ACCOUNTING TECHNICIANS
SCHEME
(WEST AFRICA)

MANAGEMENT
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

PREFACE

CONTENTS

CHAPTER 1 - NATURE OF BUSINESS

This chapter deals with the definitive terms of business. It gives clear understanding of how businesses can be classified; explains the growth of business and why businesses fail. It further helps the readers to understand the various forms of business ownership as well as a selection of forms of business ownership.

CHAPTER 2 – THE ENVIRONMENT OF BUSINESS

This chapter explains the nature of the business environment and its component parts as well as discusses the importance of the business environment to a business enterprise. It explains globalization and the factors influencing it. It helps the readers to understand the types of environment, environmental analysis and forecasting. It also gives readers an insight into social responsibility and its attendant issues. Furthermore, it discusses business ethics as an emerging issue in business management.

CHAPTER 3 – PRINCIPLES OF MANAGEMENT

This chapter defines management and gives an understanding of the purpose of management. It enlightens the reader on the essential differences between the terms efficiency and effectiveness. It explains in a lucid way the concept of management process and, identifies and describes managerial roles.

In addition, it discusses management skills and the concept of the universality to management.

CHAPTER 4 – THEORIES OF MANAGEMENT

This chapter discusses the nature, contributions and limitations of pre-scientific management, Scientific Management Theory, Weber’s Theory of Bureaucracy, the Human Relations Theory, the Systems Theory and the Contingency Theory.

CHAPTER 5 – PLANNING

This chapter acquaints you with the definition and importance of planning. It discusses levels of planning and differentiates between strategic, tactical and operational plans. It describes the planning process as well as classifies plans according to time, scope, and frequency of use. There is an in-depth discussion on the nature and role of strategic planning, and, a descriptive analysis of the strategic planning process. Also, it explains thoroughly the concept of Management by Objectives (MBO).
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

CHAPTER 6 – DECISION-MAKING

This chapter defines decision making and helps the readers to identify types of decisions. It explains the various steps in the decision-making process, the individual and group decision making concepts, as well as their advantages and disadvantages. It further describes various decision-making techniques to aid the decision maker.

CHAPTER 7 – ORGANIZING

This chapter deals with the nature and purpose of organizing. It explains the differences between formal and Informal organizations, and also broadens the readers’ understanding of the various types of departmentation. It describes line, staff, and, line-staff relationships in organizations. The issues of centralization and decentralization are spotlighted, and delegation is effectively discussed in this Chapter. In addition, the concept of coordination is defined and the techniques of coordination are also discussed.

CHAPTER 8 – CONTROLLING

This chapter explains the concept and purpose of control. It helps the readers to understand types of control systems, as well as describe Feedback Control, Concurrent Control and Feed Forward Control. It describes for the readers the control process, explains the characteristics of effective control systems, and discusses the nature, use and limitations of various control techniques.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

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

ROI Return on Investment

ZBB Zero-base Budgeting

NIM Nigerian Institute of Management
SYLLABUS AND EXAMINATION QUESTIONS OUTLINE

A. 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 organisations;
(b) Understand the nature of business environment and its relevance for policy decisions of management;
(c) Understand the concept of corporate social responsibility and ethics in business and their relevance in business environment;
(d) Define and explain the basic concepts, principles theories, techniques of management and their application to 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 working relationships;
(g) Apply strategic management principles in modern organisation;
(h) Understand the importance of health and safety; and
(i) Identify and understand the elements of office practice and procedures.

STRUCTURE OF 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) six questions out of which candidates are expected to answer only four, each attracting 12½ marks.

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1. Nature of Business 12.5%
   (a) Definition and objective of business, classification, growth and failure of business, ownership forms, advantages and disadvantages
   
   (b) Business environment
      (i) Nature and role of business environment
      (ii) Types: internal, external and global environment
      (iii) Analysis of the element and change in economic, social, cultural, technological, political, legal, ecological, international environment; environmental analysis and forecasting
   
   (c) Corporate social responsibility and business ethics
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(i) Social demands and expectations: arguments for and against social involvement in business; changing concept of social responsibility
(ii) Ethics in business: Ethics, factors affecting ethical behavior, level of ethical questions in business, ethical code, ethical tool, unethical practices and sanctions

2. Management theory and principles 12.5%
   (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 thought, proponents and their applications

