



ATSWA

ACCOUNTING TECHNICIANS SCHEME WEST AFRICA

STUDY TEXT

MANAGEMENT

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA (ABWA)

**ACCOUNTING TECHNICIANS SCHEME
WEST AFRICA (ATSWA)**

STUDY TEXT FOR

MANAGEMENT

THIRD EDITION

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PREFACE

INTRODUCTION

The Council of the Association of Accountancy Bodies in West Africa (ABWA) recognised the difficulty of students when preparing for the Accounting Technicians Scheme West Africa examinations. One of the major difficulties has been the non-availability of study materials purposely written for the scheme. Consequently, students relied on text books written in economic and socio-cultural environments quite different from the West African environment.

AIM OF THE STUDY TEXT

In view of the above, the quest for good study materials for the subjects of the examinations and the commitment of the ABWA Council to bridge the gap in technical accounting training in West Africa led to the production of this Study Text.

The Study Text assumes a minimum prior knowledge and every chapter reappraises basic methods and ideas in line with the syllabus.

READERSHIP

The Study Text is primarily intended to provide comprehensive study materials for students preparing to write the ATSWA examinations.

Other beneficiaries of the Study Text include candidates of other Professional Institutes, students of Universities and Polytechnics pursuing undergraduate and post graduate studies in Accounting, advanced degrees in Accounting as well as Professional Accountants who may use the Study Text as reference material.

APPROACH

The Study Text has been designed for independent study by students and as such concepts have been developed methodically or as a text to be used in conjunction with tuition at schools and colleges. The Study Text can be effectively used as a course text and for revision. It is recommended that readers have their own copies.

FORWARD

The ABWA Council, in order to actualize its desire and ensure the success of students at the examinations of the Accounting Technicians Scheme West Africa (ATSWA), put in place a Harmonisation Committee, to among other things, facilitate the production of Study Texts for students. Hitherto, the major obstacle faced by students was the dearth of study texts which they needed to prepare for the examinations.

The Committee took up the challenge and commenced the task in earnest. To start off the process, the existing syllabus in use by some member Institutes were harmonized and reviewed. Renowned professionals in private and public sectors, the academia, as well as eminent scholars who had previously written books on the relevant subjects and distinguished themselves in the profession, were commissioned to produce Study Texts for the twelve subjects of the examination.

A minimum of two Writers and a Reviewer were tasked with the preparation of Study Text for each subject. Their output was subjected to a comprehensive review by experienced imprimaturs. The Study Texts cover the following subjects:

PART I

- 1 Basic Accounting Processes and Systems
- 2 Economics
- 3 Business Law
- 4 Communication Skills

PART II

- 1 Principles and Practice of Financial Accounting
- 2 Public Sector Accounting
- 3 Quantitative Analysis
- 4 Information Technology

PART III

- 1 Principles of Auditing
- 2 Cost Accounting

- 3 Preparation of Tax Computation and Returns
- 4 Management

Although, these Study Texts have been specially designed to assist candidates preparing for the technicians examinations of ABWA, they should be used in conjunction with other materials listed in the bibliography and recommended text.

PRESIDENT, ABWA

STRUCTURE OF THE STUDY TEXT

The layout of the chapters has been standardized so as to present information in a simple form that is easy to assimilate.

The Study Text is organised into chapters. Each chapter deals with a particular area of the subject, starting with learning objective and a summary of sections contained therein.

The introduction also gives specific guidance to the reader based on the contents of the current syllabus and the current trends in examinations. The main body of the chapter is subdivided into sections to make for easy and coherent reading. However, in some chapters, the emphasis is on the principles or applications while others emphasise method and procedures.

At the end of each chapter is found the following:

- Summary
- Points to note (these are used for purposes of emphasis or clarification);
- Examination type questions; and
- Suggested answers.

HOW TO USE THE STUDY TEXT

Students are advised to read the Study Text, attempt the questions before checking the suggested answers.

ACKNOWLEDGMENTS

The ATSWA Harmonisation and Implementation Committee, on the occasion of the publication of the first edition of the ATSWA Study Texts acknowledges the contributions of the following groups of people. The ABWA Council, for their inspiration which gave birth to the whole idea of having a West African Technicians Programme. Their support and encouragement as well as financial support cannot be overemphasized. We are eternally grateful.

To The Councils of the Institute of Chartered Accountants of Nigeria (ICAN), and the Institute of Chartered Accountants, Ghana (ICAG), and the Liberia Institute of Certified Public Accountants (LICPA) for their financial commitment and the release of staff at various points to work on the programme and for hosting the several meetings of the Committee, we say kudos.

We are grateful to the following copyright holders for permission to use their intellectual properties:

- The Institute of Chartered Accountants of Nigeria (ICAN) for the use of the Institute's examination materials;
- International Federation of Accountants (IFAC) for the use of her various publications;
- International Accounting Standards Board (IASB) for the use of International Accounting Standards and International Financial Reporting Standards;
- Owners of Trademarks and Trade names referred to or mentioned in this Study Text.

We have made every effort to obtain permission for use of intellectual materials in this Study Texts from the appropriate sources.

We wish to acknowledge the immense contributions of the writers and reviewers of this manual;

Our sincere appreciation also goes to various imprimaturs and workshop facilitators. Without their input, we would not have had these Study Texts. We salute them.

Chairman
ATSWA Harmonization & Implementation Committee

CONTENTS SUMMARY

SECTION A: NATURE OF BUSINESS

CHAPTER ONE: INTRODUCTION TO BUSINESS

This chapter deals with the primary purpose of the business enterprise and recognise it as profit maximisation. It gives a clear understanding of business ownership classifications, their merits and demerits. Stakeholders are discussed succinctly with special emphasis on types of stakeholders and their expectations.

CHAPTER TWO: BUSINESS ENVIRONMENT

This chapter discusses the environment of business as a major determinant of the policies, strategies and overall performance of any business. The concept of globalization is related to international environment in the chapter, the need for management adaptation to environment, adoption of information technology as a tool for veritable business management are equally discussed. Ethical issues confronting both the manager and other employees at the work place were evaluated with propositions on how to avert unethical behaviour in work place. Attention is also given to corporate governance in this chapter.

SECTION B: PRINCIPLES OF MANAGEMENT

CHAPTER THREE: MANAGEMENT THEORIES AND THOUGHTS

This chapter deals with various management theories, using the process of management as explanatory variables. The fact that dynamism of environment and peculiarity of situations being faced by organisations determine the best theory to be applied by managers is equally discussed. In a clearer language, evolution of each of these theories is equally discussed in this chapter.

SECTION C: MANAGEMENT PROCESS

CHAPTER FOUR: PLANNING, ORGANISING AND CO-ORDINATING

This chapter discusses planning, organising and coordination as principles of management. Meaning, concept and classification of each of these principles are also discussed in the chapter.

In addition to the contents of this chapter, Management by Objective is discussed alongside the involvement of managers, making it acceptable and functional.

CHAPTER FIVE: MANAGEMENT PROCESS: DECISION MAKING, CONTROLLING AND STRATEGIC MANAGEMENT

This chapter avails reader the concepts of decision, decision-making, decision making process, types and stages involved. The variants of programmed and non-programmed decisions are also discussed. Control is evaluated using the ZBB approach, break-even analysis, PERT and CPM. In order to lay credence to the importance of decision – making, strategic management process is equally discussed in this chapter.

SECTION D: ORGANIC BUSINESS FUNCTIONS

CHAPTER SIX: HUMAN RESOURCES MANAGEMENT

This chapter focuses on human resource as an organic functional area of business. Selection and recruitment processes are discussed and employees – employers relationship in workplace is equally discussed.

CHAPTER SEVEN: PRODUCTION MANAGEMENT

This chapter explains production as a vital organic functional area of business that deals with transformation of inputs into products and services to satisfy human wants and needs. Three major production systems, facility location and layout, sequencing and scheduling, inventory management, equipment maintenance and replacement strategy are discussed in the chapter.

CHAPTER EIGHT: MARKETING MANAGEMENT

This chapter x-rays marketing as an aspect of business organic functions. Emphasis is laid on marketing concepts, societal marketing concepts and marketing mix in this chapter. The chapter equally addresses various channels of distribution as well as their best applications in organisation.

CHAPTER NINE: ACCOUNTING FUNCTION

Deliberations on the accounting function conclude discussions on organic business functions and this is contained in this chapter. This chapter reviews the accounting function as being responsible for the measurement and communication of the activities of the organisation in monetary terms. Financial functions, organogram, manual and computerised accounting systems are discussed.

SECTION E: MANAGEMENT OF WORKPLACE RELATIONSHIPS

CHAPTER TEN: MOTIVATION, LEADERSHIP, COMMUNICATION AND CHANGE MANAGEMENT

This chapter explains what employee motivation stands for. Motivation in this chapter is identified as a morale booster for employees' productivity and commitment to organisation's objective. The chapter also discusses leadership as the grease that oils the wheel of motivational strategy implementation across organisations. This chapter equally discuss as communication as

a veritable tool for managing organisational conflict; except where constructive conflicts become absolutely inevitable. Barriers to effective communication as well as guidelines for communication application are amplified for the purpose of creating an undiluted understanding of the role of effective communication to organisational success.

SECTION F: OFFICE PRACTICE AND PROCEDURE, HEALTH AND SAFETY

CHAPTER ELEVEN: OFFICE PRACTICE AND PROCEDURE, HEALTH AND SAFETY

In this chapter, two major concepts are discussed, namely: Office practice and procedure; and Health and safety. Also, the chapter discusses the importance of health and safety at the workplace. It is stated that health and safety are important to an organization and its workers. Various legislations and regulations governing health and safety issues at the workplace are equally discussed, with specific emphasis on sources of dangerous injuries in the workplace and how to prevent them.

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LIST OF ABBREVIATIONS

ISIC	The International Standards of Industrial Classification
GDP	Gross Domestic Product
ITF	Industrial Training Fund
R&D	Research and Development

RBA	Results Based Accountability
MBO	Management by Objectives
NGT	Nominal Group Techniques
V.P.	Vice President
SBU	Strategic Business Unit
PERT	Programme Evaluation and Review Technique
BEP	Break-even Point
TFC	Total Fixed Cost
VC	Variable Cost
P	Price
PLC	Product Life Cycle
ROI	Return on Investment
ZBB	Zero-base Budgeting
NIM	Nigerian Institute of Management

SYLLABUS AND EXAMINATION QUESTIONS OUTLINE

PAPER 12: MANAGEMENT

AIM

To examine the candidates' knowledge and understanding of business and non-business organizations as well as the managerial knowledge, attitude and skills required to achieve efficient and effective operations of such organization in a dynamic environment.

OBJECTIVES

At the end of this course candidates must be able to:

- (a) define and explain the nature of business and non-business organizations;
- (b) understand the nature of business environment and its relevance to policy decisions of management;
- (c) explain the concept of corporate social responsibility, ethics in business, corporate governance and their relevance in business environment to the effective management of the business environment;
- (d) define and explain the basic concepts, principles, theories, techniques of management, strategic management and their applications to solving management problems;
- (e) understand the nature, role, function, procedures and the inter-relationships of the organic business functions of marketing, production, personnel and accounting;
- (f) understand the management of people for effective relationships at workplace;
- (g) identify and understand the elements of office practice and procedures, importance of health and safety at work.

STRUCTURE OF THE PAPER

The paper will be a three-hour paper divided into two sections. Section A (50 Marks): This shall consist of 50 compulsory questions made up of 30 multiple-choice Questions and 20 short answer questions covering the entire syllabus. Section B (50 marks) shall be six questions out of which candidates are expected to answer only four, each attracting 12½ marks.

CONTENTS

- | | | |
|-----------|---|--------------|
| 1. | Nature of Business | 16.6% |
| (a) | (i) Definition and objective of business, classification, growth and failure of business, ownership forms, advantages and disadvantages | |
| | (ii) Stakeholders in business, expectations and effects | |

- (b) Business environment
 - (i) Nature and role of business environment
 - (ii) Types: micro (internal), macro (external) and global environments
 - iii) Analysis of the element and change in economic, social, cultural, technological, political, legal, ecological, international environment; competitive strategy, environmental analysis and forecasting.
- (c) Corporate social responsibility, business ethics and corporate governance
 - (i) Social demands and expectations: arguments for and against social involvement in business; changing concept of social responsibility
 - (ii) Ethics in business: ethical issues in business, causes of unethical behaviours, ethical code, how to make businesses behave ethically, unethical practices and sanctions
 - (iii) Corporate governance – Need for corporate governance, codes of best practices on corporate governance in Nigeria, compliance, effects and sanctions.

2. Management Theories and Thoughts 16.6%

- i. Management: Definition, nature and purpose
- ii. Management: function, level, skills and roles
- iii. Management: Art or science, Universality of Management
- iv. Measures of managerial performance, productivity, effectiveness and efficiency
- v. Schools of management thoughts classical, neo classical and modern theories. Proponents and their applications

3. Management Process 17%

planning: Importance, types, steps, levels, benefits, tools and barriers to effective planning

- (a) Decision making: types, process, decision making situation, decision making techniques effective decision making
- (b) Organizing: Nature, purpose, principles of organization, structure, use of committees, factors determining organization structure, delegation and span of control, concept of organisational culture.
- (c) Coordination: Definition, types and techniques of co-ordination
- (d) Controlling: Nature, purpose, control process, characteristics and understanding control techniques
- (e) Strategic management: Definition and purpose, process, SWOT Analysis: strategy, corporate, divisional and growth strategies.

4. Organic business functions 16.6%

- (a) Human resources management
 - (i) Employment – manpower planning, recruitment selection, placement, induction job specification and job description
 - (ii) Training and development
 - (iii) Performance appraisal, promotion, transfer and lay-off

- (iv) Discipline and discharge
 - (v) Wages and salary administration
 - (vi) Industrial and labour relations, collective bargaining and grievance procedure and dispute settlement
- (b) Production function
- (i) Production management function
 - (ii) Production systems, process and characteristics
 - (iii) Plant location and layout
 - (iv) Production planning and control
 - (v) Productivity and productivity improvement scheme
 - (vi) Total Quality Management
- (c) Marketing function
- (i) Nature, functions and organization of marketing
 - (ii) Production era, product era, selling era, marketing concept era, societal marketing era
 - (iii) Market segmentation
 - (iv) Marketing mix: 4 P's of marketing and extended marketing mix (7 P's)
 - Product; classification and product life cycle
 - Pricing, objectives and methods
 - Place; choice of marketing channels
 - Promotion: personal selling, sales promotion, advertising and publicity
- (d) Accounting function
- (i) Purpose and importance
 - (ii) Structure of accounting department
 - (iii) Position within the organisation
 - (iv) Types of accounting system
 - Manual
 - Computerized

5. **Managing relationships in the workplace** **16.6%**

- (a) Motivation: roles; theories of motivation, implication of motivation theories, special techniques of motivation
- (b) Leadership: nature and role of leadership in organisation; leadership styles, leadership effectiveness
- (c)
 - (i) Groups: nature, formation and development; group effectiveness
 - (ii) Team: formation, development; evaluation and rewards
- (d) Conflict: types, development and sources of conflict; conflict outcomes; conflict management.
- e) Communication: definition; importance; types; channels and process of communication, barriers to effective communication; overcoming barriers to effective communication.

- (f) Management of change: process, source; resistance to change, overcoming resistance to change.

6. **Office practice and procedure, health and safety** **16.6%**

- (a) Office: Definition; functions (information and administrative); office planning and layout
- (b) Office machines and furniture
- (c) Office filing, storage and retrieval of records
- (d) Organisation and methods
- (e) Forms designing and control
- (f) Information Technology application in management
- (g) Health and Safety – Importance, health and safety regulations, sources of danger to health and safety within the workplace, safety preventive and protection methods.

RECOMMENDED TEXTS

1. ATSWA Study Pack on Management
2. Inegbenebor, A.U (2005) The World Evolutional History of Management, in Agbonifoh, Agbadudu and Bob E. Osaze (eds.) *Introduction to Business*. Lagos: Malthouse Press Ltd.

SECTION A

NATURE OF BUSINESS

CHAPTER ONE: INTRODUCTION TO BUSINESS

1.0 Learning objectives:

After studying this chapter, the reader should be able to:

- define the term business;
- explain the objectives of business;
- understand how businesses can be classified;
- explain the growth of business and why businesses fail;
- understand the various forms of business ownership;
- explain different forms of business ownership;
- understand the concept of “stakeholder”, their expectations and effects.

1.1 Introduction

In a free enterprise economy or a market economy, the business enterprise, otherwise known as the firm, is an important decision-making unit. The primary purpose of the business enterprise is to make profit.

However, there are decision-making units or organizations that are not established for the purpose of making profit. Such organizations are referred to as not-for-profit organizations.

Most not-for-profit organizations are established by government for the purpose of providing services for the good governance and administration of a country. However, a growing number of not-for-profit organizations exist which are not established by government. These are known as non-governmental organizations [NGOs). They provide a variety of services to different target groups in the society.

Business enterprises or firms, governmental establishments and non-governmental organizations are referred to generally as organizations. The purpose of this chapter is to explain the nature, objectives, classification and forms of business organizations. Stakeholders’ expectations and effects will also be discussed.

1.2 Definitions

Business can be defined as a social and lawful human activity, the primary aim of which is to make profit. We can rightfully say that a business is the organized effort, or activities of persons utilizing resources within an organizational context to produce and distribute goods and services for the purpose of profit making.

Briefly, business involves lawful human activities directed at the production and distribution of goods and services with the aim of making profit.

1.3 Objectives of business

Objectives are the ends which the business desires to attain. Objectives are important because they:

- i. Indicate the purpose and aim of the business and thus justify the very existence of the organization.
- ii. Provide direction for the operations of the business enterprise.
- iii. Set standards for control of the business activities.
- iv. Help to coordinate decisions by the managers.
- v. Performance can be measured against objective of the individual unit or corporate levels

1.3.1 Primary objectives of business

The main objective of the business enterprise is to make profit. Profit is a reward to the owners for taking the risk of establishing a business enterprise. It is also the source of growth and continued survival of the business enterprise.

1.3.2 The secondary objectives of a business are:

- (a) Productivity - This shows the extent to which a business concern is able to utilize a given set of resources to attain the highest or a pre-determined value of output.
- (b) Innovation – This is a strategic business consideration employed by a business entity to satisfy the needs of consumers better than its competitors by involving itself in the introduction of new products, new methods of production and distribution .
- (c) Growth Objective – One of the objectives of business is expansion of its operations. This may take the form of increase in capital employed; increase in market share, increase in the number of people employed, etc. The purpose of the growth objective is to achieve economies of scale, enhanced competitiveness, increase the market share and overall profitability.
- (d) Shareholder Satisfaction – This occurs when the business seeks ways to improve on return on investment as well as reduce their risks.
- (e) Employee Satisfaction – Forward-looking business concerns are always looking for ways to enhance the satisfaction of employees, which in turn, enhances their contribution to the growth and competitiveness of the organization.
- (f) Positive Public Image – This enables the organization to obtain resources on

favourable terms, improves its image as a good corporate citizen that produces and distributes high quality products as well as striving to project itself as an organization that cares about its employees, the community and other social responsibility considerations.

1.4 Classification of businesses

Businesses can be grouped based on the following:

- (a) Size of the unit
- (b) Ownership type
- (c) Use of output
- (d) Input used, etc.

1.4.1 Size Based Classification: - Based on the size of the capital investment, total assets, sales turnover or the number of people employed, businesses can be classified as micro, small, medium or large business. The Federal Ministry of Industries has classified enterprises into four categories by size. These are micro enterprises, small scale enterprises, medium scale enterprises and large scale enterprises. According to this classification:

- i. A micro enterprise is a business with value of total fixed assets excluding land not exceeding ₦400,000.00.
- ii. A small scale enterprise is that with value of fixed assets between ~~₦400,000.00~~ and ~~₦5 million~~.
- iii. Medium scale enterprises have the value of fixed assets ranging between ~~₦5 million~~ and ~~₦10 million~~.
- iv. Large scale enterprises are those whose fixed assets exceed the ~~₦10 million~~ mark.

Business enterprises may also be classified according to the number of paid employees. The classification currently applicable in Nigeria using size of employment is as follows:

Micro-enterprises	1-10 employees
Small scale enterprises	11-100 employees
Medium scale enterprises	101 – 300 employees
Large scale enterprises	301 and above.

The classification of businesses on the basis of size varies from one period to another within the same country. For example, in the seventies, a small scale business in Nigeria was defined as that with total assets excluding land not exceeding ₦150,000.00, and size of employment not exceeding 50.

1.4.2 Use Based Classification

The Use-Based Classification emphasizes the nature of output and its use. Businesses can be grouped into basic industries, capital goods industries, intermediate

goods industries and consumer goods industries.

- (a) Basic industries are those which provide the basic inputs or raw materials for the development of other industries. For example, fertilizer is the basic input for agriculture; coal, oil and gas are also regarded as basic to the development of other industries.
- (b) Capital good industries are industries that produce plants, machinery, equipment, and tools which are required for the manufacture of other goods and services. Capital goods industries require high capital investment.
- (c) Intermediate good industries are industries that produce goods such as materials, parts and components used in the production of other goods. This type of industry enhances the value of goods by changing their physical forms.
- (d) Consumer good industries are industries, the output of which is used by the final consumers. Consumer goods industry can be further classified as consumer durables and consumer non-durables. Example of Consumer non-durables are soaps, toothpaste, foodstuff and other consumable items. Consumer durables include refrigerators, television sets, bicycles, and cars etc., which serve the customers for a long period of time.

1.4.3 Input Based Classification

On the basis of the source of major input and nature of input, industries may be classified into agro-based, forest-based, marine-based, metal and chemical-based industries.

An agro-industry is one which uses agricultural produce like cocoa, palm produce, jute, cotton, etc. As their major input. Forest-based industries are those, which use forest produce as their major input. An example is paper industry. Many industries, such as producers of fertilizers, drugs, etc., are regarded as chemical-based industries as chemicals are the major input.

1.4.4 Types of Manufacturing Industries

Manufacturing industries are divided into the following four categories:

(a) Analytical Industry

These are industries concerned with separating a single material input into several elements. In a refinery (oil industry) crude oil, which is the single input, is used in the production of many products like petrol, diesel, kerosene and lubricating oils.

(b) Synthetic Industry

This is concerned with combining several raw materials and processing them into a single unit (output). For example, limestone, gypsum, silica, iron oxide etc., are crushed, mixed and blended to form cement.

(c) Process Industry

It is concerned with the processing of materials through different stages of production so as to make the final product. For example, cotton is processed through several stages like cleaning, ginning, spinning, weaving, bleaching, dyeing, etc., to convert it into cloth.

(d) Assembly Line Industry

This involves joining various components and parts to produce a single product. For example, a car, television set, dress, etc., is made by joining together, several different component parts.

1.4.5 Profit/Non-profit

A business or profit-oriented organization is generally created to generate profit for its shareholders. The not-for-profit organization is not designed to generate profit for its owners. Examples of not-for-profit organization are the Red Cross, National Agency for Food and Drug Administration and Control (NAFDAC), etc.

1.4.6 Public Sector/Private Sector

Business enterprises can be classified according to whether they are largely owned by government and its agencies or by private individuals and firms. When a business is owned by government or its agencies, the enterprise is regarded as a public sector enterprise. If it is owned by private individuals/firms, it is regarded as a private sector enterprise. The extent to which government owns business enterprises in an economy indicates whether the economy is a planned or a free enterprise economy.

1.4.7 Industrial Classification

The International Standard of Industrial Classification (ISIC) is a common method of classification of establishments into various economic sectors. This method adopts a numbering system that makes it possible to classify establishments precisely into divisions, then into major groups and then into sub-groups.

The numbers used for divisions and major groups are shown below:

No.	Industry Divisions/Group
01-09	Agriculture, Forestry and Fishing
10-14	Mining
15-19	Construction

20-39	Manufacturing
40-49	Transportation, Communication, Electric, Gas and Sanitary services
50-51	Wholesale trades
52-59	Retail trade
60-69	Finance, Insurance, Real Estate
70-89	Services
90-97	Public Administration
98-99	Non-classifiable Establishment

1.5 Growth in Business

There are three key indicators of the size of a business enterprise, namely:

- i. Value of assets
- ii. Number of employees
- iii. Sales turnover

1.5.1 Types of Growth

- (a) Internal (Organic) growth – This is the growth that occurs when a firm expands through selling more of its existing products or services or new products/services. Following increase in sales, the firm may employ additional staff, increase its total asset base or capital base.
- (b) External growth – This occurs when a firm acquires, takes over or merges with another firm thus increasing all or some of its size indicators.

1.5.2 Need for Growth

The motivating factors include:

- i. Economies of scale e.g., managerial, technical, purchasing, financial
- ii. Personal ambition
- iii. Market power – to compete more effectively
- iv. Reduction in the risk of failure
- v. To increase the status of the firm
- vi. Avoid takeover: Larger firms are less likely to be taken over.
- vii. Attract resources: Size enables firms to attract more resources.

1.5.3 Growth and Cash flow

Growth can place strains on cash-flow as:

- i. Firms invest in more stocks
- ii. Firms expand into new locations
- iii. Firms invest in new equipment
- iv. Additional staff is employed thus increasing the wage bill.

All of these increase the need for additional cash. Yet, it is likely to take time before

the goods are sold and cash is received from sales. Meanwhile, it can cause cashflow problems, called 'overtrading'.

1.5.4 Managing Growth

To control a business as it grows, a firm may need to:

- i. engage in more elaborate planning;
- ii. set budgets;
- iii. develop a formal organization structure e.g., a functional structure;
- iv. use performance appraisal systems;
- v. improve internal communication systems;
- vi. produce job descriptions;
- vii. decentralize operations and delegate authority;
- viii. install more sophisticated control systems.

1.5.5 Problems of Growth

- i. Cashflow problems – overtrading
- ii. Diseconomies of scale – control, communication and coordination problems
- iii. Problem of delegation e.g., having to learn how to assign authority and responsibility to other people rather than doing everything oneself.
- iv. Risk of loss of direction and control, i.e., different departments, business units, managers pursue their own objectives/goals.
- v. Inadequate personnel and other resources to support growth.

1.6 Failure of Business

1.6.1 Why businesses Fail

Business ventures are usually driven by people with a will to succeed. The very idea of failure is something that many banish from their minds altogether. Drive, ambition and the will to succeed alone, however, are seldom enough to guarantee success in an increasingly complex and competitive world.

Whether one likes it or not, a significant proportion of new ventures today will not make it to celebrate their fifth year in business. By taking cognisance of some of the reasons why businesses fail, you can help your business to become alert and to, at least, avoid some of the more common pitfalls and causes of business failure.

(a) A bad idea to begin with

While having faith in the initial business concept is an important attribute of any entrepreneur, it's often not enough. It is sometimes the case that the "unique" business idea is not so unique after all, and that the market is already well served or there is less demand than was originally thought.

(b) Poor Planning

The initial business plan is a blueprint for success. Failing to stick to the plan, failing to put in the kind of intense research needed to begin with or, more commonly, failing to seek out and heed professional advice are common ways in which a business can get off to a bad start. Planning ahead is vital at every stage of the business and the relationship between planning and control should be continuous. Managers make plans and control is used to evaluate the effectiveness of organisational activities relative to the plan put in place. The current plan should be maintained, but, if adequate progress is not made as indicated in the control system, there may be the need to review the course of activities in the plan.

(c) Lack of Capital

Under-capitalization is a common reason why businesses face serious threats in the first few years of operation. Adequate capitalization must take into account the set-up capital and business sustainability.

Buying an existing business can mean that you can bypass many of the initial hurdles such as establishing business premises, buying equipment and machinery and, of course, finding your first set of customers. While buying an existing business is no guarantee of success, it can give you an advantage during those crucial set-up months and can be a more cost-effective solution. Subsequently, the business organisation should embark on measures that can improve sales volume, boost revenue and consequent profitability.

(d) Not knowing the market

Knowing who your customers are and what they actually want, rather than what you believe they want, is one of the keys to business survival. Failure to keep in touch with customers through implementation of a practical marketing plan, and failing to keep up with changing wants and needs can contribute to business failure.

(e) Cash-flow crisis management

When the cash outflow is in the excess of cash inflow, there is a problem. However, many businesses ignore this, either wilfully or negligently underestimating the problem and managing each crisis as it (inevitably) arises. Even profitable companies can sink due to poor cash management.

Ignoring cash-flow situation often leads to problems, such as: increasing operating costs and cost of finances, falling share price, declining earning ratios across divisions, vendors, etc.

(f) Doing it all

The manager should endeavour to delegate some responsibilities, while still handling the sensitive ones. Building a team of competent employees with a set of jobs and goals leaves you to concentrate on essential issues. No job is more important to a business than effective management. A boss who is constantly doing the little things rarely has the time to concentrate on the bigger picture.

(g) Inadequate Control

Inadequate control shows a situation in which the control mechanism put in place is not functioning well and or is not suitable for the type of operations. While nobody expects the organisation to do it all, it is essential to keep control of the business at every level and to have the right control mechanisms in place so that a potential problem can be nipped in the bud before it is too late.

(h) Inadequate protection

Bad things happen to good businesses every day. Examples are flood disaster, fire outbreak, loss of key personnel, theft, etc., hence, protection against risk can help secure the future of the business. This can be done by insuring the properties of the business organisation.

(i) Failing to change

Changes are always occurring in the external environment of the business. Failing to take note of changes in the business environment can lead to problems. What competitors are doing, changes in technology and best practices, changing government policies as well as changes in your customers' buying patterns and tastes need constant monitoring so that adjustments can be made to cope with them.

(j) Growing too fast

Fast, unchecked expansion can be more risky than slow growth for any business. Growing too rapidly brings with it the risk of loss of control and over-stretching of the businesses' resources and financial base.

(k) The illusion of starting out as a big company

Many business men do not like to be seen as small investors, hence, they embark on big projects that they cannot manage effectively.

1.6.2 Planning Against Business Failure

It should be understood that there is no magic solution to guarantee business success. However, the following considerations should assist in the improvement of chances for success.

- i. Development of a business plan
- ii. Obtaining accurate financial information about the business in a timely manner.
- iii. Having a profile of the target customer
- iv. Having a profile of competitors
- v. Developing a suitable and effective control system
- vi. Networking with other business owners and managers in similar industries
- vii. Remembering that, someone will always have a lower price than you
- viii. Developing a strong management team through effective recruitment, training and attractive reward system
- ix. Realizing that consumer tastes and preferences keep changing
- x. Being well informed of the resources that are available.

1.7 Ownership Forms

Ownership is a legal relationship between a person and some object. Ownership can be considered as the rights which the owner exercises over his possessions and it is determined by law. However, it is crucial to determine clearly and specifically who the legal owners are, so as to know who the beneficiaries from such productive endeavours are. Thus, any form of business ownership would clearly spell out the profit sharing arrangement along with the responsibilities for debts and other liabilities, .

1.8 Selection of Forms of Ownership

In this section, various forms of business ownership would be discussed.

1.8.1 The Sole Proprietorship

This is the simplest, the most common and the oldest form of business ownership. The business is owned, managed and controlled by an individual. He is entitled to all the profits and has to bear the losses of the business.

The sole proprietor is solely saddled with the responsibility of raising all the capital from personal resources, friends, relatives, and from the bank; he or she is mainly responsible for all the business decisions.

This form of business arrangement is common in the retail and wholesale trading, professional practice and construction industry. Because of the high degree of independence of the sole proprietor, this form of ownership can be formed without any written agreement, charter or legally binding agreements.

Features of Sole Proprietorship

The following are the important features of sole proprietorship business:

a. Individual initiative dominates

The owner of the business takes decision on his own based on experience and sense of judgement without any contributions from anybody.

b. Risk bearing

The risks of the business are borne by the Proprietor alone. The beauty of this is that he also takes all the profit.

c. Management and control

The Proprietor manages and controls the business. He has the option of engaging a manager or not and where he does, he is usually assigned insignificant managerial power while the control still resides with the business owner.

d. Unlimited liability

The Proprietor is responsible for the losses and liabilities of the business. Where there is an insufficient capital to run the business, he may sell his personal assets.

e. Secrecy

The Proprietor keeps all the business secrets to himself alone.

f. Minimum government regulations

Government does not interfere with the operations of the business.

(a) Advantages of Sole Proprietorship

- i. Easy formation
- ii. Benefits of small scale operations
- iii. Inexpensive management
- iv. Better control

(b) Disadvantages of Sole Proprietorship

- i. Lack of continuity
- ii. Limitation of size
- iii. Slow technological progress
- iv. Limited ability to attract and retain capable employees
- v. Limited access to sources of capital
- vi. Limitation of management skills
- viii. Unlimited liabilities

1.8.2 The Partnership

This arrangement occurs when two or more individuals come together and agree to organize and operate an enterprise jointly with profit as the motive. They contribute their capital and jointly offer their services for the success of the business. The legal basis for this arrangement is contractual and it specifies the duties and rights of the partners.

The practice of law, insurance, finance, accountancy and other similar professions abound with partnership form of ownership. In the course of their contractual activities, the partners specialize in one or more aspects of the activities of the firm.

Furthermore, this arrangement becomes very useful as a way for the partners to contribute their resources such as capital, time, effort and services in order to earn profit which can be shared on an agreed basis.

Features of Partnership

The features of partnership are as follows:

i. Based on an agreement

This type of business is usually formed on the basis of an agreement between two or more persons to carry on business. The terms and conditions of partnership are usually stated in the Partnership Deed.

ii. Profit and loss sharing

The partners are entitled to share the profits realised and also bear the loss.

iii. Agency relationship

The business can operate such that all partners will participate in the operation, with each being a principal partner. Any of the partners can also act on behalf of other partners as agent. By this, every partner can bind the firm by his acts.

iv. Unlimited liability

In case some obligations arise and the partnership assets are not sufficient, private properties of the partners can be taken to defray the liabilities of the firm.

v. **Common management**

Every partner has a right to participate in the management of the business. Where a partner does not partake in the running of the business, it becomes imperative that his consent be sought before taking strategic business decisions.

vi. **Restriction in the transferability of shares**

No partner can transfer his/her shares without the consent of all other partners

(a) **The General Partner**

The general partner has unlimited liability for all actions of the business. He is also referred to as an active partner. He takes active part in the management of the business. He may act as the managing or executive director, or manager of the firm.

(b) **The Limited Partner**

The limited partner is sometimes referred to as the sleeping partner or dormant partner. He or she contributes only a part of the capital of the business but does not usually take an active part in the management of the enterprise. He/she shares in the profit or loss of the business with other partners but risks only the loss of the capital contributed in the event of failure of the business.

There are varied legal formalities for partnerships. It is desirable that there is a written partnership agreement. As a rule, this document is drawn up by a legal practitioner having the following items as important information:

- (i) Description of the partners (names, responsibilities, initial investments, salary, and proportion of profits entitled to).
- (ii) Description of business (Business names, location, and types of business).
- (iii) Description of the business practices (the fiscal year and accounting system and the amount of fund that can be withdrawn within a given period).
- (iv) Provision for changes in the partnership (duration of partnership, renewal of partnership, admission of new partners and the treatment of partnership upon withdrawal or death of a partner).
- (v) Signature of partners.

Advantages of Partnership

- i. More managerial skills available than in a sole proprietorship.
- ii. Pooling of financial resources by partners
- iii. Reduction of strain on one individual, as responsibilities can be shared

- with other partners
- iv. New partners can be admitted
- v. Enhanced ability to attract and retain capable employees.
- vi. Balanced business decision
- vii. Risk sharing

Disadvantages of Partnership

- i. Unlimited liability
- ii. Limited life
- iii. Arguments or disagreement can arise among the partners
- iv. Limited access to initial capital when compared with companies
- v. Difficulty in withdrawing from the firm
- vi. Risks of implied authority

Dissolution of a Partnership

A partnership can be dissolved for any of the following reasons:

- i. Court order
- ii. Technical insolvency
- iii. Mutual agreement
- iv. Completion of the assignment or task for which the partnership was established.
- v. Death of a partner

1.8.3 The Corporation (Limited Liability Company)

Most large businesses are organized as corporations because of the inherent disadvantages of the sole proprietorship and partnership forms of business. A corporation comes into existence as a result of legal document which is generally referred to as a “Charter”. This charter is available to any prospective applicant based on request, and who is expected to meet and fulfil certain basic legal requirements.

The owners of a corporation are referred to as shareholders or stockholders. The shareholders elect the board of directors which directly controls the management of the corporation. The board of directors is saddled with the responsibility of appointing the chief executive and other top officials who are expected to carry out the management functions delegated to them.

As soon as the company is incorporated, it becomes a legal entity; it can then be regarded as an artificial person in law, which is expected to live forever; and it is owned by the shareholders.

(a) Advantages of a Corporation

(i) Limited liability

Each shareholder who has paid the full par value of his stock is liable only to the extent of his investment. If the corporation fails, he can lose his investment but the company's creditors have no claim to his personal property.

(ii) Capital formation

When members of the general public have confidence in the viability of the business and the soundness of its management, they become encouraged to invest in it by buying its shares and stocks. As a result, the corporation can raise a large amount of capital.

(iii) Perpetual life

The corporation which has a legal existence is independent of its owners. In the event that a shareholder withdraws by selling his or her shares or dies prematurely, his next of kin can take over ownership of the shares or stocks and the existence of the business is not affected.

(iv) Ease of expansion

Because of the existence of the capital market, companies can expand more easily. Thus, capital can easily be raised through the sale of shares which can be used to expand and run the business.

(v) Transferability of Ownership

This is easily and readily effected by anyone who wants to purchase shares and/or stocks and is willing to pay the price asked by the owners.

(vi) Competent management team

Professional and competent managers can be hired. If such managers hired cannot perform, they can easily be replaced by the board of directors.

(b) Disadvantages of a Corporation

(i) Government regulations

By Federal and state laws, the activities of these corporations are regulated because it is a legal person.

(ii) Large initial capital

Much capital is needed in the formation of a corporation.

(iii) Lack of secrecy

A company's financial transaction cannot be shielded from public view because shareholders must be provided with annual report of its performance.

(iv) Goal Incongruence

When there is a conflict of interest between individual goal and the business objective, for example, employees are usually concerned with increase in salaries while the organisation is likely to be emphasising profit maximisation.

(v) Divergence of Owners/management interests

Since owners want their dividends while the management may desire growth and expansion, conflict may arise when review of stewardship comes up during the annual general meeting.

(vi) Organizational expenses

This form of business involves substantial costs of incorporation, allowances for members of the board of directors, salaries of top management staff etc.

(vii) Large size

This may bring about reduction in efficiency as a result of bureaucracy when there is too much complexity, rigid rules and regulations.

1.8.4 Formation of a Limited Liability Company

Before anyone is allowed to start a business enterprise, he/she must register with the Corporate Affairs Commission (CAC), and be duly cleared by them.

Before registration, a company is required to file Articles of Association and Memorandum of Association. Below are some of the contents of these documents:

1. Articles of association

This contains the rules and regulations of the company in question which are the following:-

- (i) Appointment and termination of directors
- (ii) Procedures for the issue and transfer of shares
- (iii) Rights and responsibilities of shareholders
- (iv) Procedure for auditing and accounting.

2. Memorandum of Association

In this document, there are laid down guidelines for the company and the members. In addition, there are laid down parameters concerning the company and its outside public listed below:

- (i) The name of the company with letters PLC which means Public Listed Company attached.
- (ii) The address and/or location of the business
- (iii) The type of business
- (iv) A statement indicating that the liability of its corporate members is limited.
- (v) The number of shares into which the company's share-capital is divided.

3. Certificate of incorporation

Upon submission of the required documents and payment of the prescribed fees, the Corporate Affairs Commissioner will issue a Certificate of Incorporation to the company; and then authorization is given for it to legitimately commence business.

1.8.5 Cooperative

This form of business set up is distinct from its owners and is usually regarded as a legal person. There is continuity of the business irrespective of individual's death or withdrawal. In this arrangement, an individual buys shares in a similar fashion as what obtains in a corporation. In taking decisions, each member has only one vote. In the course of the business, surplus earnings are shared in the form of dividends which is hinged on the volume of members' purchases. The concept of cooperative is to ensure that the goods and services available and supplied are cheaper than what obtains elsewhere. Usually, a manager is appointed to run the business by a board of directors which is charged with the responsibility of making policies that guide the

running of the cooperative.

Characteristics of Cooperative Organisation

The following are the main characteristics of cooperatives:

- i. Voluntary association
- ii. Equal voting rights by members
- iii. Separate legal entity
- iv. Based on service motive of its members
- v. Distribution of surplus

1.8.6 Types of cooperatives

There are three major types of cooperatives:

(a) The agricultural marketing cooperatives

These are usually found in the purchasing and marketing areas. The purchasing cooperative usually purchases products and then resells them to its members and non-members alike. Here, they are involved in products such as seeds, farm machineries and fertilizers. On the other hand, in the area of marketing, a group of growers or producers come together to do business. The types of product they are usually involved in single products or a group of closely related products.

(b) The credit and banking cooperatives

In this setup, the members organize credit and banking cooperatives to issue loans to members and the general public at affordable interest rates. Cooperative banks springing up in most parts of the country are examples.

(c) Consumer cooperatives

This type is usually established by a group of consumers. Products are bought at wholesale prices so as to eliminate excessive profits made by middlemen. By so doing, products are sold more cheaply to its members and the general public.

1.8.7 Advantages

(i) Tax Advantage

By the nature of their operation, cooperatives enjoy tax advantage over other forms of businesses.

(ii) Democracy is Practised

Democratic elections are held to choose members of the executive. Each

member is entitled to only one vote.

(iii) Training

The members are trained in the various aspects of managing the cooperative.

(iv) Pooling of Resources

As a result of the large number of co-operators, they are able to pool their resources together and this affords them access to funds to run the business.

Governments also support cooperatives with various incentives including loans at concessionary rates of interest.

(v) Limited Liability

The liability of the members is limited to the extent of capital contributed by them

(vi) Economical Operations

The operation is quite economical due to elimination of middlemen and voluntary services provided by its members.

1.8.8 Disadvantages

(i) Lack of Freedom

The members are not free to sell their products in any market of their choice.

(ii) Reduced Finance

When some members are not forthcoming in their financial contributions, this reduces the pool of funds available. Thus, this may hinder it to compete more favourably with private businessmen who they want to replace.

(iii) Dishonesty

Because of the insincerity of some of the executives and staff who collude to enrich themselves, many cooperatives have not thrived very well.

(iv) Low salaries

There is the tendency to pay staff lower salaries than prevailing rates in the economy. This accounts for the poor calibre of managers and staff they employ.

(v) **Rigid Rules and regulations**

Excessive government regulations and control affect the effective functioning of the cooperative societies.

1.9 Stakeholders in Business, Expectations and Effects

1.9.1 Definition of Stakeholder

The term 'stakeholder' means any individual or group of individuals who have a strong interest (a 'stake') in the organisation and what it does or trying to achieve.

Internal stakeholders

Internal stakeholders of a company are inside the company and a part of it. They include:

- i. Shareholders
- ii. Directors and Top Management
- iii. Senior Management Staff
- iv. Other managers and staff.

External Stakeholders

External stakeholders are individuals or groups who do not work for the company but who nevertheless have keen interest in what the company does and who might be able to influence the way in which the company is governed. They include:

- i. Lenders
- ii. Suppliers
- iii. Regulators
- iv. Government
- v. General Public
- vi. Special Interest Groups
- vii. Company Auditors

1.9.2 Expectations of Stakeholders

Each stakeholder or stakeholder group has different expectations from a company. They expect to benefit from their association with the company and the expected benefits are different. For example, shareholders' expectation may include share price growth, stable dividends and good returns on investment, while the directors and senior managers might place emphasis on personal advancement such as remuneration, status and power to make key strategic decisions.

1.9.3 Effects of Stakeholders' Expectations

These stakeholder groups have different rights and duties and they also have different expectations of what the company should provide for them. The effect of these differences in expectations is regular stakeholders' conflict. For example, directors and

senior managers will normally press for improved take-home pay and other welfare packages which the shareholders might consider as eroding the profitability of the company and consequent reduction in dividend pay-out, which is a major interest to shareholders.

If a company wishes to remain associated with its stakeholders, it must be innovative enough to balance and satisfy these expectations.

1.10 Summary

The primary purpose of the business enterprise is to make profit. Profit is a reward to the owners for taking the risk of establishing a business. Businesses can be grouped according to their size, ownership types, use of output and input use, etc.

The three key indicators (measures) of the size of a business were identified as: (i) value of assets; (ii) number of employees; and (iii) sales turnover.

While it is important to grow a business, growth can place strains on cashflow. Therefore, great emphasis should be placed on managing growth and this involves the use of planning techniques, using performance appraisal system, setting budgets, improving internal communication systems, developing formal organizational structure, producing job descriptions, decentralizing operations and delegation of authority.

In the exercise of ownership forms, it is crucial to determine clearly and specifically who the legal owners are, so as to know the beneficiaries of such endeavours. There are various forms of business ownership such as (i) sole proprietorship, (ii) the partnership, (iii) the corporation, (iv) cooperatives. Their advantages and disadvantages as well as the formation of a limited liability company were highlighted. All the forms of business have their advantages and disadvantages. Thus, it is more insightful to know, appreciate, and select the appropriate form of ownership.

It is important to note that expectations of different groups of stakeholders are not the same and they are often inconsistent with each other

1.11 REVIEW QUESTIONS

SECTION A – (ATTEMPT ALL QUESTIONS)

Part 1: Multiple Choice Questions

1. Which of the following is the primary objective of business?
 - (a) Radical Practice of communication
 - (b) Capitalising on the principle of equity

- (c) Investing minimally in stocks and bonds
 - (d) Profit Maximisation.
 - (e) Identifying and effectively serving the needs of the board of directors.
2. “Organic” growth in business involves:
- (a) Expanding by involving other businesses
 - (b) Expanding through acquisition
 - (c) Expanding by selling more of existing products
 - (d) Expanding through take over
 - (e) Carrying out market segmentation
3. Which of these does not constitute external stakeholders in the business enterprise?
- (a) Unions
 - (b) Suppliers
 - (c) Competitors
 - (d) Government agencies
 - (e) Board of directors
4. The industry involved in the combination of several inputs and processing them into single unit (output) is called:
- (a) Process industry
 - (b) Synthetic industry
 - (c) Analytical industry
 - (d) Assembly line industry
 - (e) Smelting industry
5. The commonest and oldest form of business ownership is called:
- (a) Partnership
 - (b) Sole proprietorship
 - (c) Cooperatives
 - (d) Joint stock company
 - (e) Franchise

Part II: Short Answer Questions

1. The type of industry that joins various components and parts to produce a single product is called.....
2. The industry concerned with separating single material input into several elements is known as.....
3. An arrangement wherein two or more individuals come together and agree to organize and operate an outfit jointly with profit as the motive is known as.....

4. The document that contains laid out guidelines for a company and its members is.....
5. The type of growth that occurs when a firm acquires, takes over or merges with another firm is called.....

Solutions

Multiple Choice Questions

1. D
2. C
3. E
4. B
5. B

Short Answer Questions

1. Assembly industry
2. Analytical industry
3. Partnership
4. Memorandum of Association
5. External growth

CHAPTER TWO: BUSINESS ENVIRONMENT

2.0 Learning Objectives

After studying this chapter, the readers should be able to:

- explain the nature of the business environment and its component parts;
- discuss the importance of the business environment to a business enterprise;
- explain globalization and the factors influencing it;
- understand the types of environment, environmental analysis and forecasting;
- understand social responsibility and its attendant issues;
- discuss business ethics as an emerging issue in business management;
- appreciate the principles, concepts and effects of corporate governance;
- understand the compliance requirements and sanctions for non-compliance with corporate governance codes.

2.1 Introduction

A business does not operate in a vacuum. Generally, a business operates in a multifaceted environment (an environment with many parts). The environment itself is subject to a lot of changes. The relationship between business and its environment is one of mutuality: that is, the environment exerts pressure on the business while the business, in turn, influences some aspects of its environment. The nature of the environment in which the business enterprise operates, therefore, needs to be clearly understood by managers.

2.2 Nature of the business environment

Business environment can be defined as a set of factors or conditions that are external to the business but which have influence on the operations of the business enterprise. By external, we mean that these factors or forces are not usually within the control of the business enterprise. Business environment may also be seen as the web of forces which form the setting in which the firm makes its decisions. For the firm to succeed, it must take its environment into account in making its decisions.

The conditions or factors within the firm constitute its internal environment. Unlike the elements of the external environment, these conditions, factors or processes are generally regarded as controllable by the firm. For example, the nature of the production and distribution facilities, financial and human resources, the quality of interpersonal and inter-group relationships, etc., are subject to the control of the firm.

The external environment is generally regarded as uncontrollable as no single firm can determine or influence it. The external environment is the setting in which all firms in the industry operate.

It is not every element of the external environment that is relevant or significant at a point in time to a given firm as it makes decisions. Some aspects of the external environment are directly relevant and must be taken into consideration by a firm in making decisions.

Some elements of the external environment have direct implications for the successful operations of the firm. For example, the behaviour of a firm's customers, bankers and suppliers have immediate and direct effect on the operations of the firm. Elements or factors of this nature are said to belong to the direct-action component of the external environment.

The direct-action environment is also known as the task environment or operating environment. Other elements of the direct-action environment are competitors, distributors, government agencies, the immediate community and special interest groups.

The indirect-action component of the external environment consists of factors or forces that have a general influence on the operations of the firm. These factors or forces are common to all the firms in the economy. While each firm in the society must understand the nature of, and the changes occurring in the indirect-action environment, such changes apply to every firm operating in the economy.

The indirect-action environment is also referred to as the general environment which can be classified into economic, socio-cultural, political, technological and legal/public policy environment.

Usually, a firm's external environment is discussed in the context of the national economy in which it operates.

However, with globalization, changes occurring in the economies of other nations may have effect on the operations of the firm. For example, changes occurring in the economy of the United Kingdom may have implications for certain firms in Nigeria.

Hence, another level of the firm's external environment is the international or global environment. Like the general environment, the components of the international environment are economic, socio-cultural, political, technological and legal/public policy environment.

2.3 Importance of business environment

A business depends on its environment for the supply of all its input and at the same time absorbs the output of the business enterprise.

The environment provides opportunities for alternative investment which the business manager can exploit to his or her advantage. On the other hand, the environment could constitute a threat or constraint to the business enterprise if changes in it are

unfavourable.

For a business to survive in the long run, it must be seen as coping, adapting, and responding favourably to the environment it operates in.

Changes in the external environment of a business may induce a change in the strategy, structure, technology or the nature of human resources that the firm employs. For example, a change in the competitive environment may force a business firm to introduce new or modified products in order to retain/expand its market share.

The following are therefore, the importance of business environment

a. Determining opportunities and threats

The interaction between the business and its environment gives the advantage of identifying opportunities for and threats against the business. The business manager can then strategise to maximise the opportunities and minimise the threats.

b. Gives directional clarity

The interaction will lead to opening up of new frontiers for growth and sustainability of the business.

c. Serves as a continuous learning process

Managers are motivated to continuously update their knowledge, understanding and skills to meet the challenges of business.

d. Image building

Business interaction with the environment helps the business organisations to improve their image by being socially responsible.

e. Identification of firm's strength and weakness

Business environment helps to identify strengths and weaknesses of the business organisation for immediate response of the management.

2.4 Elements of General External Environment

2.4.1 Economic Environment

This is defined by factors such as:

- (a) Gross Domestic Product (GDP)
- (b) Government fiscal and monetary policies
- (c) Unemployment rate
- (d) Exchange rate
- (e) Inflation rate, and
- (f) Capacity utilization

One must take cognizance of the fact that the above factors could and do operate most

of the time simultaneously. Invariably, managers in the organization should be concerned about the trends in the economic conditions in their decision-making.

2.4.2 Socio-Cultural Environment

This is a complex chain of social and cultural conditions prevailing in the society which have far reaching effects on business conditions. The social and cultural conditions in which the organization operates can be understood by studying the demographic characteristics of the population, nature and lifestyle of the people, the groups they form and the nature of interactions among the groups and the institutions they have created for themselves. For example, the religious, ethnic and social stratification of the population and the degree of harmony and integration which exists in the specific society are key indicators of the nature of the social environment. The crime rate and level of perceived insecurity in the environment have significant implications for managers and their efforts at achieving their goals.

The cultural conditions are indicated by values and value systems, morals, beliefs and the norms, which control the behavioural patterns of the people. All these assist a business to fully understand how well it would cope, affect and integrate itself in the mainstream of things.

2.4.3 Political environment

Every good government should ensure that there are structures in place for the maintenance of law and order, provision of basic infrastructure and security of life and property to create an atmosphere where meaningful business activities can thrive. The government should also ensure that its policies, laws and regulations should help to accelerate and improve the welfare of the society. In view of the foregoing, business organizations that are armed with the policy thrust of the government are able to anticipate the pulse and direction for the government and thereby adjust their operations accordingly.

However, in times of political instability, there is a situation of policy instability and uncertainty from the point of view of business organizations. In addition, in most developing nations like Nigeria, Ghana, Liberia, Gambia, etc., a change in government does not always follow clear-cut procedures. Frequent changes in government, especially during military dictatorships, also create unnecessary tensions and uncertainties.

2.4.4 Technological environment

The technological environment can be viewed as the state of the application of scientific principles and mechanical arts to various tasks in the society. It includes the methods, techniques and approaches adopted for production of goods and services and its distribution. In the Nigerian context, the local technology is utilized by those who engage in peasant farming, small scale businesses and even in the mining, quarrying and construction businesses. On the other hand, more advanced technology is

employed in the oil and gas industry, steel industry, breweries, textile, banks, hospitals, etc.

Nigeria, Ghana, Liberia, etc. are not self sufficient in their technological input as they rely heavily on modern technologies from the United States of America, Japan, China, India, Korea, Europe, etc. However, their dependence on foreign technologies has to some extent, advanced their technological climates positively.

Though, not much is currently being accomplished because of the little investment by the private and public sectors in Research and Development (R&D), but, with the advent of many universities, polytechnics and research institutes, significant improvements are expected, if coordinated efforts are made to harness their outputs for rapid technological development of these countries.

2.4.5 Legal/public policy environment

The legal environment of business consists of the laws, regulations and procedures of a country which business enterprises are expected to comply with in the course of their operations. To some extent, these laws may facilitate successful business conduct as well as constitute major handicaps to successful performance. However, companies willing to do business in any country are required to obtain licences from relevant government agencies.

Furthermore, in carrying out their operations, business enterprises are required by law to pay personal and company income taxes, value added tax, capital gains tax, education tax, import duties, excise duties, etc. There are also labour laws that regulate the contract of employment, the relationship between employers and labour unions, the minimum age a person must attain before he/she can be lawfully employed, employee compensation, etc.

In addition, these business organizations especially in the areas of food, drugs, cosmetics, bottled water, chemicals, etc., are to be registered with the National Agency for Food and Drugs Administration and Control (NAFDAC). Thus, production of rational, well-intentioned policies, laws and regulations, which are expected to maintain, provide, secure and accelerate social and economic development of the society is a task that public policy is designed to achieve.

2.4.6 Ecological environment

Operations of business enterprises often affect the physical and ecological environments of their host communities. This is moreso in the case of manufacturing concerns and mineral-exploiting industries which leave lasting impact on the physical and ecological environments. Many manufacturing industries emit carbon gases which pollute the environment and are mainly indicted for the global warming currently plaguing the whole world. These climatic changes are causing ecological distortions

which are threatening the very existence of the world. To reduce the impact of these emissions, the global community is advocating enactment of more effective environmental laws in all countries, most especially, those of the developed economies which are largely responsible for them.

Oil exploration occasionally leads to oil spillages which pollute the environment, leading to loss of income and disruption of social activities of their host communities. This often leads to hostility from the host communities. Eventually, operations of the oil companies are disrupted by militant elements of the host communities and pressure groups. This is very evident in the oil-producing communities of the Niger Delta region of Nigeria.

Mining companies often leave open pits and underground trenches which collapse over time creating damages to the physical environment in form of chemical pollution and gully erosion. These damages result in disasters and cost governments and host communities dearly in loss of human lives and income.

It is therefore essential for managers to regularly assess the impact of the operations of their companies on the ecological and physical environments and take measures to reduce such impacts where they are negative.

2.4.7 International environment

The international environment of business refers to all those elements on the international scene, which can help or inhibit the decisions and operations of the business enterprise. Changes in the economic, social, technological, political and public policy issues affect the operations of businesses. This is because most companies depend on imported raw materials, technology and other services or export their goods and services overseas.

Business enterprises also seek to adopt standards and best practices that can enable them compete effectively. Various environmental, social and legal issues, which emanate from the international scene, influence decision-making in domestic organizations. For example, protection of the environment has become a major issue which all business enterprises take into account in their operations.

Other issues include compliance with standards established by the International Labour Organization (ILO), the rights of women and children, promotion of competition and protection of intellectual property rights, through various international agreements, especially under the World Trade Organization (WTO).

2.5 Globalization

Globalization means ‘integrating’ the economy of a country with the world economy. It can also be defined as the process of world-wide

economic integration and growing inter-dependence, interconnectedness through the flow of goods, services, capital, people and information among nations in the modern world.

A truly globalized corporation views the entire world as a single market, and it does not differentiate between the domestic market and foreign markets.

Factors influencing globalization:

According to the Britannica Concise Encyclopaedia (2002) some of the factors which have contributed to globalization are as follows:

- (i) the phenomenal growth in communication arising from fast-paced development in communication technology
- (ii) Improved transportation services
- (iii) Mass migration and the movement of peoples
- (iv) A level of economic activity that has outgrown national markets through industrial combinations and commercial groupings that cross national frontiers, and,
- (v) International agreements that reduce the cost of doing business in foreign countries.

2.5.1 The Implications of globalization for management and business enterprises are:

- (a) As a result of greater liberalization of the flow of goods, services, capital, labour and information, there is an opening up of markets, and investment opportunities among nations.
- (b) Firms in the less developed countries of the world, to a large extent, are at a disadvantage arising from the more intense competition from better endowed companies in the advanced nations.
- (c) Mergers, acquisitions and strategic alliances, have resulted as poorer and weaker firms are swallowed up by the stronger ones.
- (d) Managers are expected to be equipped and developed through greater cross-cultural awareness and sensibility as they communicate with their counterparts across the globe.
- (e) It allows managers to acquire skills to manage in culturally diverse settings.
- (f) By such cross-cultural interactions, firms are expected to achieve and maintain higher standards in terms of their products and services as well as the quality of management practices.

2.6 Environmental Analysis

Environmental analysis involves two processes-environmental scanning, and various efforts to understand the trends and implications of changes in the environment for the organization.

Environmental scanning consists of processes used by a manager to monitor events occurring in the external environment of the organization. The manager monitors events in order to understand the nature of the environment and the changes that are occurring in it.

Having generated the appropriate data, it is important to study them in order to understand the implications of the data on the growth and survival of the organization. Thus, it is important for managers to, first, be aware of the changes occurring in the environment; second, to forecast the conditions that may affect the organization in the future; and, thirdly, on the basis of the forecast, take appropriate decisions to achieve efficiency and effectiveness of the organization.

2.6.1 Environmental forecasting

Forecasting affords managers the opportunity to acquire a foreknowledge of what lies ahead in order to cope with their business environment. The future cannot be predicted with certainty but it can be forecasted in the sense that one can have an informed projection of a future event or condition.

The scope and areas where forecasting can be done are in areas of the political, legal, technological, economic, ecological, cultural and social environments. Thus, environmental forecasting is crucial because vital information generated about the future course of action become the basic inputs or raw materials for managerial decision making, planning and control.

Forecasts are based on fact, assumption, and some methods/techniques of combining these data and assumptions. Therefore, the reliability of forecasts will be dependent upon the level of accuracy of the data collected, assumptions made and methods/techniques employed in reaching the forecasts in the first instance.

Finally, we can rightly infer that: (i) the forecasting process improve the managers' ability to appreciate the interplay of environmental variables and how to anticipate, process and cope with them. (ii) The manager is able to explore, in advance, the various challenges and opportunities as they present themselves and determine how to solve them. (iii) Forecasting aids scanning and vice versa.

The PESTEL model is an easy non-quantitative technique of analysing the environment of business. It is used to identify the critical elements of an entity's external environment.

Porter's Diamond model is used to explain why entities in some countries or areas of a particular country enjoy competitive advantage over similar entities in the same industry or sector.

2.7 Social responsibility

Social responsibility of business refers to the obligation of business enterprises to adopt policies and plans of actions that are desirable in terms of the expectations, values and interests of the society.

Also, social responsibility has become a major issue in management. Major production and distribution activities in modern societies are carried out by organizations. Most of societies' resources (financial, intellectual and material) are under the control of organizations. These organizations significantly affect the future of society.

The concept of social responsibility deals with the corresponding obligations that organizations have toward society. According to Griffin (2004), social responsibility is the set of obligations an organization has to protect and enhance the society in which it functions.

