of formation of company, then, they are said to be the promoters of the company. There is no statutory definition of a promoter. A promoter is said to be the one who undertakes the formation of company with reference to a given project and to set it going and who takes the necessary steps to accomplish that purpose. Thus, apart from conceiving a business opportunity the promoters analyze its prospects and bring together the men, materials, machinery, managerial abilities and financial resources and set the organization going. After thoroughly examining the feasibility of the idea, the

promoters assemble resources, prepare necessary documents, give a name and perform various other activities to get a company registered and obtain the necessary certificate enabling the company to commence business. Formation of company thus depends upon the promoters and it is the promoters who perform various functions to bring a company into existence.

### Functions of Promoter

(a) **Identification of business opportunity:** The first and foremost activity of a promoter in the direction of formation of company in India is to identify a business opportunity by the formation of company. The opportunity may be in respect of producing a new product or service or making some product available through a different channel or any other opportunity having an investment potential. Such opportunity is then analyzed to see its technical and economic feasibility before formation of company in India.

(b) **Feasibility studies:** It may not be feasible or profitable to convert all identified business opportunities into real projects. The promoters, therefore, undertake detailed feasibility studies to investigate all aspects of the business they intend to start. Depending upon the nature of the project, the following feasibility studies may be undertaken, with the help of the specialists like engineers, chartered accountants etc., to examine whether the perceived business opportunity can be profitably exploited by formation of company in India.

(i) **Technical feasibility:** Sometimes an idea may be good but technically not possible to execute. It may be so because the required raw material or technology is not easily available. This is an important steps towards formation of company.

(ii) **Financial feasibility:** Every business activity requires funds. The promoters have to estimate the fund requirements for the identified business opportunity. If the required outlay for the project is so large that it cannot easily be arranged within the available means, the project has to be given up. For example, one may think that developing townships is very lucrative. It may turn out that the required funds are in several crores of rupees, which cannot be arranged by floating a company by the promoters. The idea of formation of company may be abandoned because of the lack of financial feasibility of the project.

(iii) **Economic feasibility:** Sometimes it so happens that a project is technically viable and financially feasible but the chance of it being profitable is

very little. In such cases as well, the idea may have to be abandoned. Promoters usually take the help of experts to conduct these studies before formation of company. It may be noted that these experts do not become promoters just because they are assisting the promoters in these studies. Only when these investigations throw up positive results, the promoters may decide for the formation of company. Formation of company in India thus involves the above said technicalities associated with it.

(c) **Name approval:** The first and foremost task in the direction of formation of company is the selection of a name to be given to the proposed company. Having decided to launch a company, the promoter has to select a name for it and submit an application to the registrar of companies of the state in which the registered office of the company is to be situated, for its approval. The proposed name may be approved if it is not considered undesirable. It may happen that another company exists with the same name or a very similar name or the preferred name is misleading, say, to suggest that the company is in a particular business when it is not accepted but some alternate name may be approved. Therefore, three names, in order of their priority are given in the application to the Registrar of Companies before formation of company.

(d) **Fixing up Signatories to the Memorandum of Association:** The second important step towards the Formation of company is the signing the Memorandum of Association of the proposed company. Usually the people signing memorandum are also the first Directors of the Company. Their written consent to act as Directors and to take up the qualification shares in the company is necessary.

(e) **Appointment of professionals:** Certain professionals such as mercantile bankers, auditors etc., are appointed by the promoters to assist them in the preparation of necessary documents which are required to be with the Registrar of Companies. The names and addresses of shareholders and the number of shares allotted to each are submitted to the Registrar in a statement called return of allotment. Formation of company involves some more steps associated therein.

(f) **Preparation of necessary documents:** The promoter takes up steps to prepare certain legal documents, which have to be submitted under the law, to the Registrar of the Companies for getting the company registered. These documents are Memorandum of Association, Articles of Association and Consent

of Directors. This is a crucial and important stage in Formation of company hence is done by legally trained hands.

Documents Required to be Submitted during formation of company in India are described as under:

**A. Memorandum of Association:** Memorandum of Association is the most important document as it defines the objectives of the company. Formation of company in India can not take place without the same. No company can legally undertake activities that are not contained in its Memorandum of Association. The Memorandum of Association contains different clauses, which are given as follows:

(i) **The name clause:** This clause contains the name of the company with which the company will be known, which has already been approved by the Registrar of Companies. This is considered as the first step towards the Formation of company.

(ii) **Registered office clause:** This clause contains the name of the state, in which the registered office of the company is proposed to be situated. The exact address of the registered office is not required at this stage but the same must be notified to the Registrar within thirty days of the incorporation of the company. It is also clear that the formation of company in India cannot take place without a valid address.

(iii) **Objects clause:** This is probably the most important clause of the memorandum regarding formation of company in India. It defines the purpose company is not legally entitled to undertake an activity, which is beyond the objects stated in this clause. The object clause is divided into two sub-clauses, which are:

**The main objects:** The main objects for which the company is formed are listed in this sub-clause. It must be observed that an act which is either essential or incidental for the attainment of the main objects of the company is deemed to be valid, although it may not have been stated explicitly in the sub-clause.

**Other objects:** Objects not included in the main objects could be stated in this sub-clause. However, if a company wishes to undertake a business included in this sub-clause, it has to either pass a special resolution or pass an ordinary resolution and get central governments approval for the same.