3. Management functions 12.5%
   (a) Planning: Importance, types, steps, levels, benefits, tools and barriers to effective planning
   (b) Decision making: types, process, decision making situation, decision making techniques effective decision making
   (c) Organizing: Nature, purpose, principles of organization, structure, factors determining organization structure, delegation and span of control
   (d) Coordination: Definition, types and techniques of coordination
   (e) Controlling: Nature, purpose, control process, characteristics And understand control techniques

4. Organic business functions 12.5%
   (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
      (vii) Records keeping
   (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
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(i) Nature, functions and organization of marketing
(ii) Marketing concept
(iii) Marketing research
(iv) Market segmentation
(v) Elements of consumer behavior
(vi) Marketing mix:
   - Product; classification and product life cycle
   - Pricing, objectives and methods
   - Distribution; choice and management of channels
   - Promotion: personal selling, sales promotion, advertising 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 of working relationships** 12.5%
   (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 change: process, source; resistance to change, overcoming resistance to change

6. **Strategic management** 12.5%
   (a) Definition and purpose of strategic management; strategic management process; SWOT analysis.
      (i) Concept of strategy: corporate divisional, functional strategies;
      (ii) Business growth strategies
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

7. **Health and safety in the work place**
   
   12.5%

   (i) Importance of health and safety
   (ii) Health and safety regulations and legislations
   (iii) Sources of danger to health and safety within the work place
   (iv) Safety preventive and protection methods
   (v) Role of training in raising awareness of safety issues
   (vi) Role and responsibility of individuals and management in promoting health and safety in the work place

8. **Office practice and procedure**  

   12.5%

   (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
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CHAPTER 1

NATURE OF BUSINESS

1.0 Learning objectives:

After studying this chapter, you will 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 as well as;
- Selection of forms of business ownership.

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 non-profit organizations.

Most non-profit organizations are established by government for the purpose of providing services for the good governance and administration of a country. A growing number of non-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.

In this book, 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.

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:

- Indicate the purpose and aim of the business and thus justify the very existence of the organization.
- Provide direction for the functioning of the business enterprise.
- Set standards for control of the business activities.
- Help to coordinate decisions and decision makers.

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 assuming 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 distribution and production.

(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 etc.

(d) Shareholder Satisfaction – This occurs when the business seeks ways to improve the returns to shareholders as well as reducing 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 according to:

(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 four categories by which enterprises may be classified by size. They are micro enterprises, small scale enterprises, medium scale enterprises and large scale enterprises. According to this classification:

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Employees</th>
</tr>
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<tbody>
<tr>
<td>Micro-enterprises</td>
<td>1-10 employees</td>
</tr>
<tr>
<td>Small scale enterprises</td>
<td>11-100 employees</td>
</tr>
<tr>
<td>Medium scale enterprises</td>
<td>101 – 300 employees</td>
</tr>
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<td>Large scale enterprises</td>
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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 is on the basis of 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 of agriculture; coal, oil and gas are also regarded as basic to the development of other industries.
(b) Capital goods industries are those 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 goods 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 goods industries are those industries the output of which is used by 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, the industries may be classified into agro-based, forest-based, marine based and metal and chemical-based industries.

An agro-industry is one which uses agricultural produce like cocoa, palm produce, jute, cotton, etc. as the major input. Forest-based industries are those, which use forest produce as their major input. An example is the 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 producing 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,
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.
iron oxide etc., are crushed mixed and blended to form a product called cement.

(c) **Process Industry**

It is concerned with processing a raw material 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, etc., is made by joining 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 non-profit organization is not designed to generate profit for its owners. Examples of non-profit organization are the Red Cross, National Agency for Food and Drug Administration and Control (NAFDAC).

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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

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

<table>
<thead>
<tr>
<th>No.</th>
<th>Industry Divisions/Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>01-09</td>
<td>Agriculture, Forestry and Fishing</td>
</tr>
<tr>
<td>10-14</td>
<td>Mining</td>
</tr>
<tr>
<td>15-19</td>
<td>Construction</td>
</tr>
<tr>
<td>20-39</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>40-49</td>
<td>Transportation, Communication, Electric, Gas and Sanitary services</td>
</tr>
<tr>
<td>50-51</td>
<td>Wholesale trades</td>
</tr>
<tr>
<td>52-59</td>
<td>Retail trade</td>
</tr>
<tr>
<td>60-69</td>
<td>Finance, Insurance, Real Estate</td>
</tr>
<tr>
<td>70-89</td>
<td>Services</td>
</tr>
<tr>
<td>90-97</td>
<td>Public Administration</td>
</tr>
<tr>
<td>98-99</td>
<td>Non-classifiable establishment</td>
</tr>
</tbody>
</table>

1.5 Growth of Business

There are three key indicators of the size of a business enterprise, namely:
- Value of assets
- Number of employees
- Sales turnover

1.5.1 Types of Growth

(a) Internal growth – This is 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 Why Grow?