2.7.1 Areas of social responsibilities

According to Schemerhors (1989) managers should pay particular attention to their social responsibilities in the following areas:

(a) Ecology and Environmental Quality

- (i) Pollution clean-up and prevention of damage to the natural environment
- (ii) Dispersion or spread of industries
- (iii) Land use and beautification

(b) Consumption

- (i) Fair and true in lending, advertising and business operations
- (ii) Product warranty and service
- (iii) Control of harmful products

(c) Community needs

- (i) Use of expertise to solve local problems
- (ii) Aid with health care facilities and education

(d) Government relations

- (i) Lobbying
- (ii) Controls of business through political action.

- (e) Minorities and backward communities**
 - (i) Training of unemployed
 - (ii) Equal employment opportunity
 - (iii) Locating plants and offices in minority areas
 - (iv) Purchasing from backward communities
- (f) Labour relations**
 - (i) Improved occupational health and safety
 - (ii) Creation of employment opportunities
- (g) Shareholders relations**
 - (i) Improved Corporate Governance
 - (ii) Improved Financial Disclosure
- (h) Corporate philanthropy**
 - (i) Financial support for art and culture
 - (ii) Special scholarships and gifts to education
 - (iii) Financial support for charities

Social responsibility is also examined in terms of economic, legal, ethical and philanthropic responsibilities.

- (a) Economic responsibility requires the business enterprise to utilize the resources of the society or community efficiently. This is to say that the business enterprise is required to deploy the human, material, technological and other resources acquired by it from the society in a manner that maximizes the output/profit of the operation or maximizes the value-added by the operation. This is a required responsibility as it not only ensures the survival and growth of the business, but also generates jobs and other benefits to the society.
- (b) Legal responsibility. Business enterprises, as good corporate citizens, are required to obey all the laws and regulations of the land.
- (c) Ethical responsibility. Ethical responsibility is expected by society of the business enterprise. This means that beyond obeying the law and complying with all regulations by Federal, State and Local Governments, business enterprises have the moral responsibility to do what is right and avoid what is wrong. They are expected to do what is right and proper with respect to protecting the environment, natural resources and upholding the values of the society. Similarly, they must do what is right and proper in relation to all their stakeholders – employees, suppliers, government agencies, etc.
- (d) Discretionary/philanthropic responsibility. It is desirable that business enterprises should use its discretion to solve some of the problems of society such as pervasive

poverty, lack of infrastructure in the communities where they operate, poor health and educational facilities, etc. This responsibility is in the self-interest of the business enterprise as it reduces tension between it and its host community and creates a favourable environment for it to operate.

2.7.2. Arguments for social responsibility

- (a) Business organizations are expected to respond more favourably to the society in terms of its needs because they receive their charter from the society and their end products still goes back to the society.
- (b) The creation of a better social environment benefits both society and business. Society gains through better neighbourhoods and employment opportunities; business benefits from a better community as the source of its work force and the consumers of its products and services.
- (c) Business has a great deal of power that, it is reasoned, should be accompanied by an equal amount of responsibility.
- (d) Social involvement discourages additional government regulation and intervention. The result is greater freedom and more flexibility in decision-making for business.
- (e) Social responsibility is in the long run interest of the stockholders.
- (f) Social involvement creates a favourable public image. Thus, a firm may attract customers, employees and investors when it creates a good public image.
- (g) A business has the resources. Specifically, a business should use its talented managers, as well as its capital resources to solve some of society's problems.

2.7.3 Arguments against social responsibility

- (a) The primary task of business is to maximize profit by focusing strictly on economic activities. Social involvement could reduce economic efficiency.
- (b) In the final analysis, society must pay for the social involvement of business through higher prices. Social involvement would create excessive costs for business, which commit its resources to social action.
- (c) Social involvement can create a weakened international balance of payment situation. The cost of social programmes, it is argued, would have to be added to the price of the product. Thus, such companies would be at a disadvantage when competing with companies in other countries that do not have these social costs to bear.

- (d) Business people lack the social skills to deal with the problems of society. Their training and experience is with economic matters, and their skills may not be appropriate to solve social problems.

2.7.4 Changing Concept of Social Responsibility

As the arguments for and against social responsibility suggests, the concept of social responsibility has evolved over time. There are different stakeholders in the business enterprise but management has not always felt it was responsible to all of them.

At the early stage of social responsibility, the focus was on the owners of the business – the shareholders. To management, the task was to maximize profit and satisfy the expectations of shareholders through dividend pay-out.

With time, managers saw the need to attract, retain and motivate employees. Hence in addition to meeting the expectations of shareholders, management sought to meet the expectations of employees by providing improved working conditions, recognizing employees rights and demands for job security, safe/healthy work environment and human dignity.

The next stakeholders to attract the attention of management are customers, suppliers, distributors etc. The thrust of social responsibility to these stakeholders were fair prices, high quality goods and services, safe and healthy products, establishment of good relationship to ensure long term sustainable partnership that is mutually beneficial.

The last stage is responsibility to society. At this stage, management recognizes and accepts responsibility to be at the forefront of the advancement of public good, protection and greening of the environment, support for social and cultural activities and advancement of equity and justice.

2.8 Ethics

The word “Ethics” originated from the Greek word ‘ethos’, meaning, character, conduct and activities of the people based on moral principles. It is concerned with what is right and what is wrong in human behaviour on the basis of standard behaviour or conduct acceptable by the society? Ethics is defined as the discipline dealing with what is good and bad and with moral duty and obligations. Ethics is an individual’s personal belief about whether a behaviour, action or decision is right or wrong (Griffin, 1999). What an individual considers to be right or wrong, good or bad, comes from various sources.

The family is the first school in which the child learns. From the parents, the child learns behaviours, actions and decisions that are good and those that are bad. Other

sources of learning are educational institutions, such as schools and colleges and religious institutions; from peer influence, from professional and trade associations, etc., to which the individual belongs; the individual's personal experiences; and situational factors. All of these sources, define for the individual ethical standards that guide his/her behaviour, actions and decisions.

Business ethics refers to ethical standards that are applicable when people engage in business transactions. According to Wehrich and Koontz, (2001) business ethics is concerned with truth and justice. It is concerned with what is good or bad, right or wrong in business transactions.

Most business organizations and indeed most organizations prescribe ethical standards which employees and other key stakeholders, such as suppliers are expected to adopt in conducting their activities. For example, organizations define what is fair and just, good and bad, in dealing with various stakeholders, such as employees, customers, etc.

Finally, it could be reasoned further that Ethics go beyond the law because they are standards of behaviour that are expected of both the individual and the corporate legal person. Ethics define, for the individual, what is morally right or wrong. On the other hand, business ethics enables business managers to question their business activities, actions and decisions in line with moral principles concerning their products, services, managerial competences and relationships with the society they do business with.

2.8.1 Managerial ethics

Managerial ethics can be seen as the standards of behaviour guiding individual managers in the discharge of their work assignments vis-a-vis their relationship with one another, and with their organizations.

2.8.2 The three areas of managerial ethics are:

- i. How the organization treats its employees:
 - a. Recruitment and separation
 - b. Working conditions
 - c. Wages and incentives
 - d. Individual respect as human beings
 - e. Health and safety
- ii. How employees treat the organization
 - a. Conflict of interest
 - b. Confidentiality
 - c. Honesty and accountability
- iii. How the organization treats economic agents:

- a. Customers
- b. Competitors
- c. Shareholders
- d. Regulatory Authorities
- e. Suppliers
- f. Dealers
- g. Unions

2.8.3 Code of ethics

These are general guidelines with respect to the values and ethical standards that should be used by managers to guide their decisions.

Areas of considerations as they affect ethics and which must be addressed so as to effect positive results, peace, progress, and harmony are:

- i. Bribes
- ii. Honesty of records keeping
- iii. Misappropriation of corporate assets
- iv. Confidentiality of corporate information
- v. Political contributions
- vi. Conflict of interest
- vii. Customer/supplier relationships

2.8.4 Ethical concerns of managers as they relate to different publics:

- (a) **Employees:** The wages, recruitment process, conditions of service, retrenchment and welfare package should be fair and just.
- (b) **Labour unions:** There should be honesty in honouring agreements, good strategies in handling negotiations and industrial action.
- (c) **Trade associations:** Loyalty and faithfulness in honouring agreements.
- (d) **Dealers:** Honesty in honouring agreements, engagement and disengagement processes.
- (e) **Customer:** Product safety, value proposition, truthful advertising.
- (f) **Suppliers:** Honesty in honouring agreements.

- (g) **Competitors:** Fair versus unfair competition.
- (h) **Shareholders:** Insider trading, truthful stewardship and conflict of interest.
- (i) **Creditors:** Payment for supplies.
- (j) **Government:** Tax evasion, economic sabotage and truthful disclosure.
- (k) **The society at large:** Environmental concerns.
- (l) **The firm itself:** Confidentiality, loyalty and obedience.

NIGERIAN INSTITUTE OF MANAGEMENT ((N.I.M.)
Code of Conduct for N.I.M. Certificate Holders

- i. That the professional manager will put service above self
and will seek to find and employ more efficient and more economical ways of getting things done.
- ii. That the professional manager will accept the most scrupulous and transparently honest and ethical process of thought for all decisions in his daily work, and be himself free of any fraudulent and/be corrupt practices and within his scope of authority, treat all persons as being equal, and refuse to give special favours or privileges to anyone.

BY ORDER OF THE COUNCIL

Lagos

30th August, 1972

Fig. 2.1 Code of Ethics of Nigerian Institute of Management

IFAC and Professional Accountancy Organisations (PAO's) have Professional Codes of Ethics for members of the accountancy profession, with rigorous processes for their implementation and enforcement.

Ethical Tools

Managers have a variety of tools which they can use to reduce the level of unethical behaviours among employees.

- (a) Employee selection: The selection process particularly interview, background checks and referees' reports are tools that can be used by managers to detect applicants with unethical disposition and poor moral values.
- (b) Statement of code of ethics by the business enterprise. By formally stating the code of ethics of the organization (a statement of ethics standards and core values of the enterprise), managers are able to define conducts that are acceptable or not acceptable.
- (c) Leadership by senior managers: This is an important tool for reducing unethical behaviours in the enterprise. Since managers do not limit themselves to saying what is ethically acceptable but do so by their own actions, unethical behaviours by employees is curtailed.
- (d) Rewards and punishment: Unethical behaviours can be considerably reduced by sanctioning unethical practices of employees while rewarding those who meet and exceed the ethical standards of the enterprise.
- (e) Ethics training: Employees can be trained to become aware of the ethical standards and values of the enterprise as well as encouraging them to adopt the standards and values.
- (f) Support in resolving ethical dilemmas. Employees often face ethical dilemmas in the course of their work. Support from supervisors, senior managers, counsellors etc., can help in resolving such dilemmas and encourage the employee to do the right thing.

2.9 Corporate Governance

In most cases, scholars confused governance with management. Meanwhile, where management is concerned with running the business operations of a company, governance on the other hand is majorly about giving a lead to the company, monitoring and controlling management decisions. With the issuing of the new National Code of Corporate Governance (the Code) for the Private Sector in Nigeria by the Financial Reporting Council (FRC) of Nigeria taking effect from 17 October 2016, it is imperative to consider the fact that the it will bring about a unified corporate governance code that has governance standards, with more country-specific, contextual and make organisations to become more environmentally congruent and at the same time conforming to international best practices.

Differences between Corporate Governance and Management

- i. Management deals with taking business decisions, while corporate governance deals with monitoring and controlling decisions, providing leadership and direction.
- ii. Management deals with day-to-day running of business activities, while corporate governance deals with seeing that businesses run properly.
- iii. The executive power to direct a business is an aspect of corporate governance, whereas, usage and application of the powers to direct business activities is management.
- iv. Management is about formulating business strategies for the company, while corporate governance is the responsibility of the board of directors and other senior managers for strategic decision making

Corporate governance provides answer to the following questions:

- i. In whose interests is a company governed?
- ii. Who has the power to make decisions for a company?
- iii. For what aims or purposes are those powers used?
- iv. In what manner are those powers used?
- v. Who else might influence the governance of a company?
- vi. Are the governors of a company held accountable for the way in which they use their powers?
- vii. How are risks managed?

2.9.1 Corporate Governance Defined

Corporate governance can be referred to as the totality of the system by which companies are directed and controlled. By extension, corporate governance covers activities of companies (corporate entities), State-owned entities, government agencies and parastatals (Local Government, States and Federal levels), as well as non-governmental organisations (churches, mosques and charity homes inclusive). Corporate governance describes all the influences affecting the institutional processes, including those of appointing the controllers and/or regulators, involved in organising the production and sales of goods and services. This of course is not limited to any form of organisation, whether incorporated or not.

2.9.2 Need for Corporate Governance

The Concept of “Corporate Governance” is required for the purposes of ensuring the following:

- i. Fairness
- ii. Openness/transparency
- iii. Independence
- iv. Honesty and integrity (probity)
- v. Responsibility and accountability
- vi. Reputation
- vii. Sound Judgment

2.9.3 Codes of Best Practices on Corporate Governance in Nigeria

Laws and Guidelines Regulating Corporate Governance

In Nigeria, directors of companies owe certain duties to their company (these duties are included in Companies and Allied Matters Act, 1990). The Act also requires the directors of a company to present an annual report and accounts to the shareholders; this helps to make the directors accountable to all stakeholders (shareholders inclusive) of their company.

In some countries, such as the UK, where laws on corporate governance are not strong, guidelines or codes of governance principles and practice have been issued. In as much as these guidelines are voluntary, one major or unique aspect of it is that the guidelines are backed by major financial institutions, stock exchanges and investment organisations.

The major areas covered by codes of corporate governance are as follows:

- i. The role and responsibilities of the board of directors
- ii. The composition and balance of the board of directors
- iii. Financial reporting, narrative reporting and auditing
- iv. Directors' remuneration
- v. Risk management and internal control
- vi. Shareholders' right
- vii. Corporate social responsibility and ethical behaviour by companies (business ethics)

2.9.4 Compliance Requirements of Corporate Governance

The corporate governance code requires that:

- i. It supersedes any corporate governance codes before 17 October 2016.
- ii. It is mandatory for all public companies (listed or not listed); all private companies that are holding companies or subsidiaries of the public companies; and all private companies (with more than 8 employees) that file returns to any regulatory authority other than the Federal Inland Revenue Service and the Corporate Affairs Commission.
- iii. It sets the minimum number of members on a board of directors at 8; this is a revision from the SEC Corporate Governance Code and Code of Corporate Governance for Banks and Discount Houses in Nigeria which provided for a minimum of 5.
- iv. Companies are required to comply with the provisions of the Code in any annual reports covering periods beginning on or after 17 October 2016 and an earlier application would be permitted.

2.9.5 Sanctions in Corporate Governance

Government approves for regulatory agencies the right to an open-ended sanctions for non-compliance with the code (which may be applied to individuals directly involved and the company itself), and makes the Code enforceable by the different sectoral regulators as may be applicable.

2.10 Summary

The environment of business is a major determinant of the policies, strategies and overall performance of any business. It is usually so complex and dynamic that it often defies simple analysis. Management's perception of the environment in terms of complexity, stability or hostility is crucial to the success of the organization.

Globalization has made the international environment more relevant to the manager than was the case a few decades ago. In all key functional areas, management needs to adapt to emerging and anticipated changes in the environment.

Therefore, in order to successfully manage the challenges posed by the environment, management must have a reliable sensory mechanism for gathering and analysing timely intelligence about the environment. This should go hand-in-hand with some quick in-built response mechanisms if the business is to survive, in today's globalized Information Technology (IT) world.

Ethical issues confront both the manager and other employees at the work place. These issues arise in the relationships between the employees and their relevant stakeholders or public. The ethical concerns do not occur in a vacuum but within the ethical climate of the wider society and the ethical climate established within the firm. One way in which firms and professional bodies guide managers in handling issues bordering on ethics is by establishing and enforcing codes of conduct.

Issues in corporate governance, codes of best practices on corporate governance in Nigeria, compliance and sanctions were well discussed and enumerated in this chapter.

2.11 REVIEW QUESTIONS

SECTION A – (Attempt all Questions)

Part 1: Multiple Choice Questions

1. Which of these is not an aspect of the internal environment?
 - a) middle-men
 - b) owners
 - c) board of directors
 - d) employees
 - e) Organization culture
2. The monitoring of external environmental forces to determine the source of a firms'

opportunities and threats is known as

- a) Regression analysis
 - b) Environmental analysis
 - c) Tows analysis
 - d) Critical path analysis
 - e) SWOT analysis
3. Corporate governance scope includes the following, EXCEPT
- a. The role and responsibilities of the board of directors
 - b. The composition and balance of the board of directors
 - c. Financial reporting, narrative reporting and auditing
 - d. Directors' remuneration
 - e. Recruitment, selection and placement
4. The external environmental conditions under which business organizations are required to comply with certain laws, and to obtain permits from the relevant government agencies is known as:
- a) Legal/ Public policy environment
 - b) Technological environment
 - c) Political environment
 - d) Socio-cultural environment
 - e) Economic environment
5. Sets of generally accepted standards of social conduct is known as:
- a) Ethics
 - b) Equi-finality
 - c) Guidelines
 - d) Uncertainty
 - e) Mutuality of meaning

Part II: Short Answer Questions

1. The process used by a manager to monitor events occurring in the external environment of the organization is called.....
2. The technique that affords managers the opportunity to acquire a fore-knowledge of what lies ahead in order to cope with their business environment is known as
3. The set of obligations an organization has to protect and provide for the society in which it functions is called.....
4. The general guidelines with respect to the values and ethical standards that can be used by managers to guide their decisions is known as
5. The process of world-wide economic integration and communication which embraces

interdependence, interconnectedness through the flow of goods is called.....

Solution

Multiple Choice Questions

1. A
2. B
3. E
4. A
5. A

Short Answer Questions

1. Environmental Scanning
2. Environmental forecasting
3. Social Responsibility
4. Code of Ethics
5. Globalisation

SECTION B

PRINCIPLES OF MANAGEMENT

CHAPTER THREE: MANAGEMENT THEORIES AND THOUGHTS

3.0 Learning Objectives

After studying this chapter, the reader should be able to discuss the nature, contributions and limitations of:

- Management
- Efficiency and effectiveness.
- Management process
- Management theories

3.1 Introduction

Management plays a pivotal role in the operations of business organizations. To achieve the goals of the business organization, it is necessary to guide, direct and coordinate the effort of others and constructively channel their potential. Thus, it is said that management is the activity of getting things done through, and with other people. How successfully an organization achieves its objectives depends to a large extent on its managers. If managers do their work well, an organization will probably achieve its goals.

The evolution of management thought dates back to the days when people first attempted to accomplish goals by working together in groups. Although modern operational management theory commences from early twentieth century, there was serious thinking and theorizing about management many years before this period.

In this chapter, a roughly chronological perspective of grouped management ideas is discussed in the following order: pre-scientific management, scientific management, Fayol's administrative management, Weber's theory of bureaucracy, the human relations theory, the system theory, and the contingency theory.

As can readily be appreciated, management thought focused at different times on the problematic issues that were perceived to constrain the achievement of work goals, productivity and efficiency. In the last one hundred years and especially since the onset of mass production and large-scale organizations, many ideas have emerged from different corners of the world and from people of different backgrounds. Naturally, the ideas of each contributor to management thought reflect the assumptions, knowledge and experience of the individuals or groups. Management theory attempts to classify and synthesize these ideas into a coherent perspective (Inegbenebor, 2005).

3.2 Definitions and Purpose of Management

Management can be defined as the process of planning, organizing, directing and controlling the resources of an organization in order to achieve its goals efficiently. This definition highlights the following concepts:

- i. A Process – Management is seen as a process consisting of four distinct but interrelated activities – planning, organizing, directing and controlling.
- ii. Resources – Human, financial, physical and information resources
- iii. Efficiency – Using resources wisely and in a cost effective manner.
- iv. Effectiveness – Making right decisions and implementing them.
- v. The Manager – A person whose primary responsibility is to carry out the management process.
- vi. The Efficient manager does things right, and effective manager does the right things.

Other definitions of management are given below:

- (i) Management is the process of planning, organizing, actuating and controlling an organization's operations in order to achieve a coordination of the human and material resources essential in the effective and the efficient attainment of objectives (Miner, 1978).
- (ii) Stoner (1978) defines management as the process of planning, organizing, leading and controlling the work of the members of an organization and of using all available organizational resources to reach stated organizational goals.
- (iii) Griffin (1999), defines management as a set of activities (including planning and decision making, organizing, leading and controlling) directed at an organization's resources (human, financial and information) with the aim of achieving organizational goals in an efficient and effective manner.

3.2.1 Purpose of management

It is crucial to note that the main purpose of management is to achieve corporate goals and objectives in an effective and efficient manner. Thus, we can ask the question – “why is management needed in an organization”?

To be able to answer this question, there is the need to briefly discuss the concepts of goals, effectiveness and efficiency.

Goals can be seen as end-results which an organization seeks to realize or accomplish. They refer to the kinds and levels of achievements desired by the organization. For example, what target sales volume has been set by the company? The company's target sales volume for the year could be ₦ 3.5 billion while its profit objective could be twenty percent (20%) return on investment.

The terms goals and objectives are sometimes used interchangeably. However, they should be clear, specific, challenging, achievable and realistic.

3.2.2 Effectiveness

Effectiveness is the ability to choose appropriate objectives or the appropriate means for achieving a given objective. In other words, an effective manager selects the right things to do or the right method for getting a particular thing done.

For example, a manager who insists on producing only large cars when the demand for small cars is soaring is an ineffective manager, even if those large cars are produced with maximum efficiency.

A manager's responsibilities require performance that is both efficient and effective. Although efficiency is important, effectiveness is critical.

For Drucker (1970), effectiveness is the key to the success of an organization. Managers need to make the most of opportunities. He further states that 'effectiveness rather than efficiency is essential to business. The pertinent question is not how to do things right, but how to find the right things to do, and to concentrate resources and efforts on them'.

Agbonifoh (2005) rightly summarizes that "an organization can be effective only if it is doing those things that are relevant and crucial to its purposes. These are the right things to do".

Efficiency is the ability to get things done correctly and this is an input – output concept. An efficient manager is one who achieves outputs or results, that measure up to the input (labour, material, and time) used to achieve them. In other words, if the manager is able to minimize the cost of the resources he or she uses to attain a given goal, that manager is acting efficiently. Griffin (1990) says that being efficient means you are using resources wisely and in a cost-effective way.

Agbonifoh (2005) explains that great efficiency can arise by:

- (a) achieving more results with the same current levels of inputs;
- (b) achieving the same level of result with less than current levels of inputs;
- (c) achieving an increase in results with less than a proportionate increase in inputs;
- (d) achieving less output or results with a more than proportionate decrease in inputs;

We can rightly infer that a company that is effective is on a better footing no matter how inefficient it may be, than the one which produces the wrong products efficiently. Customer satisfaction is a very crucial reason for managing, because management must ensure that its organization satisfies the customers and other stakeholders.

3.3 Management process

Management is a process involving certain functions and work activities that managers must perform to achieve an enterprise's goals. Managers use principles that guide the management process.

The four fundamental functions of management – planning, organizing, leading and controlling – constitute the process of management. They are the means by which a manager manages.

3.3.1 Planning

Planning is setting organizational goals and deciding on the course of action for achieving them. Here, selecting a course of action to achieve the goals is referred to as decision-making. Planning is futuristic in the sense that the company has to identify the opportunities and threats that lie in the future and to decide on a course of action presently to exploit the opportunities and prepare to face the threats.

Planning involves forecasting and predicting the future. This requires the ability to understand the needs of the customer and to devise the means to satisfy them. In essence, planning refers to matching resources or strengths of the organisation with market opportunities.

3.3.2 Organizing

Organizing is defined as the management function of grouping tasks and assigning resources, required to carry out a specific job.

Once a specific plan has been established to achieve the organizational goals, the organizing function examines the activities and resources required, to implement the plan.

It determines what activities and resources are required. It decides who will carry out particular tasks, where they will be done and when they will be done.

Organizing involves grouping of the required activities into manageable departments or work units, establishing authority and reporting relationships with the established hierarchy.

Thus, the organizing function deals with designing the organizational structure needed to accomplish goals. This process is called “Organizational Design”.

3.3.3 Leading

Leading is the third basic managerial function which is the most challenging of all managerial functions. Leading is defined as a set of processes used to get people to work together to meet the set goals.

It is the function of influencing, motivating and directing human resources towards achieving organizational goals. Thus, leading involves working with people and establishing a proper environment in which employees willingly achieve set goals.

3.3.4 Controlling

Controlling is the final phase and refers to the monitoring of organizational progress towards goals. The controlling function involves four main elements:

- (a) establishing standards of performance
- (b) measuring current performance
- (c) comparing the performance with the established standards, and
- (d) in case of deviation, taking corrective action.

Management decides on the activities and/or outputs that are critical to success, how and where they can be measured at reasonable cost and who should have the authority to take corrective action.

3.3.5 Who is a Manager?

Managers constitute a group of people responsible for directing the efforts aimed at helping organizations achieve their goals. Managers set the tone and influence the attitude of employees towards their work. In addition, the manager is someone whose primary duties are to drive the management process. That is, he plans, makes decisions, organizes, leads and controls human, financial, physical and information resources for the purpose of achieving stated goals. A manager works with and through others to achieve goals.

3.3.6 Levels of Management

We can differentiate managers according to their levels in the organization. In this section, we will consider three basic levels: top, middle and first-line managers.

- (a) **Top Managers:** According to Griffin (1999), this category of managers makes up the relatively small group of business executives who are charged with the responsibility of managing the entire organization. These men and women bear titles such as president, vice-president, CEO, executive directors and the like. These top managers determine the organization's goals, overall strategy and operating policies. In addition, they represent the organization officially to the external environment by meeting with government officials, executives of other organizations, and so on.
- (b) **Middle Managers:** This group of managers represents the largest group of managers in most organizations. They are the plant managers, operations managers and divisional head. They are solely responsible for implementing policies and plans already established by top managers and also coordinating

the activities of the lower level managers. What do plant managers do? They are charged with the responsibility of (i) handling inventory management, (ii) quality control, (iii) equipment failures and (iv) union problems. Furthermore, they coordinate the work of the supervisors within the plant.

- (c) **First-Line Managers:** Their basic assignment is to supervise and coordinate the activities of operating employees. In many cases the rank of First-line managers include: coordinators, supervisors and office managers. These positions are the first titles held by employees who enter management positions from the ranks of operating personnel.. They are to oversee the day-to-day operations of their respective units, hire operating employees, handle other routine administrative duties; and devote much time in supervising the work schedule of their subordinates.

3.4. Managerial roles

Mintzberg (1973), developed a model of the related roles of managers after a careful study of five executives to determine what managers do on their jobs. From the study, he came to the conclusion that managers perform ten different, but interrelated roles which can be summarized in three groups thus: interpersonal roles, informational roles, and decisional roles.

3.4.1 Interpersonal roles

- (a) **Figure head:** In this role, every manager has to perform some ceremonial duties such as attending important ceremonies, entertaining dignitaries and attending to important customers.
- (b) **Leader:** As a leader, his role is to hire, train, motivate and direct the activities of his subordinates towards the accomplishment of organizational goals.
- (c) **Liaison:** This role involves activities by which an executive develops and maintains contact with people and groups outside the organization for the purpose of coordinating efforts to achieve a common goal.

3.4.2 Information roles

- (a) **Monitor:** The manager seeks for information and receives unsolicited information relevant to the organization from both internal and external sources.
- (b) **Disseminator:** This role entails the transmission of relevant information to superiors, peers or subordinates who need the information for their work.
- (c) **Spokesperson:** In this role, the manager transmits information to various people and groups outside the organization. Thus, he advises the shareholders about the financial performance and assures groups that the organization is

meeting its societal obligations.

3.4.3 Decisional roles

- (a) **Entrepreneur role:** This involves the manager generating new ideas, initiating new projects/programmes as well as seeking and identifying opportunities to promote improvement and needed change. The manager is also involved in the development and implementation of change strategy.
- (b) **Disturbance handler:** This role requires the manager to take actions needed to resolve important, unexpected disturbances. He must seek solutions to various unanticipated problems like strike, natural disaster, accidents, etc.
- (c) **Resource Allocator:** This role deals with allocation of scarce resources to the different units of the organization. Specific activities include developing and monitoring budgets, forecasting future resource needs and problems in acquiring them.
- (d) **Negotiator:** It requires that the manager negotiate with various stakeholders, both inside and outside. For example, a manager might represent the corporation to negotiate a trade union agreement, a joint venture contract, etc.

3.5 Management level and skills

Top Level	Human	Conceptual, diagnostic and	
Middle Level	Skills	Technical skills	analytical skills
Supervisory Level			

Figure 3.1: Management levels and skills

Katz, (1974) identified three kinds of skills for administrators. Other authors have added a fourth – the ability to design solutions.

3.5.1 Technical skills are knowledge of and proficiency in activities involving methods, processes, and procedures. Thus, it involves working with tools and specific techniques. For example, mechanics work with tools. Similarly, accountants apply specific techniques in doing their jobs.

3.5.2 Human skill or interpersonal skill is the ability to work with people. It includes the ability to communicate, motivate and influence people. It is the creation of an environment in which people feel secured and free to express themselves and to realize their potentials.

3.5.3 Conceptual skill is the ability to see the “big picture”, to recognize significant elements in a situation, and to understand the relationships among the elements.

3.5.4 Diagnostic and analytical skill is the ability to distinguish between cause and effect and to solve problems in ways that will benefit the enterprise. To be effective, particularly at upper organizational levels, managers must be able to do more than see a problem. They must have, in addition, the ability to work out a practical solution to a problem.

3.5.5 The relative importance of these skills may differ at various levels in the organizational hierarchy:-

(a) At the first-line management level, technical skills are of greatest importance.

Human skills are also helpful in the frequent interactions with subordinates.

Conceptual, diagnostic and analytical skills are usually not critical for lower – level supervisors.

(b) At the middle management level, the need for technical skills decreases; human skills are essential; the conceptual skills gain importance.

(c) At the top management level, conceptual and analytical abilities along with human skills are especially valuable, but there is relatively little need for technical abilities. It is assumed, especially in large companies, that chief executives can utilize the technical abilities of their subordinates even though technical experience may still be quite important.

3.6 Universality of management

The universality of management is an important concept to consider in modern management thought. When describing management as universal, we are saying that the principles and techniques of management are not only applicable to business but they are also applicable to all other organizations irrespective of the sector they belong to.

Griffin (1999) states that “when a manager leaves work and goes to a weekly meeting of a civic or church group, to an organizing meeting for a youth soccer league, or to a volunteer job in a political campaign, he or she should keep in mind that many of the same functions used in a business can be used in these other organizations. Although each organization has its own unique goals and mission, effective management can help every organization accomplish its goals and more successfully realize its mission”.

Thus, the essence of management is the integration of human and other resources in a way that it results in effective performance; and this aim and process are universal.

3.7 Theories of Management

3.7.1 Pre-scientific Management:

The Pre-scientific management era refers to the period immediately preceding the scientific management by Taylor and his associates. Prominent among the pioneers who made significant contributions to the pre-scientific thought were:

(a) Robert Owen (1771 -1858)

He believed workers' performance was influenced by the total environment in which they worked.

Throughout his life, Owen worked for the building of cooperation between workers and management. He believed and practised the idea that workers should be treated as human beings. Owen suggested that investment in human beings is more profitable than investment in machinery and other physical resources. He introduced new ideas such as, shorter working hours, housing facilities, education of workers' children, provision of canteens, rest houses, training of workers in hygiene, etc. His ideas and philosophy may be considered as a prelude to the development of behavioural approach to management.

(b) Charles Babbage (1792 -1891)

Babbage was a professor of mathematics at Cambridge University from 1828 to 1839. Babbage perceived that the methods of science and mathematics could be applied to operations of factories. He made several contributions expounding his ideas and theories.

Babbage was a pioneer of operations research and industrial engineering techniques. He laid considerable emphasis on specialization, work measurement, optimum utilization of machines, cost reduction and wage incentives. His emphasis on the application of science and mathematics laid the foundation for the formulation of a science of management.

(c) Henry Vamun Poor

Poor advocated a "management system" with a clear organizational structure in which people could be held completely accountable and the need for a set of operating reports summarizing revenues and rates. He was a strong advocate of effective leadership that would overcome routine and dullness by instilling in the organization a feeling of unity, effective work habits and esprit de corps.

Thus, Poor called for a system before Taylor. He called for the recognition of the human factor before Mayo. He also suggested leadership to overcome the rigidities of the formal organization much before Chris Argyris.

(d) Captain Henry Metcalfe (1847 -1917)

Metcalfe published a famous book “The Cost of Manufacture of Workshop: New system controls” which suggested that:

- (i) The science of management is based on principles that evolved by recording observations and experiences.
- (ii) The art of management should be based on several recorded and accumulated observations, which are presented systematically.
- (iii) Management should make certain cost estimates on the basis of these observations
- (iv) However, management should maintain only relevant crucial information. A manager should prepare details of work which will then be communicated to the foreman and workers.

Metcalfe suggested a system of cards. Under this system, managers prepared two types of cards, i.e., time cards and material cards. This system was intended to assure the workers that good workers and good work done by them would be known to management. It also provided a method of gauging their work.

3.8 Scientific Management

Scientific management was concerned with improving productivity by improving performance standards of individual workers. The standards are established through systematic observation, experiment or reasoning.

Some of the earliest advocates of scientific management included Fredrick W. Taylor (1856-1915), Frank Gilbreth (1868-1924), Lilian Gilbreth (1856-1915), Henry Gantt (1861-1919), Harryington Emerson (1853-1931). Taylor however played a dominant role.

Fredrick Taylor (1856-1915)

Fredrick Taylor is considered as the “father” of scientific management. Taylor’s first job was that of a foreman at the Midvale Steel Company in Philadelphia where he observed that employees deliberately worked at a pace slower than their capabilities. He studied and timed each element of the steel worker’s jobs.

He determined what each worker could produce and then designed the most efficient way of doing each part of the total work. He implemented piece work wage system and he linked earning of workers to their production (number of pieces produced).

Taylor's principles hinged on the following:

- (i) Replacing rules of thumb with principles of science so that the best method for performing each task could be determined.
- (ii) The scientific selection of workers so that each worker would be given responsibility for task or job for which he or she is most suited.
- (iii) Divide responsibility for managing and for working; and devise scientific education and training programmes.
- (iv) Ensuring co-operation between workers and managers to provide work environment that reinforces optimal work results in a scientific manner.
- (iv) Providing incentives to workers using the piece rate system.

Frank Gilbreth and Lillian Gilbreth:

Frank and Lillian Gilbreth were noted pioneers of Time and Motion study. This couple developed the classifications of motions used to complete the job and they called them "THEBLIGS," the Gilbreth name spelt backwards.

Working individually and together, the Gilbreths developed numerous techniques and strategies for eliminating inefficiency.

Henry L. Gantt (1861-1919)

He worked with Taylor on several projects including consultancy assignments in Sigmund and Bethlehem Steel. Working independently later, he developed other techniques for improving workers output.

Gantt introduced a charting system for production scheduling – the "Gantt Chart" which is still used today. Gantt charts are good for scheduling a series of unrelated activities such as separate production runs in a job operation. The charts are graphic planning and control method. He also developed work quota systems complete with bonus systems for workers and/or managers who meet or exceed their quotas.

The major contributions of scientific management are:

- (a) Development of managerial skill of job design through the division of labour and specialization of labour.
- (b) The concept of productivity and wage rate based on productivity of employees.

- (c) Importance of scientific selection and training of employees.
- (d) Introduction of the use of rational and cost reduction techniques to increase efficiency and performance.
- (e) Formulation of work standards.

Limitations of scientific management are:

- (a) Scientific management methods are applicable only in predictable and stable environments and have limited applications in complex and unpredictable environments.
- (b) It over emphasized the economic and rational nature of man and overstate man's desire for money.
- (c) The scientific management theory did not attach importance to human behaviour, i.e., it overlooked the human desire for job satisfaction and social needs of the workers as a group.
- (d) Over-emphasis on productivity and profitability led some managers to exploit both workers and customers.
- (e) Taylor assumed that earnings and profit maximisation would be complementary and that managers and the managed would cooperate. This assumption was unrealistic because both parties sometimes hold opposing views about employment relationship.
- (f) It makes wage bargaining difficult. Workers merely accept what management considers fair or is prepared to pay for a day's job. Taylor assumed that the perspective of the manager on work and wages was automatically the correct one.
- (g) It excludes employees from participating in management. It puts the planning and control of work entirely in the hands of management.
- (h) It completely overlooks the positive role of trade unions and informal groups in business by insisting that management should deal with workers on an individual basis.

3.9 Administrative Management Theory:

Developed at the time as scientific management, the administrative theory "emphasizes management functions and attempts to generate broad administrative principles that would serve as guidelines for the rationalization of activities".

The principal contributors to this management theory were Henri Fayol (1949),

Mooney and Reiley (1939) and Gulick and Urwick (1937). Administrative theorists looked at productivity improvements from the “top down,” as distinct from the Scientific Approach of Taylor, which was organized “bottom up.”

Administrative theorists developed general guidelines on how to formalize organizational structures and relationships. They laid emphasis on the job in preference to the worker. The administrative management emphasized the manager and the functions of management.

Henri Fayol (1841-1920)

He was a contemporary of Fredrick Winslow Taylor. Fayol believed that techniques of effective management could be defined and taught. His work included defining a body of principles which would enable a manager build up a formal structure of the organization and administer it in a rational way. He was a staunch advocate of the universality of management concepts and principles.

Fayol divided the activities of industrial undertakings into:

- (i) Technical (Production)
- (ii) Commercial (Buying, selling and exchange)
- (iii) Financial (Optimum use of capital resources)
- (iv) Accounting (protection of property and person)
- (v) Accounting (recording and taking stock of costs, profits and liabilities, keeping balance sheet and compiling statistics)
- (vi) Managerial (planning, organizing, commanding, coordinating and controlling).

3.9.1 Fayol’s Principles of Management are:

- (a) **Division of labour:** The more people specialize, the more efficiently they can perform their work.
- (b) **Authority and responsibility:** Managers need to be able to give orders so they can get things done. While their formal authority gives them the right to command, managers will not always compel obedience unless they have personal authority (such as intelligence) as well.
- (c) **Discipline:** Members in an organization need to respect the rules and agreements that govern the organization. To Fayol, discipline will result from good leadership, fair agreements, and judiciously enforced penalties for infractions at all level of the organization.
- (e) **Unity of command:** Each employee must receive his or her instructions about a particular operation from only one superior. Fayol believed that if an employee was responsible to more than one superior, conflict in instructions and confusion of authority would result.

- (f) **Subordination of individual interest to the common good:** In any undertaking, the interests of employees should not take precedence over the interests of the organization as a whole.
- (g) **Remuneration:** Compensation for work done should be fair to both employees and employers.
- (h) **Centralization:** Decreasing the role of subordinates in decision-making is centralization; increasing their role is decentralization. Fayol believed that managers should retain final responsibility but also need to give their subordinates enough authority to do their jobs properly. The problem is to find the balance between centralization and decentralization in each case.
- (i) **The Hierarchy:** This is the line of authority in an organization.. It is often represented by the neat boxes and lines of the organization chart. It runs in order of rank from top management to the lowest level of the enterprise.
- (j) **Order:** Materials and people should be in the right place at the right time. People in particular, should be in the jobs or position most suited to them.
- (k) **Equity:** Managers should be both friendly and fair to their subordinates.
- (l) **Stability of Staff:** A high employee turnover rate is not good for the efficient functioning of an organization.
- (m) **Initiative:** Subordinates should be given the freedom to conceive and carry out their plans, even when some mistakes result.
- (n) **Esprit de Corps:** Promoting team spirit will give the organization a sense of unity. To Fayol, one way to achieve this spirit is to use verbal communications instead of formal written communications, whenever possible.

It is likely that some of these principles had been practiced by astute managers long before Fayol appeared. But it was Fayol who first codified these principles, making it possible for all managers to learn them. He thus helped lay the foundation for management as a profession.

3.9.2 Contributions of Fayol's Principles to Management

Fayol's principles:

- (i) laid the foundation for management theory
- (ii) identified key processes, functions and skills set for managers that are still important today.
- (iii) made management a valid subject of scientific inquiry.

3.9.3 Limitations

His principles:

- (i) are best used in simple, stable organisations
- (ii) provided universal procedures that may not be appropriate in all settings.

3.10 Theory of Bureaucracy: (Max Weber 1864-1920)

Max Weber was a German who developed the bureaucratic model of the organization as a rational way of structuring a complex organization. Weber's rational bureaucracy requires that the people performing a large variety of tasks in an organization must follow established rules and regulations in order to ensure the uniformity and rationality of its output.

Thus, bureaucracy was defined as that ideal system wherein positions and tasks were clearly defined, division of labour was precise and clear, objectives were explicit and a clear chain of command was maintained. Weber distinguished three main types of authority:

- i. Traditional Authority
- ii. Rational – Legal Authority
- iii. Charismatic Authority

3.10.1 Traditional Authority

In the traditional form of authority, orders were obeyed, as the people giving them were invested with the same through custom or conventions (e.g. king or lord).

3.10.2 Rational – Legal Authority

In the rational-legal form of authority, orders were obeyed because subordinates believed that the persons giving them were empowered to do so through enforcement of legal sanctions, i.e., in accordance with legal rules and regulations in force.

3.10.3 Charismatic Authority

Charismatic authority rests on the appeal of leaders, and is based upon a belief in the personal attributes of the person giving the order.

Weber contended that Charismatic authority mainly arises in times of crisis and has to move to traditional or rational-legal forms for long-term stability. Rational-legal authority was becoming the dominant system (supplanting traditional authority) through the modern state and capitalism, mainly due to its purely technical superiority over any other form of organization. Bureaucracy is the organisational form built upon

pure rational-legal authority. According to Weber, bureaucracy is a particular type of administrative structure developed through rational-legal authority.

3.11 Features of Bureaucracy

Weber enumerated the features of an ideal-type bureaucracy as follows:

- (a) **Division of labour:** Each role has a clearly defined set of tasks along with a specified area of jurisdiction and responsibility.
- (b) **Authority Hierarchy:** The roles or jobs are organised to form a hierarchy of authority. In this wise, higher level officers with more expertise are empowered to supervise those at the lower levels in the chain of command.
- (c) **Formal selection:** Employees are expected to be recruited on the basis of their competence and expertise while the progression of employees should be based on seniority or achievement.
- (d) **Career orientation:** Officials of the organization are not owners of the organization but are regarded mainly as professionals who have specified duties, tenure and reward; and cannot be arbitrarily removed. They can use the property of the organization only for the purpose of the organization and not for personal purposes.
- (e) **Formal rules and controls:** Clearly stated rules, regulations and procedures are adhered to. Thus, written documents and records are essential features of bureaucracy. It enables previous decisions to be used as precedents and for the organization to monitor its operations effectively.
- (f) **Impersonality:** Rules and policies are applied uniformly regardless of personal feelings or needs. Thus, the application of impersonality as it refers to rules produces a high degree of reliability and predictability in the performance of the organization's operations.

3.11.1 Contributions

- (i) Since the policies, rules and procedures are set and applicable to all, this leads to consistent employee behaviour. This behaviour is predictable, making the management process easier to implement.
- (ii) Since the jobs, duties and responsibilities are clearly defined, the overlapping or conflicting job duties are eliminated.
- (iii) Hiring and promotions are based on merit and expertise. This results in matching the right workers with the jobs which makes the utilization of human resources optimum. Also, the individuals move up the hierarchy as they gain expertise and experience.
- (iv) Division of labour makes the workers specialists. Hence, their skills are

further polished; they become experts and perform more effectively.

- (v) The organization continues, even if individuals leave since the position is emphasized rather than the person. For example, if the Chief Executive resigns, another person is hired or promoted to that position and the organization continues to operate.

3.11.2 Limitations of Bureaucracy

- (i) There is too much red tape and paper work
- (ii) Because of impersonal nature of work, employees tend to be less committed to the organization.
- (iii) Excessive rules and regulations and a strict adherence to these policies inhibit initiative and growth of the workers. Employees are treated like machines and not as individuals.
- (iv) Employees become so used to routines that there is a resistance to change and introduction of new techniques of operations.

3.12 Human Relations Theory

The human relations movement drew heavily on a series of famous experiments called the Hawthorne studies which were conducted from 1924 to 1933 at the Hawthorne plant of the Western Electric Company in Cicero, Illinois. The neglect of the human aspect and overemphasis on machines, materials and abstract functions led to the development of this approach. Prof. Elton Mayo led the team which conducted the experiments that resulted in the human relations and behavioural science approach to management.

The human relations approach emphasizes the individual and focuses on inter-personal approach. It studies the individual, his needs and behaviour. Its main concepts are motivation and job satisfaction.

3.12.1 The Hawthorne Experiments (Elton Mayo – 1880 – 1949).

Elton Mayo and his Harvard associates conducted the famous studies of human behaviour in work situations at the Hawthorne plant to Western Electric from 1927 – 1932. Mayo was called in by Western Electric when other researchers, who had been experimenting with work-area lighting, reported some rather peculiar results:

They had divided the employees into a “test group” whose illumination was varied throughout the experiment and the “control group”, whose lighting remain constant throughout the experiment. When the test groups lighting conditions improved, productivity increased, just as expected.

But what mystified the researchers was a similar rise in productivity when illumination was reduced. To compound the mystery, the control group’s output kept rising with each alteration in the test groups lighting condition, even though the control group

experienced no such changes. In his attempt to solve this puzzle, Mayo ushered in the new era of human relations.

In a new experiment, Mayo and his Harvard co-workers placed two groups of six women each in separate rooms. In one room the conditions were varied and in the other they were not.

A number of variables were tried: Salaries were increased; Coffee breaks of varying lengths were introduced; the work day and work week were shortened; the researchers, who now acted as supervisors allowed the groups to choose their own rest periods and to have a say in other suggested changes.

Once again, output went up in both test and control rooms. The researchers felt that they could rule out financial incentives as a cause, since the control group was kept on the same payment schedule.

Mayo concluded that a complex emotional chain reaction had touched off the productivity increases. Because the test and control groups had been singled out for special attention, the workers developed group pride that motivated them to improve their work performance. The sympathetic supervision they received had further reinforced their increased motivation.

The result of this experiment gave Mayo his first important discovery: When special attention is given to workers by management, productivity is likely to increase regardless of actual changes in working conditions. This phenomenon became known as the Hawthorne effect.

One question, however, remained unanswered. Why should special attention plus the formation of group bond elicit such strong reactions? To find the answer, Mayo launched a massive interview programme, which led to his most significant findings: that informal work groups – the social environment of employees – have a great influence on productivity.

Many of the employees found their lives inside and outside the factory dull and meaningless. But their work-place associations, based on mutual antagonism toward the “bosses” imparted some meaning to their work lives. For this reason, group pressure, rather than management demands, has the strongest influence on how productive they would be.

To maximize output, Mayo and his associates concluded that management must note the employees’ needs for recognition and social satisfaction. It had to turn the informal group into a positive, productive force by providing employees with a new sense of dignity and a sense of being appreciated.

To Mayo, then, the concept of the social man-motivated by social needs, wanting on-the-job relationships, and more responsive to work group pressure than to management

control-had to replace the old concept of rational man motivated by personal economic needs.

3.12.2 Contributions of Human Relations Theory

- (a) By stressing social needs, the human relations movement improved on the classical approach, which treated productivity merely as an engineering problem. In a sense, Mayo had rediscovered Robert Owen's century-old dictum that a true concern for workers, those "vital machines", paid dividends.
- (b) His studies revealed a fact that seems common-place today: that an office, factory, or shop is not merely a work place but also a social environment, with employees interacting with each other. And this social environment is very influential in determining the quality and quantity of work produced.
- (c) In addition, Mayo spotlighted the importance of a manager's style and thereby revolutionized management training. More and more attention was focused on teaching people management skills, as opposed to technical skills.
- (d) Finally, his work led to a new interest in the dynamics of groups. Managers began thinking in terms of group incentives to supplement their former concentration on their individual worker.

3.12.3 Limitations

- (a) The concept of "social man" was an important counter weight to the one-sided "rational-economic man" model. But it too did not completely describe individuals in the work place.
- (b) Many managers and management writers assumed that the satisfied workers would be more productive workers. However, attempts to increase output during the 1950s by improving working conditions and the human relations skills of managers did not result in the dramatic productivity increases that had been expected.

3.13 Systems Theory

The systems approach to management attempts to view the organization as a unified, purposeful, system composed of interrelated parts. Rather than dealing separately with the various parts of an organization, the systems approach tries to give managers a way of looking at organizations as a whole. In so doing, the systems theory tells us that the activity of any part of an organization affects the activity of every other part.

As production managers in a manufacturing plant, for example, we would ideally like to have long uninterrupted production runs in order to maintain maximum efficiency and lower costs. Marketing departments, on the other hand, would like to offer quick

delivery of a wide range of products and therefore may want a flexible manufacturing schedule that can fulfil special orders at short notice.

As systems-oriented production managers, we would make our scheduling decisions only after we have identified their impact on other departments and the entire organization.

This means that systems managers cannot function wholly within the confines of the traditional organization chart. To mesh their department with the whole enterprise, managers must be in frequent contact with other employees and departments.

Many of the concepts of the general systems theory are finding their way into the language of management. As managers we should be familiar with the systems vocabulary, so that we can keep pace with current developments.

Key concepts

- (a) **Sub-systems:** The parts that make up the whole of a system are called “sub-systems”. And each system, in turn, may be a sub-system of a still larger whole. Thus, a department is a sub-system of a plant, which may be a sub-system of a company, which may be a sub-system of a conglomerate or industry, which is a sub-system of the economy as a whole, which is a sub-system of the world system. From such a perspective, the manager is able to see the needs and operations of various departments as part of a large whole.
- (b) **Synergy:** Synergy means that the whole is greater than the sum of its parts. In organisational terms, synergy means that as separate departments within an organization cooperate and interact, they become more productive than if they had acted in isolation. For example, it is obviously more efficient for each department in a small firm to deal with one financing department than for each department to have a separate financing department of its own.
- (c) **Open and Closed Systems:** A system is considered open if it interacts with its environment; it is considered closed if it does not. All organizations interact with their environment, but the extent to which they do so vary. An automobile plant, for example, is a far more open system than a monastery or a prison.
- (d) **System Boundary:** Each system has a boundary that separates it from its environment. In a closed system this boundary is rigid; in an open system, the boundary is more flexible. The system boundaries of many organizations have become increasingly flexible in recent years. Oil companies that wished to engage in offshore drilling, to cite one example, have increasingly needed to consider public reaction to the potential environmental harm of their operations.
- (e) **Flow:** A system has flows of information, material, and energy (including human). These enter the system from the environment as inputs (raw materials,

for example) and exit the system as outputs (goods and services).

3.13.1. Contributions of the Systems Theory to Management

- (a) Importantly, organizations today operate as open systems to survive and utilize a systems perspective of management. Managers must think broadly about a problem and generate more relevant facts to avoid a narrow assessment of issues. In this wise, results obtained that reflect a broader spectrum of relevant issues will be more impactful on the organization as well as its environments.
- (b) With a systems perspective, managers can more easily achieve coordination between the objectives of various parts of the organization and the objectives of the organization as a whole.

3.13.2 Limitations

Critics consider the systems approach to be abstract and not very practical. Talking about inputs, transactions, and outputs is not how managers discuss problems, make decisions, and face reality.

3.14 Contingency theory

The development of this approach was stimulated by managers, consultants and researchers who tried to apply the concepts of the major schools to real-life situations. They often found that methods that were highly effective in one situation would not work in other situations.

They then sought an explanation for these experiences. Why, for example, did a behavioural scientist's concept work brilliantly in one situation and failed miserably in another?

The contingency approach that was developed attempted to answer such questions simply and logically: Results differ because situations differ. A technique that works in one case may not necessarily work in all cases because of differences in their respective situations.

According to the contingency approach, then, the task of managers is to try to identify which technique will, in a particular situation, under particular circumstances, and at a particular time, best contribute to the attainment of management goals.

Where workers need to be encouraged to increase productivity, for example, the classical theorist may prescribe a new incentive scheme. The behavioural scientists may create psychologically motivating climate. The manager trained in the contingency approach will ask, "which method will work best here"?. If the workers are unskilled, struggling to meet car or mortgage payments, then financial incentives might work well. With skilled workers, driven by pride in their

abilities, a job enrichment programme might be more effective.

As contingency approach scholars, we would not be satisfied with just analyzing the particular problem. However, we would be equally concerned with how well a particular solution would fit in with the structure, resources, and goals of our entire organization.

Contributions of Contingency Theory to Management

- (a) A theory cautions management theorists and practitioners against the danger of generalising on matter of method strategy and organisational design.
- (b) There is no one best way to organise or management because the proper structure for an organisation is that which enables it to deal with its environment optimally.
- (c) The contingency approach has a limited practical utility because it is not only complex, it is also very difficult to determine all relevant situational factors that affect management decisions.

3.15 Summary

Management is a process that includes the functions of planning, organizing, actuating, and controlling. These functions must be performed in all organizations, if goals are to be achieved satisfactorily through the use of human and material resource. Successful managers must demonstrate technical, human relations, conceptual and analytical skills in the performance of their duties. Managing is an essential activity at all organizational levels.

The goal of all managers is to create a surplus and to be productive, that is, to achieve a favourable output-input ratio within a specific time period with due consideration for quality. Productivity implies effectiveness (achieving objectives) and efficiency (using the least amount of resources).

Furthermore, the manager needs to be conscious of the dynamic nature of management in terms of management practice. Thus, the concept of universality of management refers to the need for the practice of management in all types of organization.

The various theories of evolution of management thought have contributed to managers' understanding of organizations and to their ability to manage them. Each offers a different perspective to defining management problems and opportunities, and for developing ways to deal with them. In their current state of evolution, however, each approach overlooks or deals inadequately with important aspects of organisational life.

However, the newer systems approach, based on the general systems theory and the contingency approach have already been developed to the point where they offer

valuable insights for the practising manager.

Managers will have to continue on their own to select the appropriate perspective or perspectives for each situation. They may, of course, become lost in what Harold Koontz called “the management theory jungle”. But it is at least likely the managers will find such multiplicity of theories useful. It may be that no one theory could encompass a field like management, in which the complexities of human behaviour play such a central role.

3.16 REVIEW QUESTIONS

SECTION A – (ATTEMPT ALL QUESTIONS)

PART 1 – MULTIPLE CHOICE QUESTIONS

1. The principle that specifies that the effort of everyone in the organisation should be coordinated and focused in the organisation is known as:
 - (a) Unity of direction
 - (b) Span of management
 - (c) Unity of command
 - (d) Unity of integration
 - (e) Unity of conglomeration

2. The type of skills required by any manager to perform effectively and efficiently, depends on:
 - (a) Policy
 - (b) Level
 - (c) Strategy
 - (d) Standard
 - (e) Communication

3. Which of the following is popularly referred to as the father of scientific management?
 - (a) Henri Fayol
 - (b) Elton Mayo
 - (c) Frederick W. Taylor
 - (d) Herbert Simon
 - (e) Peter Drucker

4. The ability to think in an abstract manner and comprehend relationship between elements is known as:
 - (a) Conceptual skill
 - (b) Design skill
 - (c) Human skill
 - (d) Technical skill

- (e) Monitoring skill
5. The experiments that led to the human relations school are collectively referred to as:
- (a) Hawborne experiments
 - (b) Hawthorne experiments
 - (c) Habronee experiments
 - (d) Hawthing experiments
 - (e) Hartthorne experiments

Part II: Short Answer Questions

1. The ability to choose appropriate strategies for achieving a given objective is known as
2. The ability to get things done correctly which is an input-output concept is referred to as
3. The process of matching organizational structure to its goals and resources is called
4. The idea whereby subordinates are given the freedom to conceive and carry out their plans, even when some mistakes result, is referred to as
5. A situation that arises where authority rests on appeal of leaders and is also contingent upon a belief in personal attributes of the person giving the order, is known as

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

1. D
2. B
3. C
4. A
5. B

SHORT ANSWER QUESTIONS

1. Effectiveness
2. Efficiency
3. Organisational Design
4. Initiative
5. Charismatic Authority

SECTION C

MANAGEMENT PROCESS

CHAPTER FOUR: PLANNING, ORGANISING AND COORDINATING

4.0 Learning Objectives

After studying this chapter, the reader should be able to discuss effectively, identify the importance as well as understand the underlying principles of:

- Planning
- Planning process
- Strategic planning process
- Formal and informal organisation
- Organisation structure
- Departmentation
- Centralisation and decentralisation
- Delegation
- Coordination

4.1 Introduction

Planning is a primary function of management. Planning has been defined as selecting missions and objectives and the actions to achieve them; it requires decision-making that is, choosing from among alternative future courses of action. It lays down a rational system by which stated objectives can be achieved. Simply stated, planning is deciding in advance, what is to be done, when, where, how and by whom it is to be done.

For survival and growth in competitive environments, organisations have to be able to predict the future business conditions and opportunities in order to take advantage of them. Without planning, the organisation may not be able to survive and grow on the long run.

Basically, planning gives answers to the following questions:

- i. Where are we now?
- ii. Where do we want to go?
- iii. How do we get there?
- iv. How are we doing?

Thus, planning involves setting the right objectives (effectiveness) and then choosing the “right means” for attaining these objectives (efficiency). Without the activities

determined by planning, there would be nothing to organize, no one to actuate, and no need to control. Also, planning is required in each of the other fundamental functions, i.e., in organising, actuating, and controlling. Planning is done at all management levels.

Organising is a management function that is undertaken to actualise plans put in place to achieve the mission, goals and objectives of management. The need for 'organising becomes apparent when the task to be undertaken is beyond the capacity of a few individuals or as the complexity of the task increases. If people are to work together effectively to accomplish set goals, there is need to:

- (a) break the task required to accomplish the set goals down into jobs that can be assigned to individuals to perform.
- (b) determine the specific objectives of each job, define the duties, responsibilities and authority.
- (c) group the jobs into units and departments.
- (d) establish the formal lines of authority and communication.
- (e) allocate the resources needed to carry out the task.

The process of carrying out the above activities is referred to as 'organising. According to Ivancevich, Lorenzi and Skinner (1994), 'organising is the process of structuring both human and physical resources to accomplish organizational objectives'. Robbins and Coulter (2007), define organising as 'arranging and structuring work to accomplish the organization's goals'.

The result of 'organising' is the organization structure. It is the network of jobs or positions along with the communication and authority relationships established among them. A model of organization structure is often shown as organization charts or organogram in most organizations.

'organising' is usually a continuous process. As new jobs are created or existing ones eliminated, different patterns of communication and authority relationships are established. Changes in technology and environmental conditions may also result in restructuring of the organization.

4.2 Importance of planning

(a) Minimizes Risk and Uncertainty

In today's highly complex business environments, organisations cannot afford to take decisions intuitively. By providing a more rational, fact-based procedure for making decisions, planning allows managers and organisations to minimize risk and uncertainty.

(b) Enables Managers to face Increasing Competition

Today, a business concern has to face competition not only in the domestic market but also in the international markets. To face such fierce competition, proper planning in all functional areas is a must.

(c) Enables Managers to Keep Pace with Complex Technological Changes

Technology is changing rapidly and the existing machines and processes are becoming obsolete at a fast rate. With proper planning, it is possible to keep pace with technological changes to the advantage of the organisation.

(d) Leads to Success

Planning helps the organization to perform better and achieve success. Organizations that plan have a higher probability to succeed than those which do not plan.

(e) Focuses on Goals

Planning helps an organisation to focus all its activities and resources on selected goals.

(f) It Facilitates Control

In planning, the manager sets goals and devises action plans to achieve them. Plans, thus become the standard or benchmarks against which performance is compared and control is exercised in case of any difference between the planned and actual performance.

4.2.1 Advantages of Planning

The advantages can be summarized as follows:

- (a) Helps to make all activities purposeful by eliminating or avoiding those activities which do not contribute to achievement of objectives.
- (b) Planning helps the manager to visualize future challenges and opportunities and helps the organization to be pro-active to face future uncertainties.
- (c) Helps the manager to analyse all the variables affecting performance.
- (d) Provides a basis for control.
- (e) Encourages achievement

- (f) Helps to visualize the firm in its entirety
- (a) Helps to achieve the maximum utilizations of available resources at the discretion of the manager.

4.2.2 Limitations of Planning

- (a) Planning is dependent on correctness of information. Any inaccuracy in the information may lead to failure of the plans and affect it adversely.
- (b) Uncertainty: An element of uncertainty always exists in a plan as forecasts cannot be 100% accurate and reliable. Even with planning, some degree of uncertainty still exists.
- (c) Planning may inhibit creativity and innovation which are sources of rapid growth of organizations. Planning induces formalization which inhibits creativity, flexibility and innovation.
- (d) May create rigidity: Planning may create rigidity in the sense that goals and courses of action are taken as given and unchangeable even when the assumptions upon which they were based no longer hold.
- (e) Planning consumes a lot of resources in terms of time and money.