(iv) **Liability clause:** This clause limits the liability of the members to the amount unpaid on the shares owned by them in the Formation of company in India. For example, if a shareholder has purchased 100 shares of Rs. 10 each and has already paid Rs. 6 per share, his/her liability is limited to the Rs. 4 per share. Thus, even in the worst case, he/she may be called upon to pay Rs. 4,00 only.

(v) **Capital clause:** This clause specifies the maximum capital which the company will be authorized to raise authorized share capital of the proposed company along with its division into the number of shares having a fixed face value is specified in this clause. For example, the authorized share capital of the company may be Rs. 25 with divided into 2.5 lakh shares of Rs. 10 each. The said company cannot issue share capital in excess of the amount mentioned in this clause. This is also considered as an important step towards the Formation of company in India.

(vi) **Association clause:** In this clause, the signatories to the Memorandum of Association state their intention to be associated with the company and also give their consent to purchase qualification shares. The Memorandum of Association must be signed by at least seven persons in case of a public company and by two persons in case of a private company during the process of formation of company in India.

**B. Articles of Association:** Articles of Association are the rules regarding internal management of a company. These rules are subsidiary to the Memorandum of Association and hence, should not contradict or exceed anything stated in the Memorandum of Association. A public limited company may adopt Table A which is a model set of articles given in the Companies Act. Table A is a document containing rules and regulations for the internal management of a company. If a company adopts Table A, there is no need to prepare separate Articles of Association for the formation of company in India. For companies not adopting Table A, a copy of the Articles of Association, stamped and duly signed by signatories to the Memorandum of Association is required for registration. This is another important aspect of the Formation of company in India.

**C. Consent of Proposed Directors:** Apart from the Memorandum and Articles of Association, a written consent of each person named as a director is required confirming that they agree to act in that capacity and undertake to buy and pay for qualification shares, as mentioned in the Articles of Association.

D. Agreement: The agreement, if any, which the company proposes to enter with any individual for appointment as the Managing Director or a whole time Director or Manager is another document which required to be submitted to the Registrar for formation of company in India.

E. Statutory Declaration: A declaration stating that all the legal requirements pertaining to registration have been complied with is to be submitted to the Registrar with the above mentioned documents for formation of company in India. This statement can be signed by an advocate of High Court or Supreme Court or by a Chartered Accountant in full time practice or by a person named in the articles as a director or manager or secretary of the company. The formats are prescribed under the Companies Act, 1956.

F. Payment of fee: Along with the above-mentioned documents, necessary fees have to be paid for the registration of the company. The amount of such fees shall depend on the authorized share capital of the company. This being the final stage in the Formation of company in India thereafter the company comes into existence.

#### Position of Promoters.

Promoter undertakes various activities to get a company registered and get it to the position of commencement of business. But they are neither the agents nor the trustees of the company. They cannot be the agents as the company is yet to be incorporated. Therefore, they are personally liable for all the contracts which are entered by them, for the company before its incorporation, in case the same are not ratified by the company later on. Also promoters are not the trustees of the company.

Promoters of a company enjoy a fiduciary position with the company, which they must not misuse. They can make a profit only if it is disclosed but must not make any secret profits. In the event of a non-disclosure, the company can rescind the contract and recover the purchase price paid to the promoters. It can also claim damages for the loss suffered due to the non-disclosure of material information.

Promoters are not legally entitled to claim the expenses incurred in the formation of company in India. However, the company may choose to reimburse them for the pre-incorporation expenses during the process of formation of company in India. The company may also remunerate the promoters for their efforts by paying a lump sum amount or a commission on the purchase price of property



purchased through them or on the shares sold. The company may also allot them shares or debentures or give them an option to purchase the securities at a future date.

### 1.2.3.2 Incorporation

After completing the aforesaid formalities, promoters make an application for the incorporation of the company. The application is to be filed with the Registrar of Companies of the state within which they plan to establish the registered office of the company. The application for registration must be accompanied with the documents related to the identity of the Directors, premises etc. These may be briefly mentioned again. The steps involved with the Formation of company in India can be enumerated as under:

1. The Memorandum of Association duly stamped, signed and witnessed. In case of a public company, at least seven members must sign it. For a private company however the signatures of two members are sufficient. The signatories must also give information about their address, occupation and the number of shares subscribed by them.
2. The Articles of Association duly stamped and witnessed as in case of the Memorandum. However, as stated earlier, a public company may adopt Table A, Which is a model set of Articles, given in the Companies Act. In that case a statement in lieu of the prospectus is submitted, instead of Articles of Association.
3. Written consent of the proposed directors to act as directors and an undertaking to purchase qualification shares.
4. The agreement, if any with the proposed Managing Director, Manager or whole-time director.
5. A copy of the Registrars letter approving the name of the company is essential for the formation of company in India.
6. A statutory declaration affirming that all legal requirements for registration and formation of company in India have been complied with. This must be signed by an advocate of a High Court or Supreme Court or a signatory to the Memorandum of Association or a Chartered Accountant or Company Secretary in whole time practice in India.
7. A notice about the exact address of the registered office may also be submitted along with these documents. However, if the same is not submitted

at the time of incorporation, it can be submitted within 30 days of the receipt of the certificate of incorporation after the formation of company in India.