The motivating factors include:
- Economies of scale e.g., managerial, technical, purchasing, financial
- Personal ambition
- Market power – to compete more effectively
- Reduce risk of failure
- To increase the status of the firm
- Avoid takeover: Larger firms are less likely to be taken over.
- Attract resources: Size enables firms to attract more resources.
1.5.3 Growth and Cash flow

Growth can place strains on cashflow as:

- Firms invest in more stocks
- Firms expand into new locations
- Firms invest in new equipment
- 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; this is called ‘overtrading’.

1.5.4 Managing Growth

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

- Engage in more elaborate planning
- Set budgets
- Develop a formal organization structure e.g., a functional structure.
- Use performance appraisal systems
- Improve internal communication systems
- Produce job descriptions
- Decentralize operations and delegate authority
- Install more sophisticated control systems.

1.5.5 Problems of Growth

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

1.6 Failure of Business

1.6.1 Why businesses fail

Business ventures are 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 we like it or not, a significant proportion of new ventures today won’t make it to celebrate their fifth year in business. By taking a look at 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 often isn’t 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 should be under constant review.

(c) **Lack of Capital**

Under-capitalization is a common cause of businesses going under in the first few years of operation. Adequate capitalization must take into account a multitude of set-up and continuation expenses.

Buying a pre-existing business can mean that you can bypass many of the initial hurdles such as establishing premises, buying equipment and machinery and, of course, finding your first 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. Again, research and advice will help.

(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 is a recipe for disaster.

(e) **Cashflow or crisis management**

When there is more money out than coming in, there is a problem. However, many businesses ignore (either *wilfully* or negligently) the
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underlying problem and manage each crisis as it (inevitably) comes along. Even profitable companies can sink due to poor cash management. Ignoring your cashflow situation often leads to spiralling problems.

(f) Doing it all

The boss who drives herself/himself in to the ground is a more common cause of problems in a business than a negligent one. 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 you 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. Whether it is a flood or fire damage, the loss of key personnel, or theft, protection against risk can help secure the future of the business.

(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 practice, changing government policies as well as changing patterns in your customers’ buying patterns and tastes need constant monitoring so that adjustments can be made to cope with the changes.

(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.
**1.6.2 Planning Against a 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.

- Development of a business plan
- Obtaining accurate financial information about the business in a timely manner.
- Having a profile of the target customer
- Having a profile of competitors
- Developing a suitable and effective control system
- Networking with other business owners and managers in similar industries
- Remembering that, someone will always have a lower price than you
- Developing a strong management team through effective recruitment, training and attractive reward system
- Realizing that consumer tastes and preferences change
- 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 viz-a-viz the responsibilities for debts, responsibility for illegal activities and other similar issues.

**1.8 Selection of Forms of Ownership**

In this arrangement, 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. Here 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.

The areas where this form of business is exercised or practiced are in the retail, wholesale and construction industries. 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.
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(a) Advantages of Sole Proprietorship

- Low organization cost
- Quick decision making
- Personal commitment
- Few legal barriers
- Tax savings
- Secrecy
- Ownership of all profits.

(b) Disadvantages of Sole Proprietorship

- Lack of continuity
- Limitation of size
- Slow technological progress
- Limited ability to attract and retain capable employees
- Lack of managerial skills

1.8.2 The Partnership

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

The law professions, insurance, finance, accountancy and other similar set ups in the professional mould prefer partnership form of ownership. In the course of their contractual activities, the partners specialize in one, two or more aspects of the activities of the firm.

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

(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. The general partner is personally liable for the debts of the partnership.
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(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

- More managerial skills available
- Higher capital outlay
- Reduction of strain on one individual as responsibilities can be shared by other partners
- New partners can be admitted
- Ability to attract and retain capable employees.

Disadvantages of Partnership

- Unlimited liability
- Limited life
- Arguments or disagreement can arise among the partners
- Insufficient initial capital

Dissolution of a Partnership

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

- Court order
- Technical insolvency
- Mutual agreement
- Completion of the assignment or task for which the partnership was established.