4.3 Levels of Planning

The following figure shows relative time spent on planning at each level of management. Irrespective of what job a person may be doing and at any level, there is always some planning behind it. Thus, planning is a pervasive activity covering the entire enterprise with all its segments and every level of its management.

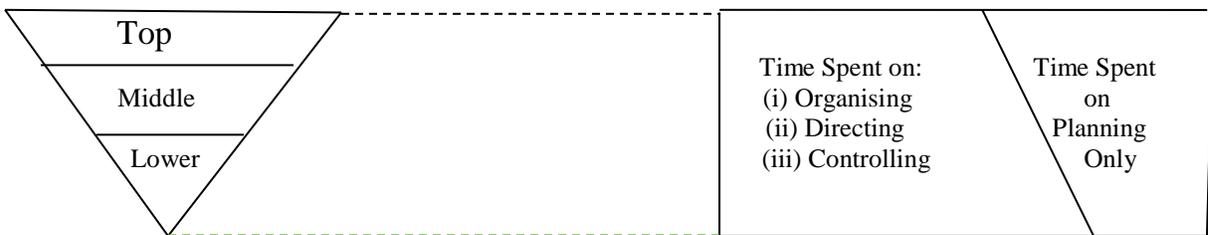


Fig. 4.1 Time spent on planning at each level of management

Top management spends more time on this function but it is not their exclusive responsibility. Top management does strategic planning. Middle management engages more on tactical planning while the first-line management concentrates mainly on operations planning. (see fig 4.1).

4.4 Types of Planning

4.4.1 Strategic Planning

Strategic planning is the process of determining desired objectives or benchmarks and of developing ways to reach them. “What do we want the future to be? What must we do now to better ensure that the desired future is achieved?”

Strategic planning typically:

- (a) is the responsibility of top management
- (b) states the organization’s mission and vision
- (c) describes the set of goals, policies, structure and funding of the organisation.
- (d) is concerned with effectiveness (doing the right things).
- (e) provides the basis for both tactical and operational planning.
- (f) takes time to execute
- (g) the time frame of strategic planning is usually long.

4.4.2 Tactical Planning

In most instances, tactical plans flow from, and must be consistent with the strategic plan of the organisation. While strategies are often specified in general terms, tactics must specify resources and time frames in detail.

Tactical planning requires the use of human resources and managers involved in tactical planning spend a great proportion of their time with other people. They must receive information within and without the organisation, process them in the most efficient way and pass them to others who would make use of the information.

Thus, tactical plans are used to accomplish specific parts of a strategic plan; and each strategic plan is implemented through several tactical plans. Strategic planning is critical to the success of any organisation; tactical planning makes the difference on how well strategies really work.

Broad, long-term goals are the focus of strategic planning; tactical plans are used to accomplish specific parts of a strategic planning. Each strategic plan is generally implemented through several tactical plans. Effective tactical planning involves both development and execution.

4.4.3 Operational Planning

Operational planning is focused, short-term, and specific. It is the responsibility of lower level management. Operational planning translates the broad concepts of the tactical plan into clear numbers, specific steps, and measurable objectives for the short term.

Operational planning is concerned with efficient, cost effective application of resources to solving problems and meeting objectives.

4.5 The Planning Process (Steps in planning):

(a) Being Aware of Opportunities

Although it precedes actual planning and is therefore, not strictly a part of the planning process, an awareness of opportunities in the external environment is the real starting point for planning. All managers should take a preliminary look at possible future opportunities and see them clearly and completely, know where they stand in the light of their strengths and weaknesses, understand what problems they wish to solve and why, and know what they expect to gain. Setting realistic objectives depends on this awareness. Planning requires a realistic analysis of the opportunities.

(b) Establishing Objectives

The second step in planning is to establish objectives for the entire enterprise and then for each work unit. This is to be done for the long term as well as in the short range. Objectives specify the expected results and indicate the end points of what is to be done, where the primary emphasis is to be placed, and what is to be accomplished by the network of strategies, policies, procedures, rules, budgets, and programmes.

Enterprise objectives give direction to the major plans, which, by reflecting these objectives, define the objectives of every major department. Major departmental objectives, in turn, determine the objectives of units and subunits down the line. In other words, objectives form a hierarchy.

Managers should also have the opportunity to contribute their ideas for setting their own goals and those of the enterprise.

(c) Developing Premises

Planning premises are assumptions about the environment in which the plan is to be carried out. Developing planning premises is to establish, circulate, and obtain agreement to utilize critical planning premises such as forecasts, applicable basic policies, and existing company plans.

It is important for all the managers involved in planning to agree on the premises. In fact, the major principle of planning premises is this: The more thoroughly individuals charged with planning understand and agree to utilize consistent premises, the more coordinated enterprise planning will be.

Forecasting is important in developing planning premises. Forecasting seeks to determine: What kinds of markets will there be? What volumes of sales are

there? What prices? What products? What technical developments? What costs? What wage rates? What tax rates and policies? What new plants? In what political or social environments does the organisation operate in? How will the expansion be financed? What the long-term trend?

Because the future is so complex, it would not be profitable or realistic to make assumptions about every detail of the future environment of a plan. Therefore, premises are as a practical matter, limited to assumptions that are critical, or strategic, to a plan; that is, those which must influence its operation.

(d) Determining Alternative Courses of action

The fourth step in planning is to search and examine alternative courses of action, especially those not immediately apparent. There is seldom a plan for which reasonable alternatives do not exist, and quite often an alternative that is not obvious proves to be the best.

The more common problem is not that of finding alternatives but reducing the number of alternatives so that the most promising ones may be analyzed. The planner must usually make a preliminary examination to discover the most fruitful possibilities.

(e) Evaluating Alternative Courses of Action

After seeking out alternative courses and examining their strong and weak points, the next step is to evaluate the alternatives by weighing them in the light of premises and goals.

One course may appear to be more profitable, but it may require a large cash outlay and have a slow payback; another may look less profitable but may involve less risk; still another may better suit the company's long-range objectives.

If the only objective were to maximize immediate profits in a certain business, if the future were not uncertain, if cash position and capital availability were not worrisome, and if most factors could be reduced to definite data, this evaluation would be relatively easy.

But since planners typically encounter many uncertainties, problems of capital shortage, and various intangible factors, evaluation is usually very difficult, even with relatively simple problems.

Indeed, it is at this step in the planning process that operations research and mathematical as well as computing techniques have their primary application to the field of management.

(f) Selecting a Course of Action

This is the point at which the plan is adopted – the real point of decision making. Occasionally, an analysis and evaluation of alternative courses will disclose that two or more are advisable, and the manager may decide to follow several courses rather than one best course.

(g) Formulating Supporting Plans

When a decision is made, planning is seldom complete. Formulating of supporting plans such as plans to buy equipment, materials, hire and train workers and the development of a new product, etc., are given prominence in planning.

(b) Numberising Plans by Budgeting

After decisions are made and plans are set, the final step in giving them meaning is to numberise them by converting them into budgets.

The overall budgets of an enterprise represent the sum total of income and expenses, with resultant profit or surplus, and the budgets of major balance sheet items such as cash and capital expenditures. Each department or programme of a business or some other enterprise can have its own budgets, usually of expenses, and capital expenditures, which tie into the overall budget.

If done well, budgets become a means of adding together the various plans and also set important standards against which planning progress can be measured.

(c) Implementation

This concerns the allocation of tasks, objective-driven action and collection of feedback data. Without this step, the previous steps are pointless. Implementation is the deployment of resources to put a plan into action. The manager must implement plans through others, motivating them to carry out the plan, rewarding them for successful performance and redirecting them when their actions lead to outcomes that differ from the objectives.

4.6 Classifications of plans

Plans may be classified on the basis of the scope of the plan, the period covered by the plan and the level of detail.

4.6.1 Scope

This is the range of activities covered by the plan. Plans may be prepared to cover all the activities of the organisation. Such plans are referred to as corporate plans.

Similarly, plans may be prepared to cover divisional activities or any other units of the organisation. When plans are prepared to cover functional activities such as production, marketing, human resources, etc., they are known as functional plans.

4.6.2 Period Covered

Planning may be viewed from the perspective of the period covered. On the basis of time period covered, planning can be short-range, medium-range and long-range.

Short-range planning is concerned with the relatively near future – the next month or the next one year. A store manager planning clearance sales is a good example of short range planning.

On the other hand, long-range planning attempts to foresee conditions and courses of action for five, ten, twenty or more years ahead. Planning a new refinery requires five to ten years. Long – range plans centre on the organization's basic goals and strategies for growth and development.

Medium-range plans are typically for about two to four years. Middle-level management is responsible for all medium-range plans.

Long-range planning tends to be strategic planning. That is, it focuses on a long-term horizon and tends to be consequential in terms of impact, resources deployed and actions required.

Strategic planning requires utmost skill in forecasting the future and in relating to the external environment (Lorange & Vencil, 1976:57-81).

The more remote the future the manager is considering, the more difficult it becomes to foresee what will happen. This is especially the case in long-range planning.

Unlike long-range planning short-range planning tends to be more specific. More managers in the organization also tend to be involved in preparing and executing short-range plans. The major reason for this is that the day-to-day work of members of an organization consists of completing plans currently in progress and developing plans designed to deal with situations anticipated in the relatively near future.

4.6.3 Level of Detail

Plans vary in terms of the details presented in them. Long-range plans covering a five-year period cannot provide as much detail as operational plans. While long-range plans provide broad statements of goals, objectives, strategies and so on, operational plans which are derived from long-range plans provide greater detail such as specific measurable targets to be achieved, the specific outcomes expected, the specific activities to be executed, etc. Plans prepared for execution at the lower levels of the

organization provide greater details than those prepared at higher levels.

4.6.4 Single – use plans

Single-use plans are used to carry out courses of action that probably will not be repeated in the same form in the future. For example, a firm planning to set up a new warehouse because it is expanding rapidly will need a specific single-use plan for that project, though, it has established a number of other warehouses in the past.

The major types of single-use plans are programmes, projects, and budgets.

(a) Programmes

A programme is a single-use plan covering a relatively large set of activities. The programme shows:

- (i) the major steps required to reach an objective
- (ii) the individuals or groups responsible for each step, and
- (iii) the order and timing in which the steps will be completed.

(b) Projects

A project is a single-use plan that consists of the same steps as a programme but does not cover as large a set of activities.

A project can be formulated and executed as an independent plan or as a relatively separate and clear cut part of a programme.

The previously mentioned plan to build a warehouse, for example, might be an independent project to meet a limited need for more storage space, or it might be part of a company's programme "to double the capacity of our warehouse facilities in two years' time".

A series of projects constitute a programme – if we use the National Immunization programme, for example, several projects are embarked upon to bring about its successful implementation. The following are some of the projects under this scheme:

- (i) storage facilities for various vaccines;
- (ii) buying equipment for transportation;
- (iv) training of workers on how to immunise; and
- (v) sensitization of family units on the importance of immunization, etc.

(c) Budgets

Budgets are statements of the financial resources set aside for carrying out specific activities. As such, they are primarily devices used to control all kinds of organisational activities.

As financial control devices, budgets are important components of programmes and projects. Managers often use the budget-developing process as a guide to making decisions on how to allocate resources among various alternative activities. For this reason, the budgeting process is often the key planning process around which other activities are planned and coordinated. The commonly used budgets are (a) sales budget (b) production budget (c) purchase budget (d) cash budget.

4.6.5 Standing Plan

Standing plans are used wherever an organisational activity occurs repeatedly. They enable a single decision or set of decisions to guide those repeated actions. Thus, once established, standing plans allow managers to conserve planning time and decision-making time to handle similar situations in a consistent manner.

Because a bank regularly decides whether to grant requests for loans, it does not need a different plan to handle each specific request. Instead, it uses one standing plan that anticipates the different circumstances that may be presented and the criteria for decision-making.

The major types of standing plans are: policies, procedures, and rules.

- (a) **Policies:** General statements that guide decision-making are called policies. They define the boundaries within which decisions can be made by subordinates. They direct decisions towards the accomplishment of objectives.

The basic purpose of policies is to secure consistency of purpose and avoid decisions which are based on expediency.

Policies may either be written statements or unwritten understanding among people as to the acceptable actions to be taken in repetitive situations. Policies help in the realisation of business objectives.

- (b) **Procedures:** Procedures indicate the specific manner in which a certain activity is to be performed. Whereas policies may slow down the broad area of action, the procedures determine the sequence of definite acts. They are developed to avoid the chaos of random activities and mark a fixed path through the defined area of policy.

- (c) Rules: Rules are rigid and definite plans that specify what is to be done or not to be done in given situations. A rule provides no scope for discretion and judgement. It is a prescribed guide to conduct or action. No deviation is expected from the rule. A rule may or may not be a part of a procedure.

The rule “No smoking” in the factory is not a part of any procedure. But the rule, “All orders must be acknowledged within 48 hours of their receipt” is a part of the procedure for processing orders. A rule generally lays down penalty for its violation. Rules help to regulate behaviour and facilitate communication. They facilitate uniformity of action and avoid the need for repeated approval from higher levels for routine matters.

4.7 The Nature and Role of Strategic Planning

- 4.7.1** Strategic planning is a thorough self-examination regarding the goals and means of their accomplishment so that both direction and cohesion are given the enterprise.

Furthermore, this process entails developing plans and outlining decisions of resource allocation, priorities, and action steps necessary to reach strategic goals.

4.7.2 The Need for Strategic Planning

Strategic planning begins by asking questions regarding the purpose and the operations to which an enterprise is presently devoted. From the foregoing, strategic planning would address vital questions such as the following:

- i What service are we trying to provide?
- ii What are our competitors doing?
- iii Should we continue with what we are presently doing?
- iv Do we need more or fewer lines of products or services?
- v Are product lines obsolete and/or markets eroding?
- vi What is the environmental dominance under which we operate?
- vii What is happening technologically, socially, politically that could have impact and to what degree?
- viii How will this affect us?
- ix What can we offer?
- x What is unique about what we can do?
- xi Can this uniqueness, if any, be exploited by us?

Answers to such questions help managers to scrutinise and take a critical look at what is being done, decide what should be retained, what’s to be added, and put these thoughts and ideas into their plans.

4.7.3 Benefits of Strategic Planning

The specific benefits include:

(a) **Coordination of efforts**

Management exists because the work of individuals and groups in the organisation must be coordinated, and strategic planning is one of the important means for coordinating effort. An effective plan specifies goals and objectives both for the total organisation and for each of its parts. By working towards planned objectives, each part contributes to, and is compatible with the entire organization's goals.

(b) **Preparation for change**

An effective plan of action allows room for change. History provides vivid examples of what can result from failure to change. The collapse of some banks recently was due to bad management, inability to prepare adequately for structural changes in their bid to re-capitalize. To prepare for change is to avert disaster.

Since strategic planning involves long-term considerations, managers can actually capitalize on anticipated changes for the benefit and growth of their organisations.

As a continuous challenge that is never complete, at every review, strategic planning requires managers to look at their organisations in a different way from the way they did the previous year or time.

(c) **Development of Performance Standard**

In management terms, expected behaviours are performance standards. As plans are implemented throughout the organisation, the objectives and courses of action assigned to each individual and groups are the bases of standards which can be used to assess actual performance. A manager's performance can be assessed in terms of how close their units come to accomplishing their objectives. Without strategic planning, performance standards are difficult to define and those standards developed may be contrary to the organisational values and missions.

(d) **Development of Managers**

Planning involves managers and workers in high levels of intellectual activity. Those who plan must be able to deal with abstract and uncertain ideas and information. Nevertheless, planners must be able to think systematically about the present and the future. This, in turn, leads to effective actions.

Managers' motivation to plan reinforces their ability to think. The organisation benefits as well.

(e) Allows Managers to be Focused

By focusing on the future as well as on present constraints and policies, managers become better equipped to direct resources toward success in the achievement of goals. By anticipating the future, there is less temptation to focus on short-term results while sacrificing long-run gains, and this is more likely to happen when performance is evaluated on the basis of adherence to strategic plans, rather than on short-term results.

(f) Motivation and Cohesiveness is Enhanced

Furthermore, motivation and cohesiveness are enhanced since all individuals in the organisation have an opportunity to know what is going on, where the organisation is headed, and what is expected of them in achieving objectives. However, if a strategy is to have this value, it must be communicated and understood at all levels within the organisation.

4.8 The Strategic Planning Process

Strategic planning consists of the following six steps:

- (i) Defining the organization's mission
- (ii) Analysing the situation (Environmental Scanning)
- (iii) Setting organisational objectives
- (iv) Selecting the strategies to achieve the objectives
- (v) Implementation of the plan
- (vi) Review

Step 1: deals with defining the organizational mission by top management. For some companies, this step requires only reviewing the existing mission statement and confirming that it is still suitable.

Step 2: is conducting a situation analysis. This is vital because strategic planning is influenced by many factors beyond and within the organisation. Situation analysis refers to gathering and analysing information on the external environment for opportunities and threats. It also involves analysing the internal environment of the organization for strengths and weaknesses.

Step 3: requires management to decide on a set of objectives to guide the organisation in fulfilling its mission. Objectives also provide standards for evaluating an organization's mission (Determine where to go).

Step 4: is selecting appropriate strategies. This step indicates how the firm is going to get there. Organisational strategies represent broad based plans of action by

which an organisation intends to achieve its goals and fulfil its mission. Strategies are selected either for the entire company or for each division.

Step 5: Implementation: Once the final strategic plan has been formulated, its broad goals must be translated into the detailed day-to-day operations of the organisation. Middle and lower-level managers must draw up the appropriate plans, programmes, and budgets for their sub-units.

In short, the total strategic plan will be translated into a series of closely meshed “sub-plans” by the appropriate divisions and sub-units of the organisation. And each sub-plan will reflect the particular sub-unit producing it. Nevertheless, each plan and each sub-unit will play its assigned role in achieving the organization’s overall strategic goals.

Step 6: Review: The process of reviewing is a critical part of any plan. Managers need to check the progress of their plans so that they can take whatever remedial action is necessary to make the plan work or change the original plan, if it is unrealistic.

4.9 Barriers to Effective Planning

- (i) **Goals.** Goals can constitute a barrier to planning in two ways. First, the goal may be inappropriate, unclear or unattainable. When goals are not relevant to the pressing problems or challenges of the organization, they are unlikely to motivate managers to plan effectively to achieve them. Similarly, when a goal is perceived to be unattainable, it will not aid the planning process. The second way is when managers are reluctant to establish goals for their organization due to fear of failure or other reasons. In such circumstances, effective planning would not be achieved.
- (ii) **Reward system.** When rewards are carefully linked to a specified behaviour, reinforcement theory suggests that employees would engage in that behaviour. Individuals would engage in behaviours that are rewarded and fail to engage in those that are not rewarded. Hence a major barrier to planning is when management fails to reward desired planning activities.
- (iii) **Dynamic and complex environment.** Planning depends critically on ability to forecast and assess the future state of the environment. When the environment is highly dynamic and complex forecasting is extremely difficult. This constitutes a barrier to effective planning.
- (iv) **Lack of time and resources.** Planning takes substantial time and resources. Inadequacy of time and other resources may constitute a barrier to planning.

4.10 Management by Objectives [MBO]

Management by Objectives is a technique used by management to achieve collaboration between managers and their subordinates in goal-setting and planning processes.

The approach was first proposed by Peter Drucker in his book *The Practice of Management*. (1954). Since that time, MBO has spurred a great deal of discussions, evaluations, researches, and inspired many similar programmes.

The Concept:

- i It refers to a formal set of procedures that begins with goal-setting and continues through performance review.
- ii Managers and those they supervise act together to set common goals.
- iii Each person's major areas of responsibility are clearly defined in terms of measurable expected results or objectives. These are used by subordinates in planning their work.
- iv At periodic intervals, the expected results or objectives jointly set by managers and their subordinates are used to monitor and review progress.
- v On the basis of the agreed objectives or results, the performance of subordinates is evaluated.

4.12 Purpose of Organising

Organising activities are undertaken by management for the purpose of actualizing the planned accomplishment of management goals and objectives. Organising seeks to establish a logical pattern of relationships among the members of the organization to achieve efficiency in the utilization of human and material resources, enhance effective communication and reduce conflict to the barest minimum.

Organising builds on the principle of division of labour to secure the advantages of job specialization. Because of specialization, a lot of very intricate activities can be undertaken by talented persons. This, in turn, facilitates the growth of the business enterprise. Important roles of organising are coordination of diverse units, departments and divisions of the enterprise and harnessing their efforts for the purpose of achieving the goals and objectives of the business enterprise efficiently.

4.12.1 Importance of Organising

- (a) Organising promotes collaboration among individuals in a group and thus improves the effectiveness and efficiency of communication within the organisation.

- (b) Organising helps to classify the specialised tasks and performance expectations for each person.
- (c) Organising functions creates clear cut line of authority and responsibility in an organisation.
- (d) By organising, management ensures division of labour which avoids misuse of resources, conflict and duplication of effort.
- (e) It facilitates coordination among people and this brings harmony and synergy.
- (f) Organising produces focused work efforts that are logically and efficiently related to a common goal.
- (g) An organisation structure provides the framework within which an enterprise functions. If it is flexible, it will help in meeting challenges and create opportunities for growth.
- (h) It reduces wastages
- (i) It facilitates delegation of duty

4.13 Formal Versus Informal Organisation

The formal organization comprises patterns of relationships, communication channels and authority structure recognised by management for the purpose of achieving the goals of the organization. These patterns are the result of conscious decisions of management directed at goal accomplishment.

The Formal organization is characterized by clearly defined roles, jobs, hierarchical structure, rules, procedures and pattern of relationships.

On the other hand, informal organization exists in the context of the formal organization but does not officially form part of it. Informal organizations exist to serve certain needs of members of the formal organization which are outside the scope of the formal organization and which the formal organization may find difficult to serve. Common informal groups in our organizations are Esusu groups, prayer groups such as fellowships, social or economic groups such as cooperative societies, ethnic associations, cult groups etc. whose primary role is to protect or advance the interests of members employed in the organization,

Informal organizations have objectives, structure of roles, patterns of communication, leadership, rules, regulations and procedures. In most cases, these patterns/features

are written into a constitution adopted by members. Informal organizations are so-called because they are not prescribed by management as part of the formal organization.

Since informal organizations emerge out of the formal organization to serve the economic, social, psychological and cultural needs of its members, their activities may have positive or negative effect on the ability of the formal organization to achieve its goals. When the interest of the informal organization does not conflict with those of the formal organization, their operation may indeed benefit the formal organization. However, when their goals are in conflict with those of the organisation, their existence and operation may have negative effect on the formal organization. Examples of this are the operation of cult groups in higher institutions where they create a high sense of insecurity for the entire community and hence jeopardise attainment of the primary goals of the institutions.

4.13.1 Advantages of a Formal Organisation

A formal organization:

- (a) helps in achieving objectives
- (b) puts resources to the best use
- (c) ensures that benefits of specialization can be received due to the principle of division of labour.
- (d) develops the feeling of cooperation.
- (e) limits conflicts among executives.
- (f) prevents duplication of work.
- (g) ensures that efficiency of employees can easily be measured due to pre-determination of rights and duties of each individual.
- (h) provides for well-defined authority and responsibility to avoid friction and misunderstanding.
- (i) makes officers accountable for resources allocated to them.
- (j) Makes standardization of work become practicable.

4.13.2 Disadvantages of Formal Organisation:

- (a) In this type of organisation, procedures, programmes, rules, etc., are followed strictly, that is why changes are difficult to effect.
- (b) Rules are considered more important than persons.
- (c) A formal organisation is impersonal; that is why, human feelings have no place here.
- (d) This organisation takes into consideration only the formal communication and creates obstacles in the application of informal communication.
- (e) Excessive and undue use of authority may take place in this type of organisation.
- (f) No consideration is given to the social and other needs of the human resources.

4.13.3 Advantages of Informal Organisation

- (a) Informal organisation may fill in gaps, if any, in the abilities of managers.
- (b) Informal organisation may help in solving work problems of members.
- (c) Informal groups develop certain norms of behaviour which differentiate between good and bad conduct and between legitimate and illegitimate activities.
- (d) Informal groups recognise talented workers as their leaders.
- (e) A manager can build better relations with his subordinates through informal contacts.
- (f) Informal groups often fill up communication gap which might arise in the organisation.

4.13.4 Disadvantages of Informal Organisation

- (a) The leader of an informal organisation may turn out to be a trouble maker in the organisation. In order to increase his influence, he may work against the policies of management, and try to manipulate the behaviour of his followers.
- (b) Informal groups generally tend to resist change. Change requires new skills but informal groups want to maintain the status quo. This creates obstructions in implementing new ideas, and thus organisation's growth.
- (c) Informal communication may give rise to rumours which may create conflict

and misunderstanding among employees. Rumours may prove very dangerous for the organisation.

- (d) Every member of the informal group is also a member of the formal . Sometimes, role conflict may arise because expectations and requirements of the formal organisation may conflict with those of the informal organisation.
- (e) The informal group exerts strong pressure on its members for conformity. The members may become so loyal to their group that the group norms may become a part of their life.

4.14 Departmentation

Departmentation refers to the formal structure of the organisation composed of various departments and managerial positions and their relationship to each other. Departmentation is the efficient and effective grouping of jobs into meaningful work units for accomplishing organisational goals.

Departmentation answers the following set of questions:

- (a) How should the tasks or activities of the organisation be grouped together?
- (b) How many people should be in each work unit?
- (c) Who should report to whom?

4.14.1 Types of Departmentation

There are several bases for departmentation. They are:

- (a) Departmentation by function
- (b) Departmentation by product/service
- (c) Departmentation by process
- (d) Departmentation by geography
- (e) Departmentation by customers
- (f) Departmentation by time
- (g) Matrix organization (Team)

4.14.2 Departmentation by function:

This is the most logical and basic form of departmentation. It involves the grouping of tasks on the basis of the function they perform. In a manufacturing organisation, there are four basic functions – production, marketing, finance and personnel.

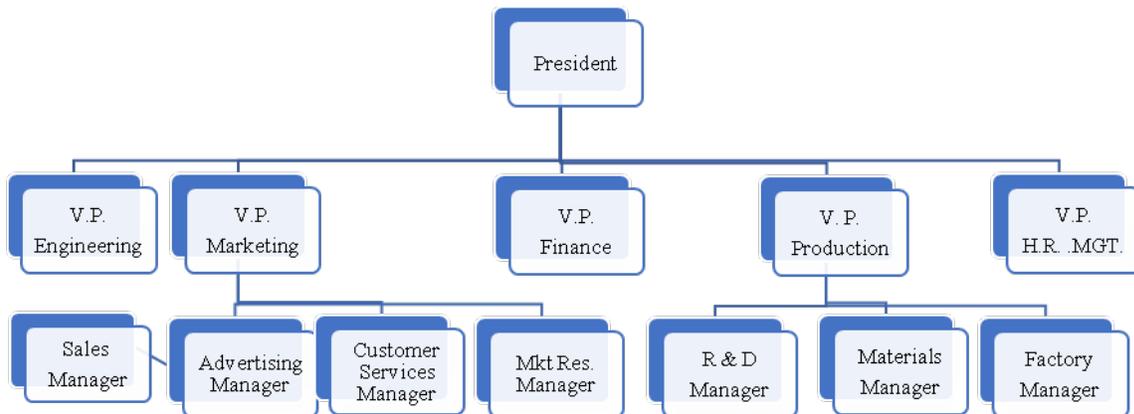


Fig. 4.2: Departmentation by function

Advantages:

- (i) It is a simple form of grouping of activities.
- (ii) It promotes in-depth skill specialization.
- (iii) It leads to improved planning and control of key functions.
- (iv) It reduces the technical demand on the supervisor.
- (v) It allows excellent coordination within functions.
- (vi) It facilitates high quality technical problem-solving.
- (vii) It facilitates top management direction and control.
- (viii) It allows economies of scale within function.

Disadvantages:

- (i) It limits communication across functional departments.
- (ii) The response to external stimuli is slow.
- (iii) It fosters narrow self-centred perspectives within functions.
- (iv) At times, objectives of functional departments may conflict.

4.14.3 Departmentation by Product/Service:

This form is suited for large organisations manufacturing varieties of products. The grouping of activities on the basis of the product/service has been growing in importance these days for firms having multiple products/services. In such structures, the functional departments are usually subordinate to the product/service divisions.

Under this method, for each major product, a separate department is created and put under the charge of a manager who is responsible for producing profits. This structure permits top management to delegate to managers the authority over the manufacturing, sales, service and engineering functions that relate to a given product or product line.

Example of departmentation by product is shown in Fig. 4.3.

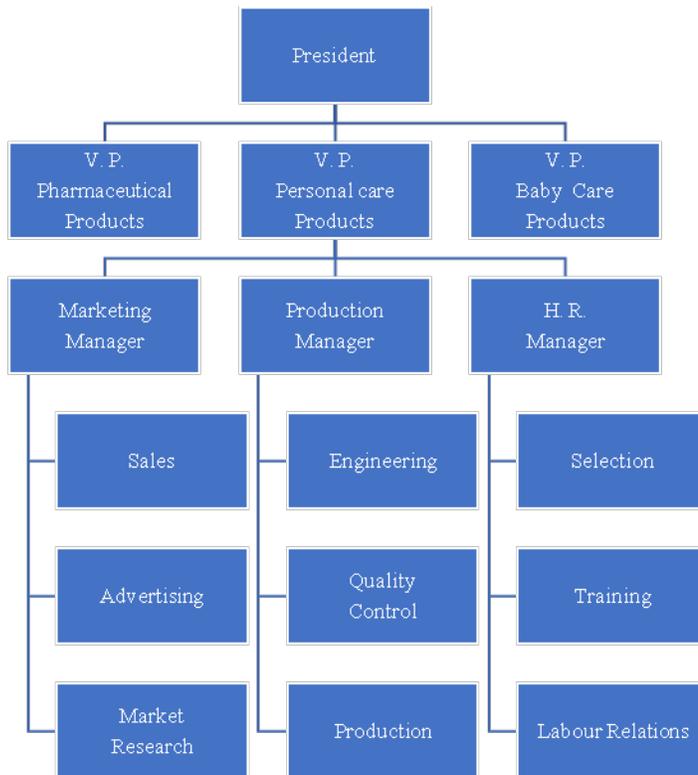


Figure 4.3: Departmentation by product/service

Advantages:

- (i) Places attention on product and product line.
- (ii) Well suited for rapid change.
- (iii) Helps parallel processing of multiple items.
- (iv) Clearly defines responsibility.
- (v) Improves coordination of functional activities
- (vi) Places responsibility for products at the division level.
- (vii) Enables top management to compare the performance of different products.

Disadvantages:

- (i) Results in duplication of staff and facilities.
- (ii) Extra expenditure is incurred in maintaining multiple sales force.
- (iii) Discourages the coordination of activities between departments.
- (iv) Causes conflicts between corporate priorities and departmental priorities.

4.14.4. Departmentation by Process

Departmentation here is on the basis of process or type of equipment or technologies involved in the manufacture of a product. Processing industries like textiles industries, paint manufacturers, refineries, etc., use this type of departmentation.

In this kind of departmentation, people and materials are brought together in order to carry out a particular operation. The process of departmentation is illustrated in Fig 4.4.

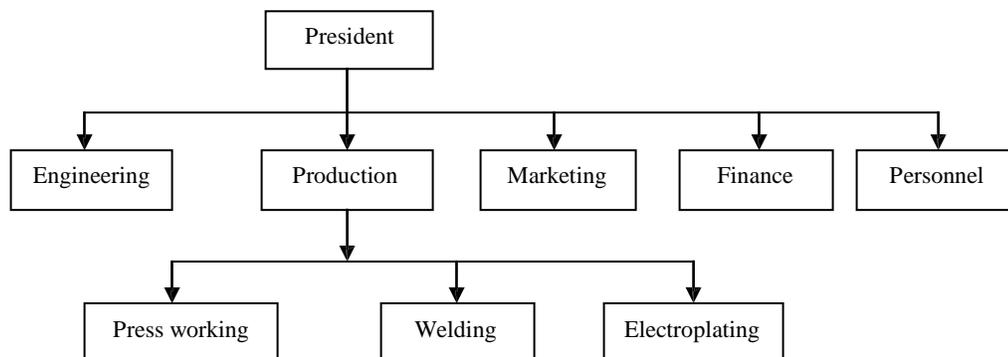


Fig 4.4 Departmentation by Process

Advantages:

- (i) It facilitates the use of heavy and costly equipment in an efficient manner.
- (ii) It follows the principle of specialization.
- (iii) It is suitable for organisations which are engaged in the manufacture of those products which involve a number of processes.
- (iv) It achieves economic advantage
- (v) It facilitates the use of specialized technology.
- (vi) It supports use of specialised skills

Disadvantages:

- (i) It will not provide opportunity for well-rounded development of managerial skills and talent.
- (ii) It is difficult to compare the performance of different process-based organisations (departments).
- (iii) Responsibility for profit is at the top.
- (v) Coordination of departments is difficult.

4.14.5 Departmentation by Geography/Territory

It is also called geographic departmentation. When several production or marketing units of an organisation are geographically spread or dispersed in various locations, it is logical to departmentalise those units on a geographical basis.

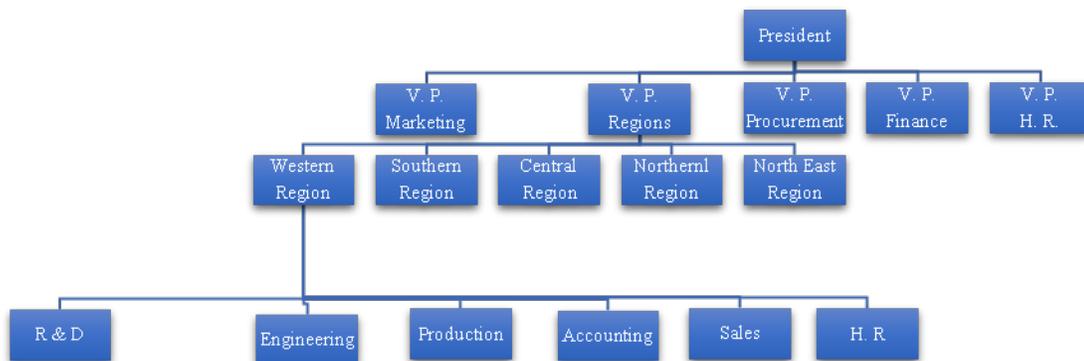


Fig 4.5: Departmentation by Geography/Territory

Departmentation by geography is followed where proximity to some resources offer advantages, such as low cost of operations and opportunities to capitalize on attractive local conditions as they arise.

Geographic Departmentation is especially popular in marketing organisations where division is feasible in line with some geographical segmentation of the market.

Advantages:

- (i) It motivates each regional head to achieve a high performance level.
- (ii) It provides each regional manager an opportunity to adapt to his local conditions and customers' need with speed and accuracy.
- (ii) It helps to compare regional performance of the organisation so as to invest more resources in profitable regions.
- (iii) It improves coordination in the region.

Disadvantages:

- (i) It gives rise to replication of many tasks.
- (ii) Requires more persons with general managerial abilities.
- (iii) Increases the problem of top management control.
- (iv) Various regional units may become so engrossed in short-run competition among themselves that they may forget the overall interest of the organisation.

4.14.6 Departmentation by Customer

Some companies departmentalise their activities on the basis of customers they serve. Departmentation by customer creates a division or department for each of the customer groups, e.g., big hospitals may have different services such as cardiac care, paediatrics, gynaecology, orthopaedic, etc.

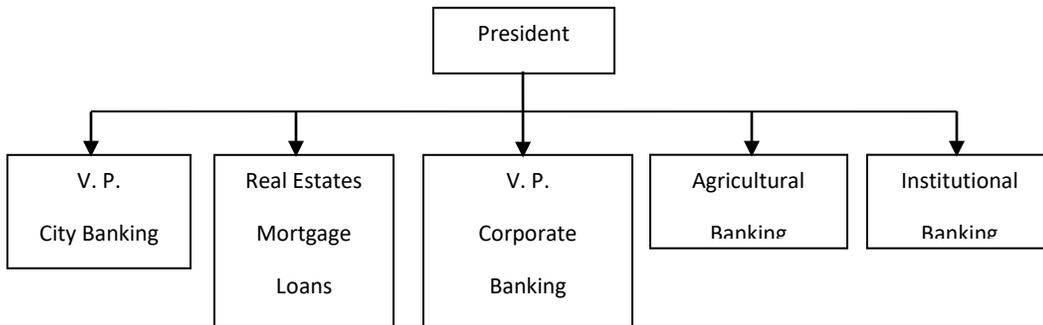


Figure 4.6: Departmentation by customer

Advantages:

- (i) It pays full attention to major customer groups and helps to earn goodwill.
- (ii) Encourages concentration on customer needs.
- (iii) Gives customer the impression that they have an understanding supplier.
- (iv) Develop expertise in the customer service.

Disadvantages

- (i) It may result in under-utilisation of resources.
- (ii) There may be replication of facilities.
- (iii) Require manager and staff experts in customer problems.
- (iv) Customer groups may not be clearly defined.

4.14.7 Departmentation by Time

One of the oldest form of departmentation generally is on the basis of time. The use of shifts is common in many enterprises where the normal work day is not sufficient for their operations because of economic, technological or other reasons. Generally, departmentation by time is found in the production function.

Advantages

- (i) Services can be rendered that goes beyond normal 8 hours a day, often extending 24 hours a day.
- (ii) This helps in continuation of production cycle without any stoppages or interruptions.
- (iii) Better utilization of expensive capital equipment.

Disadvantages:

- (i) Supervision may be less effective during night shifts.
- (ii) Fatigue is evident as the people are required to switch over from day shift to night shift and vice-versa.
- (iii) Change of shifts causes problems of coordination and communication.
- (iv) It is difficult for management to correctly measure the performance of a certain department when the performance of the department does not remain confined to one shift period but extends to the next shift.

4.14.8 The Matrix Organisation (Team)

The matrix design attempts to capture the strengths and reduces the weaknesses of both the mechanistic and organic designs. After more than 30 years of use, the matrix organisation continues to elude definition.

A matrix organisation is a cross-functional organisation outlay that creates multiple lines of authority and places people in teams to work on tasks for a finite period of time.

The functional departments are the foundation, and a number of products or temporary departments are superimposed across the functional departments. The result is Fig. 4.7

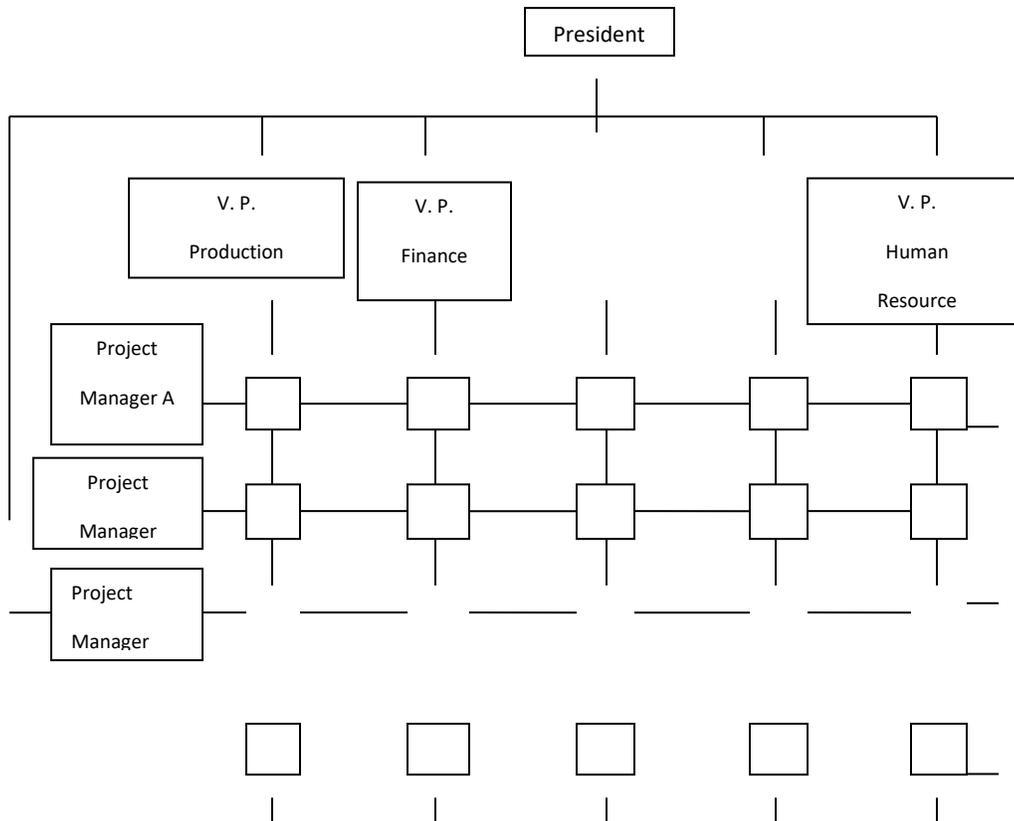


Fig. 4.7 Matrix Organisation

As Fig. 4.7 shows, individuals or groups in each cell report to two managers. For instance, someone working in marketing or on project A would report to the Vice-President Marketing and Project Manager A.

This arrangement is useful in speeding up innovation because each person's primary responsibility is to help produce what the organisation sells.

The key is to free people from bureaucratic constraints by empowering them to create winning ideas and products, while at the same time providing the structure needed for success.

Advantages:

- (i) It provides job enrichment for staff.
- (ii) It helps to relate staff with end products.
- (iii) It facilitates the effective use of experts by assigning them to critical areas as needed.

- (iv) It offers flexibility throughout the organisation.
- (v) It facilitates interdepartmental coordination.
- (vi) It helps to integrate organisational information.
- (vii) It develops managerial skills and competence.

Disadvantages:

- (i) It demands a high level of inter-personal skills.
- (ii) It may create confusion and frustration from its multiple command structure.
- (iii) It may create conflict between functional and project managers.
- (iv) It is costly to implement and maintain.

4.15 Line/Staff Relationships

Line Authority: This is the simplest type of organisation. People in line authority are those who are directly responsible for achieving the goals of the organisation. They form a hierarchical structure, and are in direct line from the top of the managerial hierarchy down to the operative level of workers.

It clearly identifies authority, responsibility and accountability at each level. The relationships in the hierarchy connect the positions and tasks of each level with those above and below them.

There is a clear unity of command so that a person at each level is independent of any other person at the same level but is only responsible to the person above him. The line personnel are directly involved in achieving the objectives of the company.

A simple line structure is given in Fig. 4.8

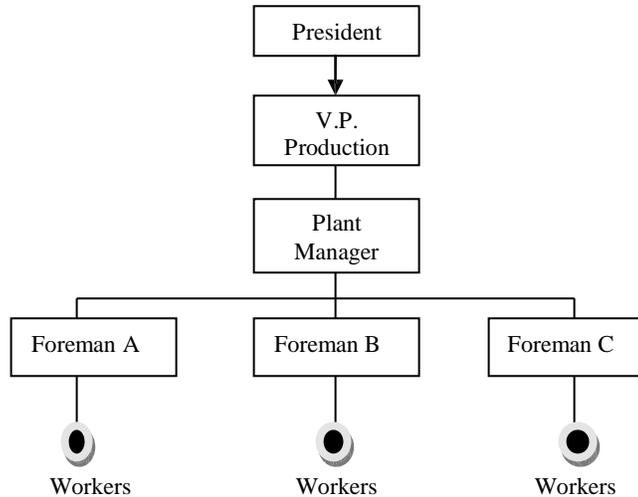


Fig. 4.8 Line Organisation Structure

Advantages:

- (i) The line organisation is simple to operate.
- (ii) Responsibility, authority, and accountability are all clearly spelt out and easily assignable and traceable.
- (iii) Communication is fast and easy and feedback can be acted upon faster.
- (iv) Due to small structural size, discipline and effective control can be easily exercised.
- (v) Companies with line type of organization are usually small in size, hence; personnel get to know each other better and tend to feel close to each other.

Disadvantages:

- (i) It is a rigid and inflexible form of organisation and there is a tendency for line authority to become dictatorial.
- (ii) As the firm grows larger and the executive become overburdened with many duties, a purely line type of organisation become inadequate.
- (iii) Line officers being too involved in day-to-day operations have little time for systematic and strategic planning.
- (iv) Due to strict accountability, different departments may be more interested in their self-interests, rather than overall organisational interest and welfare.
- (v) There is no provision for specialists and specialization which are essential for growth and optimization.

4.15.2 Line and Staff Organisation

When both line authority and staff authority are involved in an organisation, it is called line and staff organisation. The individuals who constitute the staff in an industrial organisation are experts who have no line authority but whose functions are largely advisory. They derive their authority from their expertise in a particular function of the enterprise and the need to utilise their expert advice by line managers.

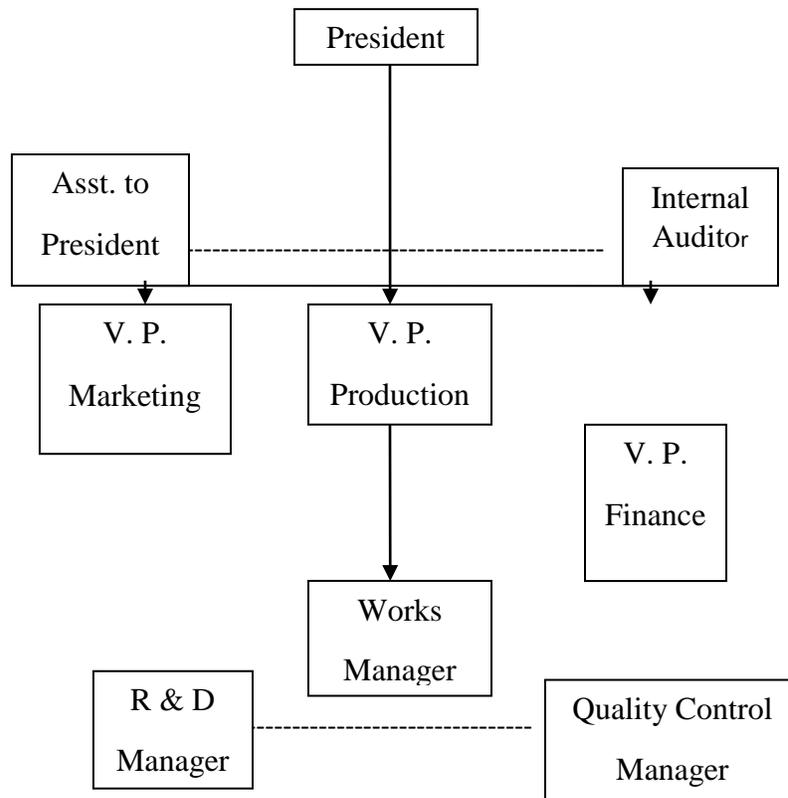


Fig. 4.10 Line and Staff Organisation Structure

Fig. 4.10 show line and staff organisation structure. The solid lines indicate the lines of authority extend from the president through the basic organisational unit, including the production, marketing, human resources and finance. Staff are represented by the broken lines including the assistant to the president, internal auditor, R & D manager and the Quality control manager.

Advantages of line and staff organization:

- (i) The line managers can seek help from specialists by way of advice and hence, improve on the quality of their decisions.
- (ii) The services of the staff are utilised for training some of the line managers.
- (iii) It facilitates speedy operations of line functions.

- (iv) Stability and discipline of line organisations are preserved. There is a greater flexibility in the organisation as new activities may be introduced.
- (v) It repays its additional cost through efficiency of operations.
- (vi) Line manager competence can be enhanced.

Disadvantages:

- (i) Line managers may depend too much on staff experts. This may lead to loss of judgement and initiative on the part of the line managers.
- (ii) Staff officers may remain ineffective because they do not possess the authority to get their recommendations implemented.
- (iii) Allocation of authority and responsibilities may not be clear between line and staff executives.

4.15.3 Line and Staff Conflicts

The line and staff officials should support each other and work harmoniously for the attainment of organisational goals. However, there may be lack of team work between line and staff positions. This may result in weakening of the line function and the mutual support between the two may turn sour.

The line department complains that:

- (a) The staff personnel encroach upon their authority.
- (b) The advice given by the staff manager is mostly academic and of little significance in practice.
- (c) When a project is unsuccessful, it is the line personnel who are blamed and held responsible for its failure but when it is successful, the staff managers receive credit.
- (d) Staff does not know the entire picture and only operates within the limits of his/her specialized area.
- (e) Staff unnecessarily increase the paper work of the line.
- (f) Staff assume line authority in a number of cases.

Staff department complain that:

- (a) Line personnel are generally ignorant, resist change and new ideas.
 - (b) Line personnel fear that changes in methods may expose their inefficiency.
 - (c) Line personnel distrust, do not cooperate and even sabotage staff plans.
 - (d) Line has not enough knowledge to translate advice into action.
 - (e) Line department receive preferential treatment in matters of staff allowance and other facilities.
 - (f) Line managers do not like to share with staff the credit for successful performance.

4.16 Factors Determining Organisation Structure

Organization structure refers to how job tasks are formally divided, grouped and coordinated. Managers are responsible for deciding on the design of the structure that would be suitable for the conditions in which the organization operates. As can be expected, no two organizations have identical structure. The structure that enables one to perform well may not be suitable for the other. What works during one period for a given organization may not work at another period. Hence managers are continually working and re-working the structure of their organizations as the prevailing conditions dictate. To complicate matters further, different managers perceive the same conditions differently and therefore adopt different structures for their organizations.

The key questions that managers want to answer in designing or re-designing the structure of their organizations are:

- (i) To what extent are activities to be sub-divided into separable jobs – what is the degree of work specialization?
- (ii) On what basis are jobs to be grouped together? – what type of departmentation?
- (iii) What degree of centralization or decentralization i.e. to what extent is decision-making authority to be concentrated at the top of the management hierarchy or devolved to lower levels?
- (vi) What degree of formalization – to what extent would there be rules and regulations guiding various aspects of employee behaviour in the organization.
- (v) What is the nature of reporting relationships that should be in place – what chain of command?
- (vi) What span of control – how many subordinates can a manager effectively and efficiently supervise?

It is clear from the above that there are thousands of combinations of the above variables for the manager to choose from. The task before the manager is somewhat simplified by the work of Burns and Stalker (1961) who suggested that organization structure may be of these general forms that they consider suitable for their conditions. Even within the mechanistic form for example, one organization may be more mechanistic than another.

- (a) Mechanistic organization structure: This is a rigid structure characterized by a high degree of specialization, rigid departmentation, narrow span of control, centralization, high formalization and clear chain of command.
- (b) Organic organization structure: In contrast to the mechanistic organization, this form, is highly adaptable and flexible. Jobs may be specialized but job holders are well trained and can handle diverse job activities as the need arises. Span of control is wide, the degree of formalization is low and decision-making authority is decentralized. There is free flow of information allowing for a high degree of flexibility.

Under what conditions would either mechanistic or organic structure be preferred? This depends on certain contingency factors including size of the organization, nature of the

technology in use, the degree of environment uncertainty prevailing and the strategy of the organization.

- (i) **Size:** Size is an important determinant of structure. Small organisations tend to have organic structure. As size increases, the structure tends towards being mechanistic.
- (ii) **Technology:** Technology may be routine or non-routine. When technology is routine, the structure tends to be mechanistic while non-routine technology tends to be organic.
- (iii) **Environmental uncertainty:** When the level of environmental uncertainty is low (environment is stable), the structure applicable is mechanistic. When the environmental uncertainty is high, the structure tends to be organic.
- (iv) **Strategy:** Organisations may adopt prospector strategy which takes the form of creativity, innovation, growth orientation and risk-taking. The other strategy is the defender strategy which emphasises stable growth, protecting existing markets, serving current customers and minimizing cost. Between these extremes is the analyser strategy which combines elements of prospectors and defenders. The implication of this strategy for organizational structure is that organizations with prospector strategy adopt organic structure while the ones with defender strategy tend to adopt mechanistic structure.

4.17 Centralisation and Decentralisation

4.17.1 Centralisation

Centralisation is the process of systematically concentrating decision-making in the hands of managers at the higher levels of the organisations. Here, the locus of authority is concentrated at the top levels of the organisational hierarchy.

In centralisation, little delegation of authority is the rule; power and authority are concentrated in the hands of top executives.

Centralisation may be essential in small organizations for them to survive in a highly competitive world. But as the organisation becomes more complex due to increasing size, interdependence of work-flow etc, continued centralisation results in inefficiency. Hence decision-making authority tends to devolve to operating levels of the organisation. Thus, the larger the size of an organisation, the more there is the need for less centralisation or a greater degree of decentralisation.

4.17.2 Advantages of Centralisation

- (i) Power and prestige are provided to the top executives.
- (ii) Uniformity of policies, practices, and decision is fostered.
- (iii) Duplication of functions that are similar is minimized.
- (iv) Elaborate and extensive controlling procedures and practices are not required.
- (v) A strong coordinated top management team is developed.

4.17.3 Disadvantages of Centralisation

- (i) There is inflexibility and delays in decision-making. Because of this, centralized organisations are slow in responding to changes in the external environment, such as, competition, technology and consumer demand.
- (ii) Centralisation stifles creativity and initiative of lower level managers.
- (iii) Lower level managers may feel constrained and demotivated because they are not involved in making important decisions.
- (iv) Productivity may be low because workers are less likely to accept responsibility and are less enthusiastic to implement decisions handed down to them.
- (v) Centralisation requires close supervision and rigid controls for decisions to be implemented effectively.
- (vi) Centralisation does not provide room for the training of subordinates in decision-making.

4.17.4 Decentralisation

Decentralisation is the systematic effort to delegate authority to lower levels of the organisation.

As managers opt for a more decentralized design, the important question to consider is not whether an organisation should be decentralized, but to what extent should it be decentralized. Furthermore, decentralisation requires that there is corresponding investment in control to ensure that organisational objectives are achieved.

4.17.5 Advantages

- (i) A decentralized organisational structure stresses delegation of decision-making and lightens the load of top managers.
- (ii) The development of ‘generalists’ rather than specialists is encouraged, thereby facilitating succession into positions of general managers.
- (iii) Managers develop their own decision-making skills and are motivated to perform because advancement is related to performance.
- (iv) Intimate social ties and relationships are promoted, resulting in greater employee enthusiasm and coordination.
- (v) Familiarity with important aspects of special work is readily acquired.
- (vi) Efficiency is increased since the managers are near the activities for which they are held responsible and trouble spots can be located and remedied easily.
- (vii) For multi-unit enterprises, full advantage of various local conditions can be obtained.

- (viii) Managers can also exercise more autonomy, with increased job satisfaction and motivation, thereby contributing to the organization's profitability.

4.17.6 Disadvantages

- (i) It may bring about diseconomies of scale with the increase in the overhead expenses of each decentralized unit.
- (ii) Some managers still find it difficult to make decisions, though they have the authority. Because of this the methods used to measure accountability are time consuming and instil fear in the managers.

4.18 Delegation

Delegation is the assignment of formal authority and responsibility for the execution of specific activities to a subordinate.

Just as no one person in an enterprise can do all the tasks necessary for accomplishing a group purpose, so is it impossible, as an enterprise grows, for one person to exercise all the authority for making decisions.

4.18.1 The process of delegation involves:

- (a) Determining the results expected of a position.
- (b) Assigning tasks to the subordinate.
- (c) Delegating authority for accomplishing these tasks, and
- (d) Holding the person in that position responsible for the accomplishment of the tasks.

Thus, in the process of delegation, three attributes are prominent – Authority, Responsibility and Accountability. Responsibility cannot be delegated or transferred. The superior can delegate to a subordinate the authority to perform and accomplish a specific job but he/she retains ultimate responsibility for getting the job done. If the subordinate fails to perform the job, the superior is held responsible for his failure.

The authority and responsibility of any manager should be equal. A manager's authority should provide him with the power to make and enforce decisions concerning assigned or defined duties.

Responsibility is the inseparable twin of authority. A manager's authority gives a person the power to make and enforce decisions concerning his or her assigned or defined duties and that person's responsibility places the obligation upon the person to perform these duties by using this authority. (Terry, 1977:300).

Accountability: Once the duties are assigned and authority is given to a subordinate, the delegator creates an obligation on the part of the delegate to perform the tasks and exercise the authority given to him as expected. The obligation to carry out the task and bear responsibility in terms of the standards established and exercise authority as specified is known as accountability.

Thus, accountability is the obligation of an individual to render an account of fulfilment of his responsibilities to the principal to whom he reports.

4.18.2. Advantages of delegation:

When used properly, delegation has several important advantages:

- (i) It relieves the manager of his heavy routine work load making it possible for him/her to accept increased responsibilities from higher level management.
- (ii) Effective delegation speeds up decision-making.
- (iii) Helps train the subordinates for higher responsibilities and increases their morale.
- (iv) Motivates subordinates to contribute constructively towards achievement of organisational goals.
- (v) Delegation helps to create a sense of belonging in the enterprise.

4.18.3 Barriers to Effective Delegation

- (a) Reluctance to delegate by managers may be due to:
 - (i) Fear of loss of power. Managers who feel insecure and fear that if their subordinates perform well, they may lose their power, are usually reluctant to delegate.
 - (ii) Lack of self confidence. Some managers may lack self confidence or may be too conscious of their own incompetence, and therefore, reluctant to delegate authority.
 - (iii) Inability to plan work in advance. Since work is not adequately planned, managers find it difficult to delegate. If the duties of a subordinate are not clearly defined, delegation of authority may be difficult.
 - (iv) Fear of criticism. Another factor which prompts subordinates to avoid responsibility is the fear of criticism for inefficiency or mistakes.

4.19 Span of Control

Span of control is defined as the number of employees that a manager can effectively and efficiently supervise. Span of control is important because it determines how tall or flat the hierarchy of an organization would be.

In a given organization, when the span of control is narrow, say 4 – 5 subordinates, the hierarchy would be tall. This means the organization structure would have several layers and therefore several supervisors to man the hierarchy. On the other hand, if in the same organization, the span of control is wide, say 10-15 subordinates, the organizational structure would be flat with drastically reduced number of supervisory roles. It becomes clear that the structure with a wide span of control would be more cost effective since a fewer number of supervisors would be on the payroll.

Traditionally, the recommended span of control is between 5-7 subordinates per manager. However, this depends on the skills and abilities of the manager and the subordinates and the nature of job involved. If the subordinates are skilled and experienced, they are likely to be able to perform their duties with minimum supervision and hence the span of control can be wide. Also, if the subordinates' tasks are similar, the procedures for carrying out the tasks are standardized and the organisations' information system is sophisticated, then the span of control tends to be large.

4.20 COORDINATION

Coordination is the process of integrating the activities and objectives of the separated units of an organisation to efficiently achieve organisational goals.

4.21 The Need for Coordination

The need for coordination arises because of two factors:

- (a) Division of work. The interdependence between units/departments or work groups. Once the work of an organisation is divided and assigned to different individuals and groups, coordination becomes necessary to ensure that the overall goals/objectives of the organisation are achieved efficiently.
- (b) The second reason arises from the first. This is that interdependence between work units and departments require that their activities are coordinated to achieve organisational goals.

4.21.2 Techniques of Coordination

The following are the important techniques of coordination which are widely used by modern management.

(a) Coordination by simplified organisation

The need for coordination can be reduced by having a simple organization structure. By reducing the level of interdependence between units, the need for coordination is reduced. For example, by reducing the extent to which resources are shared by two or more work units, interdependence is reduced and hence the need for coordination is reduced.

(b) Plans, Programmes and Policies

Excellent opportunities for coordination are provided by the process of planning. Plans prepared by different individuals and departments should be checked for consistency. The management must ensure that all plans add up to a united programme.

(c) Rules and Procedures

These are effective techniques of coordination. By establishing rules and procedures for carrying out certain activities, the different units involved are coordinated.

(d) Coordination by Communication

The oldest, as well as, the most important device for achieving coordination is communication. The main duty of a supervisor is to see that his subordinates are working in an efficient manner. He directs them, commands them and controls their efforts.

(e) Coordination by Meetings

Group meetings are also effective for achieving a high quality of coordination. Such meetings bring the officials together and provide opportunity for coordination.

(f) Coordination through Liaison Roles

Coordination of the activities of different organisations, that are interdependent, can be achieved by appointing liaison officers who facilitate the flow of information between the organisations. Such liaison officers ensure that interactions between the organisations are maintained and areas of friction are ironed out.

Within the organisation, the liaison roles can be created to ensure flow of information and minimisation of friction between different work groups or departments.

(g) Managerial Hierarchy

This is a traditional technique for ensuring coordination between two or more interdependent work units. By placing a manager to supervise the interdependent work units, effective coordination of the activities of the respective work units is ensured.

4.22: Summary

Planning has primacy over the other management functions and is a pervasive element in management of organizations. By planning, managers minimize uncertainty and help focus their effort on organizational goals.