8. Documentary evidence of payment or registration fees for formation of company in India.

The Registrar upon submission of the application along with the required documents has to be satisfied that the documents are in order and that all the statutory requirements regarding the registration and formation of company in India have been complied with. However, it is not his duty to carry out a thorough investigation about the authenticity of the facts mentioned in the documents. When the Registrar is satisfied, about the completion of formalities for registration, a Certificate of Incorporation is issued to the company, which signifies the birth of the company. The certificate of incorporation may therefore be called the birth certificate of the company. With effect from November 1, 2000, the Registrar of Companies allots a CIN (Corporate Identity Number) to the Company. This completes the stages with the Formation of company in India.

#### Effect of the Certificate of Incorporation

The issuance of the certificate of incorporation is considered as the final stage towards formation of company in India. A company is legally born on the date printed on the Certificate of Incorporation. It becomes a legal entity with perpetual succession on such date. It becomes entitled to enter into valid contracts. The Certificate of Incorporation is a conclusive evidence of the regularity of the incorporation of a company or the formation of company in India. Imagine, what would happen to an unsuspecting party with which the company enters into a contract, if it is later found that the incorporation of the company was improper and hence invalid. Therefore, the legal situation is that once a Certificate of Incorporation has been issued, the company has become a legal business entity irrespective of any flaw in its registration. The Certificate of Incorporation is thus conclusive evidence of the legal existence of the company and important adjunct towards the formation of company in India.

The Certificate of Incorporation once issued, is a conclusive evidence of the existence of the company and the first legal proof regarding the formation of company in India. Even when a company gets registered with illegal objects, the birth of the company cannot be questioned. The only remedy available is to wind it up. Because the Certificate of Incorporation is so crucial, the Registrar has to go very carefully before issuing it. On the issue of Certificate of Incorporation, a private company can immediately commence its business. It can raise necessary

funds from friends, relatives or through private arrangement and proceed to start business. A public company, however, has to undergo two more stages in its formation.

### 1.2.3.3 Capital Subscription

A public company can raise the required funds from the public by means of issue of shares and debentures. For doing the same, it has to issue a prospectus which is an invitation to the public to subscribe to the capital of the company and undergo various other formalities. The following steps are required for raising funds from the public.

(i) **SEBI Approval:** SEBI (Securities and Exchange Board of India) which is the regulatory authority in our country has issued guidelines for the disclosure of information and investor protection. A company inviting funds from the general public must make adequate disclosure of all relevant information and must not conceal any material information from the potential investors. This is necessary for protecting the interest of the investors. Prior approval from SEBI is, therefore, required before going ahead with raising funds from public.

(ii) **Filing of Prospectus:** A copy of the prospectus or statement in lieu of prospectus is filed with the Registrar of Companies. A prospectus is any document described or issued as a prospectus including any notice, circular, advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of any shares or debentures of, a body corporate. In other words, it is an invitation to the public to apply for shares or debentures of the company or to make deposits in the company. Investors make up their minds about investment in a company primarily on the basis of the information contained in this document. Therefore, there must not be a mis-statement in the prospectus and all significant information must be fully disclosed.

(iii) **Appointment of Bankers, Brokers, and Underwriters:** Raising funds from the public is a stupendous task. The application money is to be received by the bankers of the company. The brokers try to sell the shares by distributing the forms and encouraging the public to apply for the shares. If the company is not reasonably assured of a good public response to the issue, it may appoint underwriters to the issue. Underwriters undertake to buy the shares if these are not subscribed by the public. They receive a commission for underwriting the issue. Appointment of underwriters is not necessary.

(iv) **Minimum Subscription:** In order to prevent companies from commencing business with inadequate resources, it has been provided that the company must receive applications for a certain minimum number of shares before going ahead with the allotment of shares. According to the Companies Act, this is called the minimum subscription. The limit of minimum subscription is 90 per cent of the size of the issue. Thus, if applications received for the shares are for an amount less than 90 per cent of the issue size, the allotment cannot be made and the application money received must be returned to the applicants.

(v) **Application to Stock Exchange:** An application is made to at least one stock exchange for permission to deal in its shares or debentures. If such permission is not granted before the expiry of ten weeks from the date of closure of subscription list, the allotment shall become void and all money received from the applicants will have to be returned to them within eight days.

(vi) **Allotment of Shares:** In case the number of shares allotted is less than the number applied for, or where no shares are allotted to the applicant, the excess application money, if any, is to be returned to applicants or adjusted towards allotment money due from them. Allotments letters are issued to the successful allottees. Return of allotment, signed by a director or secretary is filed with the Registrar of Companies within 30 days of allotment.

A public company may not invite public to subscribe to its shares or debentures. Instead, it can raise the funds through friends, relatives or some private arrangements as done by a private company. In such cases, there is no need to issue a prospectus. A "Statement in Lieu of Prospectus" is filed with the Registrar at least three days before making the allotment.

#### 1.2.3.4 Commencement of Business

If the amount of minimum subscription is raised through new issue of shares, a public company applies to the Registrar of Companies for the issue of Certificate of Commencement of Business. The following documents are required:

1. A declaration that shares payable in cash have been subscribed for and allotted up to the minimum subscription mentioned in the prospectus;
2. A declaration that every director has paid in cash, the application and allotment money on his shares in the same proportion as others;

3. A declaration that no money is payable or liable to become payable to the applicants because of the failure of the company to either apply for or obtain permission to deal in its securities on a stock exchange; and
4. A statutory declaration as per the format. This declaration can be signed by a director or secretary of the company.

A public company raising funds privately, which has earlier filed a Statement in lieu of prospectus, has to submit only documents 2 and 4 listed above.