### 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 given 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.

**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 his 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 the management, they become encouraged to invest in it and buy shares and stock. 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 stock 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 of proven managerial ability can be hired. If such managers hired can’t perform, they can easily be replaced by the board of directors.

(b) **Disadvantages of a Corporation**

(i) **Government regulations**

By the laws of the various Federal and State agencies, the activities of these corporations are regulated because it is a legal being/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 financial performance.

(iv) **Managerial attitude**

When there is a show of lack of interest either on the part of the employees or management, the business organization suffers
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greatly. This is a classic example of personal interest overriding the common good.

(v) Owners/management interest

Since owners want their dividends while the management wants 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, and be duly cleared by them. To attain this, a company is required to file the following 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 out guidelines for the company and the members. In addition, there are laid out 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
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(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 them to legitimately commence business.

1.8.5 Cooperative

This form of business setup is distinct from its owners and is usually regarded as a legal person. There is continuity of the business irrespective of individual deaths or withdrawals. In this arrangement, an individual buys shares in a similar fashion as what obtains in a corporation. 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 their purchases. The idea behind this 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 guides the running of the cooperative.

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 involved with are single products or a closely related group of 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. We see cooperative banks springing up in most parts of the country as examples.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(c) Consumer cooperatives

This 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, they 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 cooperators, they are able to pool their resources together and this affords them access to funds to run the business.

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 whom they want to replace.

(iii) **Dishonesty**
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.
Thanks.
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 what obtains elsewhere. This accounts for the poor calibre of managers they employ.

1.9 Summary

The primary purpose of the business enterprise is to make profit. Profit is a reward to the owners for assuming the risk of establishing a business. In order to operate successfully, businesses can be grouped according to size of the unit, ownership types, use of output and input use, etc.

The three key indicators of growth which affect the size of the 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, we become more insightful to know, appreciate, and select the ownership forms of our choice.

1.10 REVIEW QUESTIONS

SECTION A – (ATTEMPT ALL QUESTIONS)

Part 1: Multiple Choice Questions

1. Which of the following is the primary objective of business?
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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 without 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. The following are the importance of objectives, except:

(a) Objectives indicate the purpose and aim of business
(b) Objectives provide direction for the functioning of the business organization
(c) Objectives dismantle corporate stability
(d) Objectives help the strategic planning or strategic management
(e) Objectives help coordinate decisions and decision makers.

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
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.

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. This arrangement when 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. C
4. B
5. B

Short Answer Questions
1. Assembly industry
2. Analytical industry
3. Partnership
4. Memorandum of Association
5. External growth
CHAPTER 2

THE ENVIRONMENT OF BUSINESS

2.0 Learning Objectives

After studying this chapter, you will 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.

2.1 Introduction

A business does not operate in a vacuum. Generally, a business operates in a multifaceted environment. The environment itself is subject to a large measure of change. 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
22 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-grouped 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. As has been stated, 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.

Their behaviour has direct implications for the successful operations of the firm. For example, the behaviour of a firm’s customers, bankers or suppliers has immediate and direct effect on the operation 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
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.

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
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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 desire to achieve their goals.

The cultural conditions are indicated by values and value systems, mores, 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 well meaning government that has the interest of the citizenry in any political arrangement should ensure that there are structures put 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 thrive. Also, the government should ensure that while developing or making policies, laws and regulations, it 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, etc., a change in government does not always follow clear-cut procedures. These frequent changes in governments especially during military dictatorships 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. 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 business. On the other hand, more advanced technology is employed in the steel industry, the breweries, textile, banks, hospitals, etc.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.

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

Even though not much is being accomplished because of the little investment by the private and public sectors in Research and Development (R&D), nevertheless, with many universities, polytechnics, research institutes in cocoa, oil, rubber, animal production, cereals, root crops, etc. in place, significant improvements are expected if coordinated efforts are made to harness resources 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 the relevant government agencies.

Furthermore, in carrying out their business operations, business enterprises are required by law to pay 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 viz-a-viz the relationship between employers and the 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 food, drugs, cosmetics, bottled water, chemicals, etc., are to be registered with the National Agency for Food and Drugs Administration and Control. Thus, 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 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.

2.5 Globalization

Globalization can 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 agreement 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 poor counties 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.
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(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 the 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 for 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 the 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, 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.
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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, assumptions and methods/techniques 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.