The types of planning that managers engage in will depend on their level in the organization and on the size and type of their organization. Strategic planning, for example, which involves deciding the major goals of the organization, usually occurs at the top management level. Tactical planning, which is usually concerned with the implementation of strategic plans, involves middle level, while the first line managers engage in operational plans which guide the day-to-day operations that have become standardised. The process of planning and its various steps were discussed.

Finally, MBO is an effective technique for integrating goal setting and planning. This process of MBO essentially involves managers and subordinates meeting to establish specific objectives and periodically reviewing progress toward those objectives.

Organising is one of the basic functions of management. It deals with establishing a formal structure to coordinate the human and material resources necessary to accomplish desired objectives.

As the organisation grows, it expands vertically to form a managerial hierarchy that specifies lines of authority and responsibility. In this way, the formal structure provides: (i) a clear definition of the objectives to be achieved, (ii) a framework for coordinating the efforts of organisational members, (iii) a definition of intended relationship among the positions in the organisation, and (iv) a distribution of authority and responsibility.

For formal organisation to function properly, authority and responsibility must be defined for all organisational members. The various types of departmentation were extensively discussed.

The line, staff and line and staff relationships as well as their internal politics and manoeuvrings in organisational dynamics were discussed. Line authority relates to the direct and continuing right of a manager to direct subordinates toward the accomplishment of specified objectives. Staff refer to the authority of one individual to advise or assist another.

Decentralisation of authority refers to the scope of authority delegated downward in an organization while centralisation is the direct opposite showing that the locus of authority remains at the top of the organisational hierarchy.

There are several mechanisms that can be used to achieve effective coordination. The managerial hierarchy permits managers to exercise their authority, establish procedures, and resolve disagreements in order to ensure efficient operation of the organisation.

4.23: Review Questions

Section A – (Attempt all Questions)

Part I: Multiple Choice Questions

1. In the hierarchy of management, which of the following is odd?
 - A Top management
 - B Production management
 - C Middle Management
 - D Supervisory management
 - E First line management

2. The obligation of an officer to perform assigned tasks to the best of his knowledge and for which he is answerable is known as:
 - A Authority
 - B Delegation
 - C Responsibility
 - D Charisma
 - E Order

3. Which of these statements on planning is not correct?
 - A. Planning is required in each of the management functions.
 - B. Planning cannot be the primacy of management functions.
 - C. Planning is deciding in advance what is to be done.
 - D. Planning minimizes risk and uncertainty.
 - E. Planning has linkage to controlling.

4. Which of the following is not a characteristic of strategic planning?
 - A. Long-term horizon
 - B. Planning cannot be the primacy of management functions.
 - C. Planning is deciding in advance what is to be done.
 - D. Planning minimizes risk and uncertainty
 - E. Planning has linkages to controlling.

5. Which statement is **NOT** an advantage in a formal organisation?
 - A Well defined authority, responsibility and accountability.
 - B Proper standardization of work is practicable.
 - C Formal communication is widely practised.
 - D Duplication of work is practiced.
 - E Rules are considered religiously.

Part II: Short Answer Questions

1. The managerial function of assigning duties, grouping tasks, establishing the authority and providing resources to carry out a specific plan is known as
2. The efficient and effective grouping of jobs into meaningful work units to coordinate a number of jobs towards accomplishing organisational goals is referred to as
3. A plan developed by first-line managers to achieve operational goals is referred to as
4. A single-use plan covering a relatively large set of activities is known as
5. The rigid and definite plan that specifies what is to be done or not in a given situation is known as

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

1. B
2. C
3. B
4. B
5. D

SHORT ANSWER QUESTION

1. Organising
2. Departmentation
3. Operational plan
4. Programme
5. Rules

CHAPTER FIVE: MANAGEMENT PROCESS: DECISION MAKING, CONTROLLING AND STRATEGIC MANAGEMENT

5.0 Learning objectives

After studying this chapter, the reader should be able to:

- define decision-making, identify types of decision making and various steps involve in decision making;
- discuss individual decision-making, group and individual decision making;
- describe various decision-making techniques;
- understand and define control: purpose, types and feedback mechanism;
- describe the control process and explain characteristics of effective control systems;
- discuss the nature, use and limitations of various control techniques;
- define Strategic Management, explain and discuss SWOT Analysis;
- discuss corporate, divisional and functional strategies; and
- explain various growth strategies that can be employed by organisations

5.1 Decision-Making

A decision is a conscious choice which has been selected among competing alternatives and directed towards a definite purpose, while decision making can be seen as the process of selecting an optimal way of matching limited resources to limited wants in order to maximise the achievement of personal or social or business objectives.

Decision-making is a continuous process that pervades all organizational activities. Managers in every type of organization; business, hospital, government, education make decisions every day.

A decision is defined as a conscious choice among alternative courses of action followed by activities to implement the choice. A decision-making process is a series or chain of related steps that lead to an action or an outcome and assessment.

Ivancevich, *et al*, (1994) explained that decision-making can be understood as a series of steps that run from clearly identifying a problem to implementing and assessing actions. Using such a systematic approach to decision-making ensures that relevant information has been gathered, alternative choices considered and possible consequences of actions understood.

5.2 Nature of Decisions

Decision-making is so basic that no management function can be performed without it. For management purposes, decisions are obviously required in planning, organization, actuating, and controlling.

Managers at all organizational levels make decisions although they differ in terms of type and scope. At the top level of the organization, decisions establishing overall objectives and strategies are among the most important to be made.

Middle level managers are generally more involved with decisions involving overall operating policies and plans. First line supervisors, in turn, are concerned with short range decisions that relate to specific activities to be carried out within the framework of policies and plans, established at middle management levels.

Decision-making is the cornerstone of planning because it is the catalyst that drives the planning process. Furthermore, in deciding to adopt the best plan for achieving particular goals, decision-making basically reflects the selection of the best choice among possible alternatives and putting it into practice.

Effective decision-making requires that the decision maker understands the situation driving the decision. However, it can be argued that management is simply decision-making and that the essence of managerial behaviour is found by studying decision-making.

In addition, decision-making often reflects a manager's effort to make sense of the complicated environment, to attain some control over the uncontrollable and to achieve some sense of order.

Finally, when an organized approach to decision-making is employed, such as having a clear understanding of the present state of affairs, historical basis for improving decisions, and the possible errors that can be made, it enables managers to make better decisions and reach personal and organizational goals.

5.2.1 Types of Decisions

(a) Programmed and Non-programmed Decisions

(i) Programmed Decisions

Programmed decisions are those decisions made in routine, repetitive and well structured situations through the use of pre-determined decision rules. The decision rule may be based on habit, computational techniques, or established policies and procedures. If a particular situation occurs often and in the same form, a routine procedure, will usually be worked out for dealing with it.

Decisions are programmed to the extent that they are repetitive and routine.

Examples are: procedures for opening a bank account; reorder of inexpensive materials; and admitting patients in hospitals.

(ii) Non-programmed Decisions

Decisions are non-programmed when the problem is unstructured. There are no previously established routines or procedures that can be used as guides. Situations that require non-programmed decisions are poorly defined and unstructured, yet, they have important consequences for the organisation. Managers and professionals who have robust knowledge and experience make most non-programmed decisions. Such decisions deserve special attention/treatment of top level management. Non-programmed decisions must be properly identified as such, since they are of strategic importance and may involve large expenditure.

Examples are: diversification into new products and markets; construction of new facilities; and purchase of expensive equipment.

(b) Decision-making under states of certainty, uncertainty and risk

(i) Decision-making certainty

When the decision maker knows with certainty, the probabilities of the outcomes of each alternative and what conditions are associated with each alternative, the decision is said to be under certainty. An example of this type of decision is a decision to purchase items from a supplier that regularly supplies the items.

(ii) Decisions-making under uncertainty: When the decision maker has absolutely no knowledge of the probabilities of the outcomes of each alternative, the risks associated with each, or the consequences each alternative is likely to have.

(iii) Decisions-making under risk: When the decisions maker has some probabilistic estimate of the outcomes of each alternative.

(c) Proactive and Reactive Decisions

(i) **Proactive Decisions:** A decision made in anticipation of a change in the external environment or other condition is called a proactive decision.

Managers who utilize a systematic, proactive approach anticipate problems and seek to prevent them from occurring or minimizing their impact on operations.

(ii) **Reactive Decisions:** A reactive decisions is one made in response to external changes that have already taken place.

When a manager initiates action to correct product defects because of persistent customer complaints, he or she is adopting a reactive approach to making decisions.

Rather than apply preventive maintenance (proactive), a machine shop manager may spend money only to repair broken down machines(reactive).

(d) Intuitive and Systematic Decisions

- (i) **Intuitive Decisions:** Intuitive decision-making involves the use of estimates, guesses, or hunches to choose among alternative courses of action. Most managers will admit that many of their decisions are influenced to a great extent by their intuitions.

Nonetheless, decisions based purely on intuitions can be ineffective and even counterproductive.

- (ii) **Systematic Decision-Making:** Systematic decision-making is an organised, exacting, data-driven process for choosing among alternatives. Systematic decision-making requires developing a clear set of objectives, a relevant information base and a team-based, consensus – seeking sharing of ideas and creativity as well as exacting implementation and assessment.

5.3 The Rational Decision-Making Process

Step 1: Diagnose and Define Problem or Opportunities

The origin of a problem is not always obvious. If managers are to remedy a situation, they must first find out what the real problem is. One way to do this is to ask what past action or lack of action might have caused this situation to arise? In this way, managers can focus upon the events or circumstances that most likely led to the problem. An opportunity is a gap, an unsatisfied need or a need that is being inadequately satisfied by existing competitors and which can be profitably exploited.

As part of the process of defining the problem, managers should also begin to determine which problems they should or would like to solve. Managers therefore, need to distinguish between their “musts” and their “should” so that they will have a basis for proposing and evaluating solutions. That is, managers should prioritise problems in order to determine the ones that must be attended to and those that should be attended to.

Steps 2: Establish Specific Goals and Objectives

It is crucial to note that decision-making is always done in the context of goals and objectives; and that all behaviours are basically goal oriented. If goals and objectives are adequately established, they will dictate what results must be achieved and the measure that indicates whether or not they have been achieved. Such measure is also referred to as the decision criteria.

Step 3: Generate Alternatives

No major decisions can be made until several possible solutions have been generated. Otherwise, managers may be tempted to adopt the first and most obvious solution they find. The first solution may not always be the correct one. The manager needs to list all possible alternatives to solving the problem.

Step 4: Gather and Analyse the Relevant Facts

Once the possible alternatives have been generated, the next logical step is to gather data relating to each alternative. Data may be collected from internal sources; records available in the company or external sources. Analysis of data consists of combining or arranging the data in a form as to provide meaning or insight into the problem at hand.

What resources will be available to help us solve the problem?

Managers will rarely get all the answers they need to such questions from one source. At some points, however, they should have enough information to be able to formulate possible solutions.

Step 5: Evaluate the Alternatives

Once managers have developed a set of alternatives, they must evaluate them to see how effective each alternative will be in solving the problem.

Effectiveness is determined on the basis of the decision criteria identified in Step 2. Based on the information available, the questions to be asked are: (i) how realistic the alternative is in terms of the goals and resources of the organization, and (ii) how well will the alternative help solve the problem.

The alternatives must also be evaluated in terms of how well they would solve the “must” and “should” of the problem. Thereafter, the alternatives are arranged in a hierarchy, which is from most desirable to least desirable. This process is called ranking.

Step 6: Select an Alternative

At this stage, the manager chooses the best alternative based on the decision criteria earlier established. The alternative selected is the one that is most desirable of all the alternatives evaluated.

Step 7: Analyse the Possible Consequences of the Decision

Once managers have selected their best alternative, they must try to anticipate what problems may occur when implementing the decision. For example, there is often great resistance in organizations to change.

There may be practical problems involved in implementing the decision, such as the

need to obtain additional funding. Other departments in the organization that might be affected by the decision should be consulted. Competitors may be affected by the decision, and their reactions should be anticipated.

Usually, however, analysing the possible consequences of their action will simply allow managers to take the necessary steps to deal with them.

Step 8: Implement the Decision

Ultimately, no decision is better than the action taken to make it a reality. If the decision is a good one, but subordinates are not willing or able to carry it out, then it is unlikely the decision will be very effective. A frequent error of managers is to assume that once they decide, action on it will automatically follow.

Since in most situations, implementing decisions involves people, the test of a decision's soundness is the behaviour of the people who put it into action or are affected by it. Subordinates cannot be manipulated in the same manner as other resources. Effectively communicating with the relevant individuals and groups will usually ensure success.

Step 9: Follow Up

Effective management involves periodic measurement of results. Actual results are compared with planned results (the objective). If deviation exists, changes must be made. Here again, we see the importance of measurable objectives. If actual results do not meet planned results, changes must be made in the solution chosen, in its implementation, or in the original objective, if it is deemed unattainable. If the original objective must be revised, then the entire decision-making process will be reactivated.

5.4 Individual Decision-Making

A key function of managers is decision-making. A large number of decisions in an organisation are made by managers as individuals. This is often the case when the decisions are routine or programmed decisions.

When the risk involved in the decision is low, managers also tend to make such decisions as individuals. When a manager selects a course of action to solve a given problem or to take advantage of a particular opportunity all by himself/herself, it is known as individual decision-making. The manager may obtain information from colleagues but the choice is made by him/her.

Examples of individual decision-making are allocation of work to subordinates, decision to reorder raw materials from a known or regular supplier, handling customer complaints, decision on how much discount to give a customer, etc.

5.4.1 Advantages of individual decision-making include:

- (a) Decision is fast.
- (b) Responsibility for the decision can be assigned to the person that made the decision.
- (c) Implementation of the decision will be fast.
- (d) Job satisfaction of the manager will be high.
- (e) The manager's experience is brought to bear on the decision.

5.4.2 Disadvantages of individual decision-making include:

- (a) The outcomes of individual decision may not be satisfactory because the decision is likely to be influenced by individual perceptions, values and priorities.
- (b) The decision maker can only rely on a limited amount of information to make the decision.
- (c) There might be a tendency for the manager to "pass the buck".
- (d) Individual decision-making is often not appropriate when the problem is complex, novel or when the level of uncertainty is high.
- (e) Individual decisions may not enjoy the support of all relevant stakeholders, thus, reducing the chance of success
- (f) Individual decisions often do not benefit from institutional knowledge ie. Body of knowledge residing in different elements of the organisation.

5.5 Group Decision-Making:

A group can be defined as two or more freely interacting individuals who share a common identity and purpose. Firstly, a group must be made up of two or more people if it is to be considered a social unit. Secondly, the individuals must share something in common. Thirdly, interacting individuals must also have a common purpose. Hence, there must be at least a rough consensus on why the group exists. (Kreitner 2000:418).

In today's world, a great deal of decision-making is achieved through groups. These interacting groups and teams are the most common form of decision-making groups with such names as, committees, teams, boards, task forces, etc. This tendency toward group decision-making, is due in part, to organisations' increased complexity and the large amount of information needed to make sound decisions.

Many favour group decision-making, believing it gives those who will be affected by the decision a chance to participate in it and helps to develop the members of the

group. Furthermore, the advocates of group decision-making state that, in this age of rapid technological changes, pervasive government influence, and social responsibility, the issues to be decided have grown beyond the expertise of a single manager. The input of many people is called for, since each is unique in knowledge and experience. The sharing of decision-making responsibilities establishes inter-dependence among the parties. Thus, group cooperation is enhanced and the old authoritarian concept of decision-making is reduced.

Group decision-making would become particularly appropriate for non-programmed decisions, because these decisions are complex and few individuals have all the knowledge and skills necessary to make the best decisions. Thus, group decision-making becomes invaluable when they can maximize the unique contributions of each of the individuals making up the group.

5.5.1 Advantages of Group Decision-Making

In general, it is expected that a group would tend to make more effective decisions than would any single individual. Some of the advantages of group decision-making are summarized below:

- (a) Since group members are likely to have different specialties, they tend to provide more information and tend to be more comprehensive in nature.
- (b) The group can generate a greater number of alternatives.
- (c) Implementation of the decisions is more effective, since the people who are going to implement the decision also participated in the decision process. This increases the commitment of the people to see to the implementation for success.
- (d) The input from a large number of people eliminates the biases that are generally introduced in individual decision-making. It also reduces the unreliability of individual decisions.
- (e) The participative decision-making process serves as training ground for subordinates, who develop the skills of objective analysis, evaluation and Decision-making.
- (f) Group decision-making is more democratic in nature while individual decision-making is more autocratic in nature. The democratic processes are more easily acceptable and are consistent with the democratic ideals of our society.

5.5.2 Disadvantages of Group Decision-Making

There are certain drawbacks to group decisions-making. Some of the disadvantages are:

- (a) It is time-consuming. It takes a great deal of time to assemble the group. In addition, a group takes more time in reaching a decision since there are many opinions to be taken into consideration.
- (b) Some members may simply agree with the others for the sake of agreement since there are social pressures to conform and not to be the odd person.
- (c) There may be some personality conflicts that may create inter-personal obstacles which may diminish the efficiency of the process, as well as the quality of the decision.
- (d) The decision made by the group may not always be in line with the goals and objectives of the organization. This is especially true when the goals of the group are in conflict with those of the organization.
- (e) The group members may exhibit “focus effect.” This means that the group may focus on one or a few suggested alternatives and spend all the time evaluating these and may never come up with other ideas, thus limiting the choices.
- (f) It is more expensive than individual decision-making.

5.6 Decision-making Techniques:

Decision-making techniques can be defined as tools that managers can use to enhance the efficiency and effectiveness of decision-making.

There are different techniques discussed in this section that are used at different stages of the decision-making process. These techniques consist of an orderly, systematic framework for defining, analysing and solving problems in an objective and scientific manner. They are intended to improve the manager’s decision-making ability and provide them with a means for justifying and evaluating their own managerial performance.

5.6.1 Brainstorming

In many situations, groups are expected to produce imaginative solutions to organizational problems. In such instances, brainstorming has often enhanced the group’s creative output.

Brainstorming is a process where a group of individuals generate ideas according to a set of rules designed to promote the generation of new ideas while at the same time avoiding members’ inhibitions that face-to-face groups usually cause. The basic rules are:

- (a) No idea is too ridiculous. Group members are encouraged to state any extreme or outlandish ideas that occur to them.
- (b) Each idea presented belongs to the group, not the person stating it. In this way, group members utilise and build on the ideas of others.
- (c) No idea can be criticised. The session's purpose is to generate ideas, not to evaluate them.

5.6.2 The Delphi Technique

The Delphi technique is a systematic procedure sometimes used for developing a consensus of opinion among a group of experts. Here, the experts are given a series of detailed questionnaires about a problem and then are asked to provide their own written opinions. The use of questionnaires avoids direct contact and debate among experts, which might induce hasty formulation and commitment to certain ideas. After reading the anonymous answers of other participants, each expert revises his or her own answers. Eventually, after a series of "rounds" of this type, convergence of opinion usually occurs. (Stoner, 1978:208). When the opinions stabilise, the average opinion is taken to represent the decision of the "group" of experts. (Griffin, 1999:281)

The underlying belief is that the consensus estimate results in a better decision after several rounds of anonymous group judgement.

While it is possible to continue the procedure for several rounds, research has shown that, typically, no significant changes occur after the second round of feedback.

5.6.3 The Nominal Group Technique (NGT)

NGT is a process of bringing people together as a group to solve a problem. NGT actually combines both verbal and non verbal stages. Basically, NGT is a structured group meeting that proceeds as follows:

- (a) A group of 7 to 10 individuals sit around a table but do not speak to one another. Talking to each other is not permitted during the first stage of NGT. Rather, each person writes ideas on a note pad about the problem to be solved.
- (b) After five minutes, a structured sharing of ideas takes place. Each person presents one idea. A person designated as recorder writes the ideas down on a flip chart in full view of the entire group. This continues until all the participants indicate that they have no further ideas to share. There is still no discussion.
- (c) The output of this phase is usually a list of 18 to 25 ideas. The next phase involves structured discussion in which each idea receives attention before a vote is taken.

- (d) In the next stage, independent voting, each participant privately selects priorities by ranking or voting. The group decision is the mathematically pooled outcome of the individual votes.

Both the Delphi technique and NGT have excellent records of successes. There are two basic differences between them:

- (a) In the Delphi process, all communication between participants is by way of written questionnaires and feedback from monitoring staff. In NGT, communication is direct between participants.
- (b) NGT participants meet face-to-face around a table, while Delphi participants are physically distant, never meet face-to-face, and are typically anonymous to one another.

Practical considerations, of course, often influence which technique is used. These considerations can include:

- (a) the number of working hours available
- (b) costs, and
- (c) participants and physical proximity.

5.6.4 Marginal Analysis

Marginal analysis is a technique that can be used to evaluate alternatives by comparing the additional revenues and additional costs as output increases.

The technique is useful where the objective is to maximise profit, or to find the best output of a machine. The idea of marginal analysis is based on the simple economic postulation that profit is maximized where marginal revenue (additional revenue) is equal to marginal cost (additional cost). Hence in evaluating alternatives, the decision maker seeks to find the point where the additional revenue is equal to the additional cost or the point where the value of additional input is equal to the value of additional output.

5.6.5 Cost Benefit or Cost Effectiveness Analysis

Cost Benefit Analysis is an improvement on marginal analysis. It enables the decision maker to compare the ratio of costs to benefits of alternative courses of action and to select the alternative that has the best ratio. The best ratio is that which yields the least costly means of achieving an objective or the expenditure that yields the greatest value.

5.6.6 Decision Trees

One of the best ways to analyse a decision is to use the so-called decision tree. Decision trees depict, in the form of a “tree,” the decision points, chance events and probabilities involved in various courses that might be undertaken.

We can also define a decision tree as a graphical method of displaying various parts of the decision-making process including courses of action, risks involved and likely outcomes. It enables the decision makers to consider alternative solutions, assign financial values to them, estimate the probability of a given outcome for each alternative, make comparisons and choose the best alternative.

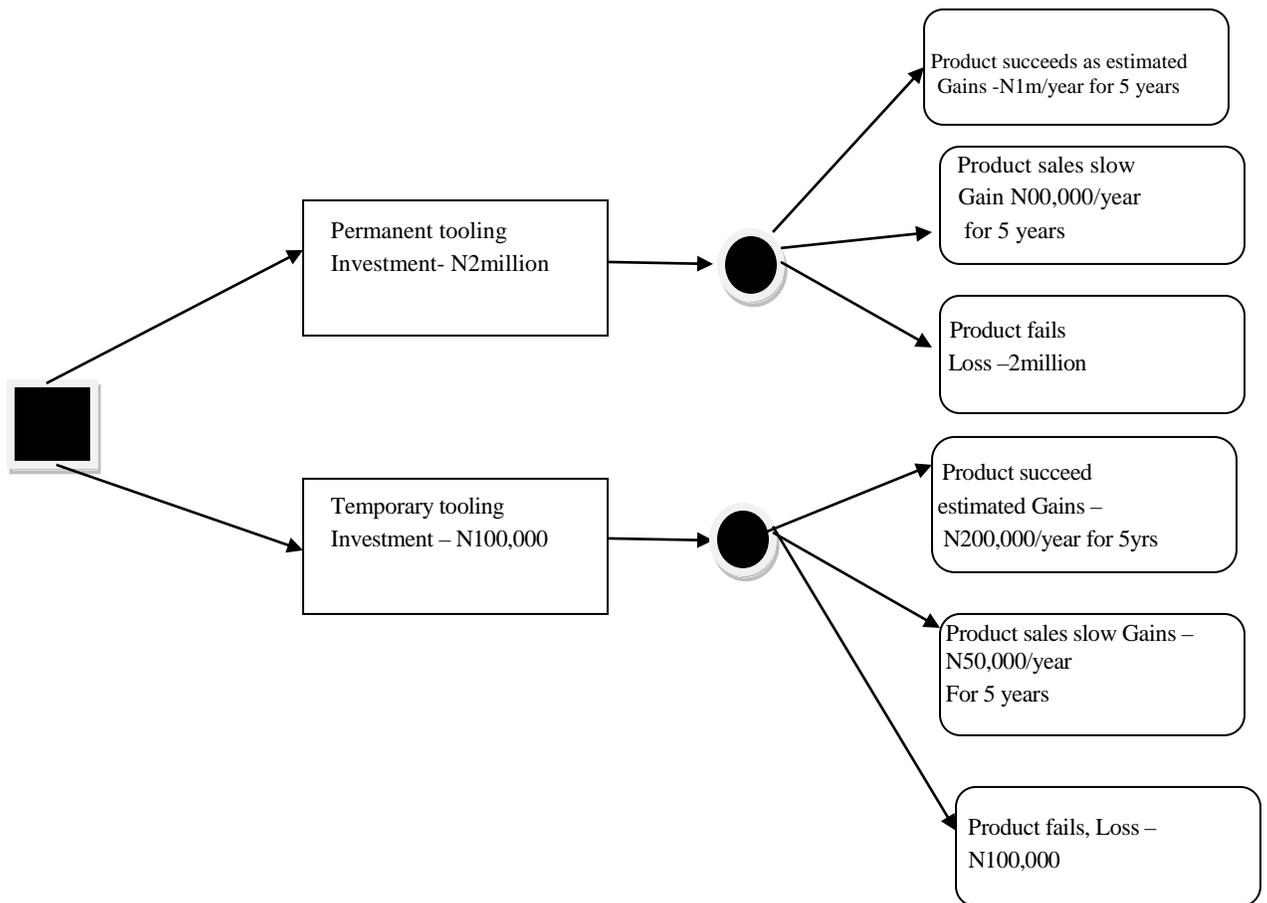


Fig. 5.1: Decision Tree without Probabilities as adapted from Wehrich & Koontz, Management – A Global Perspective, 10th ed., pp. 209.

A common problem occurs in business when a new product is introduced. The manager must decide, among various options, whether to:

- (a) Install expensive permanent equipment and ensure production at the lowest possible cost or
- (b) Undertake cheaper technology tooling that will involve a higher manufacturing cost but lower capital investments that will result in smaller losses if the product does not sell as estimated.

An example of a decision tree diagram showing the decisions a manager faces in this situation might be similar to that of Figure 5.1 The decision tree approach makes it possible to see at least the major alternatives and the fact that subsequent decisions may depend on events in the future.

By incorporating the probabilities of various events in the tree, managers can also comprehend the true probability of a decision leading to the desired results. The “best estimate” may really turn out to be quite risky.

Decision trees and similar techniques (a) replace broad judgments with a focus on important elements in a decision, (b) bring out into the open premises that are often hidden, and (c) disclose the reasoning process by which decisions are made under uncertainty.

5.7 CONTROLLING

Controlling is the process of regulating organisational activities so that actual performance conforms to expected organisational standards and goals

Control is a fundamental management function, closely linked to planning and ‘organising processes. It also has an important impact on motivation and team behaviour.

In traditional terms the controlling function includes all activities the manager undertakes in an effort to ensure that actual results conform to planned results. Not only are control systems needed in all organizations, they are also required to cover all major activities related to an organization’s input and output.

5.7.1 Usefulness of Control

Control is needed to:

- (a) standardise performance to increase efficiency
- (b) safeguard organisational assets from theft, waste and misuse.
- (c) standardise quality to meet engineering and customer specifications.

- (d) set limits within which delegated authority can be exercised.
- (e) measure the job performance of all organisational members
- (f) ensure the effectiveness of management plans and programmes
- (g) unifies workers from different background and culture

The fact that goals have been set and various activities planned to achieve them is not enough to guarantee success. Controlling is a management function designed to monitor and ascertain whether goals are being met and to take corrective action, if necessary, to ensure effectiveness.

5.8 Meaning and Purpose of Control

5.8.1 Controlling is the process of monitoring, comparing and correcting performance in order to make sure that organisational objectives and plans devised to attain them are being accomplished.

Control is a means of ensuring the efficient accomplishment of set objectives of an organization.

Control helps the organization in many ways, by:

(a) Adapting to changing condition:

The modern business operates under conditions of uncertainty. The conditions in existence and observed during planning phase may change so fast that it becomes difficult to achieve the set goals. A properly designed control system can help managers to monitor and respond to changing conditions.

(b) Minimising Errors

Small errors can accumulate and become big problems. Every small error is going to cost some money and ultimately affect goal achievement. An effective control system can anticipate the errors, so that preventive steps are taken to avoid them.

(c) Coping with Organizational complexity

As the scale of operations of an organization increases, the organizational structure becomes complex. Direct personal supervision becomes inadequate to monitor and take corrective measures. To accomplish goals effectively under these conditions, a well-designed control system must be put in place.

(d) Minimising cost.

Control helps to reduce costs. A well-designed control system can eliminate or reduce wastages and losses (non-value adding activities) and hence, minimize cost.

5.9 Types of Control Based on Level in the Organization Hierarchy

5.9.1 Types of Control

Types of control can be identified according to the level in the organization where it takes place. Control takes place at all levels but two types are described here:

- (a) **Strategic Control.** Strategic control is carried out by top management. It involves monitoring critical environmental factors that could affect the viability of strategic plans, assessing the effects of organisational strategic actions and ensuring that strategic plans are implemented as intended. Strategic control focuses on how effectively the organisation's corporate, business and functional strategies are succeeding in helping the organisation to achieve its goals. As the strategy is being implemented, top management monitors its progress and takes action to ensure that it is on course to deliver the set objectives. If the organisation adopts new product development as a competitive strategy, it monitors and evaluates the organisation's activities in this area and takes action to eliminate constraints encountered in the process.
- (b) **Operational Control.** This is the type of control carried out by most managers at the middle, first-line and even at the level of operators. It takes place in the various departments or units of the organisation and focuses on the processes that are used to transform inputs into needed outputs. The control at this level should be well designed because, if errors are not detected at this level, it may have strong negative implication on the entire organisation.

5.9.2 Types of Control Based on the Resources or Programmes Involved

Control systems may focus specifically on the key resources utilized by the organization. A few examples are:

- (i) **Financial control** – focuses on financial resources. Financial control addresses the flow of financial resources into, through and out of the organization. Financial control may be targeted at revenues, expenses, investments etc. An important tool of financial control is the budget – cash budget, revenue budget, expense budget, profit budget etc.
- (ii) **Materials control (inventory control):** This is concerned with the acquisition, storage, recording and use of materials for operations.
- (iii) **Quality control:** Organisations are generally concerned with the quality of inputs they acquire from suppliers and the quality of products and services they offer to their customers.
- (iv) **Behavioural control:** This focuses on the behaviour of employees and other stakeholders that the organisation depends upon. Various tools are available for this type of control. Examples are direct supervision, performance appraisal, rules, procedures, regulations, policies and target-setting.

5.9.3 Structural Control

The different types of control here are personal centralized control, bureaucratic control, output control, cultural or clan control.

- (i) Personal centralized control involves direct personal supervision and centralisation of decision-making. This type of control revolves around the individual supervisor who uses his/her personal attributes, direct observations, rewards and punishments as the basis of control.
- (ii) Bureaucratic control: relies on elements of bureaucracy as a means of controlling operations. Reliance is placed heavily on rules regulations, procedures, policies as the means of controlling behaviour. Rewards and punishments are used to ensure compliance.
- (iii) Output control – focuses on the output of the system. Targets output per period are set and used as a basis of control of actual output.
- (iv) Cultural or clan control: This type of control is used to develop strong identification of the individual with the goals and objectives of the organization. Tools used are selection of persons likely to share the same values and norms preferred by the organization, emphasis on extended training and socialisation techniques.

5.9.4 Feed-forward/Concurrent/Feedback Control

Managers have opportunity to implement controls at three different stages of operation. Control may be implemented before operation actually begins, as operation is in progress and after the operation is completed. Based on this, three types of control can be identified, thus:

- (a) Feed-forward control: This takes place before operations actually begin. The manager anticipates potential areas where problems can occur and takes action to prevent them. The manager focuses on the inputs needed in the operation and ensures that they are of the right specification and quantity. For example, raw materials are checked to ensure they are of the right quality, equipment are checked and maintained so as to prevent malfunctioning etc.
- (b) Concurrent Control: This takes place while the operation is in progress. Through direct supervision and observation, the manager takes corrective action as soon as there is an indication of a problem in the operation. As the manager walks around the operations area, he/she tackles problems as they occur. Mechanical or electronic devices may also be used to monitor operations and alert operators if the system is malfunctioning.

- (c) **Feedback Control:** This is the most common type of control in traditional control systems. But it is the most expensive. It takes place only after the system has actually malfunctioned or the expected target is missed. It relies on comparing actual output to planned output. Once there is a deviation between the planned output and actual, positive or negative, the deviation is analysed for causes and action taken to correct the deviation.

5.10 The Control Process

The control process consists of the steps involved in controlling. It consists of four steps – establishing performance standard, measuring actual performance, comparing actual performance against standard, and taking corrective action.

Establishing performance standard however is an activity that is undertaken in the planning process and utilised in the control process. For the sake of completeness, the establishment of measurable standards is usually discussed also in the control process.

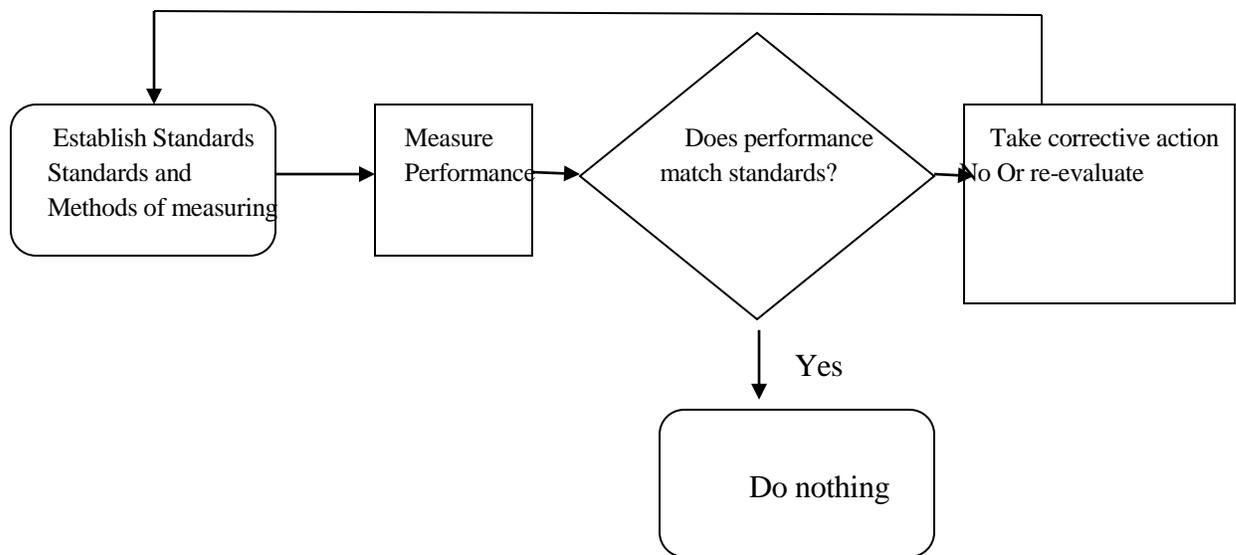


Fig. 5.2 Basic Steps in the Control Process

(a) Establish Standards and Methods for Measuring Performance:

Ideally, the goals and objectives established during the planning process will already be stated in clear, measurable terms that include specific deadlines.

Various standards can be set as follows:

- (i) Physical standards – labour-hours per unit, machine-hours per unit, quantities produced per hour, customers served per hour etc.
- (ii) Cost standards – labour cost per unit, material cost per unit etc.
- (iii) Capital standards – return on investment, current ratio, debt ratio etc.
- (iv) Revenue standards – revenue per sales clerk, sales per capita, sales per month.

(b) Measure the Performance:

Like all aspects of control, measurement is an ongoing, repeated process. The means of measuring performance will depend on the standards that have been set. They may include but not limited to, amount of materials used, number of defects found, scrap rate, profits, return on investment, etc.

As soon as the means of measuring performance is established, usually, both quantitatively and qualitatively, the next is to establish the frequency of the measure. The frequency of measurement depends on the type of activity being measured. In a manufacturing plant, levels of gas particles in the air, for example, could be continuously monitored for safety, whereas progress on long-term expansion objectives might need to be reviewed by top management only once or twice a year. Similarly, the management of Mr. Biggs restaurant might be required to examine customer waiting time on a continual basis. Good managers avoid allowing extended periods to pass between performance measurements.

(c) Determine Whether Performance Matches Standards:

In many ways, this is the easiest step in the control process. The complexities presumably have been dealt with in the first two steps. Now it is a matter of comparing measured results with the established targets or standards previously set. If performance matches the standards, managers may assume that ‘everything is under control.’ This clearly shown in Fig. 5.2

(d) Take Corrective Action:

This step is necessary if performance falls short of standards and the analysis indicates that action is required. The corrective action could involve a change in one or more activities of the organisation’s operations. For example, a restaurant owner/manager might discover that more counter workers are needed to meet the five-minute customer-waiting standard set by the company. On the other hand, controls can reveal inappropriate standards. Under these circumstances, the corrective action could involve a change in the original standards rather than a change in activity. Unless managers see the control process through to its conclusion, they are merely monitoring performance rather than exercising control. The emphasis should always be on devising constructive ways to bring performance up to standard, rather than merely identifying past failures.

5.10.1 Characteristics of Effective Control Systems:

(a) Accurate

Information on performance must be reasonably accurate for the organization to take appropriate corrective action. Inaccurate data from a control system can cause the organization to take action that will either fail to correct a problem or create a problem where none exists. For example, a foreman may report to a supervisor that parts are being damaged on an assembly line because 'the people on that line are inadequately trained'. In fact the machines on that particular line may be faulty. Because of this wrong evaluation, the workers may become resentful. So, evaluating the accuracy of the information they receive is the most important tasks that managers face.

(b) Objective and Comprehensible

To be useful, the information used in a control system should be understandable and seen as objective by the individuals involved. The more objective the information used in the control system is, the greater the likelihood that individuals will take the appropriate corrective action at the proper time. When the information is difficult to understand or is not precise, it will cause unnecessary mistakes to be made.

(c) Timely

Information must be collected, routed to the appropriate destination, and evaluated quickly, if corrective action is to be taken in time to produce improvements. Otherwise, managers may act too late, act incorrectly, or simply not act at all.

(d) Focused on Strategic Control Points

The control systems should be focused on those areas where deviations from the standard are most likely to take place or where deviations would lead to the greatest harm. The system should also be focused on those points where corrective action can be most effectively applied. For example, parts quality is most logically checked immediately after the parts are received into store.

(e) Economically Realistic

The cost of implementing a control system should be less or, at most, equal to the benefits derived from the control system. For example, if managers are spending ₦60,000 on control to realise savings of ₦50,000, they need to redesign their control system. The best ways to minimize waste or unnecessary expenditure in a control system is to do the minimum amount of work necessary to ensure that the monitored activity will reach the desired goal.

(f) Organizationally Realistic

For the control system to be workable, it has to be compatible with organizational realities. For example, there must be an equitable balance between the effort necessary to attain the desired performance level and the reward for achieving it.

(g) Co-ordinated with the Organization's Work Flow

Control information needs to be coordinated with the flow of work through the organization for two reasons. First: each step in the work process may affect the success or failure of the entire operation. Second: the control information must get to all the people who need to receive it.

(h) Flexible

For most organizations, controls must have flexibility built into them so that the organization can react quickly to overcome adverse changes or to take advantage of new opportunities.

(i) Operational

Effective control systems ought to indicate, upon the detection of a deviation from standards, what corrective action should be taken. In other words, they must be focused on what should be done, rather than simply convey facts. The information must also be in a useable form when it reaches the person responsible for taking the necessary action.

(j) Acceptable to Organization Members

A control system should lead to high performance by organization members by encouraging their feelings of autonomy, responsibility, and growth.

Too many controls or controls that are too rigid will often cause dissatisfaction and decline in employee motivation. Such a negative effect must be considered when the efficiency of a control system is assessed.

5.11 Control Techniques

5.11.1 Programme Evaluation and Review Technique [PERT]

PERT was developed in the 1950s from the joint efforts of Lockheed Aircraft, the U.S. Navy Special Projects Office, and the consulting firm of Booz Allen & Hamilton. They were working on the Polaris missile project and wanted to effectively coordinate the activities of the thousands of contractors involved in the project.

An important part of PERT is the construction of a chart, a graphical system for tracking activities and events that must take place to accomplish a task. A PERT chart shows the network of activities involved in a project and how they are

interrelated. This makes it possible to determine the critical activities that will affect the conclusion time of the project.

To create PERT, five steps are followed:

- (a) Break the project to be accomplished into activities that must be completed and the events that will mark their completion. Label each activity with the amount of time needed to do it.
- (b) List the first event of the task
- (c) List the event that follows the first one; draw an arrow from the first event to the next one, showing the sequence. (if two events follow, draw arrows to both events to show that one event leads to two, or even more events).
- (d) Chart all the events needed to complete the project in the same way.
- (e) Determine the amount of time it takes to complete each activity and indicate it on the chart.

Activity	Description	Completion Time (days)	Prerequisites
A	Prepare specifications	8	None
B	Secure bids and award contracts	5	A
C	Remove existing equipment	2	A
D	Train operators for new machines	4	A, B
E	Electrical modifications	3	A, C
F	Paint	4	A, C
G	Install machine	3	A, C, E
H	Test machine	2	A, B, D
I	Reschedule production	1	A, B, D, H

Fig 5.3 presents a PERT chart for the replacement of a machine in a manufacturing plant. The letters represent the activities necessary to replace the machine. The numbers in the circles represent completed activities, called event Number (i) is the origin of the project. For instance, A represents preparation of specifications which will take eight days. Securing bids and awarding contracts is the next activity and will

take 5 days and labelled B. Each activity is also assigned an expected time for completion. For example, removing existing equipment is expected to take two days.

As Fig 5.3 shows, some activities must be completed before others, while some can be completed simultaneously. The prerequisites are shown in the figure. For example, specifications must be prepared, bids must be secured and controls awarded while old equipment must be removed before painting. All activities must be accomplished before the final event which is rescheduling production.

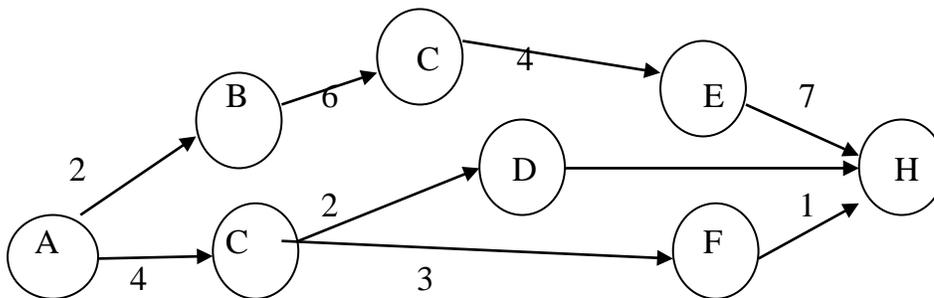


Figure 5.3: An example of PERT Chart

The longest path from start to completion of project in terms of time required is the critical (rate determining) path. These activities are called the critical path. In this case, the critical path is i-ii-iii-vi-vii-viii, which takes 20 days. Thus the project cannot be completed in less than 20 days.

Advantages

- (i) The PERT chart can be used to track exactly where a product or project is in its development and what needs to be done next to keep it on its path.
- (ii) Bottlenecks can be identified and corrected. For example, if the third event in a sequence always involves a delay, the production manager can identify the problem and make changes as needed.
- (iii) It forces managers to plan their projects critically and analyse all factors affecting the progress of the plan.
- (iv) A large amount of data can be presented in a highly ordered fashion. The task relationships are graphically represented for easier evaluation and individuals in different locations can easily determine their roles in the total task requirements.

- (v) It results in improved communications; the network provides a common ground for various parties involved and they must all understand each other's roles and contributions.

Limitations:

- (i) Uncertainty about the estimate of time and resources. These must be assumed and the results can only be as good as the assumptions.
- (ii) The costs may be higher than the conventional methods of planning and control. Because of the nature of networking and network analysis, it requires a high degree of planning skill and greater amount of detail which would increase the cost in terms of time and human resources.
- (iii) It is not suitable for relatively simple and repetitive process such as assembly line work which are fixed-sequence jobs.

5.11.2 Scheduling

The scheduling technique can be viewed as an assignment of calendar and clock times for beginning and completing production activities. When operations are not going according to schedule, the production manager initiates corrective action to minimize any delays beyond established completion dates.

When a company manufactures for stock, production scheduling depends on the forecast of raw materials requirements, and expected variations in sales volume.

Since good production scheduling implies that the company does not 'stock-out' of essential items and never has too many finished goods on hand, inventories must be built up during slow sales periods and order filled from inventory when demand is high.

Though keeping the warehouse full of finished goods would meet the goal of never being short of goods, but holding too large an inventory can be quite costly. Similarly, too few items in inventory can also result in lost sales.

In the manufacturing sector, for example, a master production schedule must be created

It will show when the manager plans to produce each product and the dates, quantities, and cost commitments on the schedule. The master schedule will affect the efforts and success of every department in the company therefore; it should also reflect the needs of the finance, marketing, shipping and all other departments.

Production managers must plan for flexibility to be able to change from one process to another at short notice. They may use a number of tactics to meet emergencies or make changes in the plan. Requesting overtime, hiring temporary workers, cross training workers so they can do more than one job, and many other methods are available.

5.11.3 Management Audit

The periodic assessment of a company's managerial planning, organising, actuating, and controlling compared to what might be called the norm of successful operation is the essential meaning of management audit. It reviews the company's past and present to project into the future. The operations of the company are examined with a view to determining whether the company is achieving maximum (or optimal) results out of its endeavours, identifying areas where improvements are needed, and keeping expenditures to minimum while carrying out required operations.

The audit itself assesses (i) what the company has done for itself, and (ii) what it has done for its customers or recipients of its products or services. To make these assessments, evaluation on a number of factors may be deemed necessary and include attributes dealing with financial stability, production efficiency, sales effectiveness, economic and social affluence, personnel development, earnings' growth, public relations, and corporate social responsibility.

A management audit cannot be conducted until the company has been operating for sufficient period of time to establish its behavioural pattern. The benefits derived from management audits are many, including:

- (a) A check on new policies and practices for both their suitability and reliability towards organizational effectiveness.
- (b) Identification of major areas needing attention.
- (c) Improved communication that informs all employees on state of the company
- (d) Measurement of the extent to which current managerial controls are effective.
- (e) Determination of the reliability of the management data gathered within the organization.

Management audit is concerned with the broad scope of operations and deals with the interrelatedness of all the activities being performed. It does not appraise individual performance. The job of the auditor is to audit; implementation of his or her recommendations is the prerogative of the manager having authority for the activity under question.

5.11.4 Break-even Analysis

Break-even analysis studies the relationship between total revenues and total costs at various levels of production so as to establish the level of production at which total revenue equals the total cost; there is neither a profit nor a loss. The production or sales level at which total revenue equals total cost is called the break-even point (BEP).

Any production above this point would yield profit.

Break-even analysis is a useful tool of control in that it aids management to understand the relationships among fixed costs, variables cost, total costs, price per unit, level of output and profit or loss. These relationships would be useful in the management analysis of the causes of variances in case of a significant deviation of actual profit from expected profit.

As a control tool, it emphasises the marginal concept through various marginal difference in the values of the affecting variables. The result of the variations on the profit can be evaluated and recorded. Thus, break-even analysis can bring to the manager's attention the marginal results of their decisions by showing the effect of incremental changes in volume or price, etc.

The cost ingredients of the break-even analysis are as follows:

- (a) Fixed costs: These are the cost that generally remain constant and are independent of production levels. These costs include the cost of plant and machinery, property taxes, insurance, cost of capital used for plant and equipment, administrative salaries, etc. These costs remain constant irrespective of the production or sales level.
- (b) Variable costs: These costs are related to production. They change with the production levels.

These costs include labour costs, direct material costs, packaging and shipping of the product costs, etc.
- (c) Total cost: This is simply the sum of fixed costs and the variable costs associated with production.

The breakeven point can be computed using two different procedures. These are:

- (i) algebraic procedure
- (ii) graphical method.

$$\text{BEP} = \frac{\text{TRC}}{\text{P}-\text{VC}}$$

Where BEP = Level of production in units at which the organization breaks even

TFC = Total Fixed Cost of production

P = Sales price per unit

VC = Variable cost associated with each unit produced and sold.

Example: To calculate BEP, assuming that a publisher of books, in publishing a particular book has incurred a total fixed cost of ₦100,000 and each book has been

established at N10 per book. Then the BEP would be:

$$\text{BEP} = \frac{\text{N}100,000}{\text{N}10 - \text{N}5} = 20,000 \text{ BOOKS}$$

The publisher must sell 20,000 books to break even. Any copy sold in excess of 20,000 would bring in profits.

The graphical method. In the graphical breakeven analysis, a graph is constructed which shows all critical elements and their relationships. The general graph would be as follows:

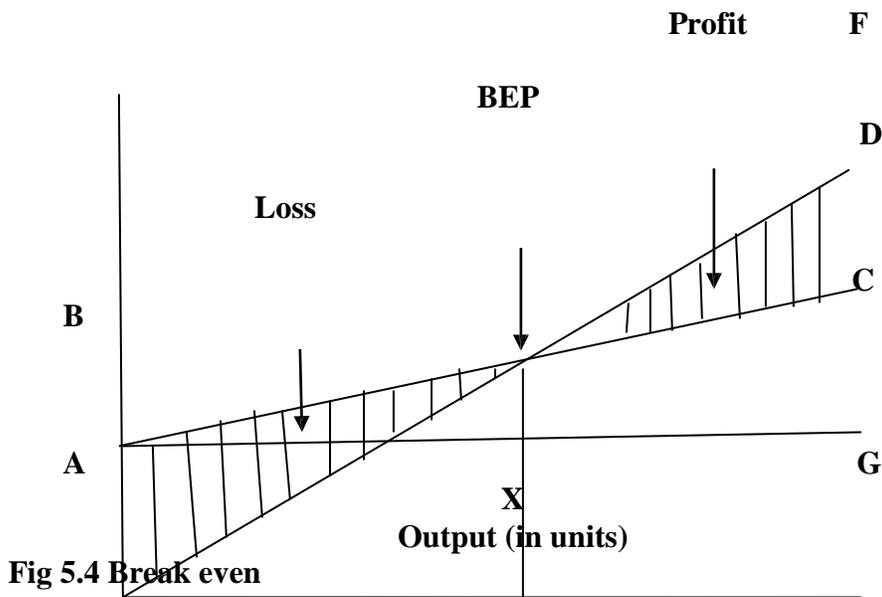


Fig 5.4 Break even

In the diagram above:

- i BC represents the fixed costs (BC is straighten horizontal line showing that this cost is constant no matter what the production along line AG)
- ii BD represents the total cost which is the combination of variable cost and fixed cost.
- iii The break-even point identified by the intersection of line AF and BD. This point is reached at the level of production X along the line AG.

5.11.5 Ratio Analysis

Ratio analysis seeks to extract information from a financial statement in a way that will allow an organization's financial performance or condition to be evaluated. It involves selecting two significant figures from a financial statement and expressing their relationship in terms of a percentage or ratio. That ratio can then be compared with a similarly formed ratio from another financial statement. In this way, the performance of the organization can be more meaningfully assessed.

Ratio analysis comparisons can be made in one of two ways:

- (a) comparison over a time period: ratio compared with that in the past (or with a future projection);
- (b) comparison with other similar organisations or with the industry as a whole.

The first type of comparison will indicate changes in the performance of the organisation over time, while the second type will show how the company is performing relative to its competitors. Because financial statements are expressed in numerical terms, people sometime assume that the information obtained from them will be precise in nature. However, many financial figures, such as those for depreciation, may be based on loose estimates. In addition, accounting systems vary significantly from one company to another. These form the bases of ratios being computed to evaluate the companies. . As a general rule, several of an organization's ratios need to be computed for any judgement on that organization's financial performance or position to be meaningful.

The ratios most commonly used by organizations may be divided into four categories, namely liquidity, leverage, activity, and profitability ratios:

(i) Liquidity ratios:

Ratios measuring ability to meet short-term obligations are called *liquidity ratios*. Of these, the current ratio measures the extent to which short-term liabilities are covered by assets that can be turned into cash during the period through which these liabilities must be met.

$$\text{Current ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

Another liquidity check is the acid-test or quick ratio. This ratio indicates the ability to pay current liabilities without relying on the sale of inventories.

$$\text{Acid-test ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

(ii) Leverage ratios:

These ratios measure the extent to which an organisation has been capitalized by debt. One such ratio that portrays the contribution of creditors to an organization's financing is the debt ratio that shows total debt to total assets.

$$\text{Debt Ratio} = \frac{\text{Total debt}}{\text{Total assets}}$$

The times-interest earned ratio indicates the amount by which earnings can decline before the organization becomes unable to pay interest expenses. Income before taxes is calculated after interest charges are deducted from operating profit.

$$\text{Time-interest earned} = \frac{\text{Income before taxes} - \text{Interest expense}}{\text{Interest expense}}$$

(iii) Activity ratios:

These ratios help determine how efficiently an organization is using its resources in comparison to the level of sales. For example, the inventory turnover rate indicates how often inventory turns over or is Inventory replenished each year.

$$\text{Inventory turnover} = \frac{\text{Net Sales}}{\text{Inventory}}$$

Fixed asset turnover is a ratio that measures the turnover of fixed asset to net sales and suggests how the company is performing in relation to other similar organizations.

$$\text{Fixed asset turnover} = \frac{\text{Net Sales}}{\text{Fixed Assets}}$$

The total assets turnover ratio measures the effectiveness of an organization in using its assets to generate sales.

$$\text{Total asset turnover} = \frac{\text{Net Sales}}{\text{Total assets}}$$

The turnover of net worth is an indication of management's efficiency in using stockholders' equity.

$$\text{Turnover of net-worth} = \frac{\text{Net Sales}}{\text{Net worth (stockholder's equity)}}$$

Finally, a measure to determine the effectiveness in using resources is provided by the turnover of net *working capital ratio*.

$$\text{Turnover of net working capital} = \frac{\text{Net sales}}{\text{Net working capital}}$$

$$\text{Net working capital} = (\text{current asset} - \text{current liabilities})$$

(iv) Profitability ratios:

These ratios are truly overall financial techniques since they reveal the returns generated on sales and investment. The profit return on net sales ratio is an expression of profit as a percentage of sales.

$$\text{Profit return on net sales} = \frac{\text{Net income after taxes}}{\text{Net sales}}$$

The profit return on total assets ratio is a measure of how well managers are using total assets in producing a creditor who provide assets to the organization.

$$\text{Profit return on total assets} = \frac{\text{Net Income after taxes}}{\text{Total assets}}$$

$$\text{Profit return on total assets} = (\text{Rate of return on investment})$$

Profit return on net worth measures the proportion of net income in relation to funds invested by owners of the company. As such, it is a useful ratio to managers and investors as they evaluate other investment opportunities requiring the same amount to fund.

$$\text{Profit return on net worth} = \frac{\text{Net income after taxes}}{\text{Net worth}}$$

Return on Investment:

One particular approach to financial control that has received considerable attention and study in recent years is the *Return On Investment ratio (ROI)*, which is expressed by the following formula:

$$\text{ROI} = \frac{\text{Sale}}{\text{Investment}} \times \frac{\text{Profit}}{\text{Sales}}$$

5.11.6 Budgetary Control Techniques

Budgetary control is a process of finding out what is done and comparing these results with the corresponding budget data in order to approve accomplishments or to remedy differences.

The Purpose of Budgeting

- (a) The purpose of budgeting is to allocate resources efficiently.
- (b) It permits the manager to see clearly what capital will be spent, by whom, where and what expense, revenue or units of physical input or output the plan will involve.

5.11.7 Types of Budgeting

Budgeting may be classified into several basic types. The following types of budgets are explained:

- (a) revenue and expense budgets
- (b) time, space, material, and product budget
- (c) capital expenditure budget and
- (d) cash budget
- (i) **Revenue and expense budget:**

This budget spells out plans for revenues and operating expenses in monetary terms. The most basic of this type of budget is the *sales budget* which is a formal and detailed expression of the sales forecast. Just as the sales forecast is the cornerstone of planning, so is the sales budget the foundation of budgetary control.

The revenue from sales of products or services provides the principal income to offset operational expenses and yield profits.

Operating expense budgets may deal with individual items of expense such as travel, data processing, entertainment, advertising, telephone, and insurance.

Sometimes a department head will include in the budget only major items, and lump together other items in one control summary. Suppose the manager of a small department is expected to take one business trip a year at a cost of ₦7,200. To budget this cost each month at ₦600 would mean little for monthly planning or control.

(ii) Time, space, material and product budgets:

Many budgets are better expressed in quantities rather than in monetary terms. Although such budgets are usually translated into monetary terms, they are much more significant at a certain stage of planning and control if they are expressed in terms of quantities.

Among the more common of these are the budget for direct-labour-hours, units of materials, square feet allocated and units produced.

Most firms and production departments budget budget product output and their share of the output of components of the final product in units rather than monetary terms. In addition, it is common to budget labour, in either labour-hours or labour-days or by types of labour required. Obviously, such budgets cannot be well expressed in monetary terms, since the naira cost would not accurately measure the resources used on the result intended.

(iii) Capital expenditure budget:

Capital expenditure budgets outline specifically capital expenditures for plant, machinery, equipment, and other capital items. Whether for a short-term or a long one, these budgets require care because their relative size in relation to all the funds of an enterprise. Since a business takes a long time to recover its investment in plant and equipment, capital expenditure budgets should usually be tied in with fairly long-range planning.

(iv) Cash budget:

The cash budget is simply a forecast of cash receipts and disbursements against which actual cash expenditure is measured. Whether called a budget or not, this is one of the most important controls in an enterprise. The availability of cash to meet obligations as they fall due is the first requirement for existence. Handsome business profits do little good when tied up in inventory, machinery, or other non-cash assets. Cash budgeting also shows the availability of excess cash, thereby making it possible to plan for investment of cash surpluses.

5.11.8 Variable versus Fixed Budgets:

One difficulty with budgets is that they are often inflexible. Thus, they may be seen as inappropriate for situations that change in ways beyond the control of those responsible for achieving the budgeted objectives.

For example, an expense budget based on annual sales of ₦12 million may be completely off track if sales of ₦15 million are achieved. The expense of manufacturing will almost always increase if more items are produced to meet the larger demand. It would therefore be unreasonable to expect the manager to keep to the original expense budget.

To deal with this difficulty, many managers resort to a variable budget. Because dangers arise from inflexibility in budgets and maximum flexibility with efficiency underlies good planning, attention has been increasingly given to flexible or variable budgets.

These are designed to vary usually as the volume of sales or some other measures of output varies and so are limited largely to expense budgets. The variable budget is based on an analysis of expense items to determine how individual costs should vary with volume of output.

Where fixed budgets express what individual cost should be at one specified volume, variable budgets are cost schedules that show how each cost should vary as the level of activity or output varies.

5.11.9 Zero-Based Budgeting [ZBB]

Zero-based budgeting enables an organisation to look at its activities and priorities afresh during budget preparation. The previous year's resource allocations are not automatically considered the basis of this year's allocation. Instead, each manager has to justify anew his or her entire budget request. In essence, ZBB involves allocating an organization's funds on the basis of a cost-benefit analysis of each of the organisation's major activities.

The ZBB process involves three major steps. They are:

- (a) Breakdown the activities of the organisation into 'decision packages'.

Each decision package contains all the information about an activity including the purpose, cost, benefit and possible outcome if the activity is approved or not.

- (b) Evaluate the various activities and rank them in order of increasing benefit to the organisation.

The activities with the highest ranking will get immediate or first attention and the activities with the lowest ranking would get the lowest priority including elimination if their benefits can no longer be justified.

- (c) **Allocate resources**

Once the priorities have been established, then the organization's resources are budgeted according to these priorities.

The ZBB has many advantages over the conventional budgeting techniques. Here are the advantages:

- (i) It provides greater justification on whether an activity should be continued or terminated.
- (ii) It allows for greater participation of all concerned people in the planning process.
- (iii) Since managers must justify each alternative, the measures needed for comparison are objective in nature and hence the assessment and evaluation is clear and unambiguous.
- (iv) Low priority activities can be rejected with more confidence and without economic losses.

Some drawbacks of ZBB are:

- (i) The process is more costly and requires more time and sometimes enormous efforts.
- (ii) Middle management is usually reluctant to submit their programmes to such extensive scrutiny. They may therefore inflate the importance of the activity they control.
- (iii) In addition, managers may fail to develop enough information to allow for a meaningful analysis of a decision package.