The Registrar shall examine these documents. If these are found satisfactory, a Certificate of Commencement of Business will be issued. This certificate is conclusive evidence that the company is entitled to do business. With the grant of this certificate the formation of a public company is complete and the company can legally start doing business.

It is thus clear that the Formation of company in India involves several steps which are associated with filing of documents for the Formation of company in India and getting the requisite clearances.

#### 1.2.4 self-check exercise

1. commencement of business.
2. what documents are required to register a company?
3. minimum subscription.

#### 1.2.5 glossary

Promoters- the persons who form the company are called promoters. They all the activities to get the company registered.

M.O.A.- memorandum of association is the charter of the company which what the objectives of the company. Memorandum of association gives all the information about the company.

AOA- article of association is the internal document of the company containing rules and regulations of the company. It tells how objectives of the company can be achieved.

#### 1.2.6 Summary

Company in India is formed according to the provisions of the Companies Act, 2013. Companies can be classified into public limited company and private limited company. There are four stages of company formation. First is promotion of company second is incorporation of company and third is subscription of capital and fourth is commencement of business. The persons who form the company are called promoters. Memorandum of association and article of association of association are two principal documents that are prepared for formation of company. Private company can start the business immediately after getting the certificate of incorporation but public company can start the business after getting certificate of commencement.

#### 1.2.7 Exercise:

Short questions:

- Q.1 define company.
- Q.2 What do you mean by promoters?
- Q.3 what is memorandum of association?
- Q.4 what is article of association?

Long questions

- Q.1 what are steps followed for formation of company?
- Q.2 what do you mean by memorandum of association. Explain its various clauses.

Q.3 differentiate between article of association and memorandum of association.

1.2.8 answers to self check exercise

1. see para 1.2.3 4

2. see para 1.2.3.1

3. see para 1.2.3.3

1.2.9 Suggested Readings:

Koontz And Wehrich: Essentials of Management (Tata Mc Graw Hill)

P.C Tulsian: Business organisation and Management

C.B Gupta: Modern Business organisation and Management (Sultan Chand and Sons)

L.M Prasad: Organisation Behaviour (Sultan Chand and sons)

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SEMESTER-I

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Lesson No. 1.3

Author : Gurpreet Singh

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## Business Ethics

### Lesson Structure

- 1.3.1 Objective
- 1.3.2 introduction
- 1.3.3 Ethics and Actions
- 1.3.4 [Codes of behaviour](#)
- 1.3.5 Relationship Between Business And Ethics
- 1.3.6 Benefits of Ethics Management
- 1.3.7 Organisation and Ethics
- 1.3.8 The employee obligations to the firm(Ethical)
- 1.3.9 The employer's obligation to the employees (Ethical)
- 1.3.10 Self check exercise
- 1.3.11 Summary
- 1.3.12 Glossary
- 1.3.13 Exercise
- 1.3.14 Answers to self check exercise
- 1.3.15 Suggested readings

#### 1.3.1 Objective

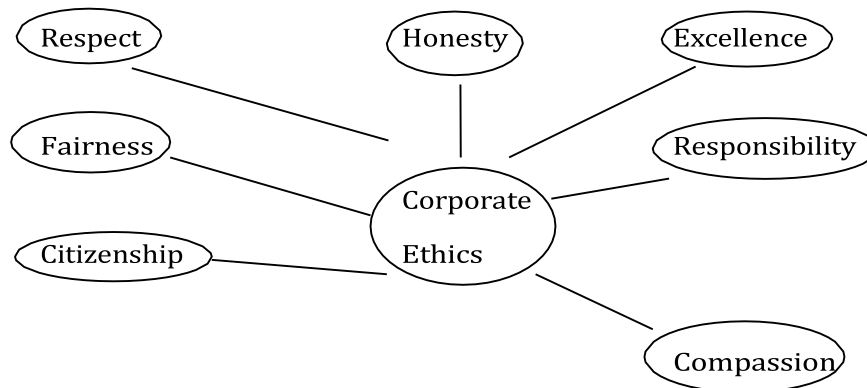
The objective of this lesson is to explain meaning ethics and relationship of business and ethics. It aims to explain benefits of ethical business. It also explains obligations of the business to employees and obligation of employees to business and areas of conflict.

1.3.2 introduction: Ethics are a system of moral principles and a branch of philosophy which defines what is good for individuals and society. Ethics is about moral choices. It is about the values that lie behind them, and the reasons people give for them. It is about innocence and guilt, right and wrong and what it means to live a good or bad life. It is dilemmas of life, death, sex, violence and money. It explores human virtues and vices, rights and duties.

Business ethics refers to contemporary organizational standards, principles. Set of values and norms that govern the actions and behavior of an individual in the business organization. Business ethics (also corporate ethics) is a form of [applied ethics](#) or [professional ethics](#) that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations. Business ethics are moral principles that guide the way a business behaves. The same principles that determine an individual's actions also apply to business. Simply put, ethics involves learning what is right or wrong, and then doing the right thing -- but "the right thing" is not nearly as straightforward as conveyed in a great deal of business ethics literature. Most ethical dilemmas in



the workplace are not simply a matter of "Should Bob steal from Jack?" or "Should Jack lie to his boss?"