2.7 Social responsibility

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 etc., 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.

4. 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
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Thanks.

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 other 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 the community and creates a favourable environment for it to operate.

2.7.2 Arguments for social responsibilities

(a) Business organizations are expected to respond more favourably to the society in terms of its needs because it is suggested that they received their charter from 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.

2.7.2 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.
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(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.

2.7.3 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 payout.

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 employee 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
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 institution; 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 Weihrich 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 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 exercise of their work assignments viz-a-viz their relationship with one another, and with their organizations.

2.8.2 The three areas of managerial ethics are:

1. How the organization treats its employees:

   - Recruitment and separation
   - Working conditions
   - Wages and incentives
   - Individual respect as human beings

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- Health and safety

2. How employees treat the organization

- Conflict of interest
- Secrecy
- Honesty and expense account.

3. How the organization treats economic agents:

- Customers
- Competitors
- Shareholders
- Suppliers
- Dealers
- Unions

2.8.3 Code of ethics

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

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

- Bribes
- Honesty of records keeping
- Misappropriation of corporate assets
- Confidentiality of corporate information
- Political contributions
- Conflict of interest
- Customer/supplier relationships

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

(a) **Employees**

The wages, conditions of service, retrenchment and privacy should be fair and just.

(b) **Labour unions**

There should be honesty in honouring agreements, good strategies in handling negotiations and industrial action.
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(c) Trade associations
Loyalty, honesty in honouring agreements.

(d) Dealers
Honesty in honouring agreements, hiring and firing.
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(e) Customer

Product safety, truthful advertising.

(f) Suppliers

Honesty in honouring agreements.

(g) Competitors

Fair versus unfair competition.

(h) Shareholders

Insider trading, truthful stewardship, conflict of interest.

(i) Creditors

Payment for supplies.

(j) Government

Tax evasion, economic sabotage, truthful disclosure.

(k) The society at large

Environmental concerns.

(l) The firm itself

Confidentiality, loyalty, obedience.
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Fig. 2.8 Code of Ethics of Nigerian Institute of Management

NIGERIAN INSTITUTE OF MANAGEMENT

Code of Conduct

for

N.I.M. Certificate Holders

1. 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.

2. 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 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

Ethical Tools

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

(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.

2.9 Summary

The environment of business is a major determinant of the policies, strategies and overall performance of any business. It is usually so complex, dynamic and to a major extent 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 modern day 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 analyzing 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 the non manager at the work place. These issues arise in the relationships between the employees and his co-workers. 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 to guide managers in handling issues bordering on ethics is by establishing and enforcing codes of conduct.

2.10 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. 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 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
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Thanks.

a) Political environment
b) Socio-cultural environment
c) 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
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Thanks.
2. Environmental forecasting
3. Social Responsibility
4. Code of Ethics
5. Globalisation
CHAPTER 3

PRINCIPLES OF MANAGEMENT

3.0 Learning Objectives

After studying this chapter, you will be able to:

- Define management
- Understand the purpose of management
- Know the essential differences between the terms efficiency and effectiveness.
- Explain the Management process
- Identify and describe managerial roles
- Discuss management skills, and
- Explain universality of management

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 co-ordinate 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.

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:

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

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 set targets in terms of sales volume have been projected by the company? The said targeted company’s volume for the targeted year could be placed at N3.5billion while its profit objective could be placed at twenty percent rate on the investment.

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

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 get done 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 a proportionate increase in 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.

Management process
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Thanks.

Management is a process involving certain functions and work activities that managers must perform to achieve an enterprise’s goals. Managers use principles in managing that guide in this process. The four fundamental functions of management – planning, organizing, leading and controlling – constitute the process of management. They are the mean 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 device the means to satisfy them. Thus, in essence, planning refers to matching resources or strengths with market opportunities.

3.3.2 Organizing

Organizing is defined as the management function of grouping tasks, 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 the grouping of the required activities into manageable departments or work units, establishing authority and reporting relationships with the established hierarchy.

Thus, in essence, 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 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 that employees have toward their work. In addition, the manager is someone whose primary duties are to carryout 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 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.
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Thanks.

(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 ranks 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 the 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 ceremonious 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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 contract, a joint venture etc.

### 3.5 Management level and skills

Fig 1. ..............