Characteristics of Effective Control System

i. Integration with planning

Control should be linked with planning and the more explicitly and precisely they are linked, the more effective the central system.

ii. Future oriented

An effective control system should be able to help regulate future events, rather than fix blame of past events. That is, identifying and addressing areas in which future corrective action is needed.

iii. Cost Effective and Economically Realistic

The cost of implementing a control system should be less or at most equal to the benefits derivable from the control system.

iv. Objective and comprehensible

Control system information should be understandable and be seen to be objective by all involved.

v. Focus on strategic control points

Control system should focus on the strategic point where deviations from the standards are most likely to take place or where deviations would lead to great harm.

5.12 STRATEGIC MANAGEMENT

5.13 Definition of Strategic Management

To understand Strategic Management, it is best to first explain the meaning and importance of strategy in organizations. A strategy is the game plan the management of an organization uses to stake out a market position, attract and please customers, compete successfully, conduct operations and achieve organizational objectives. Strategy answers a set of questions confronting organizations some of which include: What type of goods should we produce? Which segment of the market should we serve? How do we deal with competition? What are we out to achieve? Strategic management is the process of galvanizing an organization's resources towards crafting and implementing a strategy. Outputs of strategic management are decisions and actions which affect the long term performance of the organization. It is an important task performed by managers entailing planning, organising, leading and controlling.

The outcome of strategic planning is called strategic plan. The strategic plan of an organization lays out its vision, mission, performance target and strategy.

5.14 Importance of Strategic Management

Strategic Management is important to organizations because it serves the following purposes:

- (a) **Performance:** It aids performance of organizations in terms of profitability, market position and growth. Studies have shown that organizations that use strategic management tend to perform better than others.
- (b) **Managing Change:** Strategic Management is a tool for managing changes taking place within and outside the organization which affect its ability to achieve set objectives. Strategic management enables managers to identify and examine relevant factors so as to decide on the best course of actions to take. Thus, strategic management helps organizations cope with uncertainty in the environment.
- (c) **Effective Coordination:** Strategic management helps coordinate all organisations' activities and resources towards achieving overall objectives.
- (d) **Focus:** Strategic management provides the organization with objectives and method of achieving them, thus giving focus to all organizational activities.
- (e) **Monitoring:** The design of control system should be done in such a way that can be monitored to ensure conformity with the set standard
- (f) **Acceptable to organisational members:** Control systems operate best when they are accepted by organisational members who are affected by the process.

- (g) **Timeliness:** Control systems are designed to provide data on the state of a given production cycle at some specific time. This indicates that the process must be carried out to meet specific deadlines if corrective action is to be taken in time to produce improvements.
- (h) **Continual review:** The control process should be subjected to continual review to ensure its effectiveness and appropriateness in terms of the results produced symptoms/indicators of inadequate or weak control systems

Causes of high incidence of resistance by employees to the control system

- i. Where a unit meets control standards but fails to achieve its overall objectives or failure to strengthen the link between planning and control.
- ii. Increased control standards without a commensurate compliance or results.
- iii. Declining performance
- iv. Increase in wastages
- v. Rising operational and maintenance cost.

5.15 Strategic Management Process

Strategic management processes contain steps that organizations take in the course of strategy formulation and implementation. It is made up of five steps namely:

- (a) **Developing Vision, Mission and Objective:** An organisation's mission is its statement of purposes. It states what the organization is in business to do. An organisation's vision on the other hand is a statement showing its destination; what it is out to achieve. An organization's mission could be: 'to build a chain of supermarkets where everyone can buy quality consumer goods at the cheapest price available'. An example of vision could be: To be the world's premier universal bank in every sector. Objectives are, on the other hand, an organization's performance targets. Objectives convert the organization's mission into specific performance targets. They are usually quantifiable or measurable and containing deadline for achievement.

The starting point in Strategic management process is to determine the organization's vision, mission and objectives. This is because whatever strategy the organization adopts will be directed towards achieving its vision, mission and objectives.

- (b) **SWOT Analysis:** For strategies to be formulated an analysis of the organization's external and internal environment is necessary. The acronym SWOT stands for Strength, Weakness, Opportunities and Threats. The external

environment is analysed to identify factors that constitute opportunities and threats to the organization. Opportunities are positive trends in the external environment that help in the realization of the organization's objectives. For example, growing demand for an organization's product is an opportunity. Threats on the other hand are negative trends to the organization found in the external environment. An example of this is activities of competitors, legislation banning the importation of a vital raw material' etc.

An analysis of an organization's internal environment is necessary to determine its inherent strengths and weaknesses. Strengths are activities that an organization does well, while weaknesses are negative activities and inadequacies within an organization. For example, while the possession of highly qualified staff is a strength, a limited product distribution network could be a weakness.

- (c) **Formulation of Strategies:** At this stage, managers use identified Strength, Weakness, Opportunities and Threats to formulate strategies that will lead to the achievement of organizational objectives. Formulated strategies will exploit the organization's strengths and opportunities and protects the organization from external threats while also correcting critical weaknesses.
- (d) **Implementation of Strategies:** Proper implementation of strategy is a prerequisite to an effective strategic management process. No matter how good the strategy is, improper implementation may lead to failure. Therefore, proper implementation is essential.
- (e) **Evaluation:** Evaluation provides the means of determining the impact of implemented strategies. The purpose of evaluation is to establish whether the strategy is working and whether adjustments are necessary.

5.16 Types of Organisation's Strategies

In this section, we will discuss various types of organizational strategies - corporate strategy, business strategy, functional strategy and operating strategy.

5.16.1 Corporate Strategy

This consists of the kinds of initiatives that organizations use to establish business positions. Usually drafted and used by Directors and Chief Executive Officers, corporate strategy spells out the current and future businesses an organization wants to be in and what it hopes to achieve with those businesses. It is based on the vision and mission of the organization.

A growth strategy is a form of corporate strategy used by an organization to stimulate growth by expanding the number of products offered or markets served, either through

current or new businesses (Robbins and Coulter, 2006). Growth strategy can bring about increased sales revenue, market share, etc. For example, part of the growth strategy of Nigerian Bottling Company Plc is to diversify into production of packaged fruit juice and table water.

5.16.2 Business Strategy

These are actions and approaches crafted to produce successful performance in one specific line of business. For example, a strategy aimed at enhancing the market position of soft drinks, one of the range of products of Nigerian Bottling Company Plc is a business strategy. Business strategies are usually determined by the General Managers of each of the organization's lines of business, often with the advice and input from heads of functional areas within each business unit.

5.16.3 Functional Strategy

Functional strategies are actions and approaches used by an organization's functional departments to support the business strategy. An example of functional strategy is an organization's marketing strategy, which are approaches for running the sales and marketing functions of the business.

An organization's production strategy is a functional strategy that takes care of the production aspect of the business. In most organizations, functional strategies are crafted by heads of respective functions with the General Manager of the business unit having final approval.

5.16.4 Operating Strategy

These are approaches for managing key operating units (plants, distribution centres, geographic units, etc.) and specific operating units with strategic significance (for example: advertising campaigns, the management of specific brands, online sales, etc.). For example, approaches fashioned by a plant manager to run a specific plant (an operating strategy) should be in tandem with the overall production strategy of the organization. Lead responsibility for operating strategies is usually delegated to frontline managers, subject to review and approval of a higher ranking officer.

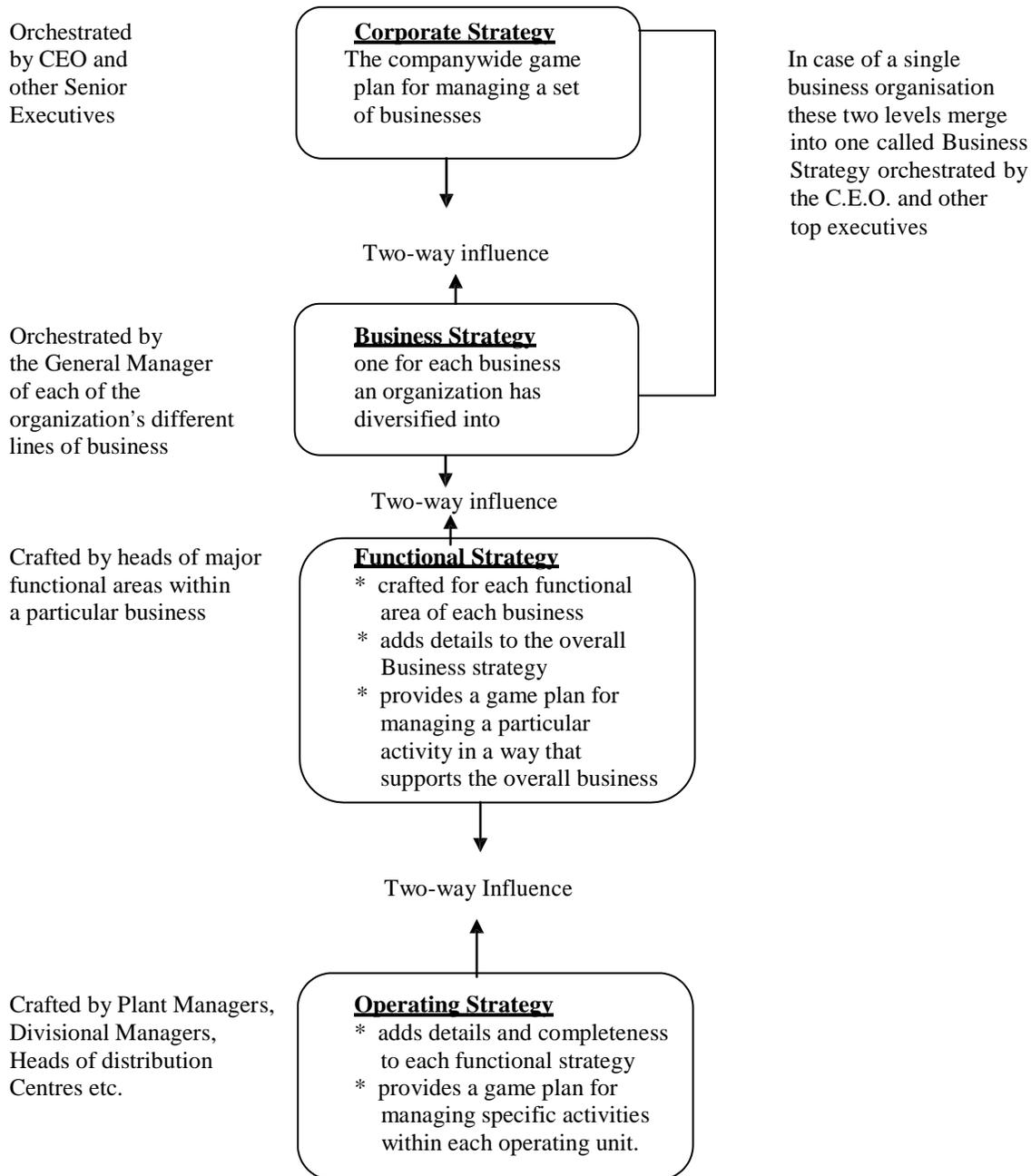


Figure 5.5: The Hierarchy of Organisational Strategy

The schematic diagram above shows the hierarchy of strategy for organizations. At the top of the hierarchy is corporate strategy which is crafted by the top executives of the organization including the Chief Executive Officer. This is followed by Business strategy, fashioned by heads of various businesses. However, for single-business organizations such as companies producing only one brand or type of product, corporate and business strategy merge into one called Business strategy which is orchestrated by top level management. Next in the hierarchy is functional strategy followed by operating strategy.

5.17 Summary

Decision-making is the selection of a course of action from among alternatives; it is the core of planning. Managers make decisions that must be carried out by others. The type of decisions they make, and the conditions under which they make them, will vary. They must, therefore, tailor their decision-making approach to their particular problems and circumstances.

Programmed decisions are those that are adopted by routine nature of the problem, habit or policy. Non-programmed decisions are those that are new. Most important decisions will be non-programmed: they will require careful and logical consideration. The conditions under which managers make decisions will vary with the amount of information they have. Under conditions of certainty, managers know precisely what the results will be of each of the alternatives available to them. Under conditions of risk, they know within a small margin of error the probable outcome of each alternative. Under condition of uncertainty, the probabilities are not known precisely. When managers face an important problem or opportunity, and it is their responsibility to decide what to do about it, they can best arrive at a good, rational decision by using the formal decision-making approaches.

The managerial function of controlling is the measurement and correction of performance in order to ensure that enterprise objectives are accomplished. Wherever it is found and whatever is being controlled, the basic control process involves these steps: (i) establish standards and methods for measuring performance (ii) measure performance (iii) compare performance against standards and (iv) take corrective action and re-evaluate standards. To overcome time lags in control, it is suggested that managers utilize a feed forward control approach and not rely on simple feedback alone. A variety of control tools and techniques have been used to help a manager effect control. ZBB which attempts to base resource allocations on current rather than historical needs was explained.

Breakeven analysis is designed to illustrate the relationship between costs, sales, volume and profits. It can be used both as a decision-making aid and as a control device. Management auditing involves a systematic appraisal of management and organisational performance in a number of areas of operation. PERT and CPM networks illustrate not only the tasks involved in a project and the time it will take to complete them, but also the interrelationship between those tasks. In this way, the project can be planned and integrated more effectively. Also the project completion date can be determined and controlled more easily.

Strategic management was defined as a process of developing a game plan by which organizations gain competitive advantage over rivals, attract and please customers, compete successfully and conduct operations and achieve other organizational objectives. Importance of strategic management was adequately discussed. The stages of strategic management process of: developing vision, mission and objectives, SWOT analysis, formation, implementation and evaluation of strategies were well articulated and detailed attention given types of strategy (in text and diagrammatically): Corporate

Strategy, Business Strategy, Functional Strategy and Operational Strategy.

Precisely, stages in decision making involves: (i) diagnose and define the problem (ii) establish specific goals and objectives (iii) generate alternatives (iv) gather and analyse the facts (v) evaluate alternatives (vi) select best alternative (vii) analyse possible consequences (viii) Implement decision, and (ix) follow up.

5.18 Review Questions

Section A (Attempt all Questions) Part

I: Multiple Choice Questions

1. A decision made in response to changes in the external environment is said to be.
 - A Proactive
 - B Intuitive
 - C Reactive
 - D Systematic
 - E Pragmatic

2. A group decision making technique where individuals are not allowed to criticize solutions suggested by others is known as:
 - A The Dephi technique
 - B MBO technique
 - C Brainstorming technique
 - D The Nominal Group technique [NGT]
 - E Random sample technique

3. Correcting deviations from standards is an aspect of:
 - A Planning process
 - B Control process
 - C Actuating process
 - D Leading process
 - E Organising process

4. The type of control in which ongoing operations are monitored to ensure that objectives are pursued is known as:
 - A Concurrent control
 - B Feedback control
 - C Congruent control
 - D Feedforward control
 - E Process control

5. Which of the following types of strategy is crafted by the Chief Executive Officer and top management of organization?
 - A. Operating Strategy
 - B. Divisional Strategy
 - C. Functional Strategy
 - D. Corporate Strategy
 - E. Business Strategy

6. A statement showing the direction of an organization is called
 - A. Vision
 - B. Mission
 - C. Objective
 - D. Focus
 - E. Goal

PART II: SHORT ANSWER QUESTIONS

1. Decisions that are repetitive and continuous in nature are known as
2. A situation where a decision maker has some probabilistic estimate of the outcomes of each alternative is referred to
3. A type of control system where action is taken only after a significant deviation has occurred is known as.....
4. The Calculation of one or more financial ratios to asses some aspects of the organisation's financial health is referred to as:.....
5. The negative trends in the external environment are called
6. Strategies crafted by the head of marketing of an organization is an example of strategy.

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

- 1 C
- 2 C
- 3 B
- 4 A

5. D
6. A

SHORT ANSWER QUESTIONS

1. Programmed decisions
2. Decision-making under risk
3. Feedback Control
4. Ratio analysis
5. Threats
6. Functional strategy

SECTION D

ORGANIC BUSINESS FUNCTIONS

CHAPTER SIX: HUMAN RESOURCES MANAGEMENT

6.0 Learning Objectives

After completing this chapter, the reader should be able to:

- define and explain the scope of human resource management;
- describe human resource planning;
- identify and explain the sources of recruitment and steps in the selection of employees;
- define training and development and explain the methods and importance of training and development in an organisation;
- explain the importance of performance appraisal in an organisation;
- list the key employee welfare services and benefits provided in an organisation;
- describe the role of industrial relations.

6.1 Introduction

Employees are the most important assets of an organisation. This chapter focuses on how this asset is managed effectively to achieve the objectives of the organisation. Human resources management is an integral part of every manager's function as long as he/she has people working under him/her. In organisations with a large number of staff, a separate department often handles human resource function. This chapter explains the key functions of this department in an organisation. Meanwhile let's look at what you will learn in the various sections.

6.2 Meaning and Functions of Human Resource Management

Human resource management has been defined as the totality of management decisions and actions that affect the relationship between the organisation and employees. In most organisations human resource management is grouped into several functions:

- i. Human Resource Planning.
- ii. Recruitment, Selection, Placement and Induction.
- iii. Training and Development.
- iv. Performance Appraisal.
- v. Employee Compensation.
- vi. Welfare Services and Benefits.
- vii. Industrial Relations.

6.2.1 Human Resource Planning

Human Resource planning as mentioned in this section is the process of forecasting future human resource needs of an organization so that steps can be taken to ensure that these needs are met (Stone & Meltz, 1983). It is the process by which managers ensure that they have the right number and kind of capable people in the right place and at the right time (Robbins, & Coulter, 2007). Human Resource planning involves the following activities:

- (a) Detailed analysis of the organisation's work force.
- (b) Analysing and recommending policies and procedures for effective utilization of the organisation's labour resources.
- (c) Forecasting future human resources needs.
- (d) Developing strategies to meet the organisation's human resources needs
- (e) Providing conditions that will enable employees grow in their jobs and advance their careers.

6.2.2 Recruitment, Selection, Placement and Induction

Recruitment refers to all activities carried out to attract qualified applicants to fill vacancies in an organisation. Selection has to do with the process of identifying applicants who meet the requirements of the job. Recruitment and selection activities cover:

- (a) Identifying sources of recruitment. (b) Short-listing applicants.
- (c) Identifying and developing and administering selection methods.
- (d) Determining the position that suits the individual's strengths and weakness.
- (e) Planning and implementing programmes to help new employees to adjust to the new job and organisation.

Placement is the process of assigning a specific job to a selected candidate, while induction is concerned with the process of integrating employees to the organisation.

6.2.3 Training and Development

This has to do with all activities related to equipping employees with knowledge, skills and attitudes they need to perform their jobs effectively and preparing them for future careers. Training and development involves:

- (a) Identifying an organisations training and development needs.
- (b) Designing appropriate training programmes that will fill the identified knowledge, skills and attitude gap.
- (c) Running training programmes.
- (d) Evaluating the impact of training on the employees' performance and the organisation.
- (e) Preparing employees for careers in the organisation.

6.2.4 Performance Appraisal

Performance appraisal has to do with the process of monitoring an employee's performance on the job and his/her potential for development. Activities often included in this function are:

- (a) Developing and administering appraisal systems.
- (b) Counselling employees on their career plans.

6.2.5 Employee Compensation

Employee compensation, simply put refers to rewards given to employees in return for the services they offer to the organisation. Core activities carried out under this function are:

- (a) Developing and implementing compensation policies and procedures.
- (b) Designing wages and salary structure for the organisation.
- (c) Designing and implementing incentive schemes.
- (d) Job evaluation.

6.2.6 Employee Welfare Services and Benefits

To induce employees to contribute their best to organizational objectives, management must provide the right working conditions in the organisation. These working conditions include the following:

- (a) Welfare facilities e.g. accommodation, canteen facilities etc.
- (b) Health and safety programmes.

6.2.7 Industrial Relations

This has to do with coordinating relations between the organisation and employee groups. Major activities carried out in this function are:

- (a) Collective Bargaining.
- (b) Implementing Collective Agreements.
- (c) Designing and implementing grievance handling and trade dispute settlement systems.
- (d) Designing and implementing disciplinary procedures.
- (e) Enforcing relevant provisions of the labour laws in the organisation.

6.3 Human Resource Planning

Tempane Company Ltd runs a small ICT business which focuses on developing software, ICT training and business plan preparation for small businesses. It has thirty employees, most of whom are graduates with degrees or professional qualifications in computer science, training, accounting, marketing and law. In spite of the high level of salary the company pays and the excellent *fringe benefits* it offers to employees, staff turnover is extremely high. In a number of cases Tempane has not been able to meet deadlines of customers because of shortage of staff. During *exit*

interviews carried out, most of the ex-employees complained of not having a clear idea of where the company was going; lack of promotions and training programme. Some complained about poor job descriptions and training not being consistent with the latest trends in the industry.

Human Resource planning as mentioned in section 12.2.1 has to do with the process of forecasting future human resource needs of an organisation so that steps can be taken to ensure that these needs are met (Stone & Metz 1983). Human Resource Planning helps to achieve the goals of the organisation by ensuring that it has the right number and skills of employees.

6.3.1 Steps in the Human Resource Planning Process

- (a) *Identify organizational objectives:* Here, the human resource planner must define the objectives of the organization and the strategies for achieving them. These strategies may affect the following: organizational structure, marketing strategies, production systems, etc.
- (b) *Estimate human resource needs:* At this stage the human resource needs of the organisation for the period is forecasted. The manager is expected to estimate in precise terms the human resource (in terms of skills, quantity, experience, age etc) needed to achieve its objectives.
- (c) *Analyse existing human resources:* This stage consists of detailed inventory of the organisation's existing workforce in terms of number, skills, age, work experience, turnover rate, etc.
- (d) *Calculate net human resource needs for the period:* This is derived by deducting its existing workforce from the estimated workforce needed to achieve its objective.
- (e) *Develop a plan:* This stage consists of developing policies and procedures to meet the net human resource requirement. The plan should spell out all the necessary activities such as recruitment, selection, training, compensation and career plans necessary to meet human resource needs:

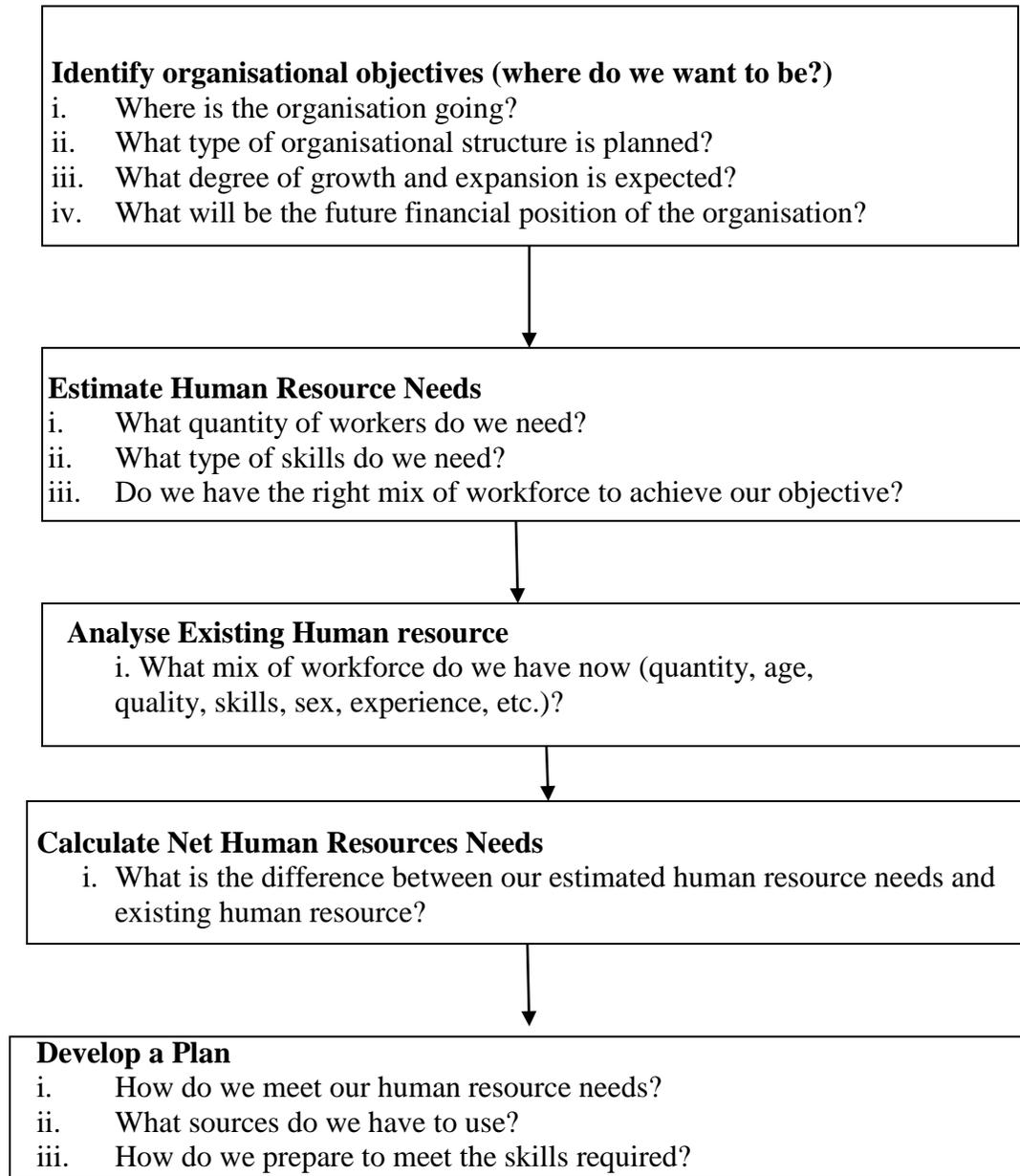


Fig 6.1: Steps in the Human Resource planning process

6.3.2 Importance of Human Resource Planning

- Human resource planning guides management in making the right decisions relating to the number and type of employees to recruit.
- It also helps the organisation to adapt to changing trends in the labour market and forecast employees needed to achieve its objectives.
- It helps the organisation to plan training and development programmes more systematically.

6.4 Job Analysis

Amen Ajayi has just been appointed head of the stores department of MTC Company Ltd. The department has ten employees with a mix of qualifications in purchasing, accounting, management, secretarial studies etc. He discovered that the employees have no clear job descriptions/work schedules, thus they keep asking him for instructions on what to do. Occasionally, arguments arose between the employees on who is to do what. Most of the staff have no idea of their relationship with each other, opportunities for advancement on the job, how their salaries were determined; and the skills they require to do their jobs.

Mr. Ajayi's initial reaction was to carry out a job analysis. He is probably right. A job analysis will help him to identify the key jobs, identify activities carried out and the knowledge, skills and attitudes required to carry out the job.

This section introduces you briefly to the key elements of job analysis and its use in managing people.

6.4.1 Definition of Job Analysis

Job analysis is the process of examining a job with a view to identifying its components and conditions under which it is performed. Job analysis examines the following aspects of a job:

- a) Activities/duties/responsibilities.
- b) Relative importance of the job.
- c) Relationship between the jobs and other jobs in the organisation.
- d) Knowledge, skills and attitudes required to perform the job.
- e) Conditions under which the job is carried out.

6.4.2 Methods of Job Analysis

Four main methods are used to collect job analysis data. These are (a) interviews (b) questionnaires (c) observations and (d) diaries. These are described in table 12 – 1.

Table 6.1: Methods of Job Analysis

Method	Features
Interview	The job analyst obtains the data through detailed face-to-face Interviews of the jobholder.
Questionnaire	The jobholder or supervisor fills questionnaires on the activities, Knowledge, skills, and abilities required for the job and the conditions under which the job is carried out.
Observation	Here the job analyst directly observes the jobholder as he works. The observation could be face to face or through films or photographs.
Diaries	Under this the jobholder is required to keep details of his/her tasks on the job. These records are then collected for job analysis purposes.

6.4.3 Job Description

This is the detailed statement of the activities involved in carrying out a specific job. A typical job description covers the following:

- (a) Job Title.
- (b) Place or location of the job on the organizational structure or hierarchy.
- (c) Objective(s) purpose of the job and its relationship with overall company objectives.
- (d) Supervisors to which the job occupant reports to and the subordinates who report to the job occupant.
- (e) Duties or responsibilities attached to the job.
- (f) Pertinent factors which influences performance of the job such as machines and equipment used, working conditions, constraints, hazards, etc.

Job description helps to establish the relationship between the job and other jobs. It also provides a summary of duties and responsibilities attached to the job. A simple sample of a job description is provided in fig. 6.2.

<ol style="list-style-type: none">1. Position: Administrative Assistant2. Job title: Secretary3. Job purpose: To provide secretarial services to the Managing Director4. Immediate superior: Managing Director5. Immediate subordinate: Office Assistant/Messenger6. Duties:<ol style="list-style-type: none">i. Typing simple correspondence.ii. Filing of letters.iii. Receiving and processing incoming mails.iv. Receiving visitors.v. Handling telephone calls.

Fig: 6.2: A Sample of a job description

6.4.4 Job Specification

This has to do with interpretation of the job description in terms of the kind of person suitable for the job. A job specification covers such things as the education, experience, physical fitness, mental abilities, etc. required. Job specification helps the human resources manager to select the right type of person for the job and determine the training needs of current and potential occupants of the position.

6.4.5 Uses of Job Analysis

The result of job analysis helps managers to make decisions or develop policies and procedures in the areas explained in Table 6.2.

Table 6.2: Uses of Job Analysis

Area/Function	Uses
Recruitment	Job analysis helps to define exactly the type of persons to be recruited to fill positions.
Selection	By specifying the knowledge, skills and attitudes of a person needed to fit a job specification, it helps to select the right person.
Training and Development	By specifying the knowledge, skills and attitudes required to carry out a job it helps to develop the right training programme.
Compensation Administration	Job Analysis data helps in job evaluation.
Performance Appraisal	Job specification provides criteria against which the performance of an employee could be measured.
Employee benefits and Services	During job analysis, hazards affecting the job are uncovered. This helps to devise effective ways to minimise or eliminate these hazards.
Industrial relations	Job descriptions influence collective bargaining over pay, working conditions and other terms of the collective agreement.

6.5 Recruitment

You may recall that we defined recruitment in section 11.2.2 as all activities carried out to fill vacancies in an organisation. These activities may be classified into two: (a) Internal and (b) External. Internal recruitment focuses on employing people from within the organisation. External recruitment, on the other hand, refers to the employment of people from outside the organisation.

6.5.1 Internal Recruitment

This is the recruitment of employees from within the organisation. Internal sources of recruitment are (a) Promotions, transfers (b) Job posting and (c) Job bidding:

- (a) *Promotions or Transfer:* When a vacancy occurs, existing employees whose qualifications and experience suit the vacant job could be promoted or transferred from a different department to fill the vacancy.
- (b) *Job posting:* In this method, the vacancy is announced on the notice boards, house journal and memos in the organization, inviting interested qualified staff within the organization to apply.
- (c) *Job bidding:* In this system employees are allowed to indicate interest in a specific position they are qualified for before the job becomes vacant. When the vacancy occurs, the bidders are considered for appointment.

6.5.2 External Recruitment

This has to do with the recruitment of employees from outside the organisation to fill vacancies. There are six sources of external recruitment:

- (a) *Educational Institutions:* Some organisations recruit employees direct from universities, polytechnics and other educational institutions.
- (b) *Unsolicited Applications:* Some organisations receive unsolicited application letters from people seeking employment. Some of these applications are kept in view and the applicants are communicated when there are vacancies.
- (c) *Employee Referrals:* This refers to the use of existing employees to recommend qualified applicants to fill vacancies.
- (d) *Employment Agencies:* An employment agency is an organisation that recruits employees for clients free of charge or for a fee. There are three types of employment agencies: Public employment agencies, private employment agencies and management consultancies.
- (e) *Professional Organisations:* Professional bodies (e.g. Institute of Chartered Accountants of Nigeria, Chartered Institute of Bankers of Nigeria etc.), may recommend members to interested organisations for employment.
- (f) *Advertisement:* This is the recruitment of employees by advertising on the internet, newspapers, television, radio, etc.

Table 6.3: Advantages and disadvantages of internal and external sources of recruitment

Internal	
Advantages	Disadvantages
<ul style="list-style-type: none"> i. It creates promotion opportunities for employees. ii. It reduces the cost of recruitment. iii. The internal applicant is better known than those from external sources – the selection process is therefore simplified. iv. The organisation benefits from investment it made in training of employees. v. There is less risk of making mistakes in selection because it is easier to appraise the performance of internal applicants. 	<ul style="list-style-type: none"> i. Qualified people may not be available within the organisations. ii. A strict internal recruitment policy might lead to ‘in-breeding’ i.e. the perpetuation of old ways of doing things and stagnation of the organisation. iii. The organisation may lag behind others within the industry which are recruiting people with superior skills from outside.

External	
Advantages	Disadvantages
<ul style="list-style-type: none"> i. It creates a large pool of people from which the organisation could recruit the best. ii. It helps bring in better qualified people into the organisation. iii. Reduced training costs 	<ul style="list-style-type: none"> i. It is an expensive source of recruitment. Cost incurred on external recruitment includes cost of advertising, interviews, selection tests, background investigation and medical examinations. ii. The organisation could make the wrong choice of employees.

6.6 Selection

Selection has to do with choosing the most suitable person who meets the requirements for the job. A typical selection process consists of the following activities:

- a) Analysis of application form.
- b) Selection Tests.
- c) Selection Interview.
- d) Background investigations.
- e) Medical Examinations.
- f) Offer and placement.

6.6.1 Analysis of Application Form

Application form is a form on which a prospective applicant fills out details about himself or herself. It helps provide the background information, which can be used to carry out a preliminary screening for suitable applicants who meet the requirements of the organisation. Most application forms require the following information about applicants:

- (a) Name of applicant.
- (b) Interests, such as hobbies and other extra-curricular activities
- (c) Date and place of birth.
- (d) Nationality and hometown.
- (e) Present address/e-mail address.
- (f) Telephone number.
- (g) State of health.
- (h) Marital and family status.
- (i) Education, qualification, courses, publications etc.
- (j) Previous employer(s), job experience-post, salary, period, type of work, reasons for leaving.
- (k) Position being applied for and reasons.
- (l) References.

6.6.2 Selection Tests

A selection test is the process of assessing the present and potential ability of a prospective employee to do a job. Selection tests provide valuable and reliable information on the level of intelligence, personality traits, abilities, aptitudes and attainments of the applicant. Examples of selection tests are :

- (a) *Aptitude Tests*: This is used basically to measure the latent or potential ability of a person to do a job or specific task within a job. Aptitudes often tested include manual dexterity; numerical and clerical abilities.
- (b) *Intelligence Tests*: This is used to measure the ability of a person to reason logically, to remember or learn.
- (c) *Achievement Tests*: These are used to evaluate the proficiency of a person in the performance of a specific job. They are usually applied to experienced people who claim they know how to do something. For example, a typist could be given an achievement test in typing as a means of evaluating her performance.
- (d) *Personality Tests*: This measures the applicant's social interaction skills and general behaviour e.g. temperament, introvert extrovert etc.
- (e) *Psychological Test*: This helps selectors to determine applicants abilities or characteristics. Selectors use this method to gain understanding of individuals so that they can predict the extent to which they will be successful in a job.

6.6.3 Selection Interview

Selection interview refers to the formal conversation between an employer and prospective employee to enable the employer assess the latter's suitability for a job. Selection interviews are used to *verify and clarify* information provided by the applicant on the application letter/form and *obtain further information* on the applicant's abilities; physical make-up; attainment; intelligence; interests; which will help to make a valid prediction about the applicant's suitability for the job.

However, there are problems with selection interviews. Some interviewers are biased and prejudiced, expecting to hear what they want to hear or expect to hear and might display emotional reaction to certain statements made by the applicant.

The outcomes of interviews depend a lot on the *qualities of the interviewer*. An interviewer must have a good knowledge of the position being interviewed for and good communication skills. If the interviewers do not possess these qualities there is likely to be a flaw in the final selection made.

6.6.4 Medical/Physical Examinations

This involves medical examination of the applicant at the employer's own clinic or clinic/hospital chosen by the applicant. In the employment of miners, soldiers, policemen and other positions requiring a lot of physical effort, a medical examination is often compulsory.

6.6.5 Background Investigation

Most organizations investigate the background of applicants before offering them appointment. Background investigation helps to confirm the truth of the information provided by the applicant on the application form or/and at the interview.

Table 6. 4: Comparison of Selection Methods

Selection method	Features	Advantages	Disadvantages
Selection interview	<ul style="list-style-type: none"> • Formal conversation between employer and prospective employee. • Interviews could be panel or one-on-one. 	<ul style="list-style-type: none"> • Helps to meet prospective applicants in person. • Helps to verify and clarify information on the applicant. • Helps to assess applicant's ability, physical make up, attainment, intelligence and interests. 	<ul style="list-style-type: none"> • Interviews may be biased or prejudiced. • Risk of poor quality interviewers. • Environment of the interviews may influence outcome.
Medical examination	<ul style="list-style-type: none"> • Involves medical and physical examination of applicant. 	<ul style="list-style-type: none"> • Helps the employer • To drop applicants whose physical abilities do not meet requirement of the job. • To place applicants properly. • To protect the employer in the event of a workmen's compensation claims for injury. 	<ul style="list-style-type: none"> • May be discriminatory against people perceived to have certain diseases.
Background investigation	<ul style="list-style-type: none"> • This involves investigating the background of applicants. 	<ul style="list-style-type: none"> • Helps to confirm the truth of information provided by the applicant. • Could help determine the suitability of applicant. 	<ul style="list-style-type: none"> • Referees may be unreliable. • Information may not be available.

6.7 Placement

Placement is the process of assigning a specific job to a selected candidate. It involves assigning a specific rank and responsibility to an individual. It requires matching the requirements of a job with the qualifications of the candidate.

6.8 Induction

This is the process of receiving and welcoming employees when they first join the company and giving them the basic information they will need to settle down quickly and happily and start work. The new employees are exposed to the culture of the organisation during this process.

6.8.1 Aims of Induction

- (a) To facilitate the integration of the new employees into the system at preliminary stages when everything is likely to be strange and unfamiliar.
- (b) To cultivate favourable attitude to the company in the mind of new employees so that they are more likely to stay.
- (c) To optimize productivity of new comers at the shortest possible time.
- (d) To reduce the likelihood of employees leaving the organization.

6.8.2 Importance of Induction

- (a) It reduces the likelihood of early exits from the organization, thereby saving the organization the costs of replacement, induction and error corrections by new comers.
- (b) Induction increases commitment of new employees.
- (c) Induction programmes help new comers maximize their individual contribution to the organization from the first day, thus, accelerating progress up the leaving curve.
- (d) Socialization: New comers are more likely to settle quickly and enjoy working with others in the organization, if the process of socialization takes place smoothly. This is achieved through induction programmes.

6.8.3 Induction Procedures

These vary between organizations. However, most induction procedures contain:

- (i) Reception: friendly receptions are organized to make new employees feel accepted.
- (ii) Documentation: A staff is assigned to take new comers through documentation processes required by new comers.
- (iii) Employee Handbook: Some organizations have staff handbooks which contain issues that may not have been spelt out in the letter of appointment.
- (iv) Initial Briefing: This is handled by the Human Resources department or the

head of department or unit of the new employee. The purpose is to clarify issues contained in the staff handbook or letter of employment.

- (v) **Formal Induction Courses:** Some organizations conduct formal induction to convey consistent and comprehensive information relevant to the employee as a new comer.
- (vi) **On-the-job Induction Training:** This is aimed at training inductees on how the job is to be done. This may be complemented with formal training programmes to provide new comers with additional relevant information.

6.9 Training and Development

Training has been defined as the planned and systematic modification of behaviour through learning events, programmes and instruction which enable individuals to achieve the level of knowledge, skills and competence to carry out their work effectively (Armstrong). The author also defines development as the ‘growth or realization of a person’s ability and potential through the provision of learning and educational experiences’.

Training generally focuses on providing knowledge, skills and attitudes required immediately by the individual to carry out his/her job. Development focuses on the future – assisting the individual to grow on the job and prepare him/her for a career and increased responsibility.

Both training and development seek to ensure that the individual has the right knowledge and skills to perform according to standards established by the organisation. In this section, we would walk you through the key steps in identifying training and development needs, designing training and development programmes and training and development methods used in organisations.

6.9.1 The Training and Development Process

Training and development process is made up of five steps:

- (a) **Training Needs Analysis:-** Training needs are differences between employee’s current or potential performance and expected performance which can be remedied by appropriate training. Training Needs Analysis is made up of two components: Assessment of Organisation Needs and Identification of Individual Needs.

Stages of training need analysis include data collection, interpretation, recommendation and action plan (Cole, G. A.). Data collection involves gathering of data on current and desired knowledge and skills level. This could be done through design and distribution of questionnaires, extraction of relevant information from performance appraisal reports, job analysis, job description, job specification etc. From these data, knowledge and skills gap are identified and recommendations made on how they can be filled.

- (b) **Drawing up of Training Programme:** Appropriate training curriculum and methods are designed to fill the knowledge and skills gap identified in (a) above.
- (c) **Implementation of Training Programme:** At this point, the decision reached in (b) is implemented.
- (d) **Evaluation of Training Programme:** This is aimed at assessing the impact of training programmes on trainees and the organization.

6.9.2 Training and Development Methods

Training methods are broadly categorized into three: (a) One-the-job (b) off the job and (c) on and off the job training

- (a) *On-the-Job Training:* Here the training is incorporated into the work of the employee. He or she practices the job under close supervision of an experienced supervisor or worker until he is skilled enough to do the job alone. Examples of on-the-job training methods are as follows:
 - i. *Demonstration:* Here, the trainer shows in a systematic manner the method of carrying out a specific job and allows the trainee do it himself.
 - ii. *Understudy:* An understudy is a person who is training to assume, at a future date, the duties currently performed by his/her superior. An individual or group is assigned to assist a superior officer in the performance of his/her duties. When the understudy shows promise or talent he/she takes over when the superior is transferred, retired or is promoted to a higher position.
 - iii. *Job Rotation/Planned Experience:* Job rotation is the practice of rotating people from job to job or from one department to another, or from one branch to another with a view to exposing them to new challenges and diversified skills.
 - iv. *Project or Committee Assignments:* In this method, managers are assigned to projects or committees to carry out specific assignments. These assignments help to improve their decision-making skills and ability to organise resources.
 - v. *Temporary Promotions:* To help some managers acquire the necessary managerial skills they are assigned higher responsibilities and made to carry out the challenging tasks of the higher position.
- (b) *Off-the-job training:* As the name implies the employee is trained outside the organisation. Examples of off-the-job training are as follows: -

- i. Sponsorship for short courses organized by consultants and educational institutions.
 - ii. Day releases to enable employees attend professional courses.
 - iii. Distance learning
 - iv. Computer based learning approved by the organisation.
- (c) *On-and-off-the-job training*: This training combines the features of (a) and (b). The employee is trained outside, comes back to apply the skills on the job and goes back for further training. Examples of this type of training are:
- i. Internship.
 - ii. Study tours.
 - iii. Attachments.

6.9.3 Benefits of Training and Development

An organization with a good training programme derives the following benefits:

- (a) *Improved Performance on the Present Job*: After a training programme, the employee's level of performance on the job increases.
- (b) *Improved Morale*: Training programmes help to increase the morale and job satisfaction of trainees.
- (c) *Reduction of Operational Problems*: Training helps to reduce operational problems such as accidents, high labour turnover, poor customer service, waste and excessive maintenance costs.
- (d) *Increased Productivity*: By improving the standard of performance, quality of workmanship and morale of workers, training helps to increase production and hence, profits of the organisation.
- (e) *Provision of Human Resource Needs*: The organisation fulfils its needs for certain type of skills without going out to recruit.
- (f) *Reduced Supervision*: Well-trained workers need no close supervision – they need not be told what to do in every situation.
- (g) *Improved Services to Customers*: Training exposes employees to new ideas and techniques, which help to improve service to customers and enhance the image of the organisation.

6.10 Performance Appraisal

As implied in section 12.1 the primary purpose of performance appraisal is to determine and communicate to the employee how he/she is performing on the present job and his/her potentials for the future. In this section we will examine some of the methods used to achieve this purpose.

6.10.1: Performance Appraisal Methods

The appraisal methods currently in use include the following:

- (a) *Descriptive essay*: Basically, this method requires the supervisor to write his impressions about the subordinate's performance in a narrative form.
- (b) *Ranking*: In this method the supervisor compares each subordinate with his/her colleagues and ranks them in order of merit (using clearly defined job standards or criteria).
- (c) *Assessment by co-employees*: Under this method, peers are made to assess their colleague's performance.
- (d) *Rating Scale*: this is the oldest and most widely used of the appraisal systems. This system has four basic features:
 - i. A list of personality traits or qualities desired for a particular job is drawn up. Some of the desired traits and qualities often included in appraisal forms for staff are Job knowledge; Quality of work; Dependability; organization of work; Discipline; Strengths; weaknesses; initiative, attitude to work, decisiveness, creativity, emotional stability; leadership ability; availability and punctuality.
 - ii. Forms are designed to contain the personality traits.
 - iii The rater is supplied with these forms, one for each person to be rated
 - iv The rater observes the actual performance of the employee and ticks off on the form the traits which describe exactly his work performance.
 - v In addition, the forms often include columns of job title, duties of appraisee, reasons for assigning specific ratings, current salary, present grade, age, qualification, courses being undertaken by appraisee details of absence and disciplinary actions taken against employee. Others are columns for signatures of employees; appraiser, departmental head and chief executive.

6.10.2 Importance of Performance Appraisal

Performance appraisal results are used to guide management decision-making in the following areas:

- (a) To identify weaknesses of the individual that could be remedied through training and development.
- (b) To recommend employees for promotion, termination of appointment or dismissal.
- (c) To review compensation (salary increments, bonuses, financial incentives, bonuses etc) of employees.
- (d) To identify future potential of employees that could be developed.
- (e) To evaluate the impact of certain human resource policies - recruitment, selection, training etc.

6.10.3 Problems and Limitations of Performance Appraisal

- (a) Some supervisors allow the rating they assign to one characteristics of the employee to excessively influence the rating in all subsequent traits. For example, if they rate the employee very good on say attitude to work this influences their subsequent ratings of other traits such as dependability, job knowledge, quality of work etc.
- (b) Some supervisors have a habit of consistently giving favourable appraisal reports while others consistently give poor appraisal reports. Others play safe by rating them in the middle - (Fair/good) instead of rating them as excellent or very poor.
- (c) The type of relationship which exists between the appraiser and the subordinate may influence his/her appraisal. A supervisor who dislikes a particular employee might give that employee a negative appraisal report.
- (d) Some supervisors do not have the skills needed to appraise subordinates properly because of lack of training in performance appraisal.

6.10.4 Promotions and Transfers

Promotions: Promotions are aimed at enabling management obtain the best talents within the company to meet senior positions. It is also to provide employees with the opportunity to advance in their careers within the company, in accordance with available positions.

Transfers: Management are often compelled to move people to enhance production. Changes within and outside the organization often require flexibility and redeployment of staff by the organization. However, when transfer decisions are made, affected employees must be clearly communicated to allay any fear or apprehension.

6.11 Employee Compensation (Wages and Salaries Administration)

Most organisations pay a lot of attention to employee compensation issues because labour costs are increasingly growing as a result of pay increases arising out of employee agitations. Employee compensation is also directly related to employees' job satisfaction, morale and motivation. The root cause of most labour/management conflicts is often disputes over compensation. It is therefore necessary to pay attention to compensation issues. You will recall that in section 12.2.5 we identified the key activities carried out under compensation. In the next section, we shall discuss some of these activities.

6.11.1 Establishment of Wages and Salary Structure

When establishing the general level and structure of wages and salaries in an

organisation, the following factors are taken into consideration:

- (a) *Ability to Pay*: Since wages and salaries are paid out of the revenue of the organisation, the compensation given to employees must be determined by the level of its financial performance. An organisation which offers higher wages and salaries than it can afford risks losing its competitiveness in the industry.
- (b) *Government Minimum Wages*: The level of wages and salaries in most private or public sector organisations is influenced by government minimum wage legislation.
- (c) *Wages and Salaries paid by competitors*. The level of wages and salaries paid by organisations in the private sector is sometimes influenced by the rates paid by competitors.
- (d) *Terms of Collective Agreement*: In unionized organisations, the level of wages paid by employers is governed by the collective bargaining agreement signed between employee associations and management.
- (e) *Availability of that Type of Labour*: The compensation paid to specific employees may be influenced by the scarcity or otherwise of the skills possessed by these employees. Where the skills are scarce in the labour market, employers are often prepared to offer higher compensation to attract and retain such employees.
- (f) *Qualifications*: Some organisations' wages and salary structure are closely tied to the qualification of employees. The higher the qualification the better the pay.
- (g) *Job Evaluation Results*: The relative value of each job and the relationship among the wages offered for jobs in an organisation may be determined by job evaluation.

6.11.2 Establishment of Methods of Compensating Employees

There are many methods of remunerating employees. The most popular are *Piece rate*, by which employees are paid on the basis of output and *Time rates*, by which employees are paid on the basis of time spent on the job.

- (a) *Piece Rate (Payment by Results)*: Under the piece rate system the worker is paid in direct proportion to his/her output. This method is used where the output of each worker can easily be measured and a relationship between the employee's effort and output could be established; the job is standardized, repetitive and work flow is regular.
- (b) *Time Rate*: Under a time rate system, the employee is paid according to the time spent on the job. This method of remuneration is used where it is not easy to measure or distinguish units of output; workflow is irregular and beyond the control of employees; and it is not easy to establish a relationship between employee's effort and output.

6.11.3 Job Evaluation

Job evaluation may be defined as a process of comparing or ranking jobs in order to determine the relative position or value of a job. The following are job evaluation methods:

- (a) *Job Ranking System (or Order of Merit System)*: Under this system jobs in the organisation are systematically compared with one another and ranked in order of importance. The importance of a job is determined by the amount of skill, difficulty and qualifications required for the job; working conditions etc. Jobs having the same importance are grouped together and carry relatively equal pay. For example, in a factory, jobs can be ranked in the following order in terms of importance:

- i. Electrician
- ii. Tool maker
- iii. Mechanic
- iv. Assembler
- v. Drill Press operator
- vi. Punch Press operator
- vii. Spray Painter
- viii. Material Handling man
- ix. Labourer
- x. Floor sweeper

Each of the above jobs is carefully analysed and values are attached to each of them. The pay attached to each job will differ depending on its position on the hierarchy. In the above factory, the electrician will earn more than the toolmaker; the toolmaker will earn more than a machinist and so on.

- (b) *The points system*: The features of this system are as follows:
- i Elements or factors upon which the job is to be evaluated are established. These factors include:
 - *Skill*: This covers education, experience, training, initiative and judgment required for the job.
 - *Effort*: This covers physical demands, visual effort, mental effort and the like required for the job.
 - *Responsibility*: This covers responsibility for directing others and for equipment and material.
 - *Job Conditions*: This cover hazards surrounding the job; working conditions etc.

Each of these factors is allocated a set of points. The job evaluator examines the job of every individual with respect to each of the above factors and allocates points. The jobs are then arranged or classified according to the total

points allotted to each job and the salary which should be commensurate with each classification is determined. The total points scored for each job determines the position of the job on the organizational structure and its relationship with other jobs.

- (c) *Factor Comparison:* Under this method jobs are examined in terms of factors such as mental, physical skill requirements, and working conditions. Certain key jobs are selected, examined and ranked in order of each factor. The job evaluator then determines the proportion of the total wage to be paid for each of the above factors.

Job evaluation helps the human resource department to compare different jobs within the organisation so that they could be ranked in order of importance. It also helps to achieve the principle of equal pay for equal work. Employees with similar skills and working under similar conditions of work receive fairly similar pay. However, some specialized jobs, which are scarce on the market, may require special rates, which may not be established by a job evaluator. Job evaluation relies heavily on internal standards to evaluate jobs and does not take market forces into consideration.

6.11.4 Designing and Implementing Incentive Schemes

Incentives refer to rewards made to employees (in addition to their normal pay) with a view to motivating them to increase their performance. Financial incentives pay systems often used are as follows:

- (a) *Piece Rate:* In this system a standard 'piece rate' is established by management and the pay of the individual employee is determined by multiplying the number of units produced by the piece rate.
- (b) *Stock (Shares) Ownership Plans:* Under this system, employees are allotted the company's shares, and are entitled to receive dividends.
- (c) *Commission:* There are several variants of financial incentive pay systems based on commission, but, generally the employee is rewarded on the basis of sales volume. The higher the volume of sales made by the employee the higher the commission paid to him. Most salesmen are rewarded through commissions.
- (d) *Bonuses:* This refers to rewards offered to employees at periodic intervals for high performance. In some organisations, the bonus is paid across board to every employee in the organisation (or a department/section) when profits are good.
- (e) *Profit sharing:* In this case, employees share in the financial gain resulting from increased productivity or added value.
- (f) *Profit sharing:* This is the payment of sums in the form of cash or shares to eligible employees based on profit of the business.

6.11.5 Employee Welfare Services and Benefits

One of the techniques used by organisations to motivate employees to work hard is to create a conducive and attractive work environment through welfare services and benefits. The type and range offered differs from one organisation to another and often depends on the size, financial resources, number of employees and the bargaining strength of the employee associations organisation.

6.11.6 Types of Employee Welfare Services and Benefits

Welfare services can be categorised into two broad groups:

- (a) Individual or Personal: These are aimed at assisting individual workers tackle personal issues, such as bereavement, domestic problems, elderly and retired employees.
- (b) Group Services made up of:
 - (i) Sports Facilities: Some organizations provide facilities for sporting activities like volleyball, basketball, football, lawn tennis, swimming, hockey, keep fit exercises, etc.
 - (ii) *Club Houses*: Organisations with resources establish clubhouses exclusively for the entertainment of employees. Catering and entertainment services are provided at such clubs at heavily subsidised rates.
 - (iii) *Social Clubs*: Some organisations encourage the establishment and maintenance of social clubs and associations such as choirs, religious fellowships, hobby clubs and ladies associations.
 - (iv) *Canteen Services*: In big organisations with large labour forces, canteen facilities are provided. Meals in such canteens are heavily subsidised and produced under hygienic conditions. Canteens reduce the need for employees to leave the premises of their organisations for lunch and improve their health.
 - (v) *Supply of Durable/Non-durable items*: Some manufacturing organisations periodically offer their employees 'staff allocations' of their products or arrange for the supply of consumer durables/non-durables to their employees.
 - (vi) *Health and Safety*: Some organisations provide health and safety facilities for employees and their families in specially designated clinics or the company's own clinic. Health and safety is discussed in more detail in 11.12.

6.12 Industrial Relations

Recall that in section 12.2.7 we outlined the major activities involved in industrial

relations. According to Dunlop (1958), Industrial Relations is “a system or web of rules regulating employment and the way people behave at work”. Key parties in industrial relations are:

- (a) Employers: In most cases, employers are represented by the management of their respective organizations. In order to strengthen their position in the relationship with employees, employers often form groups known as Employers Association (also called Employers Organisation), which are made up of employers in the same industry or geographical location.
- (b) Workers: To improve their bargaining position in industrial relations, workers often come together to form what is known as trade unions and senior staff associations. These are collectively known as Employees Association.
- (c) Government: The government in most countries including Nigeria, Ghana and Liberia provides the legal framework for industrial relations. The government also acts as an arbiter in the resolution of industrial disputes.

6.12.1 Employers’ Associations

Employers’ Associations are set up to: -

- (a) Protect and promote the interests of their members.
- (b) Engage in collective bargaining with trade unions.
- (c) Nominate representatives to represent the association on government bodies whose activities affect their interests.
- (d) Provide machinery for discussing with unions and institute procedures for avoidance and settlement of disputes.
- (e) Give help, guidance, advice and information to members on industrial relations issues.
- (f) Assist members in the resolution of conflicts between members and their employee associations.

Employers Associations have succeeded in reducing tension in industrial relations by educating their members on the correct ways of dealing with labour problems. They have also succeeded in convincing governments to enact more balanced industrial relations policies which take into consideration the interests of employers.

6.12.2 Employee Associations

There are two types of employee associations – Trade Unions and Senior Staff Associations. A trade union is an association of wage and salary earners for the purpose of maintaining and improving the conditions of their working lives. The primary objectives of trade unions are to maximize the economic and social well-being of their members, minimise threats to job security, protect the industrial rights of members and participate in the running of the organisation. Senior staff associations are made up of senior staff. They are formed to protect the interests of senior staff of an organisation and tend to have similar objectives as trade

unions but focus on non- managerial employees.

Employee associations have been very successful in forcing managers to accept employees as equal partners in organisations in which they work. They have helped to create industrial peace, higher productivity and good interpersonal relations in various organizations. On the social front, employee associations have contributed a great deal in pressuring various governments to pass and implement social legislations in the area of social security and pensions; workmen's compensation; housing; health, social welfare; terms and conditions of employment and the like. Finally, they have also been effective in educating workers on their obligations and rights.

6.12.3 Collective Bargaining

Collective bargaining has been defined as negotiations about working conditions and terms of employment between an employer, a group of employers and one more employer organisation on the one hand and one or more representatives of workers organisations on the other with a view to reaching agreements. The main subjects discussed during collective bargaining are wages/salaries; terms of employment and conditions of service. The main objective of the collective bargaining process is to draw up an employment contract i.e. *collective agreement*.

6.12.4 Contents of Collective Agreements

Most collective agreements contain the following provisions:

- (a) A statement recognizing a union as the sole representative union in the organisation concerned.
- (b) Definitions of the various terms used in the agreement.
- (c) Valid period of the agreement; often between one to three years.
- (d) How notices for renegotiation of the agreement may be given by either side.
- (e) Recognition of the concept of union shop by management and the categories of employees the agreement covers.
- (f) Agreement by management to deduct union dues from source through the check-off system.
- (g) Responsibilities of parties to the agreement.
- (h) Purpose and intention of both parties in entering into the agreement.
- (i) How employees may be treated. Often Collective Agreement states that all employees engaged shall be informed in writing at the time of engagement of the following: Grade, Salary, Effective date of appointment, Job title, Department assigned and Probation period.
- (j) A statement that all employees shall provide their full personal details, such as: age, hometown, previous employer, marital status; names and dates of birth of children, next of kin, etc.
- (k) Rules and regulations governing Salary increments, Probations, Termination of appointments, Promotions, Transfers, Overtime and Discipline.
- (l) Remuneration and other financial compensations, which should be given to

- employees. These include incentives, wages/salaries and allowances.
- (m) Rights and privileges of employees whilst in the service of the firm.
 - (n) Employee welfare facilities such as Housing, Medical facilities, Accommodation, Recreational facilities and Canteen Facilities.
 - (o) Compensation for injuries during the course of employment.
 - (p) Benefits and rights accruing to employees leaving the service of the firm through Resignation, Termination of appointment, Redundancy, Death and Retirement.
 - (q) A statement that the firm shall offer facilities or grant permission for lawful Trade Union activity.
 - (r) Grievance procedure and how disputes may be resolved.

6.12.5 Importance of Collective Bargaining

Collective Bargaining has benefited all the three parties in the industrial relations tripartite arrangement :

- (a) It has offered employees an avenue through which they could influence decisions which affect their lives; win fair prices for the efforts of labour and legal recognition for labour contracts.
- (b) Employers have gained from the collective Bargaining process because it offers a means of resolving conflicts and managing change and a chance to gain the cooperation of employees in the implementation of organisational objectives.
- (c) For the government, the collective bargaining process has offered a means of exercising its regulatory role over the industrial relations system and protecting economic, social and political rights of citizens in wage employment.

6.12.6 Grievance and Grievance Procedure

A grievance arises when an employee complains formally that his rights under the collective agreement have been violated. The process through which grievances are amicably settled is called grievance procedure. In most collective agreements, the following grievance procedure is adopted.

- (a) The affected employee shall first seek timely redress from his immediate superior i.e. immediate management representative.
- (b) If the employee is not satisfied with the decision he receives in (a) above he shall refer the matter to a union official who shall investigate the facts of the case and if justified under the terms of the collective agreement, bring the matter to the notice of the management representative for a timely redress.
- (c) If the matter is not resolved in (b) above, the union official shall refer the matter to the Branch Secretary who will seek redress from the appropriate departmental head of the firm.
- (d) Failure to get settlement after step, (c) the matter is reduced to writing and referred to the Regional Industrial Relations Officer of the Union who shall

- arrange a meeting with the appropriate departmental head to solve the matter.
- (e) If the matter is not resolved between the Regional Industrial Relations Officer of the Union and the appropriate departmental head of the firm, attempt shall be made to have the matter settled between the headquarters Secretariat of the Union and the Chief Executive of the firm before referring it to the standing Joint Negotiating Committee.
 - (f) If the matter is still not resolved, recourse to voluntary arbitration shall be made, after which the matter shall be dealt with in accordance with the provisions of the Labour Act.
 - (g) If all internal dispute resolution mechanisms fail, the labour law provides the following means through which disputes can be resolved:
 - (i) **Conciliation:** This is an attempt to resolve disputes in an informal discussion to help parties in the dispute reach an agreement. A third party, called a Conciliator is appointed to facilitate the discussion.
 - (ii) **Arbitration:** In this case, parties put issues to a third party for determination. However, parties to the dispute agree in advance to accept the arbitrator's decision before its final resolution. In Nigeria, an Industrial Arbitration Panel (IAP) will be constituted for this purpose. The Trade Disputes Act of Nigeria also provides for the establishment of the National Industrial Court (NIC) which has exclusive jurisdiction on settlement of trade disputes.
 - (iii) **Mediation:** In this case, formal, but non-binding recommendation or proposals are submitted for consideration by both parties.
- The number of channels, the parties involved and the time allowed for the resolution of grievances vary from one organization to another. This procedure also covers the resolution of disputes arising from relationships between workers in an organization.