The concept has come to mean various things to various people, but generally it's coming to know what is right or wrong in the workplace and doing what's right- this is in regard to effects of products/services and in relationship with stakeholders. Wallace and pekel explain that attention to business ethics is critical during times of fundamental change-times much like those faced now by business, both nonprofit and for -profit .In times of fundamental change, values that were previously taken for granted are now strongly questioned. Many of these values are no longer followed. Consequently, there is no clear moral compass to guide leaders through complex dilemmas about what is right or wrong. Attention to ethics in the workplace sensitizes leaders and staff to how they should act .Perhaps most important, attention to ethics in the workplaces helps ensure that when leaders and managers are struggling in times of crises and confusion, they retain a strong moral compass. However, attention to business ethics provides numerous other benefits; as well as listed later in this document. Note that many people react that business ethics, with its continuing attention to" doing the right thing". Only asserts the obvious ("be good," "don't lie" etc.), and so these people don't take business ethics seriously. For many of us, these principles of the obvious can go right out the door during times of stress. Consequently, business ethics can be strong preventative medicine. Anyway, there are many other benefits of managing ethics in the workplace.

### Difference Between Morals and Ethics

Morals	Ethics
1. Moral relates to principles of right and wrong.	1. Ethics relates to what is wrong or bad and good and what are obligations.
2. Latin word 'mas' meaning customs. Custom is are attribute of a group of society.	2. Greek word 'ethics' meaning 'charater' character is a personal attribute.
3. Morals are typically adopted or absorbed since childhood from family, friends, school, religions leader and so on.	3. Ethics are adopted by an individual gradually by taking reasonable decisions in appropriate situations.
4. Morals are in smaller scope than ethics.	4. Ethics is much wides in scope

Business ethics has [normative](#) and descriptive dimensions. As a corporate practice and a career specialization, the field is primarily normative. Academics attempting to understand business behavior employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with non-economic concerns. Interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, most major corporations today promote their commitment to non-economic values under headings such as ethics codes and social responsibility charters. Adam Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."<sup>[2]</sup> Governments use laws and regulations to point business behavior in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behavior that lie beyond governmental control. The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes

Acting in an ethical way involves distinguishing between "right" and "wrong" and then making the "right" choice. It is relatively easy to identify unethical business practices. For example, companies should not use child labour. They should not

unlawfully use copyrighted materials and processes. They should not engage in bribery.

However, it is not always easy to create similar hard-and-fast definitions of good ethical practice. A company must make a competitive return for its shareholders and treat its employees fairly. A company also has wider responsibilities. It should minimise any harm to the environment and work in ways that do not damage the communities in which it operates. This is known as corporate social responsibility.

### 1.3.3 Ethics and Actions

Actions can be divided into three categories

1. Moral: if they reflect a person's values and those of society.
2. Immoral: if they go against a person's or society's values.
3. Amoral: if they do not reflect choices based on values or social norms.

### 1.3.4 Codes of behaviour

The law is the key starting point for any business. Most leading businesses also have their own statement of Business Principles which set out their core values and standards. In Anglo American's case, this is called "Good Citizenship".

A business should also follow relevant codes of practice that cover its sector. Many companies have created voluntary codes of practice that regulate practices in their industrial sector. These are often drawn up in consultation with governments, employees, local communities and other stakeholders. Anglo American has played an active part in initiatives such as the Extractive Industries Transparency Initiative, the United Nations Global Compact and the Global Reporting Initiative.

### 1.3.5 RELATIONSHIP BETWEEN BUSINESS AND ETHICS

Functional Area Ethics: Functional areas of business are likely to confront ethical issues. Accounting is a critical function of any business. Accounting statement reveal to the managers and owners about the financial soundness of a company. Managers, investors, regulating agencies, tax collectors and absolute requirements of the accounting function. Professional accounting organizations have evolved generally accepted accounting standards whose purpose is to establish uniform standards for reporting accounting data. When they are followed, these standards ensure a high level of honest and ethical accounting

disclosures. Rarely are they followed in practice. Ethical dilemmas crop up in purchasing departments where strong pressure are felt to obtain the lowest possible prices from suppliers and where suppliers and where suppliers too feel a similar need to bag lucrative contracts ,Bribes, kickbacks and discriminatory pricing are temptations to both the parties.

Marketing is another area of the ethics issue. Pricing, promotions, advertising, product information, relations between agencies and their clients and marketing research are potential areas of ethical dilemmas. Then there is the area of sophisticated communication technology which is grossly abused or misused to realize one's ambitions.

### 1.3.6 BENEFITS OF ETHICS MANAGEMENT

Many people are used to reading or hearing of the moral benefits of attention to business ethics. However, there are other types of benefits, as well. The following list describes various types of benefits from managing ethics in the workplace. Promote market efficiency especially in areas where laws are weak or efficient by rewarding the best and most ethical producers of goods and services.

1. Attention to business ethics has substantially improved society.
2. Ethics program help maintain moral course in turbulent times.
3. Ethics programs cultivate strong teamwork and productivity.
4. Ethics program support employee growth and meaning.
5. Ethics programs are an insurance policy they help ensure that policies are legal. Having a code of ethics provides a morale compass during tough times.
6. Ethics programs help avoid criminal acts 'of omission' and can lower fines.
7. Ethics programs help manage values associated with quality management, Strategic planning and diversity management this benefit needs far more attention.
8. Ethics programs promote a strong public image.
9. Overall benefits of ethics programs.
10. Clear business thics corpronote a strong public image and goodwill.

### 1.3.7 Organisation and Ethics

#### Rational organization

Organization is a structure of a formal relationship designed to achieve some technical or economic goals with maximum efficiency.