<table>
<thead>
<tr>
<th>Level</th>
<th>Human</th>
<th>Conceptual, diagnostic and</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle Level</td>
<td>Skills</td>
<td>Technical skills</td>
</tr>
<tr>
<td>Supervisory Level</td>
<td></td>
<td>analytical skills</td>
</tr>
</tbody>
</table>
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 secure and free to express themselves and to realize their potential.

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 child’s 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 is universal.

3.7 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. In the performance of these functions, 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.
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3.8 REVIEW QUESTIONS

SECTION A – (ATTEMPT ALL QUESTIONS)

PART 1 – MULTIPLE CHOICE QUESTIONS

1. Which of these statements is more appropriate about management?
   (a) Management expresses mainly an objective
   (b) Management is solely about accomplishment
   (c) Management deals mainly with efficiency and effectiveness
   (d) Management encourages group effort in the performance of tasks.
   (e) Management is not overly concerned with standards and ethics.

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. Knowledge and proficiency in activities involving methods and procedure is:
   (a) Design skill
   (b) Activity skill
   (c) Human skill
   (d) Conceptual skill
   (e) Technical skill

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. Which of the following statements best describes an efficient manager?
   (a) He reduces the cost of operation
   (b) He maximizes the cost of doing business
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(c) He minimizes the cost of the resources he or she uses to attain a given goal.
(d) He multiplies the cost of the resources he or she uses to attain a given goal.
(e) He minimizes the cost of doing business solely.

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. Those activities by which an executive develops and maintains contact outside the organization is referred to as ………………..

5. The situation that requires the manager negotiating with various stakeholders internally as well as externally on behalf of the organization is known as ………………..

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

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

SHORT ANSWER QUESTIONS

1. Effectiveness
2. Efficiency
3. Organisational Design
4. Liaison role
5. Negotiation role
CHAPTER 4

THEORIES OF MANAGEMENT

3.0 Learning objectives

After studying this chapter, you will be able to discuss the nature, contribution and limitations of:

- Pre-Scientific Management
- Scientific Management,
- Fayol’s Administrative Management,
- Weber’s Theory of Bureaucracy,
- The Human Relations Theory,
- The Systems Theory
- The Contingency Theory.

4.1 Introduction

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 dates from the 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, a large number of 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 group. Management theory attempts to classify and synthesize these ideas into a coherent perspective (Inegbenebor, 2005).

4.2 Pre-scientific Management:
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

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 prepare two types of cards, i.e., time cards and material cards. This system is intended to assure the workers that good workers and good work done by them would be known to management. It also provides a method of gauging their work.

4.3 **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
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 Gilbreth 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. He also developed work quota systems complete with bonus systems for workers and/or managers who meet or exceed the quota.

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) Introduced the use of rational and cost reduction techniques to increase efficiency and performance.

(e) Formulated work standards.

Limitations of scientific management are:

(a) Scientific management methods are applicable only in predictable and stable environment and have limited applications in complex and unpredictable environments.

(b) It over emphasized the economic and rational nature of man and overstates 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.

4.4 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 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:

(j) 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).

4.4.1 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
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subordinates enough authority to do their jobs properly. The problem is to find the best amount of centralization in each case.

(i) **The Hierarchy:** The line of authority in an organization – often represented by the neat boxes and lines of the organization chart – 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 for 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.

4.4.2 **Contributions of Fayol’s Principles to Management**

His principles:

(i) Laid the foundation for management theory

(ii) Identified key processes, functions and skills of managers that are still important today.

(iii) Made management a valid subject of scientific inquiry.

4.4.3 **Limitations**

His principles:

(i) Best used in simple, stable organizations.

(ii) Provided universal procedures that may not be appropriate in all settings.
4.5 **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 where in 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:

1. Traditional Authority
2. Rational – Legal Authority
3. Charismatic Authority

**4.5.1 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).

**4.5.2 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 legal sanction, i.e., in accordance with legal rules and regulations in force.

**4.5.3 Charismatic Authority**

Charismatic authority rests on the appeal of leaders, and is based upon a belief in 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.
4.6 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:** The 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 exercise of the organization’s operations.

4.6.1 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
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human resources optimum. Also the individuals move up the hierarchy as they gain expertise and experience.

(iv) The 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 the individuals leave since the position is emphasized rather than the person. For example, if a president leaves, another person is hired or promoted to that position and the organization continues to operate.

4.6.2 Limitations of Bureaucracy

(i) There is too much red tape and paper work

(ii) Because of impersonal nature of work, the 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.

4.7 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 interpersonal approach. It studies the individual, his needs and behaviour. Its main concepts are motivation and job satisfaction.