6.13 Discipline and Disciplinary Procedures

We define discipline as the situation where people obey rules or standards of behaviour established by the organisation. Disciplinary procedures refer to the procedures or logical steps to be taken before disciplinary action is taken against an employee who infringes the rules or standards of behaviour.

6.13.1 Examples of Disciplinary Problems

Common Disciplinary problems that often attract disciplinary hearings have been classified by Nankerus, Compton and McCarthy (1998) as attendance problems, dishonesty and related problems, work performance problems and on-the-job behaviour problems:

- (a) *Attendance problems:* These include unexcused absence, chronic absenteeism and unexcused/excessive tardiness.
- (b) *Dishonesty and related problems:* These include financial fraud, theft, falsifying employment application, wilfully damaging

- organizational property and falsifying work records.
- (c) *Work performance problems*: These refer to failure to complete work assignments, producing substandard products or services and failure to meet established production requirements.
- (d) *On-the-job behaviour problems*: These cover issues like intoxication at work, insubordination, horseplay, smoking in unauthorized places, fighting and gambling. Others are failure to use safety devices, failure to report injuries, carelessness, sleeping on the job, using abusive or threatening language with supervisors, possession of narcotics or alcohol, possibility of firearms or other weapons and sexual harassment.

6.13.2 Disciplinary Procedures

Most Collective Agreements have provisions covering discipline and disciplinary procedures. A typical disciplinary procedure should follow three basic steps:

- i. Oral warning
 - ii. Written warning and
 - iii. Application of sanctions
- (a) *Oral warning*: An oral warning may be given in a minor case.
 - (b) *Written warning*: A repetition of the offence or a serious offence might attract a written warning.
 - (c) *Sanctions*: An appropriate sanction may be imposed, if there is no improvement in behaviour. Examples of sanctions indicated in most collective agreements are reduction in rank/demotion, reduction in salary, suspension without pay, termination of appointment/dismissal and punitive transfer.

In serious offences some organisations set-up committees of enquiry to investigate the issue, invite the offender and witnesses before recommending an appropriate action to be taken.

6.13.3 Features of an Effective Disciplinary Processes

An effective disciplinary procedure must have the following features:

- (a) Notification must be written (In some organisation this is found in the staff conditions of service, collective agreement or disciplinary policy/procedures manual).
- (b) Indicate the target group (junior, senior staff or all employees).
- (c) Follow the *due process*.
- (d) Indicate who should take the disciplinary action.
- (e) List the offences that would attract disciplinary action.
- (f) Must be consistent in application.
- (g) Fair and equitable – i.e. applicable to everybody without

discrimination.

6.14 Worker Participation in Management

Worker participation may be defined as any arrangements in which employees either individually or collectively become involved in organizational decision-making. The main objective of worker participation in management is to promote worker/management cooperation in the implementation of the organisation's objectives. There are two main forms of worker participation - *Direct and Indirect*. In direct participation, the worker takes a direct part in taking the decisions. Examples of direct participation are staff meetings. In indirect participation the worker participates indirectly through his/her representatives. Examples of this method are the appointment of worker directors and collective bargaining.

6.15 Record Keeping

Record keeping is a very important activity necessary for the success of any business. In most organizations, records relating to Human Resource activities are handled by the Human Resources or Personnel Department. HR records kept by most organizations include:

- (a) Personal details about individual employees which include: career history, skills and qualifications, leave, absence records and referees' reports.
- (b) Details about employees' jobs: This includes grade, pay and benefits, hours, location, job description or role definition.
- (c) Employees' disciplinary records.
- (d) Employees' appraisal reports.
- (e) Training and development activities of employees, etc.

6.15.1 Uses of Human Resources Records

- (a) **Human Resources Planning:** Information obtained from HR records are key input into Human resources planning. For example, HR records provide information about existing skills within the organization and thus making it possible for the HR Manager to identify future HR need of the organization after considering the organisation's objectives and strategies.
- (b) **Employee Turnover Monitoring and Control:** Accurate record-keeping provides valuable data on rate of employee turnover, including its causes. This will form the basis for the design of the organisation's staff retention strategy.
- (c) **Employee Scheduling:** Information provided by HR record is used to provide an integrated system of matching the numbers of employees to business needs.
- (d) **Employee Profiling:** This is concerned with matching staff to workloads, thus, making sure that requisite manpower for optimum productivity is available over fluctuating activity levels of the organization.
- (e) **Skills and Inventory Audit:** Accurate HR records are prerequisite to effective skills and inventory audit.
- (f) **Appointment, Promotion and Training Decision** in HR records inform

Managers on appointment and promotion decisions. It is also a valuable input for effective Training Needs Analysis.

- (g) **Reward Management:** Information provided by HR records are used in effective administration of salaries, compensations, benefits, etc. They are also used as bases for disciplinary action.
- (h) **Career Management:** Information obtained from accurate records keeping is used for implementing career management policies and procedures.

6.15.2 Confidentiality in HR Record Keeping

Human Resource Managers must ensure that HR records are available only to authorised personnel by taking adequate security measures. It is the practice in most organizations that HR records are kept in fire-proof cabinets, where access is restricted only to authorised personnel within the HR department.

6.16 Types of Worker Participation

- (a) *Collective Bargaining:* This is a universally acceptable method of worker participation in the decision-making process of organisations.
- (b) *Suggestions Schemes:* In this method of participation special suggestion boxes are placed at strategic points on the premises of the organisation. Employees who have ideas, suggestions and complaints which they wish to convey to management, write these on paper and deposit them in the box or send them to a designated person within the organisation.
- (c) *Worker Directors/Workers on the Board:* This has to do with a situation where workers are offered representation on the Board of Directors of the organisation. It enables workers to influence decision-making at the highest policy making level.
- (d) *Stock Ownership Schemes:* Under this method, workers are allowed to buy shares and become shareholders of the firm. They therefore attend annual shareholders meetings and contribute to discussions like other shareholders.
- (e) *Factory Shop Floor Committees:* Some organisations have various shop floor committees such as Safety Committee; Production Committee; Health/Sanitation Committee; and Welfare Committee on which employees serve.
- (f) *Staff Meetings:* Staff meetings seek to forge a link between management and workers by offering management an immediate feedback on the reactions of workers to their policies.

6.17 Summary

Human resource management has to do with all activities that relate to the management of an organisation's human resources. The core activities carried out under human resources are human resource planning, recruitment and selection, performance appraisal, welfare services and benefits, employee compensation and

industrial relations. Human resource planning seeks to forecast the labour requirements of an organisation and prepare for it. Recruitment and selection focus on ensuring that the organisation has the right labour resources. Welfare services and benefits seek to motivate employees to work hard by providing them with some basic services such as canteen, accommodation and transport. Employee compensation relates to financial rewards given to employees for their efforts. Under industrial relations the Human Resource Manager seeks to ensure good relations, between the organisation and its employees. Industrial relations cover collective bargaining, grievance procedure and worker participation in management.

6.18 Review Questions

MULTIPLE CHOICE QUESTIONS

1. The following are functions of Human Resources Management, EXCEPT:
 - A. Employee compensation
 - B. Training and development
 - C. Payroll administration
 - D. Industrial relations
 - E. Performance appraisal
2. Which of the following activities is a component of Human Resources Planning activities?
 - A. Estimation of Human Resources Needs
 - B. Development of effective grievance procedure
 - C. Forecast of future production and sales levels
 - D. Outsourcing of training and development activities to Consultants
 - E. Post training evaluation
3. A statement of minimum qualification that a person must possess to perform a given job successfully is known as:
 - A. Job Analysis
 - B. Job Specification
 - C. Job Description
 - D. Job Evaluation
 - E. Job Design
4. Which of the following is **NOT** a source of internal recruitment?
 - A. Promotions
 - B. Intranet Advertisement
 - C. Advertisement on the organisation's notice board
 - D. Advertisement on the organisation's corporate website
 - E. Job bidding

5. The following are components of Training and Development process, **EXCEPT**

- A. Assessment of organization and individual needs
- B. Drawing up of training programme
- C. Implementation and management of training programmes
- D. Post-Training evaluation
- E. Succession planning

SHORT ANSWER QUESTIONS

1. An organization of employees where primary purpose is to negotiate with employers about terms and condition of employment is
2. A rational approach to determining knowledge and skills gap of individual in an organization is called
3. Complaints made by an employee about wages, conditions of employment or action of management is called
4. The technique used for determining the size of one job compared with another and the relationship between two jobs is
5. A process whereby a third party attempts to promote an agreement between parties in a dispute by exploring any common ground which may lead to a settlement is called

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

1. C
2. A
3. B
4. D
5. E

SHORT ANSWER QUESTIONS

1. Trade Union
2. Training Need Analysis
3. Grievance
4. Job Evaluation
5. Conciliation

CHAPTER SEVEN: PRODUCTION MANAGEMENT

7.0 Learning Objectives

After reading this chapter, the reader should be able to:

- define and explain the objectives of production management;
- identify and explain the activities involved in production management;
- explain the importance of production management.

7.1 Meaning of Production

Production mainly deals with conversion of raw materials to final, useful and desirable output. Output in this case can be either product or services. Product refers to tangible products/items we buy to satisfy our wants and needs. (for example, food, furniture, fuel, books and clothing). Services have to do with *intangible products/items* we buy to satisfy human wants and needs. (for example, health care, entertainment, telephone services, and sports). Products and services that satisfy human wants are produced by organisations and individual entrepreneurs.

One of the major aspects of production is known as process. Process deals with transformation of inputs (raw materials, money, machines, labour, information etc) into products and services. Production is defined as the process of transforming *inputs* into *outputs* (goods and services) using a production system.

A production system, therefore, has to do with any environment within which inputs are transformed into products and services. Production systems are found in Agriculture, Industry, Commerce and Direct services.

In Agriculture, seeds and other inputs are converted into agricultural products. In industry, organisations in the manufacturing or mining sectors convert raw materials into various goods. Commerce facilitates the flow of goods from producers to customers. Intermediaries add value to goods when they transport these goods from the producer to the customer. Direct service producers transform inputs into intangible products to satisfy our needs and wants. The transformation process in agriculture and industry is physical (i.e. the inputs change form). In commerce the transformation process is locational because the inputs are moved from one point to another to satisfy the customer.

7.1.1 Production Management

Production management may be defined as managing the resources in an organisation, which are devoted to the transformation of inputs into goods and services. In large organisations production management involves the following

major activities:

- (a) Deciding on the type of production system to use.
- (b) Planning the location of the organisation's facilities.
- (c) Planning the layout of the organisation's facilities.
- (d) Planning and controlling of the production process.
- (e) Research and development of new products.
- (f) Maintenance of facilities of the organisation.
- (g) Deciding on the appropriate replacement strategy to be employed
- (h) Ensuring compliance with health and safety procedures and standards.

(a) **Deciding on type of Production System to use**

Production systems are broadly classified into three, namely:– intermittent/job, continuous/flow and repetitive manufacturing/batch. The production department often decides on the right production system to use to meet the objectives of the organisation and the needs of its customers.

(b) **Planning the location of the organisation's facilities**

Location refers to the geographical area or site where the business is based. Location is important because of three basic reasons: In the first place, it affects the cost of production. Secondly, it influences the organisation's access to market. Thirdly, it could influence the production system and arrangement of machines and facilities selected.

(c) **Planning the plant layout and design of organisation's facilities**

Plant layout refers to the arrangement of machines and facilities to facilitate the transformation of inputs into good and services. Machines, stores, maintenance facilities, wash rooms, waste disposal sites, rest rooms, inspection bays and sick bays etc. must be located at convenient and accessible points in the organisation. A good plant layout facilitates movement of all resources used by the organisation (labour, equipment, raw materials, and visitors to the premises), improves safety, security and supervision of the production process.

(d) **Planning and Controlling the Production Process**

Before production takes off, the production department has to decide what to produce, where to produce, and the sequence and timetable for processing customers' orders. This activity is called production planning. Production control monitors the production process from the input to the finished stage. Key activities involved here include monitoring the use of machines, inventory, cost of production and quality management.

(e) **Research and Development of new products**

The production department may be responsible for basic research and producing prototypes of new products being developed.

(f) **Maintenance of facilities of the organisation**

During the course of time, the production facilities of an organisation i.e. factory buildings, equipment, etc. wear and tear or deteriorate. This affects their efficiency and output. Maintenance minimises the deterioration of these facilities and ensures that they are operationally ready all the times. There are three major maintenance policies an organisation could adopt. These are preventive, breakdown and shut down.

(g) **Deciding on the appropriate replacement strategy to employ**

As machine and equipment are being maintained over years, wear and tear sets in. However, there is a stage in the maintenance lifetime of a machine that the cumulative cost of maintenance will equate the cost of acquiring a new machine and equipment. At this point it is expected that such machine be replaced. Meanwhile, this is applicable mostly to items that fail gradually (fixed assets, machine and equipment). On the other hand, taking a replacement decision on items that fail suddenly (electric bulbs, fan belts, compressors, etc.), it is either components are bought and replaced as they fail, or replace massively at regular intervals, or a combination of the two options.

(h) **Ensuring compliance with health and safety procedures**

The human resource department has oversight responsibility for health and safety policies and procedures throughout the organisation but it is the production department that enforces these policies and procedures at the shop floor. The production department's role in health and safety includes enforcement of safety policies and procedures, training of operatives in health and safety. Others are risk assessment of employees and the work environment, providing hazard and risk information to operatives in the production department and other employees.

7.2 Deciding on Type of Production System to Use

Production Systems abound almost everywhere. For instance, the local bakery, tailor, salon, furniture/carpentry shop, building, barbing salon, road construction site, restaurant or even schools are all examples of production systems. These production systems produce different products and services but have one thing in common. They all convert inputs (labour, raw materials, information, etc.) into goods and services (bread, new dress, building, new road, food, new hairdo/cut, education, etc.).

For convenience, production systems are categorised into four, namely:

- (a) intermittent flow/job production
 - (b) continuous flow
 - (c) mass production and
 - (d) repetitive manufacturing /batch production.
-
- (a) *Job Production/Unique Production:* This involves the production of simple articles or 'one-off' items. Such items may be custom made for a specific customer or group of customers, huge pieces of equipment or large single items. Job production systems are associated with shipbuilding, bridge/dam construction, custom made furniture, aircraft manufacturing and construction.
 - (b) *Mass Production:* This involves the production of a single or few range of products in large quantities by continuous movement from one process to the next until completion. A good example of mass production is found in the soap industry.
 - (c) *Repetitive manufacturing/Batch production* is the manufacture of a product in small or large batches by a series of operations before they are assembled. Manufacturing industries in which batch is used include furniture, footwear, garment, heavy motor vehicles, electronic instruments and internal combustion engines.
 - (d) *Continuous/Flow Production* is a form of mass production where production process continues and remains unbroken for weeks or even months. Examples are found in the Cement, brewing and petroleum refining industries.

Table 7.1: Comparison of Various Types of Production Systems

Type of Production	Features	Advantages	Disadvantages
Job	<ul style="list-style-type: none"> • Machines performing similar functions are grouped together • Production is intermittent i.e. on-and-off. • Items are often made-to-order. 	<ul style="list-style-type: none"> • Centralized control exercised over job production ensures effective supervision of work. • Where all the materials, men and machines are assembled at the point of manufacture, the manufacturing time is reduced. 	<ul style="list-style-type: none"> • Demand for job production Products are erratic and unpredictable. Machines and equipment lie idle or are under-utilized when there are no orders. • It creates large work- in process, so requires investment in storage facilities.
Batch	<ul style="list-style-type: none"> • Work-in-progress often high. • Production is intermittent and not continuous. • Machines and equipment are general purpose. • Items are made-to-stock 	<ul style="list-style-type: none"> • Machines used are general purpose and could be adapted to different uses. • The machines are independent of each other. 	<ul style="list-style-type: none"> • There is often lack of balance in the workload of different machines. Some machines are, therefore, under-utilized. • It requires a large storage space because of the large work-in-progress.
Flow	<ul style="list-style-type: none"> • Machines are specialised/ standardised • Production is unbroken and continuous. • Machines are arranged according to the sequence in which the good or service is produced/provided. 	<ul style="list-style-type: none"> • Flow production is relatively faster. In some organisations conveyors are used to transfer materials from one machine to the other. • The factory supervisor could easily spot trouble spots on the production line because when a machine breaks down it affects the whole production process. 	<ul style="list-style-type: none"> • Since the machines are dependent on each other, a breakdown of a machine immobilizes the whole production line. • Requires high level of demand to make production economical.

7.2.1 Factors influencing Type of Production System Used

The choice of any of the above types of production systems depends on the following factors:

- a. *Type of goods or services to be produced* - most tailoring shops use job production. Oil refineries by design use flow production.
- b. *The size of the organisation*: Big organisations often have the resources to purchase expensive and advanced mass production facilities.

- c. *The extent of demand or frequency of orders* – where the product is a mass product (e.g. detergents with mass demand) it may be necessary to go in for mass production.

7.3 Facilities (Plant) Location

If it is noticed that businesses producing the variety of goods and services one uses tend to congregate at certain places to do business, locating ones facility becomes a real deal. Locating plants around a particular and existing industrial area helps to reduce cost of production. It will, therefore, no longer be mandatory that electricity, water, telephone and other facilities are produced, because these might be there already.

Also, locating at the right place ease access to customers and probably provides opportunity to enjoy certain incentives provided by the government. There are five main factors that influence the location of an organisation's facilities, namely:

- b. Availability of raw materials
- c. Government policy
- d. Proximity to the market
- e. Commercial and social infrastructure and
- f. Characteristics of the site.

7.3.1 Factors Influencing Facilities Location

- (a) *Availability of Raw Materials*: Location near the source of raw materials may help to reduce cost of production.
- (b) *Government Policy*: Government sometimes designate certain areas for locating all or some types of facilities. This is done either by fiat or persuasion through the introduction of incentives such as tax concessions or investment grants to firms that locate in certain areas. Through the creation of free trade zones/export processing zones and investment codes, some governments in West Africa have been able to influence production facilities' location.
- (b) *Proximity to Market*: This is particularly critical for organisations that produce delicate or perishable products or offer services.
- (d) *Commercial and Social Infrastructure*: This refers to facilities like transport, water, electricity, telecommunications, postal services, financial services, markets and schools.
- (e) *Characteristics of the Site*: The site is the actual place an organisation selects to locate its facilities. The factors influencing the selection of a site include: -

- i. Location of competitors.
- ii. Cost of the site - rent, cost of leasing/purchase.
- iii. Size - possibility of further expansion.
- iv. Utility services - electricity, water, telephone etc.
- v. Convenience and accessibility of the site.
- vi. Disposal facilities for waste products.
- vii. Traffic density and parking space.

7.4 Planning the layout and design of an organisation's facilities

In a factory, office and any place where people work, raw materials, equipment and people should be able to move freely during the production process. Employees should be able to move from one workstation to another, exchange information and enjoy reasonable security and comfort while they work. These could be achieved with a planned layout and careful design of the organisation's facilities. There are three main types of layout- product (line or flow), process (functional) layout and fixed position layout.

7.4.1 Types of Facilities layout

- (a) *Product layout:* In this type of layout, machines are arranged in a sequence that corresponds to the processing of the product from input to finished stage.
- (b) *Process Layout:* In this type of layout all machines and equipment that perform similar type of work are grouped together in one area. Process layout is associated with batch/job production systems such as engineering factories.
- (c) *Fixed Position Layout:* In this type of layout, the product remains in one place for assembly. Fixed position layout is particularly suitable for production of large bulky goods such as aeroplanes, ships, bridges etc.

Table 7.2: Comparison of Various Types of Production Systems

Type of Production	Features	Advantages	Disadvantages
<i>Line/flow (Product layout)</i>	<ul style="list-style-type: none"> Machines arranged in sequence. Machines are specialized and standardized. Used in mass/flow production. 	<ul style="list-style-type: none"> Improves processing time. Minimise material handling. 	<ul style="list-style-type: none"> Machines are dependent on each other. The breakdown of one affects the production process.
<i>Process (Functional layout)</i>	<ul style="list-style-type: none"> Machines performing similar type of work are grouped together. It is associated with job and batch production. 	<ul style="list-style-type: none"> Machines are general purpose and can be used for the production of different products. Efficiency often very high. 	<ul style="list-style-type: none"> There may be lack of balance in the activities of different workstations.
Type of Production	Features	Advantages	Disadvantages
<i>Fixed Position Layout</i>	<ul style="list-style-type: none"> The product stays in one place for assembly Used for job production involving assembly of large single item 	<ul style="list-style-type: none"> Saves the cost and inconvenience of moving product from one process to the other. 	<ul style="list-style-type: none"> Application limited to only large items

7.4.2 Factors Influencing the Design and Layout of an Organisation

The following factors influence the design and layout of an organisation: -

- (a) *Headroom*: Headroom here refers to the distance between the factory floor and the ceiling. The height of the headroom depends on the type of material handling equipment used. Tall material handling equipment, e.g. cranes requires high headroom. It also depends on the size of the final product. An aircraft assembly line for instance, requires high headroom because of the size of aircrafts.
- (b) *Access*: Access means ease of movement. The factory should be designed in such a way that it will facilitate the free movement of men, materials and machines. The smooth flow of a production process might be impeded if accessibility is poor.
- (c) *Service required*: Services often required for the efficient operation of an organisation include electricity, telephone and water. Others are computer terminals, fire-prevention equipment, warehouses and repair workshop. The organisation must determine the number, kind and location of these services so that the architect will incorporate them in the design of the building.
- (d) *Disposal of Waste*: Most production processes generate some waste products. The design should incorporate within it efficient methods of

- disposing of these wastes without infringing local laws governing environmental pollution.
- (e) *Ventilation*: The design should allow adequate ventilation through the building. This is particularly important in production processes that generate a lot of heat.
 - (f) *Government Legislation*: Legislation related to the disposal of waste and factory safety influences the design of factories and offices.

A good facility layout/factory design of an organisation leads to the efficient utilization of labour and equipment, reduces the cost of production and makes it easier to control and supervise work on the production line. In a factory environment, a good facility layout improves the comfort of operators and facilitates the flow of work and movement of operators and materials. Finally, it provides some security against fire, accidents and natural disasters.

7.5 Planning and Controlling the Production Process

Precious Kanu is a caterer who runs a popular restaurant in Lagos. She often receives large orders from individuals and organisations for lunch packs and special meals for special events, such as birthday parties, funerals, and the like. She receives a minimum of ten orders a day for a variety of dishes and services, often with tight deadlines. To meet these deadlines, she plans on a daily basis-developing activity schedules needed to satisfy each order and allocating duties to her small staff of four cooks, five servers, one secretary, two drivers and three cleaners. To meet both the deadlines and quality standards of her clients, she monitors every stage of the process from the preparation of the menu, purchase of ingredients and other inputs, preparation of the food, storage and packaging, transportation of the meals and serving. Her religious obsession with detailed *planning* and *controlling* of the meals preparation has helped to make her restaurant first choice for the middle and upper classes in the area.

The attitude of Precious Kanu to work in the above illustration is a good example of Production process planning and control.

7.5.1 Scope of Production Planning

Production planning has been defined as ‘the means by which a manufacturing plant is determined; information is issued for its execution and data collected and recorded which will enable the plant to be controlled through its stages’ (British Standard definition). Activities carried out by the production planning section are (a) Routing and (b) Scheduling.

Routing has to do with fixing the path and labour sequence of labour operations, which a factory order will follow through the process (Shubin, 1957). Routing determines in advance what work will be done on the whole or part of the product; where the product(s) or parts of the product will be manufactured; inputs required for manufacturing the products and how the products will be manufactured.

Scheduling has to do with developing a timetable for production and processing customer orders. It ensures that the right rate of output is achieved to meet customer orders or stock.

7.5.2 Production Control

Production Control monitors the production process to ensure that everything goes according to the production plan. Core activities carried out by production control are (a) inventory control and (b) Quality Control:

(a) Inventory Control

Inventory Control has to do with monitoring of the stock of raw materials, work-in-progress and finished goods to ensure that at any point in time, the organisation has the right quantity at the right time.

(b) Quality control

Quality has been defined as the totality and characteristics of a product that bears on the ability to satisfy stated or implied needs (ISO 8402). Quality Control has to do with monitoring raw materials, work-in-progress and finished goods to ensure that these conform to quality standards and specifications. Techniques and tools used to monitor quality in an organisation are (a) Inspection, (b) Benchmarking, (c) Statistical Quality control and (d) Quality circles:

Table 7.3: Comparison of quality control techniques/tools

Types/Technique	Features
Inspection	<p>This involves detailed analysis and sorting of good products from bad ones. There are three types of inspection – raw material, working-in-progress and finished goods:</p> <ul style="list-style-type: none"> – <i>Raw Materials inspection:</i> This is the inspection of incoming raw materials to ensure that they conform with the quality standards and specifications of the organisation. – <i>Work-in-Progress inspection:</i> Work-in-progress inspection sorts out defective work-in-progress before they reach the finishing stage. – <i>Finished goods inspection:</i> Here the finished products are subjected to detailed inspection and defective ones are eliminated. The inspection may consist of visual check for defects, chemical analysis, measurement and performance tests.
Benchmarking	<ul style="list-style-type: none"> • Compares the performance of the company in quality with the best practice in the industry. • The organisation compares its quality control practices with the best practice in the industry and improves its practices.
Statistical quality Control	<ul style="list-style-type: none"> • This is used by organisations that produce on a large scale. Samples of the items are taken at regular intervals and analysed to find out if they conform to predetermined quality standards. The data are subjected to statistical analysis to estimate the quantity of defective products in the population.
Quality circles	<ul style="list-style-type: none"> • This refers to committees made up of workers and supervisors set up in the factory floor to monitor production activities including quality.

Inspection	<p>This involves detailed analysis and sorting of good products from bad ones. There are three types of inspection – raw material, working-in-progress and finished goods:</p> <ul style="list-style-type: none"> – <i>Raw Materials inspection:</i> This is the inspection of incoming raw materials to ensure that they conform with the quality standards and specifications of the organisation. – <i>Work-in-Progress inspection:</i> Work-in-progress inspection sorts out defective work-in-progress before they reach the finishing stage. – <i>Finished goods inspection:</i> Here the finished products are subjected to detailed inspection and defective ones are eliminated. The inspection may consist of visual check for defects, chemical analysis, measurement and performance tests.
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Quality circles	<ul style="list-style-type: none"> • This refers to committees made up of workers and supervisors set up in the factory floor to monitor production activities including quality.

An organisation with a good quality control programme derives two main benefits. In the first place, it minimizes costs related to defective materials and products that do not meet quality standards. These include cost of scrap, rework and product replacement. All these costs can be reduced or prevented when an effective quality control system is installed. Secondly, it improves the quality of its product, customer satisfaction and eventually enhances its image.

7.6 Productivity

Management of various organisations in the country are paying a lot of attention to productivity because of their desire to increase production and profits and minimise the cost of production. At the national level, productivity is important because high productivity increases profits of various business organisations, expands the tax base and employment avenues.

7.6.1 Measurement of Productivity

Productivity may be defined as the relationship between the number of units produced and the quantity of inputs (human/materials) used to produce them. Mathematically, productivity is measured by the formula - *Productivity = Output/Inputs used (human resources, land or capital) or total output per dollar, naira or cedi (¢) of investment*. Labour productivity refers to the total net output achieved by an organisation per worker. Mathematically, labour productivity could be measured by: - *Output/Number of Man-hours used*. Labour productivity is said to be high when the ratio is high and low when the ratio is low. A high labour productivity indicates that the organisation is utilising its labour inputs efficiently and low labour productivity implies an inefficient labour utilisation.

7.6.2 Productivity Improvement Schemes

Specific techniques which lead to high productivity varies from organisation to organisation but generally the following methods are fairly common:

- (a) *Training and Development*: The productivity of skilled employees is often very high. The organisation could improve the performance of employees through a carefully planned training and development programme or external recruitment.
- (b) *Improved Methods of Production*: Efficient methods of production help to increase output and quality of employee's performance.
- (c) *Efficient Management*: Productivity of employees is influenced heavily by how the organisation is managed. A weak, inefficient management team may not be able to create the necessary conditions, which will promote high productivity.
- (d) *Financial and Non-financial Incentives*: Financial incentives under reference here include high wages; generous allowances, piece rate systems, bonuses and profit sharing schemes. Non-financial incentives, which lead to higher productivity, include free medical care, paid vacation or leave, transport, recreational facilities, canteen and accommodation facilities.
- (e) *Job security*: When employees are guaranteed the security of their jobs, they work with greater enthusiasm and effort. This helps to increase productivity.
- (f) *Job Enlargement*: This is an approach to motivating workers which involves horizontally increasing job responsibility. This means adding tasks of similar nature. This should lead to greater job satisfaction and improved productivity.
- (g) *Job Enrichment*: This is another approach to motivation involving vertical increase in responsibilities of a job. Job enrichment entails adding

increasing job depth for instance by adding planning and evaluating responsibilities. Job enrichment enhances motivation and productivity.

7.7 Maintenance Policies and Procedures

As mentioned earlier, maintenance is carried out to reduce wear and tear or deterioration of equipment and facilities and ensure that these are operationally ready all the time.

7.7.1 Types of Maintenance Policies and Procedures

As mentioned above, organizations adopt three types of major maintenance policies: (a) Preventive maintenance (b) Breakdown maintenance (c) Shutdown maintenance.

- (a) *Preventive maintenance* has to do with the periodic and planned maintenance of the physical facilities of an organisation with a view to preventing their breakdown during use. Under this policy, inventory of all maintainable equipment or facilities is kept. Inspection schedules are prepared and technicians from the maintenance department carry out planned or unplanned inspections. During these inspections the technicians carry out on the spot repairs, adjustment, overhauls and lubrications whilst the plant is still running. Furthermore, a maintenance schedule showing the date and time for repairing the facilities is also prepared. At the scheduled date/time the technicians carry out necessary repairs.
- (b) *Breakdown maintenance* refers to the situation where the organisation operates the equipment until it breaks down, then repairs it. Under this policy maintenance activities are not planned in advance. The maintenance is carried out when the machine breaks down.
- (c) *Shutdown maintenance* refers to a situation where maintenance is carried out at certain specific times of the year (say during Christmas holidays). Under this policy, minor preventive repairs are carried out whilst the plant is running but major repairs are carried out only after the plant has been shut down.

Table 7.4: Comparisons of Maintenance Policies and Procedures

Type of Maintenance	Features	Advantages	Disadvantages
Preventive	<ul style="list-style-type: none"> • It aims to prevent the failure of facilities. • It is used where the organisation uses highly sophisticated equipment. 	<ul style="list-style-type: none"> • It anticipates failure of equipment and prevents dislocations that result from break down of machines. • It is cheaper to repair a fault in equipment than wait for a complete break down before major repairs. 	<ul style="list-style-type: none"> • It may interfere with the production process. • Some equipment can be maintained only when the system is shut down.
Breakdown	<ul style="list-style-type: none"> • The organisation operates the equipment till it breaks down. • Machines are independent and breakdown of one machine will not affect others. 	<ul style="list-style-type: none"> • The organisation need not spend money on maintenance – the equipment could be allowed to breakdown and then repaired. 	<ul style="list-style-type: none"> • It is not applicable in situations using sensitive and complex equipment. • It may be very expensive to repair some equipment when they breakdown.
Shutdown	<ul style="list-style-type: none"> • Maintenance is carried out at certain specific times of the year. 	<ul style="list-style-type: none"> • The production process is not interrupted by maintenance activity. 	<ul style="list-style-type: none"> • It might disrupt supplies of the organisation's product. • The organisation needs large buffer stock of finished goods during shut down.

7.8 Total Quality Management (TQM)

In the quest to achieve best practice and quality improvement in product and service delivery several management techniques have evolved, one of which is TQM. TQM is a management philosophy involving a set of business practices that emphasizes continuous improvement in all phases of operation, accuracy in performing tasks, involvement and empowerment at all levels, team-based design and benchmarking and total customer satisfaction. An effective

implementation of TQM should bring about reduced cost, improved profitability increased total productivity, fewer defects, less waste and greater customer satisfaction.

Requirements of Total Quality Management

For TQM to be successful in any organization, the following prerequisite must be present:

- (a) **Commitment:** There must be commitment to continuous quality improvement by managers at all levels starting from top management.
- (b) **Employees' Involvement and Empowerment:** For TQM to be successful in any organization, employees should be made responsible for ensuring that assigned tasks are done responsibly. Also employees must be empowered with requisite training and development for continuous quality improvement.
- (c) **Improved Inputs Quality:** For continuous improvement in product quality, there must be improvement in the quality of input. Thus, suppliers should be made to improve the quality of their supplies. This makes co-operation of suppliers crucial to the success of TQM.
- (d) **Investment in Technology:** Introduction of new technologies to the organisation's production system will lead to improved quality, lower cost, greater consistency.
- (e) **Production Methods:** These are systems used by the organization to transform input into output. Thus an improved production system can translate into improved product and service quality.

7.9 Summary

Production has to do with the transformation of inputs into products and services to satisfy human wants and needs. These inputs are transformed into outputs within production systems. There are three main kinds of productions systems – job, flow and batch. To ensure that production activities go on successfully, the company should locate its plant at the right place. Factors which influence plant location are raw materials, government policy, market, commercial and social infrastructure and characteristics of the site. Furthermore, to improve the working of the production system, it may be necessary to adopt the right facilities layout and monitor the production process through effective production planning and control. During the course of time the production facilities of an organisation wear and tear or deteriorate. This problem may be solved through effective maintenance.

7.10 Review Questions

Essay Questions

1. Define and explain the features of the following types of production system: -
 - i. Job Production
 - ii. Flow Production
 - iii. Batch Production
2. What factors influence the location of a business in Ghana?
3. Briefly explain the under-listed facilities layout:
 - i. Product Layout
 - ii. Process Layout
4. List and explain types of maintenance used in an organisation.

MULTIPLE CHOICE QUESTIONS

1. Production management involves the following activities, EXCEPT:
 - A. Planning the location of the organisation's facilities
 - B. Assessing manpower needs of the production system
 - C. Ensuring compliance with health and safety procedures, regulations and standards
 - D. Maintenance of facilities
 - E. Deciding on the production system to use.
2. Which of the following activities is NOT a type of production?
 - A. Mass production
 - B. Job production
 - C. Flow production
 - D. Unique production
 - E. Assembly production

3. Which of the following best explains the meaning of productivity?
 - A. Relationship between number of units produced and quality of input
 - B. Relationship between number of units produced and number of units sold
 - C. Relationship between quality of units produced and quantity of units used in producing them
 - D. Output sold divided by inputs utilised
 - E. Relationship between the number of units produced and the quantity of inputs used in producing them.

4. Which of the following is an advantage of preventive maintenance?
 - A. It makes periodic maintenance costs unnecessary
 - B. It does not interfere with the production process
 - C. Supply of the organisation's product is not disrupted in any way
 - D. It avoids dislocation that results from breakdown of machines
 - E. It makes replacement of equipment unnecessary

5. Which of the following is NOT a requirement of Total Quality Management (TQM)?
 - A. Employee involvement
 - B. Input quality
 - C. Effective marketing of products
 - D. Cooperation of suppliers
 - E. Training and development

SHORT ANSWER QUESTIONS

1. The act of comparing the performance of the company in quality with the best practice in the industry is called
2. Committees made up of workers and supervisors set up in the factory floor to monitor production activities including quality is known as
3. The arrangement of machines in sequence is a key feature of..... production system.
4. The approach of horizontally increasing job responsibility is.....
5. The production of single articles or "one-off" items in small or large quantities is production.

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

1. B
2. E
3. E
4. D
5. C

SHORT ANSWER QUESTIONS

1. Benchmarking
2. Quality circles
3. Production, line or flow
4. Job enlargement
5. Job production/jobbing production/unique production

CHAPTER EIGHT: MARKETING MANAGEMENT

8.0 Learning Objectives

After reading this chapter, the reader should be able to:

- define marketing and explain the scope of marketing
- discuss marketing concept
- explain the role and methods of marketing research
- explain the bases of market segmentation and its benefits
- discuss the major determinants of consumer behaviour
- explain the elements of the marketing mix variables.

8.1 Definition and Role of Marketing

Various authors have defined marketing in different ways. This is to be expected as every author tends to place emphasis on one core component of marketing or the other. According to the American Marketing Association, marketing is the performance of business activities that direct the flow of goods and services to the consumer. This definition is rather limited. Marketing activities begin even before goods and services are created. The starting point of marketing is the identification and analysis of the needs, wants and demands that consumers have and want to satisfy. Marketing also does not end when the goods and services have been purchased. Marketing includes activities designed to facilitate the purchase of the goods and services in such a manner that will meet their expectations. Examples of such activities are after-sales services such as maintenance and repair services, opportunity to return defective items, etc.

Kotler (1988) defined marketing as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. This definition emphasizes exchange of value between two parties. Each party has something of value which the other wants. Both parties are willing and able to engage in the transaction to the satisfaction of all. A practical illustration of this point is where a manufacturer has a product which it wants to exchange with a consumer in return for the price paid by the consumer. A Chartered Accountant has an audit service which he/she wants to exchange with a client in return for the fees paid by the client.

Marketing plays a major role in the economy of a country. It has made a big impact on the economy of most countries through its encouragement of consumption of all types of goods and services. Organisations through their marketing activities have been able to create and increase demand for all types of goods and services. Intermediaries in particular do not only distribute products throughout the country, but have contributed a lot to the adoption by rural dwellers of urban tastes and purchasing habits, thus widening the potential market for manufactured goods in the country. Marketing has also led to the widening of the distribution network in the country. The Agricultural Sector for example is characterised by a large number of small scale farmers working in hundreds of thousands of locations scattered

throughout the country. Without the activities of intermediaries who visit these locations to buy the farm products, it will be impossible for the consumer to get farm products to buy.

8.2 Marketing Functions

Agbonifoh, *et al* (2007) identified the following functions performed by a typical marketing department:

- (a) Marketing research – systematic gathering, analysis and interpretation of data to aid decision-making in areas such as the type of products to make, the price to charge, how to distribute and promote the product.
- (b) Planning and guiding the development of new products or modification of existing ones.
- (c) Pricing the product
- (d) Distributing the product
- (e) Promoting the product and the company
- (f) Rendering after-sales services to customers
- (g) Training and motivating salespersons
- (h) Planning and controlling the marketing effort of the company

8.3 Organisation of the Marketing Department

Organisation of the Marketing Department shows the pattern of grouping of jobs in the department, the allocation of authority and reporting relationships that exist for the efficient performance of the task of marketing. Please note that Marketing Department is just one of the departments of the company.

The organisation structure of the Marketing Department may take one or a combination of the following forms:

- (a) Functional organisation
- (b) Product organisation
- (c) Geographical organisation

Functional organisation groups jobs according to marketing function such as marketing research, product planning and development, advertising and sales promotion, etc. Each functional area is headed by a manager who reports to the Director of Marketing or Marketing Manager; as the case may be.

Product organisation groups jobs according to product or product groups. Each product or product group is headed by a product manager.

Geographical organisation is used where it is found economical to place a manager over the marketing activities of a defined geographical area. It is particularly useful where there are unique differences between the geographical areas and it is necessary

to ensure that the differences are catered for in terms of product design, pricing, promotion, etc.

8.4 Marketing Concept

The underlying philosophies or orientations that guide the marketing activities of companies have changed over time. The philosophies or orientations in order of their emergence are as follows:

- (a) Production orientation/concept
- (b) Product orientation/concept
- (c) Selling (Sales) orientation/concept
- (d) Marketing orientation/concept
- (e) Societal marketing orientation/concept

Production concept prevails quite often in situations where the demand for a product exceeds supply. Consequently the company concentrates its efforts on the efficient production and distribution of the product because it assumes that what consumers are primarily interested in is product availability at a low cost.

Product concept exists when the mindset in the company is to make high quality and high performance products. Energy is concentrated on making good quality products because it is assumed that a good quality product will sell itself; that consumers will make every effort to find and purchase the product because of its features.

Selling (or Sales) concept shifted emphasis from the quality of the product as a means of getting the consumer to buy to selling techniques and methods to achieve the same goal. The selling concept assumes that the consumer is resistant to buying the company's product and therefore must be coaxed to buy by using a variety of selling techniques. The focus is on the needs of the seller rather than on the needs of the consumer.

Marketing concept is the philosophy which recognises the key role of satisfying the needs of the target consumers as a means of achieving long-run company profitability and competitive advantage. The main pillars of the marketing concept are market focus, consumer orientation, coordinated marketing and profitability. The marketing concept requires the company to clearly define its market and focus on it rather than seeking to address every possible market. Having done this, consumer needs as indicated by consumers themselves are identified and all marketing functions are coordinated to yield consumer satisfaction. Achieving consumer satisfaction is not the sole responsibility of the marketing department. There is need also to ensure that the efforts of all the other departments are co-ordinated for the purpose of satisfying the identified needs of the consumer. The ultimate goal of the company however is long-run profitability. The marketing concept emphasizes that the path to realising this goal is through consumer satisfaction.

Societal marketing concept builds on the foundation of the marketing concept. However, it stresses in addition the need to ensure the well-being of both the consumer and the society. This means that in seeking to achieve long-run profitability, the company must take into account the well-being of the consumer as well as the society.

8.5 Market

Market as used in marketing means individuals and organisations that are actual or potential buyers of a product. For example, a car market refers to all individuals and organisations that are actual or potential buyers of cars and not necessary a particular place where cars are bought and sold. Markets are broadly categorised as consumer market and industrial market. The consumer market is made up of all individuals who purchase goods and services for direct consumption or household use. The industrial market includes organisations in agriculture, forestry, fisheries, transport, construction, mining, utilities and service sectors that purchase goods and services for further production. Table 8.1 summarises the features of both markets.

Table 8.1: Comparison of consumer and industrial markets

Type of Market	Features
Consumer	<ul style="list-style-type: none"> • Made up of individuals who purchase goods and services for direct consumption. • Goods purchased are classified as convenience, shopping, speciality and unsought. • Larger market (made up of everybody in a geographical area).
Industrial	<ul style="list-style-type: none"> • Goods and services purchased as input for further production • Goods purchased are classified as raw materials, installations, components, supplies, equipment. • Small market (in terms of number) and restricted to organisations that purchase for further production.

8.5.1 Market Segmentation

Market segmentation is the process of taking the total, heterogeneous market for a product and dividing it into several sub markets or segments, each of which tends to be homogenous in all significant aspects (Stanton, 1978). In other words, it is the process of subdividing a market into smaller units or segments and designing specific goods and service for each. Market segmentation is carried out because of the size of the total market served by an organisation may be so large that it may not be possible to satisfy everybody. The company therefore need to focus on a few segments. It is also not possible to satisfy the needs of everybody in a large market because customers tend to have a variety of needs, preferences and desires. Market

segmentation helps to satisfy these needs by categorising them into smaller units with similar characteristics.

8.5.2 Methods of Segmentation

The consumer market is segmented using (a) Income, (b) Sex, (c) Age, (d) Size of purchase, (e) Social background and (f) geography. Industrial markets are segmented according to the sector of the economy of customers. Table 14-2 compares the various methods.

Table 8.2: Comparison of Segmentation methods

Bases of segmentation	Features
Income	Here customers are divided according to income e.g. High income, Middle income and Low income.
Sex (gender)	Men and women sometimes purchase different things. Under this method therefore the organisation categorises its customers into male and female.
Geography	Under the geographic method the whole market is divided into regions, districts, cities etc. It is based on the geographical location of customers. The different geographical areas of a country tend to have differences in family size, physical infrastructure, incomes, customs and purchasing patterns.
Age	In this method, the organisation segments the market according to the ages of customers, e.g. (a) Under 5 years (b) 5 – 9 years (c) 10 – 14 years (d) years 5 – 24 years (e) 25 – 44 years.
Social Classes	Customers are categorised according to the social class they belong to e.g. Upper Class, Middle Class and Lower Class.
Sector	The market is divided according to sector of the economy e.g. agriculture, manufacturing, trade etc.

8.5.3 Benefits of Market Segmentation

Marketing segmentation is important because of the following reasons:

- (a) It enables the marketer to analyse the characteristics of each segment, compare opportunities existing and design marketing programmes that suits each segment.
- (b) By concentrating its marketing activities in one or two marketing segments, the organisation will be in a better position to tailor its marketing programmes to suit each market(s). For example, if an organisation uses income as a basis for market segmentation it could plan how best to satisfy a particular income group in terms of pricing, promotion and distribution of products.
- (c) The consumer gains from market segmentation. This is because he gets the product that really matches his demands and needs.

- (d) The product could be designed to satisfy the peculiar needs of each market segment and allows the organisation to focus on a few segments and serve them better.

8.6 Consumer Behaviour

Consumer Behaviour is concerned with how consumers make decisions on how to spend their resources (time, money) on consumption related items. It is the study of what consumers buy, why they buy, when, where, how often they buy, how often they use the items, how they evaluate them after purchase, the impact of the evaluation on future purchases and how they dispose of the items. Consumer behaviour ranges from pre-purchase activities of consumers to their post-purchase feelings and actions. Briefly, consumer behaviour is defined as the decision processes and overt acts of consumers in

- i Searching for
- ii Purchasing
- iii Using
- iv Evaluating and
- v Disposing of products and services that they expect will satisfy their needs.

8.6.1 Types of Consumers

Consumers may be categorised into two types – personal consumers and organisational consumers. Personal consumers are individuals who buy goods and services for their own use. They are also known as end-users. Organisational consumers are profit or non-profit establishments, government agencies and institutions that buy products, equipment and services for use in their organisations for the production of other goods and services. For example, a bank buys stationery, computers, tables and chairs to facilitate their operations in delivering banking services to their customers.

8.6.2 Consumer vs Buyer

A consumer is not always the buyer. A buyer is the individual who physically purchases the product or places an order for the product. A housewife for example, may buy a notebook for her daughter's use. The daughter is the consumer or end user while the housewife is the buyer. It is however possible to be a buyer and also be a consumer of the product.

8.6.3 Importance of Consumer Behaviour

The importance of understanding the behaviour of the consumer derives from the marketing concept philosophy. The key assumption of this philosophy is that to be successful, a company must identify the needs and wants of its target market in order to serve such needs adequately. Without understanding the behaviour of consumers, a company is unlikely to be successful in meeting the needs adequately.

Understanding the behaviour of consumers enables the company to

- i Identify and evaluate market opportunities.

- ii Develop product features or attributes to satisfy the needs, desires and expectations of consumers.
- iii Determine the appropriate distribution channels
- iv Design promotion and communication strategies that take into account the nature and characteristics of consumers and buyers.
- v Select pricing methods
- vi Handle consumer or buyer complaints.

8.6.4 Factors Influencing Consumer Behaviour

The factors that influence consumer behaviour may be grouped into psychological, personal, social and cultural factors. The model below indicates the key elements of the factors.

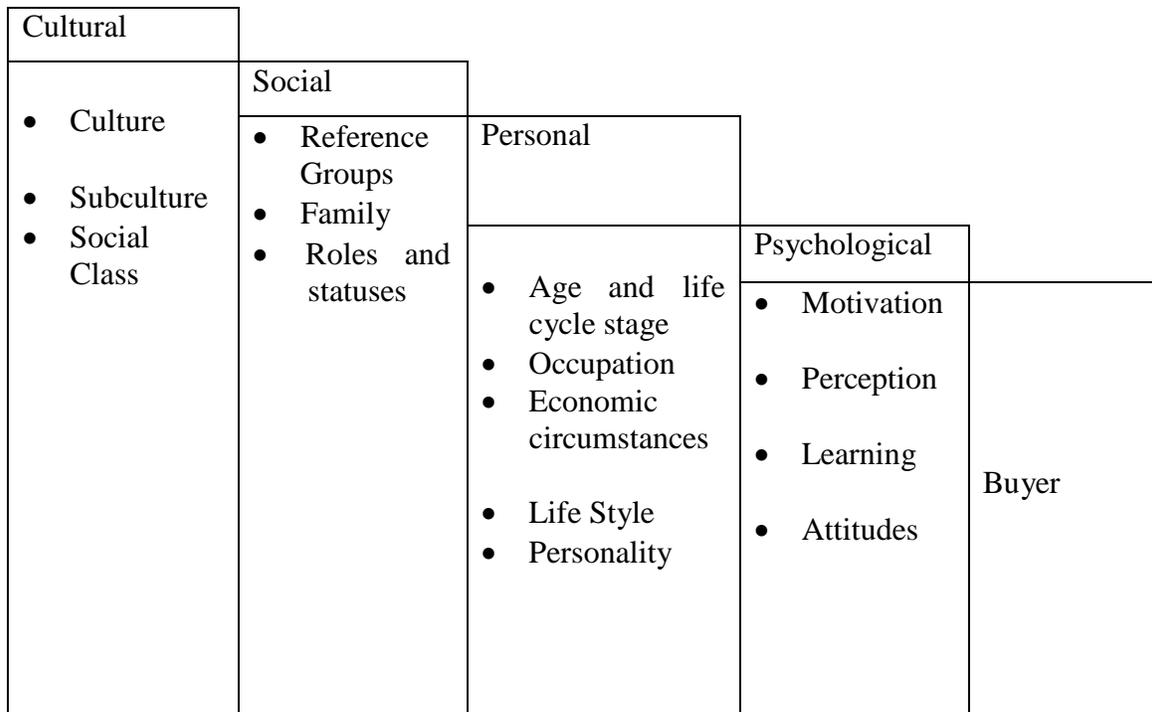


Figure 8.1: Factors Influencing Consumer Behaviour

8.6.5 Psychological Factors

- a) Motivation: is the driving force within individuals that impels them to action to purchase a product or to avoid it. Motivation is energized by unfulfilled needs, wants and desires. Such needs and desires create tension in the individual. The tension drives the individual to act to reduce the tension. The actions chosen by the individual (i.e. behaviour) are those he/she expects would fulfil the need and hence reduce the tension he/she feels.

There are different types of needs. Those that are required to sustain life are called

innate or primary needs. They include food, water, air, shelter, clothing, safety etc. Acquired needs are those that are learned by individuals as a result of being a member of a group, culture or social class.

An unfulfilled need such as thirst creates tension and a drive to quench the thirst. Consumers choose those products or services which they expect would satisfy their unfulfilled needs. An individual may choose to satisfy the need with water or with a soft drink, wine or beer. The role of motivation in consumer behaviour is therefore not simply to understand what energizes behaviour but also why consumers may choose different products or services to satisfy a given need. The role of marketers is to identify the different needs that consumers may have and develop products and services to satisfy the needs.

- (b) Perception - is the process by which an individual selects, organises and interprets information to create a meaningful picture of the world. The meaning that an individual has about the world around him/her depends on the information he/she has of the external environment as well as his/her predisposition in terms expectations, motives, desires, previous experiences, etc. These factors determine how an individual perceives a given situation. Hence, different people may perceive the same situation in different ways. Such perceptions are often quite different from reality.

Consumers may perceive the price of a product or service differently. While some perceive the price as high, others feel it is low or fair. Consumers judge the quality of products using different criteria. Some may use the physical attributes such as size, packaging, etc., to judge the quality of a product, others might depend on the price or store-image to judge quality. Many consumers tend to perceive the quality of products manufactured in certain countries to be high and to consider those manufactured locally to be of inferior quality.

Thus, consumers choose certain products or services and reject others on the basis of their perception of the product.

- (c) Learning - Learning is a relatively permanent change in behaviour that occurs as a result of experience. Consumer learning is the process by which individuals acquire the purchase and consumption knowledge and experience that they apply to future related behaviours. Consumer learning may occur through independent thinking, reading, discussion and problem-solving. This is called cognitive learning. Thus, individuals can learn about a product, its uses and benefit by reading an advertisement in the newspaper or watching the advertisement on television. Learning may also occur through a personal experience by the consumer or through the experience of friends, family members and co-workers. The experience may be positive, in which case the behaviour (purchase) will be repeated at a future date. When the experience is negative, the individual is likely to avoid the behaviour at a future date.

Learning has important implications for the marketing manager. Marketers are interested in getting consumers to learn about their products and services; the attributes and benefits of the products, where they can buy them, how to use, maintain and dispose of them, when necessary.

- (d) Attitude - is an enduring tendency for a person to believe, evaluate and act in a favourable or unfavourable manner toward an idea, a product, a service or a store. Attitudes are very difficult to change even though they are learned behaviours.

Attitudes are important to a marketer since there is a general belief that a consumer is likely to purchase a product if he/she has favourable attitude towards it. Hence, substantial promotional activities are directed at influencing the attitudes of the consumer.

Personal Factors: Personal characteristics such as age, stage in the individual's life cycle, occupation, lifestyle, etc. have important influences on what the consumer buys, where he/she buys and the manner of use of the products and services. For example a

60 year old housewife is unlikely to buy the type of dress that a 25 year old spinster would buy. The economic circumstances of an individual determines the type of restaurant he/she patronises, her shopping habits, etc.

Social Factors: These include reference groups, family, roles and statuses and social class. These have considerable influence on the buying behaviour of consumers. The reference group, that is, a group or groups that have direct or indirect influence on a person's behaviour, explains why most young undergraduate students purchase certain types of jeans trousers, shoes, etc.

Cultural Factors: Culture and subculture are key determinants of what is acceptable or not acceptable. Culture is broadly defined as the total way of life of a people and subculture is a small unit within a specified culture that has its own ways of behaviour. Culture determines the way the people of that culture dress, the type of food they prefer, their values, patronage of certain services, etc.

Individuals are very sensitive with regard to the manner in which products and services are presented, the type of advertising communication used and in particular, the models used in the advertisement. People in some cultures would be highly offended and hence, have unfavourable attitude toward a product if the advertisement uses a model exposing some parts of the body.

8.7 Marketing Mix

Marketing mix has to do with the variety of factors that need to be combined to execute a marketing programme. The marketing mix is made up of four key elements – (a) product, (b) price, (c) promotion and (d) place (distribution):

- (a) *Product:* This refers to anything offered to a market for consumption or use.

- Products are broadly classified as consumer products and industrial products.
- (b) *Price*: Price refers to the value placed on an item.
 - (c) *Promotion*: This refers to persuasive communication aimed at the consumer. Promotion covers advertising, sales promotion, public relations and personal selling.
 - (d) *Place*: This has to do with all activities designed to make the product accessible to the consumer.



Fig. 8.2: The Marketing Mix

8.8 Marketing Research

Marketing research has been defined as gathering, recording and analysis of all facts and activities related to the marketing of goods and services. Data in marketing research could be collected through *desk research* (i.e. collecting information from secondary sources) or through *field research* (i.e. collecting the data through the organisation's own research effort).

8.8.1 Desk Research

Under this technique the market researcher relies on *secondary data* i.e. data compiled by other institutions for their own uses. Sources of secondary data include:

- (a) *Government*: Government institutions responsible for Trade, Industry, Finance

Statistics, Internal Revenue, Customs, publish a wide range of data, which could be utilised by marketing researchers.

- (b) *Trade and professional associations:* Examples of trade and professional associations include Chamber of Commerce, Industry, Mines and Manufacturers Association of Nigeria and Employers' Association. Professional associations include the Institute of Surveyors, the Institute of Engineers, and the Institute of Chartered Accountants. These trade and professional associations publish large volumes of information on their activities.
- (c) *Private/Government Research organisations:* Information could be derived from public and private market research organisations.
- (d) *Advertising media:* These include newspapers, magazines, TV and radio; advertising agencies, trade journals etc.
- (e) *Universities:* University research departments carry out research activities that are useful to business organizations.
- (f) *Libraries:* Libraries are good sources of information on any subject.

8.8.2 Field Research

This is the collection of data through the organisation's own research efforts. Sources of data in field research are surveys, observations and experimentation:

- (a) *Survey Method:* This refers to the gathering of primary data by interviewing a number of people on the field. Questionnaire may also be used in a survey method.
- (b) *Observation method:* Under this method, data is collected by direct observation of the activities of the respondents.
- (c) *Experimentation:* This is a carefully controlled procedure of collecting data.

8.8.3 Importance of Marketing Research

- (a) It provides data that enables an organisation to design new products and services to satisfy consumer needs.
- (b) It helps in the design of effective advertising copies, the choice of media that will maximize the impact of the advertisement and evaluate customer reaction to promotional activities.
- (c) It provides the organisation with information to select the right pricing and distribution strategies.

8.9 Product

Products as mentioned already may be broadly classified into two – Consumer and Industrial products.

8.9.1 Consumer products

As mentioned earlier, consumer products could be classified as (a) Convenience (b) Shopping, and (c) Specialty products:

- (a) *Convenience*: These are products that consumers buy frequently. Most convenience products are relatively low priced and frequently purchased. Examples of convenience goods are cigarettes, pens, pencils, candies, groceries, flashlights batteries, sundry drugs, chewing gums, newspapers and flimsy shopping bags.
- (b) *Shopping goods*: These are products which consumers usually compare prices, quality and features of alternative brands before purchasing. Examples of products conforming to these features are household furniture, shoes, clothing and consumer durables such as fans, radios, television sets and tape recorders.
- (c) *Speciality goods*: are products with unique characteristics and/or brand identification for which buyers are willing to make a special purchasing effort. Examples of speciality goods are expensive custom made clothing, wedding gowns, the services of brilliant lawyers/doctors and luxury home furniture.

In Table 8.3 below, we compare the various types of consumer products and marketing strategies used to sell them.

Table 8.3: Comparison of different types of Consumer Products

Type of Product	Features	Marketing strategies for the product
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Convenience	<ul style="list-style-type: none"> • There are several brands. • The consumer knows of different brands. • The product is purchased frequently, often with little planning or comparison and with minimum effort. • They are often low priced. 	<ul style="list-style-type: none"> • Most producers set low prices. • They are widely distributed through many outlets. • Products are mass promoted on all available media.
Shopping Products	<ul style="list-style-type: none"> • Relatively expensive. • There are many brands and consumers often compare product features, price, etc. before purchase. • Less frequently purchased but purchased after a lot of planning. 	<ul style="list-style-type: none"> • Promotion efforts often focusing on advertising and personal selling. • Products often attractively packaged to attract consumers. • Sales often focus on few distribution outlets.
Speciality	<ul style="list-style-type: none"> • Products often regarded by consumers as unique. • Consumers have strong preference for particular brands and do not accept substitutes. • Consumers are often willing to pay any reasonable price for the product. • They are often luxury products and are sold through exclusive sales outlets. 	<ul style="list-style-type: none"> • Product should be of high quality and attractively packaged. • Exclusive distribution through carefully selected sales outlets. • Prices often high (perceived value pricing often used). • Promotion is often limited – focusing on personal selling.

8.9.2 Industrial products

Industrial products may be classified as raw materials, installations, accessories, components and supplies.

- (a) *Raw materials* refer to unprocessed industrial goods that are used to produce other goods.
- (b) *Installations* include fixed assets or expensive major goods that do not form part of the finished product but are expended or subjected to wear and tearing during the period of utilization. Examples of installation are factory buildings, large plants and equipment.
- (c) *Accessories*: are industrial products used to aid production operations of an organisation but which do not have any significant effect on its scale of production. Accessories like installations do not form part of the final product but they are not as costly as the latter. Examples of accessories include office equipment such as computers, typewriters, portable tree-cutting machines, forklift trucks and factory hand tools.
- (d) *Supplies* do not become part of the finished product, but are depleted during production. Examples of supplies are stationery, maintenance and repair items.
- (e) *Components*: are industrial products that become part of the finished product. Component parts require no processing again before they are assembled in the

finished product. Examples include spare parts of vehicles, tyres, buttons, bolts and nuts.

8.10 New product planning and development

One of the most prominent features of the market economy is the periodic introduction of new products into the market. New products are introduced by organisations to exploit opportunities arising from changes in consumer demand, taste, styles and fashions. Products may also be introduced as a result of technological inventions and innovations or to replace old products which have declined in sales and profits.

8.10.1 What is a new product?

A new product is a product which is innovative, unique, a replacement, which is significantly different from existing ones in terms of physical appearance, packaging, style and quality, etc. New products help an organisation to increase its market share by taking advantage of market opportunities and attracting customers not previously covered by its products.