Relationship – formal hierarchies of authority identified in the organization chart representing various official positions and lines of authority.

- Top management
- Middle layer
- Operating layer

Bottom layer – produce the essential output of the organization

Apex of pyramid – Top management

In a rational organization- most of the information is collected from the operating layers using the various levels, through each of which the information reaches the top management levels.

Top management makes general policy decisions and issues general commands, pass it downward to the operating layer as detailed work instructions.

From these two reciprocal flows there arises two moral obligations or ethical responsibilities.

1. The obligations of the employees
2. The obligations of the employer.

#### 1.3.8 The employee obligations to the firm(Ethical)

The main moral duty of the employee is to work

- a) Towards the goal of the firm
- b) To avoid any activities which might cause harm to these goals
- c) To obey organization superiors.

Unethical – Deviate from the above in order to serve one's own interest. Illegal Ways of serving one's own interest in an organization in "white collar crime"

### 1.3.9 The employer's obligation to the employees (Ethical)

Provide them with the compensation they have freely and knowingly agreed to receive in exchange for their services

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#### Areas of conflicts of interest

An employee of a company is engaged in carrying out a task on behalf of the company and the employee has private interest in the outcome of the task. Conflicts of interest may be mostly financial- holding another job or consulting position in outside firm which there own company deals or competes

-Bribes

-Gifts

-Embezzlement

-larceny

-Trade secrets

#### 1.3.10 self-check exercise

1. benefits of ethics management?

2. how ethics are related to the business?

#### 1.3.11 Summary

Ethics are a system of moral principles and a branch of philosophy which defines what is good for individuals and society. Business ethics are the moral principles and standards that controls the activities and behaviours in the business organisations. Respect, fairness, honesty, responsibility, citizenship, compassion, excellence are some examples of business ethics. Business organizations faces ethical issues in every area of business. Ethical business has certain benefits like goodwill, lower fines, less government interference, business growth, availability of funds etc.

#### 1.3.12 glossary

Business ethics – business ethics means implementing that business policies and procedures that morally right. It means not run business on principles of honesty, fairness, accountability etc.

Benefits to ethical business: Goodwill, high growth and profitability, no government interference, trust of customers.

#### 13.13 Exercise

Short questions:

Q.1 What do you mean by business ethics?

Q.2 difference between morals and ethics?

Long questions:

Q.1 What do you mean by business ethics? What are benefits of following ethics to the business organizations?

#### 1,3,14 Answers to self check exercise

1. see para 1.3.6

2. see para 1.3.5

#### 13.14 Suggested readings

Robbins: Organisation Behaviour (PrenticeHall)

Koontz And Wehrich: Essentials of Management (Tata Mc Graw Hill)

P.C Tulsian: Business organisation and Management

C.B Gupta: Modern Business organisation and Management (Sultan Chand and Sons)

L.M Prasad: Organisation Behavior (Sultan Chand and sons)

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## Social Responsibility of Business

- 1.4.1 objective
- 1.4.2 Introduction
- 1.4.3 Social responsibility of business
- 1.4.4 Objectives of social responsibility of business
- 1.4.5 self-check exercise
- 1.4.6 glossary
- 1.4.7 Summary
- 1.4.8 Answers to self check exercise
- 1.4.9 Exercise
- 1.4.10 suggested readings

### 1.4.1 Objective

The objective of this lesson to clear the meaning of corporate social responsibility. It aims to explain objectives of social responsibility of business and how growth and responsibility of business is dependent on social responsibility of business.

### 1.4.2 Introduction

According to Peter F Druker, "Social responsibility requires managers to consider whether their actions are likely to promote the public goods to advance the basic belief of society, to contribute to its stability, strength and harmony. Social responsibility is an [ethical](#) framework and suggests that an [entity](#), be it an [organization](#) or [individual](#), has an obligation to act for the benefit of society at large. Social responsibility is a duty every individual has to perform so as to maintain a balance between the economy and the ecosystems. A [trade-off](#) may exist between economic development, in the material sense, and the welfare of the society and environment, though this has been challenged by many reports over the past decade Social responsibility means sustaining the equilibrium between the two. It pertains not only to business organizations but also to everyone whose any action impacts the environment This responsibility can be passive, by avoiding engaging in socially harmful acts, or active, by performing activities that directly advance social goals.

Businesses can use ethical decision making to secure their businesses by making decisions that allow for government agencies to minimize their involvement with the corporation. For instance if a company follows the [United States Environmental Protection Agency](#) (EPA) guidelines for emissions on dangerous pollutants and even goes an extra step to get involved in the community and address those concerns that the public might have; they would be less likely to have the EPA investigate them for environmental concerns "A significant elemen

of current thinking about privacy, however, stresses "self-regulation" rather than market government mechanisms for protecting personal information" According to some experts, most rules and regulations are formed due to public outcry, which threatens profit maximization and therefore the well-being of the shareholder, and that if there is not outcry there often will be limited regulation.

### Definition of CSR

Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large world business council for sustainable development.

### Social Responsibility Model of Ackesmars

There are three phases :

- The first phase is one when top management recognizes the existence of a social problem and acknowledges the company's policy by making it an oral or written statement.
- The second phase is characterised by the company appointing staff specialists to study the problem and provide recommendations.
- the third phase involves the implementation of the social responsibility programmes.