8.10.2 Stages in new product development

A typical new product development process follows six stages:

- (a) *Define Objectives:* Here, objectives of the whole product development process are established - type of products, customer wants and features of the product. Marketing research could help address some of these issues.
- (b) *Idea generation and screening:* At this stage management looks out for new ideas. The sources of new ideas about a new product include marketing research, competitors, management consultancies and universities and research institutions. Others are *brainstorming* sessions within the company, trade associations and government agencies.
- (c) *Business Analysis:* After the organisation has adopted a particular product idea the next step is to estimate the market potential for the product to evaluate its potential profitability, financial viability, and potential contribution to the firm's profits.
- (d) *Product Research and Development:* At this stage the research and development department of the firm conducts further research and development to convert the product idea into a physical product. A small prototype or model of the product could be developed and tested under laboratory and field conditions to establish if it performs as expected and conforms to original design. If these technical evaluations establish the production feasibility of the product, the firm could move to the test marketing stage.
- (e) *Test Marketing:* This has to do with the process of launching a new product on a limited but at a carefully selected scale to test its commercial viability. Test marketing is very necessary before a firm decides to mass-produce the product or not. Test marketing examines under real market conditions, assumptions made

in the previous stages of the development process. If conducted properly, test marketing will help the organisation to test the marketing plan for the new product, and help to make adjustment in design, style and other essential product features, where necessary.

- (f) *Commercialisation*: If the test marketing results prove positive, a decision can now be taken to market the product nationally or on a large scale.

8.11 The Product life Cycle

Most new products trace a well-defined life pattern from the time they first appear on the market till they decline and are probably abandoned. This well-defined life pattern is called *Product Life Cycle*. The cycle is divided into stages: (a) Introduction, (b) Growth, (c) Maturity/Saturation and (d) Decline. Sales are low in the introduction stage, rise sharply in the growth stage, grow at a diminishing rate in the maturity/saturation stage and finally decline in the decline state. Profits also show a similar behaviour, climbing sharply in the growth stage, levelling out in the maturity/saturation stage and finally declining completely.

8.11.1 Stages of the Product Life Cycle

- (a) *Introductory Stage*: At this stage the product has just been launched after development.
Production and marketing costs are often high due to initial small volume of output and sales. Furthermore, profit at this stage is negative due to initial high production cost and low sales.
- (b) *Growth Stage*: This stage is characterised mainly by increasing sales as customers begin to show interest in the product. As sales increase, the production costs start declining thereby increasing profits.
- (c) *Maturity and Saturation*: At this stage the product has become more and more established in the market and well known to the consumer. Sales and profits peak at this stage.
- (d) *Decline stage*: At this stage the sales and profits decline steeply.

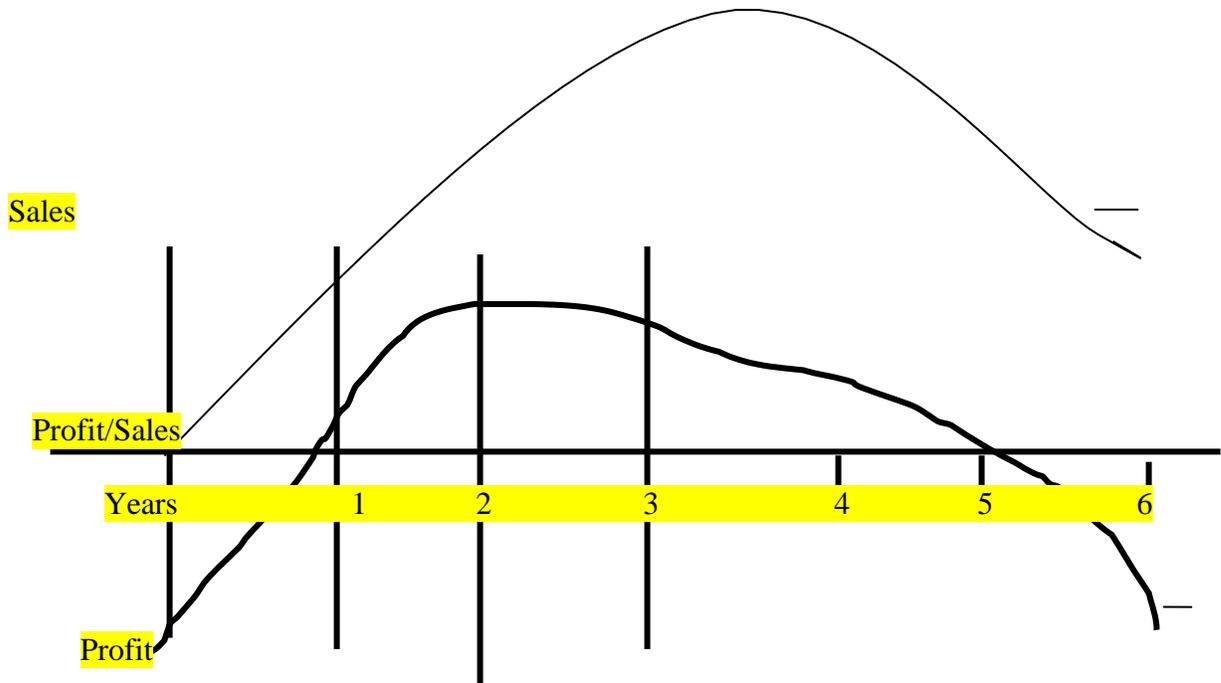


Fig. 8.3: The Product Life Cycle

8.11.2 Importance of the Product Life cycle

The characteristics of the product life cycle guides management in selecting the right marketing strategies. At the introduction and growth stages, the focus is on making the product popular and increasing sales. At the maturity stage, managers develop strategies that will help compete with rival companies who introduce similar products and keep existing customers. At the decline stage the focus shifts to survival – ensuring that sales do not decline to a point where the company starts making losses.

Table 8. 4 Summary of Product life Cycle Strategies

Stage of the product life cycle	Marketing strategy			
	Product	Price	Distribution	Promotion
Introduction	Offer a basic product	Use cost plus pricing method	Build selective distribution.	Build product awareness and use heavy sales promotion.
Growth	Offer product extensions, service warranty.	Price to penetrate the market.	Build intensive distribution.	Reduce sales promotion but continue to build consumer awareness.
Maturity	Diversify brand and models.	Price to match or beat competitors.	Build intensive distribution.	Stress differences and benefits of brand in advertising. Sales promotion should encourage brand switching.
Decline	Phase out weak products.	Cut price to survive	Phase out unprofitable outlets.	Reduce promotion to the barest minimum to reduce cost.

[Source: Adopted from Phillip Kotler, Marketing Management: Analysis Planning, Implementation and Control (1994).]

Usefulness of the Product Life Cycle

- a. The product life cycle concept indicates that the marketing and product strategies should be kept under constant review and adjusted in line with developments at each of the stages.
- b. Companies should take advantage of products nurtured to maturity stage by maximising the sales potential, while planning a re-introduction where considered necessary.
- c. The product life cycle shows that a product at declining stage needs no additional investment in advertising and promotion.
- d. It is very useful analysing and predicting changes in sales and production levels.
- e. The concept also shows that a company should diversify into other product lines in order to minimize the effect of declining stages of the product.

8.11.3 Criticism of the product life cycle concept

The main criticism levelled against this concept is that it is merely a theoretical concept and has no practical application. It is claimed for instance, that not all products go through the full life cycle as the concept tries to show. Moreover, it is not easy for a marketing manager to determine each stage of a product's life cycle or how the product moves from one stage to another.

8.12 Packaging of Products

Kotler and Armstrong (1996) define packaging as having to do with the designing of a protective container for the purpose of promoting the product. When designing a package for a product, a producer should take the following into consideration:

- (a) *Presentability*: The package should make the product presentable and attractive enough to attract customers to buy.
- (b) *Portability*: the packaging of the product should be such that it should be easy to carry from one place to another.
- (c) *Promotion*: One of the reasons for packaging is to help the consumer to identify a product on shelves and prevent him from confusing it with a competitor's product.
- (d) *Protection*: The packaging should be such that it protects the product during its journey from the manufacturer to the customer. The packaging should also preserve and protect it from spilling, spoilage and evaporation and other normal accidents.
- (e) *Proportionality*: This implies that the packaging should be reasonably proportional to the size of the product as well as its price.
- (f) *Opportunity for re-use*: The packaging material could be designed in such a way that it offers customers opportunity to re-use the package for other items.

Packaging has three advantages: First, it makes a product easier and convenient to use. Second, it also influences consumer behaviour because it indicates the quality of the product. "If it is well packaged, it must be better". A well-packaged product advertises itself and promotes selling by acting as a "silent salesman" at the point of purchase. Third, it may increase consumer purchases and hence, company's profits. In this country some packaging materials such as cans, gallons, bottles and jars are used as household containers after their original contents have been used. Some consumers purchase more of a product if the product is packaged in a container that could be used for other purchases.

8.13 Brand Name and Trade Mark

Products developed by a manufacturer, must be given a distinctive name to distinguish it from other products. This is achieved by the use of brand names and trademarks. Branding refer to the use of a name, a term, a symbol, designed to identify goods or services. A brand name is that part of the brand, which can be vocalised.

A brand mark on the other hand has to do with the part of the brand, which is recognisable by sight but cannot be vocalised. Brand marks usually appear in the form of symbols, distinctive colouring or letter or a design. Branding helps to reduce the problems the customer faces when trying to make a choice of brands to buy. For example, a shopper can easily spot out Pepsodent toothpaste from other brands in the market such as Colgate and Close Up.

The term trademark is a brand legally assigned exclusively to one producer or seller. Trademarks may be made up of word, emblems, pictures, symbols, signs or a combination of these, used to identify the product or service of a manufacturer. A trademark is not confined exclusively to the pictorial part of a brand but includes that part which could be vocalised or pronounced. Examples of trademarks in Ghana are: Shell, PZ, Guinness, Pepsi Cola, NCR and Milo.

8.14 Pricing

Price takes various forms: admission fee, tuition, salary, rate, fare, premium, donation, dues, honorarium, retainer, and interest. Whatever forms it takes, it determines the quantity of the product the organisation will sell and the revenue that will be derived from the sale of the products. It also influences consumer behaviour. The value the average consumer attaches to a product depends on the price put on it. He might consider a lowly priced product as inferior, but attach high quality status to a highly priced product. In the next two sections we shall discuss pricing methods used by most organisations.

8.14.1 Pricing methods

- (a) *Mark-up pricing*: In this method the seller simply adds a profit margin to the purchase price of the product e.g. if the product was bought at ₵1000 and the expected profit margin (mark up) of the seller is ₵500, the sale price will be ₵1,500.
- (b) *Target Return Pricing*: Here the organisation fixes a price that will enable it achieve a specified level of profit. To illustrate, assume an organisation could produce and market 100,000 units of a product at a total cost of N200,000 and wishes to achieve a profit of say 40% the selling price will be: $N200,000 \times 40\% + (200,000) / 100,000 = N2.8$.
- (c) *Demand Differential Pricing (Price discrimination)*: This has to do with charging different prices for the same products depending on type of customer, packaging, brand, place and time of purchase.
- (d) *FOB Point of Purchase Pricing*: The producer quotes the selling price at the point of production and the buyer is expected to incur the cost of shipping the product to his/her place of business.
- (e) *Price (Market) Penetration*: This has to do with the setting of low prices for products (especially at the introductory stages) with the aim of stimulating demand and sales. This pricing strategy will be effective where the market is highly

sensitive to low prices and unit production cost falls in proportion to increases in sales volume.

- (f) *Price (Market) Skimming*: This refers to the setting of a high price for a product with the aim of making a lot of profits within a very short time. Price (market) skimming will be effective where the product is scarce and an innovation different from existing brands.

8.14.2 Factors which influence pricing

Organisations take the following factors into consideration when setting prices: -

- (a) *Cost of Production*: This is one of the overriding influences on pricing. In some industries, it is the most important factor, which determines the price of a product.
- (b) *Margin Paid to distributors*: The margin an organisation offers to wholesalers and retailers usually influence the price it sets for the product.
- (c) *Competitors*: The activities and price strategies of rivals influence the price policy of an organisation. Most organisations anticipate the reaction of competitors before they set or change their price structure.
- (d) *Nature of Demand*: The success of the pricing policy of an organisation depends on the responsiveness of demand of consumers to prices i.e. the elasticity of demand for the product.

8.15 Promotion

Promotion as mentioned already refers to any technique used by producers/sellers to communicate favourable information about their products to potential customers. Promotion covers the following activities: (a) Advertising (b) Public relations (c) Sales promotion and (d) Personal selling.

- (a) *Advertising* refers to the *non-personal* form of persuasive communication about ideas, goods and services that is paid for by an identified sponsor.
- (b) *Public Relations/Publicity* refers to the deliberate, planned and sustained effort to establish and maintain mutual understanding between an organisation and its publics.
- (c) *Sales promotion* is any marketing activity aimed at stimulating immediate consumer and dealer demand.
- (d) *Personal selling* is the face-to-face contact that a seller makes with a prospective customer for the purpose of making sales.

8.15.1 Advertising

The basic objective of advertising is to create awareness, arouse interest in the product and persuade people to buy. The most popular media of advertising in Ghana are as follows:

- (a) *Newspapers and Magazines*: Newspapers and magazines carry the bulk of advertising in this country. The popularity of these media stems from their ability

to carry detailed coverage of items being advertised. Furthermore, it is relatively cheap and can be used to reach a large section of the target market, especially in the urban areas.

- (b) *Radio Advertising*: Radio carries a large number of adverts in this country. Adverts on the radio reach virtually every part of the country.
- (c) *Outdoor Advertising*: Outdoor advertising is found mostly on signboards and large billboards. They are located mostly at major road junctions, places of high vehicular and human traffic such as lorry parks, highways, bus stops, road junctions and roundabouts.
- (d) *Transport/Transit Advertising*: This refers to advertising on buses, cars and other vehicles.
- (e) *Specialities*: Specialities as used here include items like key holders, calendars, ashtrays, mugs, pens, "T" shirts, diaries, plates, etc. Some organisations advertise on these items.

Advertising helps organisations to interact with members of the public effectively and create goodwill towards the organisation. It is effective in educating customers about a product's features, which could help customers to recognise it on the shelves. It also helps to pave the way for salespersons by educating potential customers about the product. The more effective an advertising campaign is, the less effort the salesperson has to make to convince the prospective customer to buy the product.

8.15.2 Public Relations

Public relations seek to ensure that the organisation establishes and maintains mutual understanding between it and its *publics*. The term *publics* refer to the company's stakeholders, such as employees, shareholders, customers, government, competitors, the press, the community and distributors of the company's products. Activities often included in Public relations in many organisations are:

- (a) Preparation of newsletters, calendars, leaflets, brochures and other sales aid to support promotion activities.
- (b) Publication of house journals (i.e. internal company magazines) for distribution to staff and members of the public.
- (c) Ensuring good relations with the press and reacting to press criticisms
- (d) Educating the public on the activities of the organisation.
- (e) Arranging publicity activities such as news conferences and press releases.
- (f) Handling customer complaints about the organisation's products and services

A good public relations programme executed by an organisation helps to lay a good foundation for its marketing activities. It promotes public goodwill and favourable corporate image. Through the publication and distribution of newsletters, brochures, leaf-lets, souvenirs, house journals and other publicity materials, the organisation explains its activities and policies to the public, thereby promoting better understanding of its operations.

8.15.3 Sales Promotion

Sales promotion seeks to (a) induce customers to increase their purchases, (b) non-customers to try the product, (c) introduce new products, (d) educate customers on the use of the product, (e) encourage intermediaries to stock the product and (f) push up the sale of weak products in the product line. Sales promotion techniques used in this country include:

- (a) *Competitions*: Competitions refer to a sales promotion technique in which consumers (or dealers) take part in a competition organised by a producer. The rules governing such competitions are usually determined by the organisation and prizes may consist of the organisation's product, cash or a sponsored trip.
- (b) *Sample and Specialities*: Samples are free offer of a company's products to customers or members of the public who come into contact with the producer. Specialities are promotional materials, which include pencils, ashtrays, pens, T-shirts, calendars, etc. that bear a company's name, logo or its adverts. These specialities are usually given to customers as gifts or mementos to promote customer loyalty and goodwill.
- (c) *Demonstration*: Organisation that produce industrial products like paints, tractors, office equipment and machines periodically organise demonstrations of their products at specially organised functions open to the public. For example, Bamson Company Ltd, representatives of Sikkens Paints in Ghana organise periodic free training programmes for car sprayers with a view to demonstrating the correct application of car paints and the superiority of Sikkens car paints over those of competitors. This sales promotion strategy has helped push sales of the company's products.
- (d) *Trade fairs/Exhibitions*: Trade fairs and Exhibitions are increasingly becoming an established part of the sales promotion scene. The exhibitions may be *in-store* i.e. in the shop or at a *Permanent Exhibition ground* e.g. the Ghana International Trade Fair Site. Some organisations mount *Conference Exhibitions* to coincide with conferences that are relevant to the product(s) being exhibited.
- (e) *Sponsorship*: Sponsorship has been defined as 'the provision of financial or material support for some independent activity which may or may not be intrinsic to the furtherance of commercial aims, but from which the supporting company might reasonably hope to gain commercial benefit'. Sponsorship may consist of provision of money to beneficiaries (individuals or corporate bodies) to undertake specific projects or activities often related to the sponsor's operations or support for specific events such as sports competitions, beauty contests, popular TV programmes, traditional festivals or conferences.
- (f) *Price Reduction/Price Offs*: Organisations make special price reductions of their products. These price reductions are then heavily advertised in order to attract people to shop. Price reductions/price offs are effective in promoting the sale of well-known brands whose existing price is widely known.

Sales promotion is effective in stimulating demand for a product. They supplement advertising and encourage existing users to make repeat purchases and help to win new converts to the product. Sales promotion activities also create a favourable

climate, which encourage intermediaries to stock more of the organisation's products. Sales promotion also helps to improve the image and goodwill towards the organisation and its products.

8.15.4 Personal Selling

You will recall that we defined Personal selling as the face-to-face contact that a seller makes with a prospective customer for the purpose of making sales. Insurance companies and some banks are increasingly using this method to sell their products to the public. This is because salespeople are more mobile and interact more frequently with customers and members of the public. They are therefore in a better position to explain the activities/policies of the organisation to target customers.

Personal selling effort of organisations revolves around and is executed by the sales persons who perform some of the underlisted functions: -

- (a) Education of customers on the product.
- (b) Advertising the product.
- (c) Solution of customers' problems.
- (d) Provision of after-sales service.
- (e) Taking and processing of orders.
- (f) Searching for new customers.
- (g) Providing information for the marketing research department.
- (h) Delivery of products to customers.

Personal Selling helps to develop favourable public attitudes towards the organisation. Furthermore, the feedback from customers through the sales persons can be used to develop new products or make changes in existing marketing strategies.

8.16 Distribution

Distribution involves the movement of goods from the producer to the customer at the right time and at the appropriate place. The producer cannot survive without some form of distribution because the product will be a liability and waste of resources. Distribution could be broadly classified into *direct and indirect distribution*. There is direct distribution if the producer supplies the product directly to the customer without the use of intermediaries (or middlemen). Indirect distribution involves the use of *intermediaries* to make the product available to the customer.

8.16.1 Functions of intermediaries

Intermediaries perform the underlisted functions:

- (a) They gather goods from various producers and make these available to customers. Throughout the country the agricultural sector in Ghana is characterised by a large number of small-scale farmers working in hundreds of thousands of locations

scattered throughout every corner of the country. Without middlemen who visit these locations to buy the farm produce it will be impossible for consumers to have access to these farm produce in the market.

- (b) They help to match the product with the customer's requirements. They do this through assembling and packaging. Market women match products like sugar, cigarettes, pens, fish, soap and edible oil and the like with the requirements of customers by breaking them into the assortment wanted by the consumer.
- (c) They transport and physically distribute goods throughout the country. They manage to do this in spite of the poor transport and communication network in the country.
- (d) They finance the activities of producers by providing them with ready market for their products or at times pre-financing production.
- (e) They gather a lot of information that the marketing research section of an organisation may find valuable for product development purposes.
- (f) They help to spread information about products through promotional activities.

8.16.2 Channels of distribution

A channel of distribution is the route through which goods move from the producer to the consumer. There are three main channels of distribution. These are as follows:



In channel '1' the producer sells directly to the consumer. Small scale producers and producers of services fall under this category. In channel '2' the wholesaler is by-passed and the producer deals directly with the retailer (often large-scale retailers with several branches). These retailers at times perform the functions of wholesalers in addition to their retailing functions. In channel 3 the wholesaler buys in bulk from the producer and stores the goods for resale to retailers. It is used by dealers in consumer goods and services.

Producers take several factors into consideration before choosing the above-mentioned channels. These factors are as follows:

- (a) *Nature of the market:* This refers to the type of market the organisation's product(s) is intended for, i.e. consumer market or industrial market. Producers traditionally use middlemen when dealing with the consumer market but sell directly to the customer in the industrial market.
- (b) *Location of customers:* Producers sell directly to their customers when the latter is concentrated geographically in one area but use middlemen when their customers are dispersed and difficult to reach.
- (c) *Physical features of the product:* Physical features as used here refer to the extent

of the products perishability and bulkiness. Perishable products are sold directly to the final consumer. Furthermore, bulky products are sold directly to customers. Most sand and stone contractors sell the products directly to the users.

- (d) *Complexity of the products:* Complex products such as computers, telecommunication equipment and some factory plants may require installation by highly skilled engineers and/or technicians who are also expected to provide after-sales service after the purchase of the product. Manufacturers also employ dealers or agents who have the facilities to service the equipment bought.
- (e) *Financial resources of the producer:* The size of the organisation and its financial resources often influence the way it distributes its products. Big organisations with large financial resources often employ their own sales force; warehouse their products and transport goods direct to customers.

8.16.3 Retailing

Retailing refers to all activities directly related to the sale of goods or services to ultimate consumers. A retailer is a business that sells primarily to consumers. Retailers are important in distribution because of the following reasons:

- (a) They provide a convenient means of supply of all goods and services for the consumer.
- (b) They divide the product into smaller units suitable to the consumer.
- (c) They provide after-sales services such as installation, repairs, home delivery and packaging services for customers.
- (d) They provide credit facilities to consumers who purchase their products
- (e) They educate consumers on the proper use of products they purchase.
- (f) They relieve the wholesaler of the necessity of keeping large inventories
- (g) They provide the wholesaler with information on the needs of consumers.

8.16.4 Wholesaling

Wholesaling has to do with all business activities related to the sale of products to those who buy for purposes of resale and/or business use. Wholesalers buy in large quantities from the producers and sell in smaller quantities to retailers and other users. The wholesaler is important because of the following reasons:

- (a) They provide very essential market information to the producer. They inform the producer the extent of demand for the product and preference of customers in relation to styles, quality, price, packaging etc.
- (b) Some wholesalers warehouse goods and relieve the producer of the cost of keeping large stocks of finished products.
- (c) Wholesalers sometimes pay producers promptly. This reduces the financial problem of producers.
- (d) The wholesaler relieves the retailer of the necessity of keeping large stocks because the retailer can replenish his stock any time he wants.

- (e) Some wholesalers finance retailers by granting them credit. This reduces the amount of capital required by retailers.
- (f) The wholesaler relieves the marketing problems of retailers by breaking products into the required sizes and repackaging.

8.16.5 Distribution Policies

There are three kinds of distribution policies which an organisation can adopt:

- i. Exclusive distribution
- ii. Intensive distribution
- iii. Selective distribution

- (a) *Exclusive Distribution:* Some producers enter into special arrangements with specific middlemen whereby the producer will sell only to the middlemen in a given market. This policy is called exclusive distribution. The policy is feasible where the product is very expensive and appeals to an exclusive segment of the market, e.g. jewellery. The organisation finds it difficult getting middlemen to stock its products and the product is very complex and requires specialised after-sales service. From the perspective of the producer exclusive distribution helps the producer to maintain effective control over his distribution outlets, improve service to the consumer and ensure aggressive promotion of the product. However, the policy is a double-edged sword. In the first place, it limits the marketing outlets of the producer, and he might not achieve the market share he desires. Secondly, the location of the exclusive distributor might not be convenient for the customer. From the perspective of the exclusive distributor the policy assures him a 'ready market' in the exclusive area. He is protected from competition. The exclusive distributor also gains from the promotion policies of his principal and often gets preferential treatment from the latter. However, the exclusive distributor might lose heavily if the agreement breaks down and having cut himself off from other suppliers he might find it difficult to re-stock his shop.
- (b) *Intensive distribution:* This has to do with the situation where the organisation distributes its products through a wide range of distribution outlets. Intensive distribution is prevalent in the consumer market. Convenience goods for instance need maximum exposure in order to attract the consumer. This policy helps the organisation producing consumer products to achieve wider market coverage and satisfy consumer preferences in terms of service and convenience of location of outlets. However, it needs heavy investment in distribution facilities and promotional effort.
- (c) *Selective distribution:* This refers to a situation where a producer decides not to use all members of the channel available to it and uses only a few outlets in the target market. This policy is desirable where the product is a speciality product and the producer desires to have some organisational control over distribution outlets. This policy helps the producer to avoid the high cost involved in intensive distribution. It also helps the organisation to maintain a 'close watch' over the

performance of the distributor.

8.17 Summary

Marketing involves basically getting the right product to the right customer at the right price. Marketing revolves around four basic activities – product, promotion, price and distribution. A product is anything offered to a market for consumption or sale. Promotion has to do with any persuasive information aimed at consumers. Promotion ensures that the customers get the right information about the organisation and its activities. Price is the value placed on an item. Price determines the demand and revenue of the organisation and influences consumer's behaviour. Distribution ensures that the product physically reaches the customer's doorstep.

8.18 REVIEW QUESTIONS

MULTIPLE CHOICE QUESTIONS (MCQ)

1. Marketing function include all of the following except..... .
 - A Marketing research
 - B Rendering after-sales services to customers
 - C Training and motivating salespersons
 - D Selling the product to customers
 - E Distributing the product
2. The elements of the marketing concept does not include _____
 - A Long-run profitability
 - B Consumer orientation
 - C Product orientation
 - D Market focus
 - E Coordinated marketing
3. The factors that influence consumer behaviour may be grouped as follows except _____
 - A Motivational factors
 - B Cultural factors
 - C Personal factors
 - D Psychological factors
 - E Social factors
4. The following is not a source of data that is used when conducting Desk Research
 - A Private Research Organisations
 - B Trade Associations
 - C Libraries
 - D Government Institutions
 - E Questionnaires

5. Industrial products may be classified as follows except _____
- A Specialty goods
 - B Component goods
 - C Supplies
 - D Accessories
 - E Raw Materials

SHORT ANSWER QUESTIONS (SAQ)

1. The first stage in the product life cycle is _____
2. The pricing method in which the seller simply adds a profit margin to the purchase price of the product is called _____
3. A non-personal form of persuasive communication about ideas, goods and services that is paid for by an identified sponsor is known as _____
4. Under the production concept, the company assumes that what the consumer is primarily interested in is _____
5. The type of consumer learning which occurs through independent thinking, reading, discussion and problem solving by the consumer is known as _____

SOLUTION

MULTIPLE CHOICE QUESTIONS

1. D
2. C
3. A
4. E
5. A

SHORT ANSWER QUESTIONS

1. Introductory stage
2. Mark up pricing
3. Advertising
4. Product availability at a low cost
5. Cognitive learning

CHAPTER NINE: ACCOUNTING FUNCTION

9.0 Learning Objectives

After studying this chapter, the reader should be able to:

- appreciate the role of accounting as a functional area of management
- understand the core purposes and relevance of accounting to management
- describe the structure of an accounting Department in an organisation
- understand specific roles and assignments of accountants in organisations
- explain succinctly the various types of accounting systems available for use within organisations

9.1 Introduction

Accounting function entails identification, measuring, and communicating of economic information for the purposes of generating informed judgments and decisions by the users of the such information. Information that is primarily sourced is primarily financial related, often measured in monetary terms. Situating the accounting function into organic functions of management, then, can be said to be a measurement and communication process used to report on the activities of non-profit and profit-seeking business organizations.

For every profit-seeking business entity that operates for economic gain by applying economic resources, such as money, machinery and buildings, accounting information (to be provided and implemented by accountants) is important to their survival.

To a layman, who interchangeably uses Accounting and Bookkeeping, the accounting functions may not be properly understood. Meanwhile, while bookkeeping is a mechanical process that records the routine economic activities of businesses, accounting on the other hand includes bookkeeping, but goes well beyond it in scope.

9.2 Purpose and Importance of Accounting

9.2.1 Primary Functions of an Accounting Function

Accounting as a major functional area of management is very crucial to the survival of the firm, considering the primary functions being performed by the Accounting Departments of organisations (often headed by qualified accountants) these functions include:

- i. Keeping records of the organisation's financial transaction
- ii. Analysing and interpreting financial information
- iii. Preparation of financial statements
- iv. Management of the organisation's funds
- v. Designing accounting systems
- vi. Preparing special business and financial studies for accountants-in-training
- vii. Preparation of organisational forecasts and budgets
- viii. Providing effective custody of the organisation's assets
- ix. Provision of tax services.

9.2.2 Strategic Functions of an Accountant

By their placement in the organisational chart, accountants are expected to perform the following strategic functions (in chronological order):

- i. Observe events within organisations
- ii. Identification of events that have economic values
- iii. Measuring economic events in financial terms
- iv. Recording measurements
- v. Measurements classifications
- vi. Measurements summary
- vii. Reporting on economic events in financial statements and other financial related reports
- viii. Interpreting the contents of financial statements and other reports

9.3 Structure of Accounting Department

The accounting Department is strategically structured to enable it attend to all its attendant functions (primary and strategic). This is as shown in Fig. 9.1

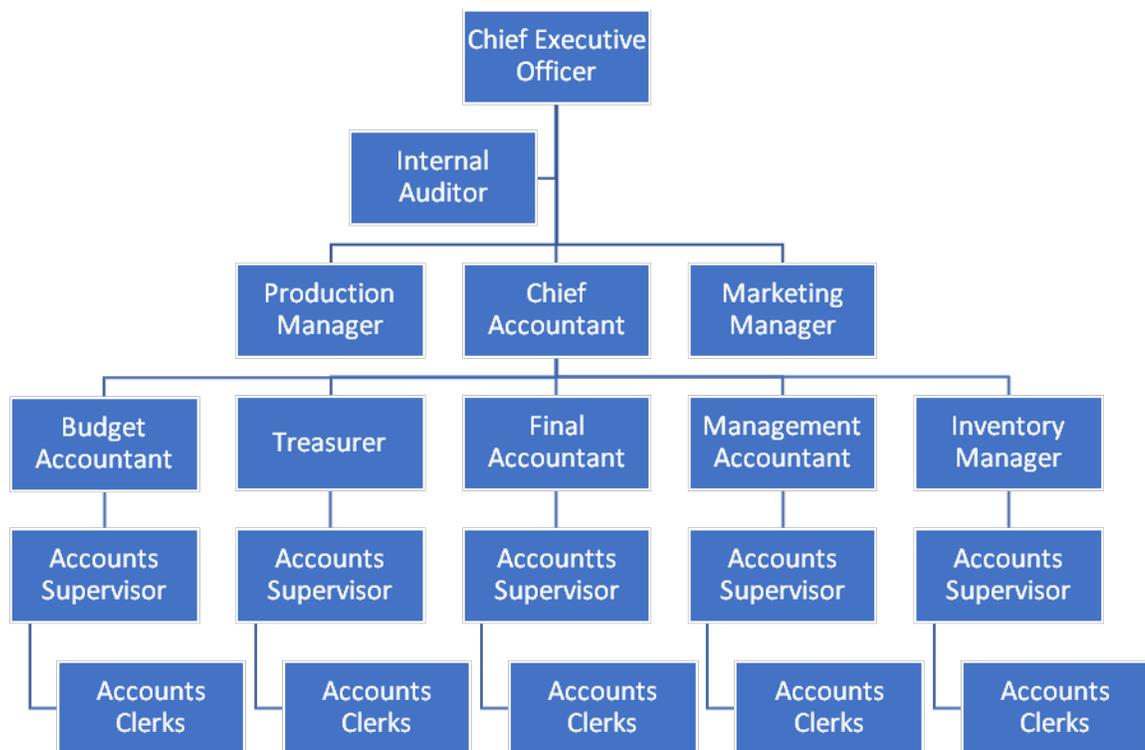


Figure 9.1: The Accounting Department Organogram

9.4 Positions of an Accountant within the Organisation

An accountant can occupy any of the following positions within any organised firm,

according to the degree of their qualifications and areas of expertise. In actual sense, the positions are best reserved for accountants, considering peculiar expertise and professionalism expected. Such positions include:

- i. Internal Auditor
- ii. Chief Accountant
- iii. Budgeting Officer
- iv. Final Accounts Officer
- v. Treasurer
- vi. Management Accountant
- vii. Cost Accountant
- viii. Inventory Officer
- ix. Account Supervisors
- x. Account Clerks

9.5 Types of Accounting System

There are majorly two types of accounting system namely manual and computerised system

9.5.1 Manual Accounting System

This is the analogue way of preparing, monitoring, coordinating and reporting of all financial transactions of organisations. It is analogue because it is devoid of usage of digital machine. To some, usage of adding machine can be misconstrued as being digital, but the fact that adding ordinary machines lack the capacity for storage and retrieval of documents as well as displaying outputs in both soft and hard copies negates their classification as digital equipment for accounting purposes.

Traditionally, the manual accounting system makes use of the following (amongst numerous other analogue equipment):

- i. Cashbooks
- ii. Legers
- iii. Invoices
- iv. Vouchers
- v. Dispatch Books/Notes
- vi. Rulers
- vii. Pencil/Pen
- viii. Adding Machine

9.5.2 Computerised Accounting System

The computerised accounting system involves application of scientific and electronic gadgets with capacity to accept financial data in their raw forms (as inputs), process the data, publish reports (in hard and soft outputs) as well as transmitting the reports to all stakeholders/users for decision making. In some cases, where computerisation is not complete, items of manual accounting system may serve as sources of inputs for the computerised accounting system.

In the modern-day technological financial management practices, so many organisations are moving towards a paperless transaction and reporting system. Specifically,

accounting packages are mostly used by accounting and financial institutions, but, the accounts departments of other organisations are not precluded from computerising their systems.

Generally, the computerised accounting system makes use of computer applications/packages specially designed for special purposes in the field of accounting. These packages are useful in the following areas of accounting:

- i. Inventory Management
- ii. Payroll Management
- iii. Asset Management
- iv. Trade Receivable Controls
- v. Reconciliation Management
- vi. Debt Management
- vii. Dividend Management
- viii. Tax Administration and Management

9.5.2 Comparison of manual and computerised accounting systems

MANUAL ACCOUNTING SYSTEM	COMPUTERISED ACCOUNTING SYSTEM
Based on use of analogue system	Based on use of digital systems
Relatively easier to implement	Implementation process is more rigorous
Initial implementation cost is lower	Initial implementation cost is higher
Transactional costs are higher	Transactional costs are lower
Relatively easier to implement	Implementation process more rigorous
More prone to errors	Has better accuracy
It is slower in generating results, especially in cases with high volume of transactions	It is faster in generating results, especially in cases with high volume of transaction
It becomes cumbersome when transaction is high	It is very efficient in handling large volumes of data
Its control measures are mainly physical	Control measures are mainly electronic
It has limited capacity for data analysis	It has greater capacity for analysis of data

Examples of Accounting Packages

- i. Poise
- ii. Sage
- iii. Peachtree
- iv. E-View
- v. Microsoft Money

9.6 Summary

Deliberations on the accounting function concludes our discussions on organic business functions. The accounting function is responsible for the measurement and communication of the activities of the organisation in monetary terms. The Accounting department is organised along functional lines to include, record keeping, preparation of financial information, analysing financial information and record on same to the owners of the business.

The financial function is strategically positioned to give an overview of the organisation. This was discussed along with the strategic roles of professional accountant in an organisation. The organisation of a typical accounting department was demonstrated in an organogram.

Manual and Computerised accounting systems were discussed.

9.7 Review Questions

Multiple Choice Questions

1. The following are functions of an accounting department, EXCEPT
 - A. Keeping records of the organisation's financial transactions
 - B. Preparation financial statements
 - C. Conducting internal audit exercises
 - D. Designing accounting systems
 - E. Preparation of organisation forecasts and budgets
2. The following are components of a manual accounting system, EXCEPT
 - A. Cash book
 - B. Invoices
 - C. Ledgers
 - D. Peachtree
 - E. Adding machines
3. Which one of the following items is not an accounting package:
 - A. Peachtree
 - B. Poise
 - C. Debtor manager
 - D. Sage
 - E. Microsoft
4. Computerised accounting system comprises one of the following:
 - A. Vouching system
 - B. Adding system
 - C. Cash book
 - D. Payroll system
 - E. Dispatch system

5. A professional accountant can occupy any of the following positions, EXCEPT
- A. Accounts clerk
 - B. Treasurer
 - C. Management accountant
 - D. Internal auditor
 - E. Chief accountant

Short Answer Questions

1. The officer directly responsible for cash management in an organisation is
2. A paperless accounting transaction and reporting system is an example of
accounting system
3. An accounting sub-system which manages the stock of finished goods is.....
system
4. An accountant who prepares monthly accounting reports for consideration of the board
of directors is called
5. An analogue method of preparing, monitoring, coordinating and reporting financial
transactions is accounting system.

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

1. C
2. D
3. C
4. D
5. A

SHORT ANSWER QUESTIONS

1. Treasurer/Treasury Accountant
2. Computerised
3. Inventory management
4. Management Accountant
5. Manual

SECTION E

MANAGEMENT OF WORKPLACE RELATIONSHIPS

CHAPTER TEN: MOTIVATION, LEADERSHIP, COMMUNICATION AND CHANGE MANAGEMENT

10.0 Learning objectives

After completing this chapter, the reader should be able to:

- define and explain the meaning of motivation;
- identify and explain key motivation theories;
- explain the importance of communication in an organisation;
- identify factors that influence change in an organisation;
- explain how organisations manage change;
- understand the concept of leadership, nature, roles, traits and styles;
- explain what leadership effectiveness entails;
- appreciate the dynamics of groups and team in an organisation;
- understand the concept of conflict and its various resolution techniques;
- identify communication guidelines and barriers to effective communication; and
- appreciate the fundamentals of change management

10.1 MOTIVATION

What accounts for the differences in the performances of employees in an organisation and differences in the productivity levels among different organizations? Why do workers behave the way they do? How do we induce employees to contribute their best to organizational objectives? How does communication flow throughout an organisation? What is the role of communication in an organisation? What influence change in an organization. Why do some employees resist change in an organisation?

10.2 Meaning and Importance of Motivation

Sarah Akondo runs an importing Company – Pro-Resources Ltd which imports cosmetics, skin products and carpets from China for sale through ten distribution outlets in Accra, Kumasi and Tamale. She has fifty employees who are expected to work a maximum of 50 hours a week. The company pays competitive salaries and once a year provides Best Worker awards to ten workers from each distribution outlet. Sarah is stern, methodical and a firm believer in the idea that employees are not like babies to be cuddled. She was quoted as telling a friend ‘We are doing them a favour by offering them employment. They have to be grateful to my company for giving them employment. I always want them to realise that I am the boss and call the shots. If the kitchen is hot anybody can leave’.

The business has been very profitable, expanding from a small outlet somewhere near Rawlings Park in the Accra Central Business District to the current ten. However, her main worry has been the rather high labour turnover – sometimes up to 40 percent of the staff leave, often without notice. Most of the staff seem to be lazy and only work when the supervisors nicknamed ‘Sarah Militia’ are around. She is worried about the business and considering hiring a consultant to sort out the mess.

Part of the problems of Pro-Resources could be solved by creating a conducive atmosphere and doing those things that will satisfy the needs of her staff and induce them to work. This is what motivation is all about.

Motivation has to do with the needs, drives, desires that direct a person’s behaviour towards specific goals. Motivation is defined as the processes that account for an individual’s intensity, direction and persistence of effort toward attaining a goal. Management basically involves working with and through others and creating conducive atmosphere, which induces individuals to act in a desired manner. To perform these roles effectively managers need to know what makes people behave the way they do. Knowledge of motivation will help the manager to identify factors, which influence subordinate’s willingness to work with intensity, and direct his/her efforts persistently at achieving organizational goals.

10.3 Motivation Theories

Management writers have proposed a number of theories to explain motivation. These theories may be broadly categorized into three:

- i. Content Theories
- ii Process Theories
- iii Reinforcement Theory

10.3.1 Content Theories

Content theories suggest that individuals have certain basic and acquired needs and the satisfaction of these needs would motivate them to work hard. The best-known content theories are: - (a) Maslow’s Hierarchy of Needs theory and (b) Frederick Herzberg’s Motivation – Hygiene theory.

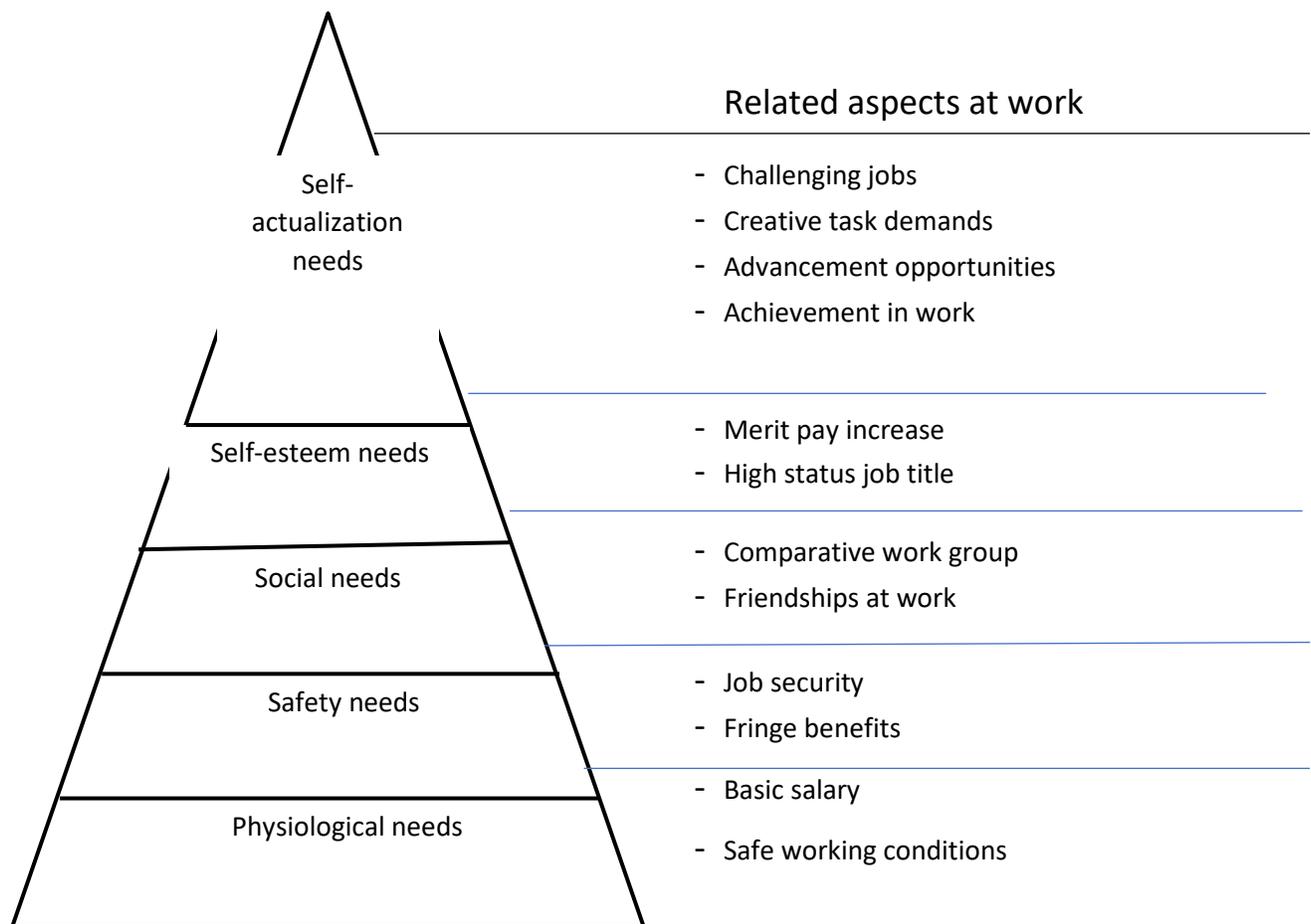


Fig. 10.1: Maslow's Hierarchy of Needs

(a) **Maslow's Hierarchy Needs**

This theory suggests that individuals have five basic needs, which they seek to satisfy. These needs are Physiological; Safety; Social; Esteem and Self actualization:

- i. *Physiological Needs* include food, shelter, air, rest, sleep, clothing, sexual fulfilment and the like.
- ii. *Safety Needs* have to do with the need for job security, freedom from injury; freedom from deprivation, coercion and arbitrary treatment.
- iii. *Social Needs* include the need for acceptance by others, friendship, belongingness, affection, team membership and the like.
- iv. *Esteem needs* include desire for respect, self-confidence and self-esteem.

- v. *Self-actualization Needs* have to do with the desire to achieve the highest level of one's potential energies and talents.

These needs, according to Maslow are arranged in a hierarchy as shown in Figure 10.1 According to this theory when one need on the hierarchy is substantially satisfied it ceases to be a motivator of behaviour and the individual becomes concerned with the next higher other need. For example, when the individual has substantially satisfied his/her physiological needs, they cease to be motivators of behaviour and he/she becomes concerned with the next set of needs which, in this case, is safety needs.

Physiological needs

What are the implications of this theory to day-to-day management? The theory implies that providing good working conditions (food, clothing, shelter and the like), security (social security, safe working environment etc), good interpersonal relations, and effective teamwork could motivate employees to work hard. It is important however that the manager is able to identify the specific needs that are likely to motivate a given employee to be effective in motivating that employee.

However, the theory has been criticised on the grounds that human needs are not necessarily in ascending order of importance or in a hierarchy as suggested by Maslow. Furthermore, it is possible for someone to have all the needs at the time – he needs not satisfy a lower need before ascending to the next higher need. Moreover, some people could postpone the satisfaction of some immediate, basic needs so that they could satisfy higher needs in the future. Researchers have also found it difficult to prove empirically that man's needs are really arranged in a hierarchy.

(b) Frederick Herzberg's Motivation – Hygiene Theory

The basic idea behind this theory is that factors like company policy, supervision, interpersonal relations, working conditions; money and security (job context, maintenance/hygiene factors in the words of Herzberg) do not motivate employees to work. The absence of these factors in an organisation however, results in dissatisfaction.

On the other hand the existence of factors 'intrinsic' to the job such as achievement, recognition, growth, responsibility etc. (Motivators in the words of Herzberg) in an organisation could lead to job satisfaction among employees and lack of them could lead to no job satisfaction and motivation.

However, his idea that money and other financial incentives only reduce dissatisfaction but do not motivate employees has been controversial. There is no clear evidence from research that money is indeed a motivator rather than a hygiene factor.

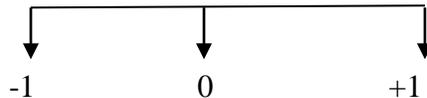
10.3.2 Process Theories

Process theories focus on the goals or processes by which employees are motivated. The major process theories are:

- i Vroom's Expectancy Theory
- ii Equity theory

(a) Vroom's Expectancy Theory

Expectancy theories suggest that individuals are rational, aware of their goals, and are influenced by the expected outcomes (results) of their actions. Vroom's Expectancy Theory of motivation pioneered by Victor Vroom (1964) says that motivation is a function (or product) of an individual's preference for an outcome and the person's perception that a desired outcome will result from specific acts (or behaviour). Vroom illustrated this by this simple equation: $Motivation = Valence \times Expectancy$, where valence = the individual preference for a certain outcome and expectancy is the individual's perception that a desired outcome will result from specific acts (or behaviour). Vroom suggests that Valence (i.e. an outcome) and Expectations (i.e. perception that behaviour will result in a desired outcome) could be expressed on a scale ranging from -1 to +1.



If a person strongly desires a specific outcome his valence will be +1 e.g. if Kofi strongly wants his company to sponsor him for a course at the University his valence will be +1. His colleague in the company Ernest, who is however, completely indifferent to any sponsorship will have a valence of 0. The expectancy of Kofi that the outcome will be met by his action is 0.9. Motivation, according to Vroom is a function of Valence and Expectancy. Thus, if Kofi's Valence for the sponsorship is +1 and his expectancy is 0.9 his motivation will be $Motivation = V (+1) \times E (0.9) = +0.9$. If the expectancy is the same for both of them (i.e. 0.9), the Motivation for Ernest by sponsorship to University is expressed by $Motivation = V (0) \times (0.9) = 0$. Hence, while Kofi is strongly motivated (0.9) by the University sponsor, Ernest is not motivated (0) by it.

The expectancy theory shows that motivational forces differ from one individual to another and emphasizes individual perception as an important factor in motivation. It also stresses that the ability of a specific factor/technique to motivate an individual depends largely on his or her preference for some outcomes. Koontz and Wehrich (1990) also suggest that this theory is realistic and proves that individuals have personal goals different from organizational goals.

(b) **The Equity Theory**

This theory, based on the work of Adams (1957) suggests that an individual's motivation depends on his or her evaluation of the equity or fairness of the reward given to him or her. Equity as used in the context of this theory refers to 'ratio between the inputs (i.e. of efforts or skill exerted on the job) and the rewards (i.e. salary, promotions incentives, etc.) compared with the ratio of the rewards received by others performing similar jobs to their inputs'.

This theory implies that employees tend to compare their salaries (and other rewards) for their efforts with what others are receiving for similar job. Their motivation, job performance and job satisfaction tend to improve when they realise that their packages compare favourably with those of others performing similar jobs and exerting similar efforts.

However, if they perceive that they are being under-paid as compared to what others performing similar jobs (and exerting similar efforts) are receiving, they develop a feeling of inequity and might try resolving the problem by working less hard. On the other hand, workers who perceive that they are being paid far higher than what others are receiving for similar jobs/efforts tend to work harder.

10.3.3 Reinforcement Theory

The basic idea of this theory is that 'behaviour with positive consequences tends to be repeated, while behaviour with negative consequences tends not to be repeated'. The key features of this theory pioneered by Skinner (1984) are as follows:

- (a) Employees are motivated by proper design of their work environment and praise for good performance.
- (b) Employees should not be punished for poor performance as this leads to negative results.
- (c) Managers should regularly analyse work environment and remove factors that impede effective performance.
- (d) Provide regular feedback to employees and reward good performance.

Table 10.1 compares the various theories and indicates their use in management.

Table 10. 1: Comparison of Motivation theories

Theory	Feature	Implications for management practice
1. Maslow	<ul style="list-style-type: none"> • Man has five basic needs arranged in a hierarchy. • People want more but what they want is influenced by what they have already. 	<ul style="list-style-type: none"> • Managers need to find out subordinates' level on the hierarchy. • Satisfaction of physiological, safety, social, esteem and self-actualisation needs motivate
2. Motivation – Hygiene Theory	<ul style="list-style-type: none"> • Company policy, supervision, working conditions and money do not motivate employees. • Achievement, recognition, growth and responsibility motivate employees. 	<ul style="list-style-type: none"> • Money is not a motivator of behaviour. • Employees could be motivated if the manager emphasizes achievement, Recognition, Growth and Responsibility.
3. Vroom's Expectancy	<ul style="list-style-type: none"> • Individuals are rational, aware of their goals and are influenced by the expected outcomes of their actions. 	<ul style="list-style-type: none"> • Emphasizes management by objectives. • Individual perception is an important factor in motivation.
4. Equity	<ul style="list-style-type: none"> • An individual's motivation depends on his or her evaluation of the equity or fairness of the reward given to him or her. 	<ul style="list-style-type: none"> • Wages and salary increments will motivate employees only when they are perceived as fair when compared to other employees.
5. Reinforce ment	<ul style="list-style-type: none"> • Behaviour with positive consequences tends to be repeated, while behaviour with negative consequences tends not to be repeated. 	<ul style="list-style-type: none"> • Employees are motivated by proper design of the work environment. • Employees are better motivated when they are praised for good performance. • Employees should not be punished for poor performance.

10.4 Techniques used to motivate employees in practice

- (a) *Financial rewards (money)*: Money is one of the oldest methods of motivating employees. Financial rewards include wages, bonuses and profit sharing. Charles Handy (1985) argues that money is an important motivator of workers because it is often a reflection of other motivators and helps in satisfying the individual's physiological, safety, social, esteem and even self-actualization needs. Money is also the basis for comparing one's status, success and security, with others within the same organisation or industry. However, for money to be effective it must be related to the employee's

performance and increments should be large enough, relative to the employee's income. Furthermore, money may be more important to people who have not satisfied most of their physiological needs than people who have largely satisfied these needs.

- (b) *Employee Participation*: Employees may be motivated to work harder when they are allowed to take part in decisions which affect them. As a motivation technique, participation satisfies the growth, achievement and recognition needs of employees.
- (c) *Favourable Conditions of Work*: Employees could be motivated by providing them with good conditions of work such as recreational facilities, accommodation, canteen services, free medical care, transport facilities and the like.
- (d) *Enhanced Social relationship*: Employees could be motivated when the manager creates an environment that promotes good interpersonal relations.
- (e) *Personal Development*: Employees may be motivated to put in extra effort when they are given the chance to advance themselves through promotion, training and development.

10.5 LEADERSHIP

10.6 Leadership: Definition, Key Concepts and Importance

10.6.1 Definition

Following Koontz and Weihrich (1990) we would define leadership as the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of group goals.

10.6.2 Key Concepts

This definition exposes key features of leadership:

- (a) It is an art and it differs from one person to another.
- (b) It is a process, i.e. an ongoing process and not a single event.
- (c) Managers influence people on a daily basis.
- (d) It involves influencing people to strive towards specific goals.
- (e) It is a group concept i.e. a person cannot exercise leadership without followers.
- (f) It seeks to ensure that followers achieve their personal and group goals willingly.

10.6.3 Importance

Leadership is important because of the following reasons:

- (a) It is through effective leadership that a manager can create a motivational environment and promote high morale. Poor leadership results in poor motivation and low morale.

- (b) Effective leadership provides a sense of direction for people working in the organisation and focuses the mind of the group on this direction.
- (c) Selznick (1957) suggest that leaders define an organisation's mission; inspire others to pursue this mission; and manage the organisation's relationship with the environment.
- (d) Kotter (1988) also argues that effective leadership creates the right environment for change in an organisation.

The overriding importance of leadership was emphasized by Lord Sief (1991) who wrote that leadership *is vitally important at all levels within the company from the main board to the shop floor.* The importance of effective leadership may be summed up in this quote. *“There is no such thing as a bad crew, only a bad captain”.*

10.7 Approaches to the Study of Leadership

The concept of leadership has been studied through three main approaches: (a) The qualities or trait approach, (b) the style approach and (c) the situational approach.

(a) The qualities or trait approach

A trait may be defined as a physical or psychological attribute that influences the behaviour of a person. The trait approach to leadership attempts to explain leadership by analysing the physical and psychological attributes or characteristics of a person. According to this approach, leaders have some common physical and psychological attributes and anyone who possesses these attributes could potentially be a leader. The attributes or traits often cited by these authors include height, aggressiveness, and energy, appearance, personality, intelligence and human relations. According to this approach, leaders are often tall, aggressive, and highly intelligent and have a lot of energy. They are also extroverts and have good human relations.

Later research work on leadership have revealed some basic flaws in the trait approach e.g. It was not possible to draw up an all-inclusive list of attributes that all leaders must possess. There is also evidence that some successful leaders do not possess some of the attributes identified as essential attributes of leaders.

(b) Style Approaches

This approach to leadership has generated a large number of theories. The key ones are Managerial Grid and Tannenbaum and Schmidt Continuum: -

- *The Managerial Grid* developed by Robert Blake and Jane Morton suggests that there are two major dimensions of leadership; concern for

people and concern for production. A leader with high concern for people is employee-centred, stresses on the needs of employees and maintains harmony and team spirit among them. A manager with concern for production is job-oriented, sets clearly defined targets and ensures that employees achieve it. The authors also suggest that there are several variations of concern for people and concern for production as shown in the grid in Fig. 10.2.

- 1.1 *Impoverished* – Here the manager is lazy and show little or no concern for employees and their work.
- 9.1 *Task* – Managers with this behaviour are very concerned with work of employees and believes in achieving maximum results.
- 1.9 *Country club* – Managers with this behaviour has little concern for work but more concerned for the need of employees.
- 9.9 *Team* - Team managers seek to develop teamwork and cooperation among employees.
- 5.5 *Middle road* – Managers with this behaviour have balanced their concern for getting the best results from employees with focus on satisfying their needs.

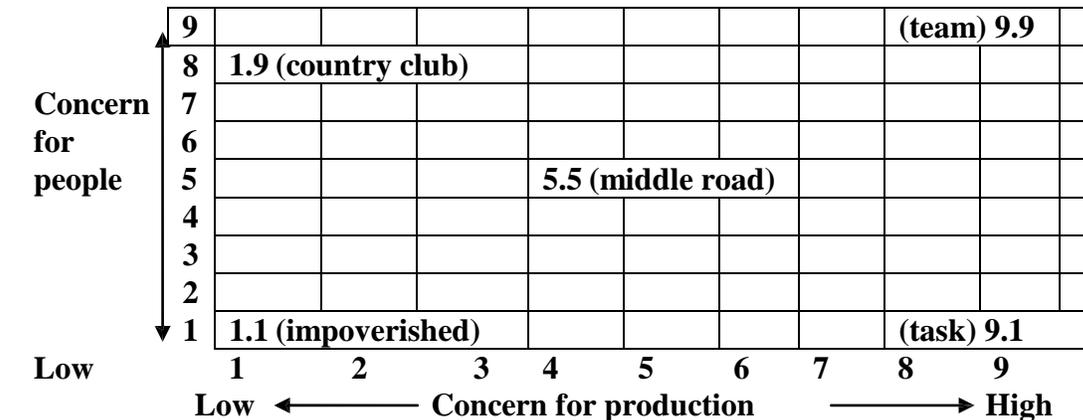


Fig. 10.2: Management Grid

- The Tannenbaum and Schmidt Continuum theory suggests that leadership style is in a continuum moving from boss-centred leadership style to a subordinate-centred style. The authors identified four main styles of leadership: tells, sells, consults and joins. A manager using the *Tells style* defines the problems, makes the decision and orders the subordinate to implement it without question. A manager using the *sells style* makes the decision alone but endeavours to persuade the subordinates to accept the decision. A *consults* manager identifies the problem but makes the decision

only after extensive consultation with the subordinates. Finally, in the *joins style* the manager defines the problem but joins the subordinates to discuss the problem and take a joint decision. The authors argue that the style a manager could apply at any point depends on his/her background/traits, the type of subordinate(s) and situational factors.

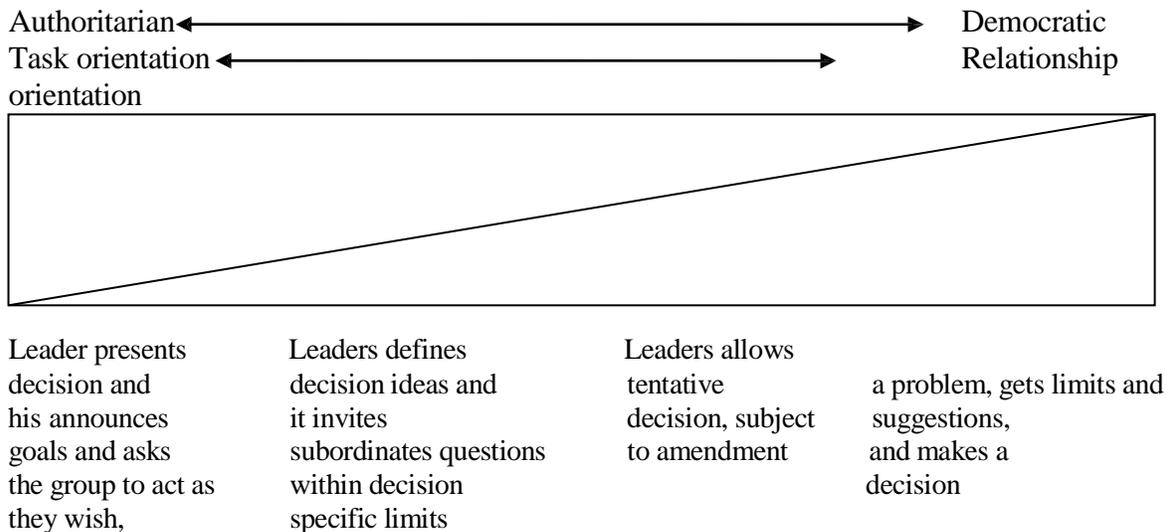


Fig. 10.3: Tannenbaum and Schmidt Continuum

(c) Situational or Contingency Approach

The underlying assumption of this approach to leadership is that there is no one best leadership style. The situational/contingency approaches argue that leadership style adopted by a manager depends on the following factors:

- (a) The trait of the manager.
- (b) The task at hand and the nature of problem to be dealt with.
- (c) Characteristics of the followers.
- (d) The nature of the environment
- (e) The organizational culture/structure.

10.8 Leadership Effectiveness

Leadership means giving a direction to others. A leader gives guidance and direction and others ('followers') follow the lead that they are given. It is common in formal business organisations for Managers to be expected to provide leadership. However, leadership and management are different and not all managers are good leaders. Leadership is, therefore, not the same as management, but it is an aspect or feature of management.

Leadership effectiveness within an organisation will involve the following:

- i. Providing guidance and direction for others to achieve the goals of the organisation.
- ii. Leading others to make the best use of their knowledge, skills and talents towards the achievement of the goals of the organisation.
- iii. Developing the knowledge, skills and talent of others in the organisation.
- iv. Showing and demonstrating leadership by example through personal involvement in the activities geared towards organisational goal attainment.

Effective leadership therefore enhances the overall effectiveness of the organisation and motivates employees to give their best at ensuring optimum performance and satisfactory achievement of organisational goals.

10.9: Dynamics of Groups and Teams (Group)

10.9.1: Meaning and Nature of Groups

A group has been defined as two or more individuals who interact with one another and there is a psychological interrelationship between them (Rosenfield and Wilson 1999). Groups in an organization may be classified into two (a) Formal and (b) Informal groups. A *formal group* is a group set up by management to carry out specific task(s). Examples of formal groups in an organization are task forces/project teams, sections/department and committees. *Informal groups are* groups which arise as a result of interaction among people who work in an organization.

10.9.2 Formal Groups

These are groups deliberately created by managers in order to perform or fulfil specific tasks directly related to the attainment of organizational goals and mission. There are two types of formal groups:

- (a) **Permanent Formal Groups:** These are formed to perform tasks that are recurrent in nature. Examples include Audit Committees.
- (b) **Temporary Formal Groups:** These are ad-hoc groups set up for a specific mission, such groups exist as long as their mission are unfulfilled or when their time schedule is yet to elapse.

Functions of Permanent Formal Groups

- (a) Means of working on complex, interdependent tasks too difficult for an individual to handle.
- (b) Generation of new ideas or creative solutions when information is dispersed among several people.
- (c) Coordination of functions among departments whose work is somewhat interdependent.
- (d) Facilitation of the implementation of complex decisions.
- (e) Formal groups provide a vehicle for socialization and training.

10.9.3 Informal Groups

These are groups formed basically to meet the psychological needs of workers.

- (a) Horizontal Clique: These are made of people with the same educational background, status, age, ethnic background, religion etc.
- (b) Vertical Clique: Made up of people with different status and background.
- (c) Random Clique: Made up of a mix people with both similar and different backgrounds.

Functions of Informal Groups

- (a) Affiliation needs (need for friendship, support, love, etc.).
- (b) Sense of identity: the natural instinct of wanting to identify with others.
- (c) Maintenance of self-esteem.
- (d) Through discussion with each other and the development of shared perspective and consensus, groups reduce uncertainty in the social environment of its members.

10.10 Dynamics of Groups and Teams (Team)

A team can be defined as a collection of individuals having a specific purpose or purposes and are committed to:

- i. achieving a goal
- ii high performance
- iii synergy: achieving more collectively than the total sum of individual achievements.

Types of Teams

- (a) Self-Managed Work teams: These are groups of employees who perform highly related interdependent jobs plus supervisory jobs such as planning, scheduling, assignment of tasks to members, collective control over pace of work and working with suppliers and customers.
- (b) Cross-functional teams: are made up of employees from about the same hierarchical level, but from different work areas coming together to perform a task.
- (c) Virtual Teams: These are groups of workers performing a set of tasks but tied together via information and communication technologies such as the internet, intranet, video conferencing etc. This team does not interact via physical contact.

10.11 Group and Team Formation and Development

Studies have shown that groups and teams pass through five developmental stages in forming, storming, norming, performing and closing phases.

1. Forming Phase

This is the formative stage of the group. It is characterized by uncertainty and feeling of insecurity by members. The focus of most members in this phase is safety. At this stage, members feel they are working in a vacuum because nobody knows quite what to expect from the group and what is expected of them. The feeling of anxiety rules the day. Although the feeling of insecurity is seldom verbalized, they influence group behaviour at a sub-conscious level. Members seem more concerned with being accepted by others than with the task ahead. At this stage, the group leader needs to accelerate the process of introduction of members to one another, clarify group goals and objectives as well as individual roles. This could be done through any of the following:

- i Frequent meetings comprising introductory session
- ii Start-up activities such as party, and other social type events
- iii Communication of group's terms of reference

2. Storming Phase

In this phase, members begin to challenge the leader and themselves concerning group goals, individual roles, procedures and other issues. This phase is characterized by conflict as members seek to free themselves from the dependence on the leader. At this stage, people often try to secure positions within the group.

This stage is characterized by:

- i Conflict about values
- ii Disagreement about goals and task
- iii. Disaffection about individual roles may surface
- iv Clarification of goals begins
- v. Members challenge the leader and each other
- vi Formation of sub-groups and coalitions
- vii. Group intolerance to sub-groups, cliques and coalitions
- viii. Increased member participation
- ix Decreased conformity
- x Deviation from emerging group norms
- xi Attempt at conflict resolution begins
- xii Conflict resolutions, if successful, increases trust and cohesion

The leader must:

- i. recognize the fact that at this stage conflict is natural;
- ii. recognize what is happening and remain calm, seeing the process as part of the development;
- iii. employ listening and conflict management skills that ensure that everyone has his/her say in a reasoned and controlled manner;

- iv. focus efforts on re-establishing his leadership role and clarify group's goals and objectives; and individual roles;
- v. allow your group to pass through this stage to avoid politics, game-playing, hidden agenda: a situation where everyone knows there is a problem, but no one is prepared to confront the real issue;
- vi. communicate group's terms of reference

3. Norming Phase

During this phase, group cohesion develops and a hierarchy of rules established, which members should observe. When a group has passed through the inevitable conflict stage, members' trust, commitment to the group and willingness to cooperate increase. Focus shifts away from their issues and becomes task-oriented.

Identifying the Norming Phase

- Increased goal clarity and consensus are evident
- Roles and task adjusted to increase the likelihood of group achievements
- The leader's role becomes less directive and more consultative
- The communication structure becomes more task-oriented
- Pressure to conform increases again
- Helpful deviation is tolerated
- Coalitions and subgroups continues to occur
- Increased tolerance of subgroups, cliques and coalitions is evident
- Cohesion and trust increases
- Cooperation is evident
- Individual commitment to group goals and task is high
- Greater division of labour occurs
- Conflict continues to occur but is managed more effectively
- The group works to clarify and build up structures that will facilitate goals determination and achievement.
- The ability to confront difficulties increases.

The leader must

- Support members by giving and receiving feedback
- Create a positive working climate
- Be as democratic a leader as possible by "asking" rather than "telling"

4. Performing Phase

This phase captures the best of peoples' ability in working together. The productivity and efficiency of the team is at its highest. Also, the group becomes a high performing team. In addition to this, tasks are accomplished according to the norms or structures established during previous phases.

5. Closing Phase

Peculiar only to temporary groups and teams, the groups get to this stage when it has completed or it is about to complete its assignment.

The duration that a group spends on each of the four phases depends on factors like the size of task, membership size, experience in working together and so on. The role of the leader in ensuring that the group does not stay for too long in the first three phases is crucial. It is possible for a group to get to the performance phase within six months. The first two or three months, groups are dealing with issues characterized by phases 1 and 2. Phase 3 emerges in the fourth or fifth month, while phase 4 emerges between the sixth and seventh months. The assumption here is that the team does not run into problems.

General Role of the Group Leader in Accelerating Group and Team

- a. Development - The duration of each phase stated above depends a lot on how the leadership is able to identify the group's current phase and act accordingly. It is also good for members to be aware of these stages of team development to facilitate understanding. Also, the leader and members should not be in a hurry by expecting high performance from a team that is yet to attain that phase.
- b. In addition to this, groups, like some people, never mature they stay stuck in forming or storming phases for as long as the group exists. Others manage to get to the performing phase only to regress to earlier stages.

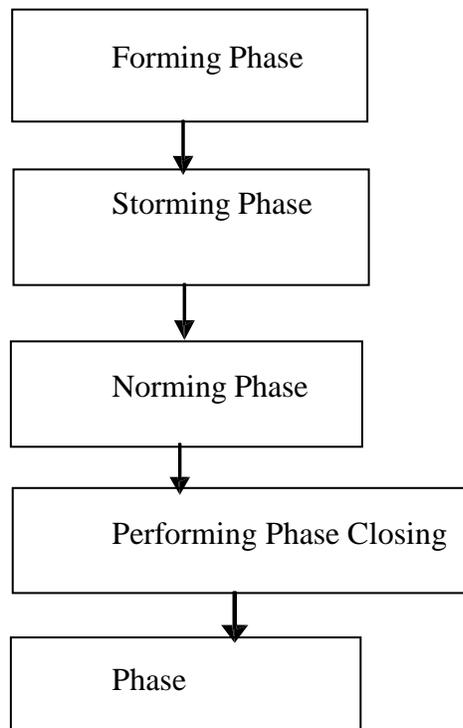


Fig. 10.4. Schematic Diagram of Group and Team Development
10.12 Group and Team Effectiveness

A group is effective if it is able to achieve the purpose for which it was set up. There are certain common characteristics that demonstrate group effectiveness. These are:-

- (a) *Common understanding of group aims:* In an effective group most members have a common understanding of the aims of the group.
- (b) *Members are committed:* In an effective group, members of the group are committed to the objectives and activities of the group. They show this commitment by regular participation in the activities of the group.
- (c) *Each member understands his/her role in the group:* Each member in an effective group understands the part he/she has to play in the achievement of the group's objectives.
- (d) *Good leadership:* Effective groups are often those led by leaders who are visionary, people-centred, transparent and committed to the ideals of the group.
- (e) *Effective conflict handling:* As indicated earlier in this text, conflicts are inevitable in all groups, but in effective groups, conflicts are resolved peacefully and quickly.
- (f) *Members obey group norms:* In effective groups, members obey group's rules and regulations. The rules and regulations are applied to all members, fairly.
- (g) *Loyalty:* Members of an effective team identify with the group and have strong loyalty to the group.
- (h) *Group members are satisfied:* An effective group is one in which members perceive their individual needs as satisfied.

The difference between an effective group and ineffective group is summarized in Table 10.2.

Table 10.2: Differences between an effective group and ineffective group

Group	Features
Effective	<ul style="list-style-type: none"> • Achieves its purpose. • Able to increase output. • Common understanding of group purpose among members. • Members are committed. • Each member understands his/her role in the group. • Good leadership. • Effective conflict handling. • Members obey group norms. • Group is cohesive. • Communication flows freely. • Participation in group activities. • Members are satisfied.
Ineffective Group	<ul style="list-style-type: none"> • Poor leadership. • Ineffective conflict handling. • Poor communication flow. • Low commitment to group goals. • Conflicting roles and poor understanding of group purpose. • Low productivity. • Poor interpersonal relationships among members. • Low participation in group activities.

10.12.1 Evaluating Team Performance

Periodic evaluation of team performance is beneficial so that appropriate actions can be taken to keep performance as optimal as possible. Corrective action could take the form of training, motivation through rewards and reconstitution of the team.

The following are ways of evaluating team performance:

- a) **Manager Evaluation:** - This involves the rating of team performance by a manager or someone of sufficient seniority in the organisation. However, evaluation results may be subjective.
- b) **360-Degree feedback:** Also known as multi-source feedback, this method relies on a group of people within the organisation to perform the evaluation. This group may include: co-workers, supervisors and colleagues. However, this method may be complicated to apply and interpretation of evaluation results may be challenging.

- c) **Objective Performance:** - This involves evaluating team performance on the basis of measurable goals set, typically at the beginning of the evaluation period. However, for this evaluation method to be effective, standard goals must be set in a clear, measurable and realistic way.
- d) **Self Evaluation:** This is a method where each member of the team is asked to evaluate the performance of other members and the team as a whole. Evaluation may be based on general criteria like members' contribution to performance or specific criteria like teamwork.

10.12.2 Team-Based Pay

This is a method of rewarding teams or group of employees carrying out similar work that is connected with overall team performance. For motivational purposes, adequate reward is essential for a sustained high performance in teams. Performance may be measured in terms of output and/or achievement of service delivery standard. Team based pay can come in the form of bonus that is shared among team members in proportion of the rate of their pay (or sometimes equally)

Advantages of Team-Based Pay

- a) It encourages teamwork
- b) Aids in the clarification of team goal and priority
- c) It encourages acquisition of several skills by individual members of the group.
- d) Provides incentive for improvement of collective performance
- e) It encourages less effective members to contribute more towards improved team performance

Disadvantages of Team-Based Pay

- a) It only works in mature and cohesive teams
- b) Risk of resistance by members who feel that their individual contribution to overall team performance is not being adequately rewarded

Requirements of Team-Based Pay

- a) Clearly identifiable and defined teams
- b) Work carried out by the team is interrelated. This is because team performance depends on collective effort of individual team members
- c) Availability of acceptable yardsticks for measuring team performance against targets and standards.

Groups and Teams

Groups are generally different from teams. The differences between them are explained in the table below:

Table 10.3 Differences between groups and teams

GROUPS	TEAMS
Strong, clearly focused leader	Shared leadership role
The group's purpose is the same as the broader organizational mission	Specific team purpose that the team delivers
Individual work product	Collective work product
Run efficient meetings	Encourage open-ended discussions and active problem solving meetings
Measure their effectiveness indirectly by its influence on others (e.g. overall reduction in cost of the organization)	Measure performance directly by assessing collective work products
Discuss, decide and delegate together	Discuss, decide and do the work together

10.13 Nature of Conflicts in Organisations

Wherever a group of people consisting of individuals from different backgrounds with varied experiences, expectations and personal ambitions come together, there are likely to be clashes and misunderstandings, which can degenerate into conflicts. A conflict, in the context of this text, refers to a situation of misunderstanding or lack of consensus. Stoner and Freeman (1989) define conflict as a disagreement between two or more organisation members or groups arising from the fact that they must engage in interdependent work activities and/or from the fact that they have different status, goals, values or perceptions.

There are two views on the nature of conflict in a group or organisation – (a) traditional and (b) human relations. In the traditional view, conflict is negative and destructive and should be avoided at all costs. The human relations view of conflict on the other hand, suggests that conflict is a natural outcome of interaction among members in a group and is therefore, inevitable. This view suggests that conflict is acceptable and should be encouraged. Some authors also identify three levels of conflict:

- (a) *Interpersonal conflict*: This type of conflicts arises between individuals in a group or organisation.
- (b) *Inter-group conflict*: This refers to conflict between factions in a group or groups in an organisation.
- (c) *Inter-organizational conflict*: This refers to conflict between an organisation and other organisations.

10.13.1 Sources of Conflicts in an Organisation

Conflicts in an organization may emanate from the following sources:

- (a) Competition for resources in a group.
- (b) Differences in the status of people interacting with each other.
- (c) Lack of information flow among employees.
- (d) Differences in goals of individuals and departments.
- (e) Poor leadership style of leaders.
- (f) Differences in values or perceptions among people in the organisation.

10.13.2 Effects of Conflicts on a Group

The effects of conflict depend on whether the conflict is constructive or destructive. Constructive conflicts are positive and not intended to hurt the relationships among members of a group. Possible effects of constructive conflict on an organisation are as follows:

- (a) It could stimulate creativity and new ideas in the group.
- (b) It brings latent problems to the fore and provides an outlet for bottled-up tensions to be released.
- (c) It may improve the quality of decision-making.

Where conflict is destructive it may impact negatively on the organisation and lead to:

- (a) Discontent among group members.
- (b) Poor flow of information among members.
- (c) Weakness in the cohesion of the group.
- (d) Difficulty in achieving the goals of the group.
- (e) General mistrust among members of the group.
- (f) Dissolution of the group.

10.13.3 Management of Organisational Conflict

- (a) Clearly define rules and regulations governing group activities.
- (b) Ensure the free flow of information in the group.
- (c) Define the role of each member in the group.
- (d) Encourage group members to take part in the decision-making process.

- (e) Encourage frequent interactions among members.
- (f) It may be necessary to bring an outsider to help resolve the conflict.

10.14 Communication

Communication is an inseparable part of our daily activities as workers or managers. We spend most of our daily working lives talking to each other, exchanging information (through meetings, telephones, face to face interactions, memos, letters, internet, etc.) and giving or receiving instructions. We also exchange information on a daily basis with external stakeholders – customers, bankers, government institutions, etc. Without the flow of information, it will be difficult for many of us and our organisations to survive. In this section we will walk through the basic features of communication in an organisation and discuss its impact on organisations.

10.14.1 Meaning and Importance of Communication

For a working definition we would define communication as the transference and the understanding of meaning among individuals. Communication in an organisation may be formal or informal. *Formal Communication* has to do with the transmission of meaning and understanding through *channels* endorsed by management of the organisation. *Informal Communication* has to do with the transmission of meaning through channels set up by employees themselves. Informal communication arises because of the social interactions among employees in the organisation. Informal communication helps supplement the formal channels of communication and reduces the problems associated with rather rigid *red tape* associated with formal communication channels.

Communication is important because of the following reasons:

- (a) It is through the transmission of information that management gets the required data needed to draw up and implement policies. Policy-making requires information from various sources: - customers, suppliers, employees, shareholders, competitors and members of the public. All these sources provide the data needed to draw up the right policies.
- (b) It provides a means through which managers explain policies to employees, customers, suppliers and other members of the public.
- (c) It helps to create employees' interest in the job, motivate them and improve their morale.
- (d) It provides a means of monitoring the performance of human and material resources of the organisation.
- (e) Communication flow among different departments and employees helps them to coordinate their activities.
- (f) It offers employees a means of channelling their grievances, feelings, ideas and suggestions to managers. All these help to resolve conflicts and create a peaceful atmosphere within the organisation.

10.14.2 The Communication Process in an Organisation

Communication flow in an organisation may be analysed through the communication process model shown in Figure 10.5: -

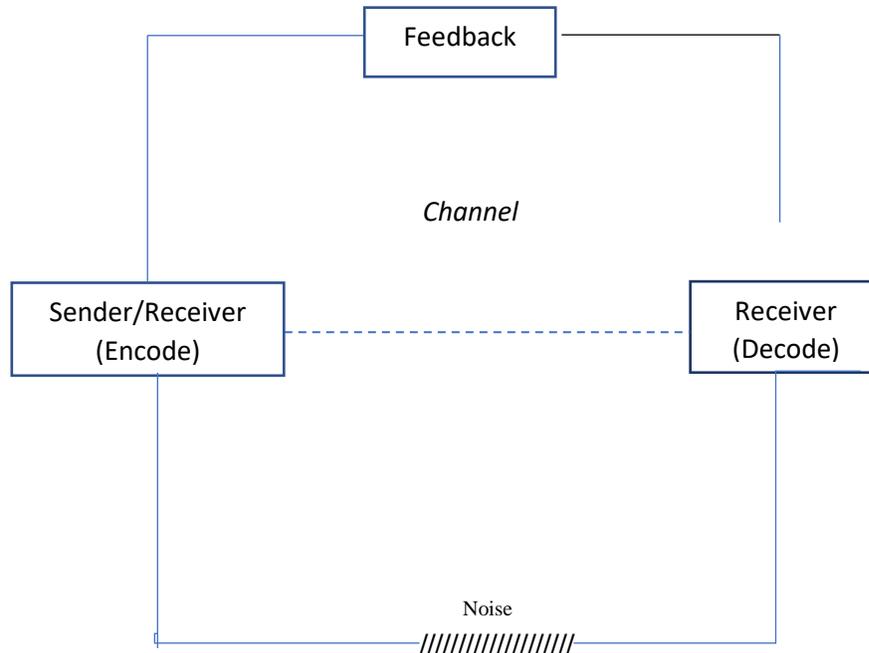


Fig. 10.5: The Communication Process Model

This model suggests that transmission of information starts with a thought by a *sender*. The sender *encodes* the thought (i.e. puts it in the form of a message that can be understood by the receiver). After encoding, the sender transmits it through a channel to a *receiver* who receives the message and decodes it (i.e. breaks it down to understand it). If the receiver responds to the message there is a *feedback*. Anything in the environment which interferes with or distorts the transmission of the message is called *noise*.

Table 10.4: The Communication Process Model – Explanation of Terms

Feature	Explanation
Sender	This refers to the person who initiates the transmission process, thinks about the message and encodes it.
Encoding	Putting an idea in a way that can be understood by the receiver. Encoding can be verbal or non-verbal (body language, written, electronic, pictures, etc.).
Message	This is the information being transmitted. The sender has to use a channel suitable for transmitting the message.
Channel	This refers to any medium used by the sender or receiver to transmit messages. Media used in most organisations to convey information are company publications (brochures, organisation charts, house magazines etc), suggestion boxes, internet, meetings, committees and notice boards. Others are public reports, letters and body language (gestures, dressing and physical distance).
Decoding	The process by which the receiver extracts some meaning out of the message received.
Noise	Anything in the environment which interferes with the transmission of the message is called noise. Noise can be physical, or psychological.
Feedback	There is feedback when the receiver replies the message transmitted. The feedback can take the form of a verbal or non-verbal message or carrying out an action requested by the sender. Feedback helps the sender to know if the message has been understood.

The model helps us to analyse the various elements, which influence communication flow within an organisation. The model also shows that communication will become effective when the sender encodes the message in the form the receiver understands and can decode. It also stresses the importance of using the right channel of communication.

10.14.3 Forms of Communication in an Organisation

In a typical organisation, information is transmitted in several directions. Superiors instruct subordinates or request for information. Subordinates transmit information to their managers on a daily basis. There is also exchange of information among departments and people. This section takes a look at the directions in which communication flows. In terms of direction, communication flow may be categorised as: (a) Upward communication (b) Downward communication (c) Horizontal communication and (d) Crosswise communication. This is illustrated in Fig. 10.6

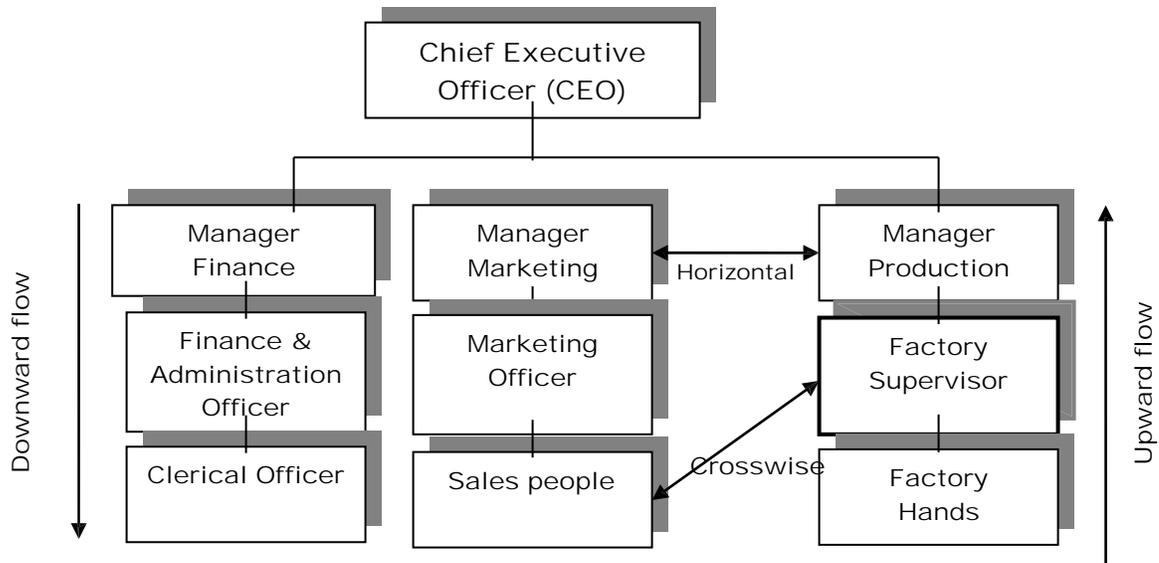


Fig: 10.6: Flow of Communication in an organisation

- (a) *Upward Communication:* Upward communication refers to the transmission of information from the bottom of the organisation hierarchy to the top. Media used in upward communication includes suggestion boxes, Internet, fax, telephones, meetings, letters, face-to-face conversation, memoranda, grievance procedure and the grapevine.
- (b) *Downward Communication:* This has to do with the transmission of information from the top of the organisation hierarchy to the bottom. Downward communication uses several channels – the grapevine, face-to-face contacts, circulars, notices, telephone, committees, employee handbooks, organisation manuals, house magazines, Internet.
- (c) *Horizontal Communication:* This has to do with the transmission of information among people on the same level of the organisation. Media used in horizontal communication include committee meetings, telephone, face-to-face contacts, circulars, memoranda and electronic media such as fax, Internet and closed circuit television.
- (d) *Crosswise Communication:* This refers to the diagonal flow of information among employees at different levels of the organisation and in different departments. Usually those engaged in crosswise communication have no direct relationship and the information flow does not follow the chain of command or line of authority.

Table 10.5: Comparison of information flows in an organization

Type	Kind of information transmitted	Advantages	Disadvantages
Upward	<ul style="list-style-type: none"> • Employee's views and Suggestions • Answer to Queries. • Reports and data • Employee Grievances. 	<ul style="list-style-type: none"> • Top and middle managers know what is happening. • Managers get information for policy and decision-making. 	<ul style="list-style-type: none"> • Information may be <i>filtered</i> or <i>distorted</i> when transmitted upwards.
Downward	<ul style="list-style-type: none"> • Instructions • Request for Information. 	<ul style="list-style-type: none"> • Managers get things done. • It is used to monitor performance. 	<ul style="list-style-type: none"> • Information may have veiled threat behind it.
Horizontal	<ul style="list-style-type: none"> • Data and Information. 	<ul style="list-style-type: none"> • Improved coordination of activities of departments and organization. 	<ul style="list-style-type: none"> • It does not follow chain of command and could lead to conflicts.
Crosswise	<ul style="list-style-type: none"> • Data and Information. 	<ul style="list-style-type: none"> • Improved coordination. • Cooperation. 	<ul style="list-style-type: none"> • Does not follow chain of command. • Could lead to conflicts.

10.14.4 Barriers to Effective Communication

Barriers as used here, refers to factors within the organisation or individual(s) which impede the flow of communication. Examples of such barriers are as follows:

- (a) *Semantics*: This has to do with the use of technical jargons, unfamiliar words, high-sounding words, poor sentence structure etc. during communication. Semantics is a problem because people attach different meanings to words and as one writer aptly observes, 'a breakdown in communication can occur in interpretation as a result of misunderstanding, since words can have various meanings and those used by one person can be interpreted by another in a way contrary to what was intended'.
- (b) *Poor Listening Skills*: Some people may not be able to communicate effectively with others because they don't listen when others are talking.
- (c) *Differences in background*: Differences in age, social status of people communicating with each other could impede communication between them.

- (d) *Conflicts*: Conflicts between individuals or work groups in an organisation could impede communication flow in the organisation.
- (e) *Emotional problems* such as frustration, poor perception, hostility, anger, fear and mistrust might make it difficult for some people to communicate with others.
- (f) *Communication overload*: Communication may be impeded if managers are 'buried' with too much information from several sources and find it difficult to process them.
- (g) *Poor organizational structure*: Communication in an organisation may be impeded by long chains of command, highly centralized authority structure and unsuitable span of control.
- (h) *Physical layout of the organisation*: Where employees are physically isolated from each other because of the layout of the offices, communication might become ineffective.
- (i) *Lack of planning*: Communication in an organisation may be ineffective where managers fail to plan before communicating.
- (j) *Inappropriate channels of communication*: Communication in an organisation may be impeded by the use of inappropriate media or the absence of the right media in the organisation.

10.14.5 Guidelines for Effective Communication in Organisations

To minimize the effect of the barriers identified above, the following techniques could be adopted:

- (a) Improve the general atmosphere for effective communication by adopting an open door style, which encourages employees to communicate without fear.
- (b) Planning before communicating i.e. decide what message you want to get across to the receiver; how to send the message and who is receiving the message; and when to send the message to the receiver. This analysis helps to choose the right message and the most appropriate media of communication to use.
- (c) Management must provide the right media of communication and make these media accessible to all employees who need them. Furthermore, the media chosen must suit the receiver(s) of the message.
- (d) Overload of managers with volumes of irrelevant information must be avoided by regulating the quantity of information flowing to them and encouraging delegation of authority.
- (e) Remove physical barriers to communication by designing the office layout in such a way that it makes it possible for employees to interact.
- (f) Management must reduce the use of highly technical jargons especially when communicating with subordinates.
- (g) Develop effective listening skills: One management author wrote; 'when a sender does not listen, he has no way of getting a feedback to see if his message is being understood'.
- (h) Management must use the right media of communication.

- (i) Gestures, facial expressions, body movements, physical contacts, positioning and postures affect communication flow between individuals and should be taken into consideration when transmitting information.

10.15 Management of Change

Regina Farms is located in a rural area near Abuja. It produces a wide variety of vegetables, mainly for export and employs about one hundred workers. In 2001, management decided to introduce new methods of farming which emphasizes irrigation and imported modern machines from India. The new methods helped to increase output but led to strong resentment among the workers who did not like the massive retrenchment the new machines brought about. In 2002 the resentment led to a strike.

Change in an organisation can take several forms. It could be change in work practices, management, merger with another company, introduction of new accounting software or involve hardware systems such as introduction of computers, new machines or movement to a new building. Whatever the nature of change, the situation described in the short case above could be avoided if it is well managed. In this section we shall walk you through the sources of change, why employees resist change and how change could be managed.

10.15.1 Factors Influencing Change in Organisation

A variety of major forces influence organizational change:

- (a) The market is being constantly bombarded with new technology, new ways of doing things. These developments have forced a large number of organisations to reappraise their human resource, marketing and production strategies to help them stay viable.
- (b) New management policies, roles and organisation structure.
- (c) Changes in social trends, values and attitudes of the society in which the business operates could influence change in the organisation.
- (d) The marketing activities of competitors could force an organisation to change product, pricing, promotion and distribution strategies.
- (e) Merger with a different company could trigger changes in both companies.
- (f) New work methods and procedures could demand changes in an organisation.
- (g) A new chief executive (or changes in management) could bring about changes in strategy and policies.

10.15.2 Why Employees Resist Change

Employees traditionally resist change because of a variety of reasons:

- (a) *Fear of the unknown*: Most people are often apprehensive and anxious about future changes especially if the changes contemplated are unclear.
- (b) *Lack of Information*: Some employees might oppose change if they are not

- properly briefed on the implications of the change to be introduced.
- (c) *Fear of unemployment:* Some employees oppose certain changes if these changes are perceived to be a threat to job security or lead to losses in income or obsolescence of job skills.
 - (d) *Lack of Participation in Change:* Employees often accept change more readily if they are allowed by management to participate actively in drawing up and implementing these changes. Where management refuses to involve employees in the process of change, they naturally oppose the change.
 - (e) *Threat to Social and Interpersonal Relationships:* Employees may oppose some changes if it will negatively affect their social relationship at the work place.
 - (f) *Inability (Reluctance) to Change Habits:* Employees often develop and become accustomed to certain established patterns of behaviour or way of doing things. Changes threaten these and give rise to resistance.
 - (g) *Threat of Challenges:* Some employees might oppose certain changes if they find it difficult to cope with the demands of the new changes introduced.
 - (h) *Experience of Past Changes:* Employees might resist changes if they had negative experience with previous changes in the past.
 - (i) *Threat to Expertise.*
 - (j) Threat to established resource allocation, power relationship.

10.15.3 Management of Change

Management could reduce individual or group resistance to change through the following techniques:

- (a) Education and Communication – to help employees understand the logic and need for the change. It provides employees with the needed information about the change.
- (b) Involvement of employees in the planning and execution of the changes. Where employees are allowed to participate actively in the design and implementation of the changes they easily adapt to the changes.
- (d) The change must be carried out only after detailed pre-change planning, which should decide on the kind of changes to be introduced; the financial and human implications of the changes; timing and pace of the changes
- (d) Management must motivate employees to accept changes by introducing incentives and creating an environment, which will induce employees to accept the change.
- (e) Adapt the pace of change to employees. When changes introduced are faster than employees could cope with, resistance builds up. Let the pace of change be such that will enable employees adapt to them. If the change is gradual, people will have enough time to adapt and adjust.

- (f) Changes must be introduced at a time when employees will be more amenable to change and will be prepared to make behavioural changes to accommodate the new idea (s) being introduced.
- (g) Sometimes resistance to change could be reduced if management takes into consideration the scope of the changes, e.g. instead of introducing the new idea in every department; test the feasibility of the idea in one department before extending it to other departments.
- (h) Training of employees could also help provide them with skills required to adapt to the changes being introduced.
- (i) Negotiation – managers can negotiate with those resisting change and exchange something of value in return for their cooperation.
- (j) Manipulation and cooptation – management may present certain facts in favour of the change and ignore those against. Cooptation involves giving some leaders in the group resisting change key roles in the process, so they may drop their resistance.

10.16 Summary

This chapter is an exhaustive overhaul of what motivation stands for. Motivation in this chapter was identified as a morale booster for employees and one of the major reasons why employees engage in and take opportunity of employment opportunities. A dual overview of motivation suggests that while motivation is the reason why employee engages in paid job, it is also seen as a strategic weapon used by employers to induce employees for the purpose of contributing maximally to organisational objectives. A series of motivational theories were reviewed and categorised mainly into three (content, process and reinforcement theories). Two major theories from the content approach were reviewed, namely:

- i. Maslow's Hierarchy of Needs theory and
- ii. Frederick Hertzberg's Motivation – Hygiene theory

Also, from the process theories approach, (i) Vroom's Expectancy theory and (ii) Equity theory were x-rayed and discussed in full contents. On a final note, the postulate of reinforcement theory was discussed from the prevalence peculiarity of its assumptions that:

- i. Employees are motivated by proper design of their work environment and praise for good performance and should not be punished for poor performance as this leads to negative results.
- ii. Managers should regularly analyse work environment and remove Factors that impede effective performance and provide regular feedback to employees and reward good performance.

Leadership was seen as the grease that oils the wheel of motivational strategies implementation across organisations and as well, it was carefully discussed in this chapter, with careful interest in the effectiveness of leadership traits and qualities for the purposes of delivering on their

expected duties and responsibilities. Leadership was described in this chapter as both an art and process. Various leadership approaches were evaluated and itemised.

This chapter equally discussed communication as a veritable tool for avoiding organisational conflict; except where constructive conflicts becomes absolutely inevitable. Barriers to effective communication as well as guidelines for communication application were amplified for the purpose of creating an undiluted understanding of the role of effective communication to organisational success.

10.17 REVIEW QUESTIONS

SECTION A (ATTEMPT ALL QUESTIONS)

PART I : MULTIPLE CHOICE QUESTIONS

1. The elements of the Maslow's Hierarchy of Needs include the following, EXCEPT
 - A. Safety needs
 - B. Self-esteem needs
 - C. Self-actualisation needs
 - D. Clinical needs
 - E. Physiological needs

2. Leadership effectiveness within an organisation involves the following, EXCEPT
 - A. Provision of guidance and direction for others to achieve the goals of the organisation.
 - B. Leading others to make the best use of their knowledge, skills and talents towards the achievement of the goals of the organisation.
 - C. Developing the knowledge, skills and talent of others in the organisation.
 - D. Articulating domestic responsibilities for others to follow
 - E. Showing and demonstrating leadership by example through personal involvement in the activities geared towards organisational goal attainment.

3. Groups in an organisation can be classified into:
 - A. Supportive and discouraging
 - B. Native and international
 - C. Formal and informal
 - D. Closed and intelligent
 - E. All of the above

4. The two views on the nature of conflict in a group or organisation are:
 - A. Traditional and human relations
 - B. Traditional and conventional
 - C. Human and capital relations
 - D. Emotional and human intelligence
 - E. Personal and intrapersonal interests

5. Communication flow may be categorised as any of the following, EXCEPT:
 - A. Upward communication
 - B. Downward communication
 - C. Clockwise communication
 - D. Horizontal communication
 - E. Crosswise communication.

SHORT ANSWERS QUESTION

1. The leadership approach that assumes that there is no one best style to achieving organisational goal by managers is called.....
2. The group and team phase which captures the best of peoples' ability in working together is referred to as
3. Employees are often apprehensive and anxious about future changes especially if the changes contemplated are unclear mainly because of
4. occurs when the receiver replies the message transmitted.
5. is a type of conflict that encourages positive relationship not intended to hurt the relationships among members of a group

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

1. A
2. B
3. C
4. A
5. C

SHORT ANSWER QUESTIONS

1. Contingency/situational approach
2. Performing Phase
3. Fear of the unknown
4. Feedback
5. Constructive conflict

SECTION F

OFFICE PRACTICE AND PROCEDURE, HEALTH AND SAFETY

CHAPTER ELEVEN: OFFICE PRACTICE AND PROCEDURE, HEALTH AND SAFETY

11.0 Learning Objectives

After reading this chapter you should be able to:

- define and explain the functions of an office.
- discuss the functions of basic office equipment.
- identify the causes of accidents in offices and how they can be prevented.
- identify the importance of health and safety at the workplace.
- explain the various health and safety regulators and legislations in your country.
- identify sources of danger to health and safety within the workplace.
- explain various safety prevention and protection methods.
- discuss the role of training in raising awareness of safety issues.

11.1 Office Practice and Procedure

You are probably training to work as an accountant or in a managerial capacity in an organization. Any of these will require a space where you will carry out your day-to-day work. This space is called an office. In this chapter, we would look briefly at the basic functions of an office and other activities relevant to office work such as the uses of some office equipment and safety.

11.2 Definition and functions of an office

An office is a place in an organisation where business, clerical and professional activities take place. The functions of an office are as follows: It

- (a) provides a convenient place where managers carry out their functions.
- (b) collects information from within the organisation. Examples of such information are letters, memoranda, documents generated from other departments.
- (c) collects information from outside the organisation. The office receives incoming mails from outside e.g. letters, parcels, documents, invoices, telephone calls etc.
- (d) records information. The office classifies and records information received from other departments and outsiders in files, computers and other media.

- (e) provides information for others. Office staff provides information to staff and outsiders who require specific information on the activities of the organisation.

11.3 Office layout

Office layout refers to the way the office is arranged to facilitate the flow of work. There are two types of office layout. These are (a) closed office and (b) open plan office. A closed office is an office where each individual is allocated a separate office. An open plan office is one in which more than one person share the same room.

Table 11.1: Comparison of Closed and Open Office Layout

Type of office	Advantages	Disadvantages
Closed	<ul style="list-style-type: none"> i. There is privacy for Confidential discussions. ii. The occupant of the office can concentrate because there is very little disturbance from other employees. 	<ul style="list-style-type: none"> i. It is not economical. Large space may be occupied by one individual. ii. Separate facilities e.g. computers, telephones, etc. may have to be provided for each office. iii. It may be difficult to supervise staff because they are in different offices. iv. It might slow down the flow of some activities which require constant interaction among employees
Open plan	<ul style="list-style-type: none"> i. It is easy to supervise since everybody is in view. ii. It economises space. iii. Exchange of information among staff is easy and this facilitates the flow of work. iv. Certain facilities may be easily shared e.g. printers v. Lower energy costs. vi. Few communication barriers. vii. Could easily be rearranged. 	<ul style="list-style-type: none"> i. Some senior staff do not like the idea of been ‘dumped’ in the same room with their subordinates. ii. There is no privacy for people who wish to discuss confidential matters. iii. Noise from movements in and out of the office and office machines might disturb some staff.

11.4 Planning an Office Layout

The following factors are taken into consideration in planning the layout of an office:

- (a) **Churn Rate:** For many organizations, office layouts are subject to frequent changes. The process of change in office layout is known as Churn Rate which is expressed as the percentage of staff moved during the year.
- (b) **Statutory Requirement:** Legal requirements as contained in relevant legislations also affect the planning of office layout. The Factories Act of Nigeria and the Factories, Offices and Shops Act of Ghana explicitly specify fire prevention arrangements, lighting levels, ventilations, temperature control, etc.
- (c) **Business needs:** Office layout should provide an environment suitable for the business of the organization. For example, the layout of a bank will be different from that of an accounting firm.
- (d) **Accommodation Standards:** Organisations often have a policy on the minimum standard of accommodation for each staff grade. Administration staff may work in open plan offices whereas managers may have individual offices, sized on seniority basis.
- (e) **Space Availability:** Planning an office layout will also depend on quality and the types of office space available for use.

11.5 Office Machines and Furniture

Office machines are used because of the following reasons:

- (a) They aid or speed up the performance of routine functions.
- (b) Improve the quality of work.
- (c) To save space.
- (d) To simplify the work of employees.

11.5.1 Types of Office Machines and Furniture

The main types of machines you are likely to meet in most offices are:

- (a) **Photocopiers:** This is a machine used to copy from original documents. The original document may be handwritten, printed or typewritten. Photocopiers are used to prepare extra copies of documents.
- (b) **Facsimile (Fax) Machine:** This machine scans printed, typewritten texts and images and transmits them through telephone lines to a receiving fax machine

that converts the electronic signals back to the original text or image. The machine converts printed material or images into electronic signals. Suitable transmission through telephone lines, cables or satellite networks, facsimile machines could store messages and transmit them later, when transmission costs are lower.

- (c) **Calculating Machine:** This is used mainly in the office for calculations and complex computations.
- (d) **Cash register:** This is used in the cash office to receive cash and compute cash received from clients/customers. They are also used for computations.
- (e) **Paper Shredders:** used in shredding unneeded documents to protect against leakage of contents in the process of disposal.
- (f) **Computers:** Perhaps the most common equipment in modern offices. It is used for data and word processing, document storage, communication, presentation, etc.
- (g) **Scanners:** Used for scanning images of documents to computers for printing, storage, display or communication via the internet.
- (h) **Binding Machine:** used for putting sheets of documents or contents of a file together.
- (i) **Typewriters:** used for typing documents. Its use is fast becoming obsolete.
- (j) **Paper cutter and Envelope Opener:** Paper cutters are used for trimming the edges of documents to make them neater, while envelope openers are used for opening envelope neatly to ensure that the content and envelope itself are not damaged.
- (k) **Laminating Machines:** Machines used for burning water proof material to documents for preservation purposes.
- (l) **Perforators:** used for punching holes into document to make attachment to file neater.
- (m) **Stapler:** For holding documents together.
- (n) **File cabinets:** For storage of folders and protection of documents from fire outbreak, theft, etc.
- (o) **Office chairs:** which comes either in swivel or stationary form, it is used for sitting in offices. The design is dependent on several factors some of which include seniority, size of space, purpose, etc.

- (p) **Office tables and Desks:** Used for sitting, writing, storage of materials and documents, etc.
- (q) **Book cases and Shelves:** Used for display of books, files, trophies, etc. for ease of access.

11.6 Storage and Retrieval of Records

A record is any information that is written or preserved for future reference. These records are stored in a manner to make it easier to retrieve them with minimum delay.

11.6.1 Classification of Office Records

Records handled in an office are classified into four: (a) vital (b) Important (c) useful and (d) not useful -

- (a) *Vital records* include records showing proof of ownership e.g. Certificate to commence business; Business Names; records giving proof of company properties, such as machines, building, land, installation and documents giving proof that the company is following the law e.g. Records of company tax payments.
- (b) *Important records* are documents needed for the operations of the firm. Examples of such documents include financial statements such as statements of financial position, statements of comprehensive income, invoices and sales records and accounting records, etc.
- (c) *Useful records* are documents required or used for the day to day running of the business. Examples are memos, general correspondence with customers and staff and application letters kept in view.
- (d) *Not useful records* include documents like notices for meetings, requests, interview results and recruitment test scores.

Vital records are very important for the security and survival of the firm and should generally not be stored in the archive files of the firm. Important records could be transferred to inactive files in storage when reference to them becomes infrequent. Non-essential records need not be kept in the files for a long time. They are disposed off or transferred to storage as soon as possible.

11.6.2 Filing, Storage of Records and Retrieval of Records

Filing refers to the systematic storage of documents so that they may be retrieved later for reference. Organisations receive incoming mails and documents and send out outgoing mails and documents. A filing system refers to any set of procedures or methods used to store these documents. There are four major filing systems: -

- (a) The alphabetical filing system.

- (b) The numerical filing system.
 - (c) The alpha-numerical filing system.
 - (d) The subject filing system.
 - (e) The geographical filing system.
- (a) *The Alphabetical Filing System:* In this system letters and other documents are filed in alphabetical order.
 - (b) *Numerical Filing Systems:* Here, the documents/files are allocated numbers and filed in cabinets corresponding to the numbers. This system often requires the use of a reference index.
 - (c) *Alpha-numerical Filing System:* This combines the alphabetical and numerical systems.
 - (d) *Subject Filing System:* Under this system, documents are filed according to the subject or topic. For example, the human resources department could file its documents under: Recruitment, Appointment letters, Performance appraisal reports and the like.
 - (e) *Geographical Filing System:* Here documents are filed according to the geographical area where it originated or geographical destination.

11.6.3 Centralized and Decentralized filing

In centralised filing, all files of the organisation are located at a particular office, from where interested staff can access them. Centralised filing has certain advantages: (a) Records are not duplicated (b) There is better control over filing and (c) It economises space. However, there might be delays in tracing some documents and the filing system may not be relevant to some departments.

In decentralized filling, each department or section develops and maintains its own filing system. A decentralized filing system often meets the needs of the department or section and makes it easier to access documents. However, it wastes space and it may be difficult to control access to some documents.

11.6.4 Do's and don'ts for filing documents

- (a) Ensure the document (letter, memorandum, document, etc.) has been released or authorized for filing or no further action is required on it.
- (b) If there are a number of documents for filing, sort them out in a logical sequence before filing.
- (c) Examine the document to ensure that it is in good condition and could be filed without damaging it.
- (d) If a document is oversized, fold before filing or photocopy into a small size to fit into the file.
- (e) Staple all enclosures to documents before filing.
- (f) For ease of reference, it may be helpful to give the document a folio number before putting into the folder.
- (g) Don't allow files to overflow. If there are too many documents in a folder, it makes it rather unwieldy. Open a new volume.

- (h) Label all files/folders i.e. everyone should have a name, number or code clearly printed for ease of identification.
- (i) Keep a file register.
- (j) Design a book, which will help you keep track of the movement of files and documents into and out of your office.
- (k) Ensure that you have a good incoming and outgoing mail book. It helps to keep records of documents coming in or going out.
- (l) Have an idea about the sort of documents you are expected to file and those you are expected to dispose.
- (m) To prevent unauthorized access to documents, keep all file cabinets locked up.
- (n) Don't file a document until you are sure it is necessary.
- (o) Don't remove a file from the cabinet unless it is required for office use.
- (p) Never use filing cabinets to store anything other files.
- (q) Don't allow documents to be removed from a file. Where this becomes necessary, insert a substitution note to indicate that a document has been removed. To prevent unnoticed document removal, number the sheets in a file.

11.7 Organisation and Methods (O & M)

Organisation and Methods (O & M) are the techniques used to improve productivity in an organisation. In some organisations a special unit called organization and methods (O & M) is set up to carry out studies and introduce new methods needed to improve productivity. O & M has been defined as any systematic attempt to increase productivity of an organisation by improving procedures, methods, systems and organization structures. The key objectives of O & M are to:

- (a) simplify jobs and make it easier for employees to carry out their tasks.
- (b) ensure efficient flow of information throughout the organisation.
- (c) improve the monitoring of the activities of various individuals and departments.
- (d) ensure the efficient utilization of material, money and labour resources of the organisation.
- (e) reduce cost of production by minimizing or eliminating waste.
- (f) ensure the free flow of work among departments.

11.7.1 Steps/Procedures in O & M study

An O & M study involves the following basic steps:

- i. Selection of the work or table for the study.
- ii. Recording of the existing method.
- iii. Examination of the existing method.
- iv. Developing the improved method.
- v. Installation of the new method.
- vi. Maintenance of new methods.

11.7.2 Importance of O & M

- (a) It improves the structure of the organisation by simplifying procedures and systems.
- (b) It could lead to the elimination of unnecessary procedures and improve workflow.
- (c) It leads to a more efficient use of materials, labour and office space.
- (d) It improves coordination of activities among individuals and departments.
- (e) It could lead to standardization of procedures and forms.
- (f) It helps to improve factory and office layout.
- (g) It helps to unearth lapses in job performance, which could be removed through improved training of employees.

11.8 Forms

A form is a document with spaces (fields) in which to write or select for a series of documents with similar contents. A form on computer allows for conveniently typing in the variable parts (data input). When completed, forms may be a statement, a request, an order, etc. Examples of forms include: ledgers, cheques, tax forms, appraisal forms, etc. Forms may be filled in duplicates, triplicates or more, when information gathered on it needs to be distributed to several departments within the organization. This can be done using carbon paper. Generally, forms designed for information gathering are free from copyright. Examples of such forms include account books, bank cheques, scorecards, address books, report forms, order forms, diaries, time cards, graph paper etc. Otherwise, for protection of intellectual property, some specially designed forms could be subject to copyright. For example, some forms used for selection tests.

Advantages of Forms

- (a) Reduces the need for writing (while the printing is done in some automatic way)
- (b) Generally contains guidelines on how it should be filled, thus minimizing errors.
- (c) Uniformity, for convenience in processing.

11.8.1 Control of Forms

Controls exist only for forms that are classified as security documents. Security documents are documents whose contents are restricted to only authorized personnel due to the nature of information contained therein or the possibility of it being used to perpetrate fraud or theft. Examples of forms in this category are: cheques, receipts, some types of vouchers, etc.

Generally, the following control measures are used in handling forms classified as security documents:

- (a) Storage: These forms are usually stored in security safes. It is advised that such safes are made of cast iron or concrete placed in a secured office. Such storage facility should be fire and water resistant. The keys to such safe should be kept by the officer in charge (cash officer, cashier, etc.) and somebody of sufficient seniority in the organization (e.g. Head of Finance and Account).
- (b) Tracking: - In some organisations, release registers are used to track the release of receipt booklets and cheque books for accountability purpose.
- (c) Production: - Production of forms like receipts should be restricted to organisations with sufficient integrity. Also, some security features should be present on such forms to prevent counterfeiting.

Forms Designing

In the design of forms, the following factors must be considered:

- (a) Content:- The form must request for all relevant information. As much as possible, all irrelevant questions should be avoided.
- (b) Language:- Questions contained in the form must be as short as possible and easily understood by those filling them. For example, the way questions are designed in forms for manual labourers should reflect their level of education.
- (c) Purpose:- The purpose of the form will determine its design.
- (d) Ease of Processing:- Where processing of information is to be done via computers, the design will be such as to make this possible and easy. In some cases, specially designed forms that may require shadings with pencils are used.

11.9 Information Technology Application in Management

Information technology is concerned with the use of computer and communication-based technologies to solve varieties of human, organisation, country-wide or global problems. It is technology-based systems that enhance efficiency and effectiveness in the generation and use of information in a variety of strategic, tactical and operational situations. Information Technology has become a veritable tool to achieve efficiency and effectiveness in all areas of management.

Managerial Functions	Role of IT
Planning	<ul style="list-style-type: none"> ✚ It aids scenario planning ✚ Wealth of information helps decision-making ✚ Consumer access to product and service information allows comparisons with implications for marketing. Strategies thus focus on consumer needs and service required
Organising	<ul style="list-style-type: none"> ✚ Organisations become change agent ✚ New organisational forms (e.g. Outsourcing, online operations). ✚ Knowledge of work promotes non-hierarchical structures
Staffing	<ul style="list-style-type: none"> ✚ Specialised technical knowledge needed ✚ Greater mobility of workers in changing jobs ✚ Information enhances workers' upward mobility ✚ Specialised knowledge workers function as consultants or contractors in temporary or part-time employment. ✚ Outsourcing of human resources management to specialised firms at home and abroad ✚ Use of older, semi-retired professionals as consultants. ✚ Continued training and retraining to keep abreast of new technologies ✚ Development of new measurements for evaluation and rewarding workers
Leading	<ul style="list-style-type: none"> ✚ Information availability gives power to knowledge workers and consumers ✚ Knowledge workers demand higher-order needs satisfaction (such as recognition self-actualisation, responsibility, participation etc.) ✚ Electronic communication technology aids framework ✚ Lower communication cost
Controlling	<ul style="list-style-type: none"> ✚ Ease of control ✚ Detection of deviation from plan ✚ Facilitates productivity measurement at low costs ✚ Internet enables worldwide selling. Scanning of the external environment made easier and faster.

Table 11.2: Managerial Role of ICT

Source: - Heving Weihach, Mark Cannice, Harold Kuntz, Management 12th Edition, McGraw Hills Publications, Pg 483-485.

11.11 Health and Safety at Work

Despite the level of development in a country like the United Kingdom, it was estimated that over five hundred people are killed at work every year and several hundred thousand more are injured or suffer ill health (Armstrong, 2006). The equivalent figures for West African countries will be much higher. This underscores the importance of effectively managing health and safety at work. In this segment, we will discuss causes of accidents and sources

of danger at the workplace and how they can be prevented. We will also discuss various legislations relating to workplace health and safety.

11.11.1 Importance of Health and Safety at Work

- a. It is important to achieve the highest standard of health and safety at the workplace because ill-health and injuries result in loss and damage for the organization. Losses could be as a result of legal fees, fires, compensatory damage, lost production, lost goodwill from workers, customers and the wider community.
- b. Health and safety at the workplace is also important because it safeguards the health and safety of workers. Morally, no worker should be made to work where his/her welfare is at risk.
- c. In most countries, there are statutes on health and safety issues which organizations must comply with. Failure to do this, might attract government sanctions.

11.12 Health and Safety Regulations and Legislations

In Nigeria, Health and Safety legislation are found in the common laws, Factories Act Cap 26, Laws of the Federation of Nigeria, 1990 and the Workmen's Compensation Act Cap 470, Laws of the Federation of Nigeria, 1990. Nigeria is also a member of the International Labour Organisation (ILO) and is a signatory to the International Labour Organisation (ILO) Convention No. 155 titled Occupational Safety and Health Convention, 1981. Apart from common laws of Ghana, health and safety issues are dealt with in the Factories, Offices and Shops Act, 1970, Labour Act of 2003 and the Workman Compensation Act. Like Nigeria, Ghana is also a signatory to the ILO convention 155 of 1981 on health and safety at work.

The Nigerian Factory Act, 1990, just like Factories, Offices and Shops Act 1990 of Ghana is primarily designed to govern, order and regulate industrial activities generally. Their main objective is to prevent occupational hazard and diseases in workplaces. These laws make it obligatory for employers of labour to take various precautions to protect their workers. The laws deal with issues such as cleanliness, ventilation, lighting, sanitation, conveniences, fire prevention, etc. The laws also prescribe how machinery and equipment that could cause injury at work should be handled, by fencing, wearing of helmets, etc. The law prescribes various penalties for contravention.

The Workmen's Compensation Act, like the Workman Compensation Act, 1923 of Ghana and Ghana Labour Act prescribes various compensation for workers in the event of injury or death by accident arising out of or in the course of employment of the workman.

11.13 Sources of Danger to Health and Safety at the Workplace

Common sources of safety hazard at the workplace are:

- a. Slippery floors
- b. Open cabinets
- c. Frayed carpets
- d. Poorly lit stairways or offices
- e. Unsafe work processes
- f. Poor ventilation
- g. Careless storage of hazardous items such as sharp objects, dangerous chemicals, etc.
- h. Dangerous fumes
- i. Wrong use/handling of equipment/machinery at the workplace.
- j. Manufacturing equipment malfunctioning which may be compounded by inadequate maintenance.
- k. Poor factory layout.
- l. Horseplay at the workplace
- m. Congestion.
- n. Inadequate or absence of sewage facility.
- o. Dirty environment.
- p. Inadequate safety equipment/gadgets.
- q. Failure to use safety equipment or refusal to adhere to safety procedures during work.

11.14 Prevention and Protective Measures for Safety

- a. **Safety Policy:** The first step towards prevention of injury or death at the workplace is to put in place a safety policy. In some developed countries, this is required by law. The safety policy is a statement of commitment of the management to safety and health at work.
- b. **Periodic Risk Assessment:** This is the process of identifying hazards and the risks attached to them. It is a proactive strategy aimed at tackling every health and safety risk at the workplace. Information obtained from this exercise will help in taking preventive measures.
- c. **Hazard Elimination:** This may require use of alternatives, design improvement, change of process, etc.
- d. **Substitution:** For example, replacement of hazardous equipment with a less dangerous one.
- e. **Use of Barriers:** Removal of dangerous equipment from workers or workers from dangerous equipment.
- f. **Use of Procedure:** Putting in place a step-by-step procedure to carrying out an operation
- g. **Use of Warning System:** Such as instructions, signs, labels. However, these depend on human response.
- h. **Use of Protective Equipment:** Such as clothing, gloves, etc.
- i. Commitment of workers to adherence to safety procedures and use of safety equipment. No matter how safety conscious an organization is, if workers refuse to comply with safety rules, injury or death at workplace may occur.
- j. Hazards can be prevented by designing and installing safety equipment and

- protective devices.
- k. Periodic inspections and checks to eliminate risks.
- l. Investigating accidents as they occur and taking corrective actions.
- m. Continuous programme of education and training on safe work habits and methods of preventing accidents.
- n. Designation of Safety and Health Officer- this officer shall be the health and safety champion in the organisation.

11.15. Health and Safety Training

Health and safety training plays a major role in accident prevention and protection at the workplace. Training on health and safety should be made part of organizations' induction programme for new comers. This will inform and educate them on preventive and protective measures thus making them more safety conscious. Training should also take place following a transfer to a new job or change of work method. Further training programmes on health and safety should be organized to deal with new aspects of health and safety and areas which safety problems have emerged.

11.16. Summary

In this chapter, two major concepts were discussed, namely:

- ii. Office practice and procedure; and
- iii. Health and safety.

An office is defined as a place in an organisation where business, clerical and professional activities take place. We noted that an office among other functions provides a convenient place where managers carry out their functions, collect information from within the organisation and record information. We also looked at the various forms of office layout - closed and opened plan. Factors to be considered in planning an office layout were also explained. These factors include: churn rate, statutory requirements, business needs, accommodation standard and available space. Office equipment and furniture such as facsimile were also mentioned. We discussed organisation and method. We also defined forms, control of forms and factors to be considered in their design. The chapter was concluded with the application of IT in management

Also, the chapter discussed the importance of health and safety at the workplace. It was stated that health and safety are important to organizations and workers. We also explained various legislations and regulations governing health and safety issues at the workplace. In Nigeria, the Factory Act of 1990 and Workmen's Compensation Act of 1990 as well as the common laws are part of the laws governing health and safety. In Ghana, the Factory, Offices and Shops Act, 1970, common law and Labour Act of 2003 regulate issues of occupational health and safety. Sources of danger to health and safety at the workplace were also discussed. Among other measures, the design of safety

policy will set the pace for organizational commitment to health and safety at the workplace. The chapter concluded with a discussion of the importance of health and safety training.

11.17 Review Questions

Multiple Choice Questions

1. Which of the following is a type of office layout?
 - A. Open Plan
 - B. Matrix Plan
 - C. Diagonal Plan
 - D. Horizontal Plan
 - E. Hybrid Plan

2. The following are factors to be considered in planning an office layout EXCEPT -----
 - A. Churn Rate
 - B. Statutory Requirement
 - C. Business Needs
 - D. Accommodation
 - E. Management Initiative

3. Which of the following is NOT a filing system?
 - A. Alphabetical filing system
 - B. Open filing system
 - C. Alpha-numeric filing system
 - D. Subject filing system
 - E. Geographical filing system

4. Drafting of health and safety policy is the responsibility of
 - A. Human Resources Department
 - B. Board of Directors
 - C. Production Department
 - D. Research and Development Department
 - E. Chief Executive Officer

5. The following are workplace accident prevention measures **EXCEPT**:
 - A. Design of safety devices
 - B. Wearing of protective clothing
 - C. Effective performance management

- D. Health and safety training
- E. Accident risk assessment

Short Answer Questions

1. The process of identifying hazards for the purpose of taking protective and preventive measures is called
2. The statement of commitment of the management to safety at work is known as
3. The use of alternatives, design improvement and/or change of process is referred to as
4. The systematic attempt to increase productivity of an organisation by improving procedures, systems and organisation structure is referred to as -----

5. The computer and communication based technology used for enhancing efficiency and effectiveness in Management is -----

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

1. A
2. E
3. B
4. A
5. C

SHORT ANSWER QUESTIONS

1. Risk Assessment
2. Health and Safety Policy
3. Hazard elimination
4. Organisation and Methods (O & M)
5. Information & Communication Technology

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