Some critics argue that corporate social responsibility (CSR) distracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing, or "[greenwashing](#)" others argue that it is an attempt to pre-empt the role of governments as a watchdog over powerful corporations though there is no systematic evidence to support these criticisms. A significant number of studies have shown no negative influence on shareholder results from CSR but rather a slightly negative correlation with improved shareholder returns.

Social responsibility is the idea that business should balance profit making activities with activities that benefit society; it involves development business with a positive relationship to the society in which they operate.

The most common examples of corporate social responsibility :

- (i) Reduce carbon footprints to mitigate climate change.
- (ii) Improve labour policies and embrace fair trade.



- (iii) Engage in charitable giving and volunteer efforts within your community.
- (iv) Change corporate policies to benefit the environment.
- (v) Make socially and environmentally conscious investments.

### Coca-Cola

Coca-Cola continues to make strides toward aiding in the alleviation of environmental issues. After realizing that its fleet of delivery accounted for 3.7 million metric tons of greenhouse gases (GHGs) in 2014, coca-cola made significant changes in its supply chain like investing in trucks that are powered by alternative facts. Those changes should support the company's goal of reducing its carbon footprint by 25 percent by 2020.

### 1.4.3 Social responsibility of business

The social responsibility of business means various obligations or responsibilities or duties that a business-organization has towards the society within which it exists and operates from.

Generally, the social responsibility of business comprises of certain duties towards entities, which are depicted and listed below.



Figure No. 1 Social Responsibility of Business Towards Society.

- Shareholders or investors who contribute funds for business.
- Employees and others that make up its personnel.
- Consumers or customers who consumes and/or uses its outputs (products and/or services).
- Government and local administrative bodies that regulate its commercial activities in their jurisdictions.
- Members of a local community who are either directly or indirectly influenced by its activities in their area.
- Surrounding environment of a location from it operates.
- The general public that makes up a big part of society.

### Dell

Dell now contributes to environmental management by shipping their laptops in less wasteful containers using more eco-friendly.

### The need for Social Responsibility

- **Self Interest** : It is in the self-interest of the business to have a social responsibility as it opens opportunities for understanding the problems and issues of society.
- **A better environment for business** : In today's cynical age, social responsibility keeps the businesses honest and the markets stable.
- **Public Image** : When a business takes initiative to solve the problems of the society, it puts the business in the goodwill of the people.
- **Social Power** : A leader is a helper. Helping the society is a form of social responsibility. Exchange social work helps the business attain social power within the society.

The social responsibility of business comprises of the following obligations:

- A business must give a proper dividend to its shareholders or investors.
- It must provide fair wages and salaries with good working conditions.
- It must provide a regular supply of good quality goods and/or services to its consumers/customers at reasonable prices.

- It must abide by all government rules and regulations, supports its business-related policies and should pay fair taxes without keeping any delays or dues.
- It must also contribute in betterment of a local community by doing generous activities like building schools, colleges, hospitals, etc.
- It must take immense care to see that its activities neither directly nor indirectly create a havoc on the vitality of its surrounding environment.
- It should maintain a stringent policy to curb or control pollution in regard to contamination of air, water, land, sound and radiation leakages. Here, to do so, it must hire experienced professional individuals who are experts in their respective fields.
- It should also offer social-welfare services to the general public.

#### 1.4.4 The core objectives of social responsibility of business are as follows:

- It is a concept that implies a business must operate (function) with a firm mindset to protect and promote the interest and welfare of society.
- Profit (earned through any means) must not be its only highest objective else contributions made for betterment and progress of a society must also be given a prime importance.
- It must honestly fulfill its social responsibilities in regard to the welfare of society in which it operates and whose resources & infrastructures it makes use of to earn huge profits.
- It should never neglect (avoid) its responsibilities towards society in which it flourishes.

A) Now let's discuss, how the survival, growth and success of business are linked and dependent on sincere execution of its social responsibilities.

#### 1. Shareholders or investors

The shareholders are the investors in the business. They are the members of the company who put in money or capital for the business to run. A firm practices CSR towards shareholders by conducting business effectively to give back the share of investor, disclosing pertinent information to the shareholders and respecting their opinions, requests and concerns. Also the company is responsible for protecting and increasing the shareholder's assets.

Social responsibility of business towards its shareholders or investors is most important of all other obligations.

If a business satisfies its funders, they are likely to invest more money in a project. As a result, more funds will flow in and the same can be utilized to modernize, expand and diversify the existing activities on a larger scale. Happy financiers can fulfill the rising demand of funds needed for its growth and expansion.

## 2. Personnel

Social responsibility of business towards its personnel is important because they are the wheels of an organization. Without their support, the commercial institution simply can't function or operate.

If a business takes care of the needs of its human resource (for e.g. of office staff, employees, workers, etc.) wisely, it will boost the motivation and working spirit within an organization. A happy employee usually gives his best to the organization in terms of quality labor and timely output than an unsatisfied one. A pleasant working environment helps in improving the efficiency and productivity of working people. A good remuneration policy attracts new talented professionals who can further contribute in its growth and expansion.

Thus, if personnel is satisfied, then they will work together very hard and aid in increasing the production, sales and profit.

## 3. Consumers or customers

Social responsibility of business towards its consumers or customers matters a lot from sales and profit point of view. Its success is directly dependent on their level of satisfaction. Higher their rate of satisfaction greater are the chances to succeed.

If a business rolls out good-quality products and/or delivers better quality services that too at reasonable prices, then it is natural to attract lots of customers. If the quality-price ratio is maintained well and consumers get worth for their money spend, this will surely satisfy them. In a long run, customer loyalty and retention will grow, and this will ultimately lead to profitability.

## 4. Government

Social responsibility of business towards government's regulatory bodies or agencies is quite sensitive from the license's point of view. If permission is not

granted or revoked abruptly, it can result in huge losses to an organization. Therefore, compliance in this regard is necessary.

Furthermore, a business must also function within the demarcation of rules and policies as formulated from time to time by the government of state or nation. It should respect laws and abide by all established regulations while performing within the jurisdiction of state.

Some examples of activities a business can do in this regard:

- Licensing an organization,
- Seeking permissions wherever necessary,
- Paying fair taxes on time,
- Following labor, environmental and other laws, etc.

If laws are respected and followed, it creates a goodwill of business in eyes of authorities. Overall, if a government is satisfied it will make favorable commercial policies, which will ultimately open new opportunities and finally benefit the organization sooner or later.

Therefore, satisfaction of government and local administrative bodies is equally important for legal continuation of business.

## 5. Local community

Community engagement is one of the key pillars of corporate social responsibility, alongside the concern with the workplace, the market place and the environment.

Community involvement can take many forms. For example some businesses choose to :

- Support a local charity with financial contributions.
- Sponsor a local event.
- organise clean-up events.
- Volunteer in local schools or community projects.

Social responsibility of business towards the local community of its established area is significant. This is essential for smooth functioning of its activities without any agitations or hindrances. A business has a responsibility towards the local community besides which it is established and operates from. Industrial activities carried out in a local-area affect the lives of many people who reside in and

around it. So, as a compensation for their hardship, an organization must do something or other to alleviate the intensity of suffering.

As a service to the local community, a business can build:

- A trust-run hospital or health center for local patients,
- A primary and secondary school for local children,
- A diploma and degree college for local students,
- An employment center for recruiting skilled local people, etc.

Such activities to some-extend may satisfy the people that make local community and hence their changes of agitations against an establishment are greatly reduced. This will ensure the longevity of a business in a long run.

## 6. Environment

Social responsibility of business with respect to its surrounding environment can't be sidelined at any cost. It must show a keen interest to safeguard and not harm the vitality of the nature.

A business must take enough care to check that its activities don't create a negative impact on the environment. For example, dumping of industrial wastes without proper treatment must be strictly avoided. Guidelines as stipulated in the environmental laws must be sincerely followed. Lives of all living beings are impacted either positively or negatively depending on how well their surrounding environment is maintained (naturally or artificially). Humans also are no exception to this. In other words, health of an environment influences the health of our society.

Hence, environmental safety must not be an option else a top priority of every business.

### Arguments Supporting Social Responsibility

- (i) The justification for existence and growth.
- (ii) The long term interest in the firm.
- (iii) Reduces avoidance of Government regulations.
- (iv) Maintenance of society.
- (v) Converting problems into opportunities.

### Arguments against Social Responsibility

- (i) Violation of maximization of the profit motive.
- (ii) Cost of CSRs initiative is high, i.e. it increases the cost of consumer's products and services.
- (iii) Lack of social skills.
- (iv) Personal Resistance.

### 7. Public

Finally, social responsibility of business in general can also contribute to make the lives of people a little better.

Some examples of services towards public include:

- Building and maintaining devotional or spiritual places and gardens for people,
- Sponsoring the education of poor meritorious students, Organizing events for a social cause, etc.
- Such philanthropic actions create a goodwill or fame for the business-organization in the psyche of general public, which though slowly but ultimately pay off in a due course of time.

The world is recognizing the importance of social responsibility of business.

#### 1.4.5 self-check exercise

1. define corporate social responsibility
2. To whom business is responsible?

#### 1.4.6 glossary

Corporate social responsibility: CSR is the responsibility of the business towards various stakeholders. Business should perform activities which are beneficial for the society as a whole.

Stakeholders of the business: business has the responsibility towards employees, government, shareholders, customers, creditors and general public.

#### 1.4.7 Summary

Business receives its resources from society. Society provides financial resources, human resources and raw material to the business. By using these resources business produces goods and services to earn profits and to satisfy needs of customers, so in return business has responsibility towards society. Social responsibility is the duty of business to act for the benefit of the society. Business has the responsibility towards employees, customers, environment, general public, government and local community. When the business fulfils its responsibilities towards the all the stakeholders then it builds good public image of the business. It helps the business to raise funds easily and less government interference is there. Fulfilling social responsibility helps in growth and survival of the business. It is investment that gives long term returns to the business.

#### 1.4.8 answers to self exercise

1. see para 1.4.3
2. see para 1.4.4 (A)

#### 1.4.9 Exercise

Short questions:

- Q.1 Define social responsibility of the business.
- Q.2 What are the objectives of the social responsibility of the business?

Long questions:

- Q.1 Define social responsibility of business? Who are stakeholders towards whom business is responsible?
- Q.2 What do you mean by social responsibility of the business? How fulfilling social responsibility contributes towards growth and survival of the business?

#### 1.4.10 Suggested readings:

- Koontz And Wehrich: Essentials of Management (Tata Mc Graw Hill)  
P.C Tulsian: Business organisation and Management  
C.B Gupta: Modern Business organisation and Management (Sultan Chandand Sons)  
L.M Prasad: Organisation Behaviour (Sultan Chand and sons)
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## Mandatory Student Feedback Form

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Note: Students, kindly click this google form link, and fill this feedback form once.