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-areas 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”, who’s 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 to 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 in part on mutual antagonism toward the “bosses” imparted some meaning to their working lives. For this reason, group pressure, rather than management demands, has the strongest influence on how productive they would be.
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To maximize output, Mayo and his associate 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.

4.7.2 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.

4.7.3 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.

4.8 Systems theory
The systems approach to management attempts to view the organization as a unified, purposeful, system composed 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 fill special orders on 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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).


(a) Importantly, organizations today operate as open systems to survive and utilize a system 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 to 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.

4.8.2 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.

4.9 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 did fail 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.

4.10 Summary

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 for 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 the 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 practicing 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 as 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.
4.11 Review Questions

Section A (Attempt all Questions)

Part 1: Multiple Choice Questions

1. Which of the following management pioneers did not belong to the classical school of management?

   (A) Max Weber  
   (B) Mary Parker Follet  
   (C) Elton Mayo  
   (D) Fredrick W. Taylor  
   (E) Henri Fayol

2. 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

3. The principle that is based on obedience and respect in known as:

   (A) Hierarchy  
   (B) Authority  
   (C) Decentralisation  
   (D) Discipline  
   (E) Stabilisation

3. 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 conglomerate

4. The experiments that led to the human relations
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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 management pioneers who suggested that investment in human beings is more profitable than investment in machinery and other resources is known as …………

2. 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 was proposed by ……………

3. The theory specifying the development of general guidelines and how to formalize organizational structure and relationships is referred to as ……………

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

SHORT ANSWER QUESTIONS

1. Robert Owen
2. Frederick Taylor
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.

3. Administrative Management Theory
4. Initiative
5. Charismatic authority

CHAPTER 5

PLANNING

5.0 Learning Objectives

After studying this chapter, you will be able to:

- Define planning and discuss the importance of planning.
- Discuss levels of planning and differentiate between strategic, tactical and operational plans.
- Describe the planning process.
- Classify plans according to time, scope, and frequency of use.
- Discuss the nature and role of strategic planning.
- Describe strategic planning process.
- Explain barriers to effective planning.

5.1 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:

- Where are we now?
- Where do we want to go?
- How do we get there?
- How are we doing?
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Thus, planning takes involves setting the right objectives (effectiveness) and then choosing the “right means” for attaining these objectives (efficiency). Both these aspects of planning are vital to the process of management.

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.

5.2 Importance of planning

(a) Minimizes Risk and Uncertainty

In today’s highly complex environments, organisations cannot afford to take decisions intuitively. By providing a more rational, fact based procedure for making decisions, planning allows managers or 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 the organisation to focus all its activities and resources on selected goals.

(f) It Facilitates Control

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

5.2.1 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 the 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.

5.2.2 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 the plan as the 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 the source 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.
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Planning consumes a lot of resources in terms of time and money.

5.3 Levels of Planning

The following figure shows relative time spent on planning at each level of management.

![Figure 5.1: Time spent on Planning at each level of management.](image)

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.

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. (Please refer again to fig 5.1).

5.4 Types of Planning

5.4.1 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.

(e) is concerned with effectiveness (doing the right things).
5.4.2 Tactical planning

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

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 it in the most efficient way and pass it on 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.

5.4.3 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 measureable objectives for the short term.

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

5.5 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
(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? What political or social environment the organisation operates in? How expansion will be financed? What the long-term trend is?
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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 alternative 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
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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.
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(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.

5.6 **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.

5.6.1 **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.
5.6.2 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 plan.

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 the 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.

5.6.3 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 provides 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.
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Thanks.

5.6.4 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, even though it has established a number of other warehouses in the past.

The major types of single-use plans are programmes, project, 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
(i) training for workers on how to immunize
(ii) Sensitization of family units on the importance of immunization, etc.
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(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 of course 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) product budget (c) purchase budget (d) cash budget.

5.6.5 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 realization of business objectives.

(c) Procedures: Procedures indicate the specific manner in which a certain activity is to be performed. Whereas policies may lay 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.
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 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 to facilitate communication. They facilitate uniformity of action and avoid the need for repeated approval from higher levels for routine matters.

5.7 The Nature and Role of Strategic Planning

5.7.1 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 resources allocation, priorities, and action steps necessary to reach strategic goals.

5.7.2 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:

- What service are we trying to provide?
- What are our competitors doing?
- Should we continue with what we are presently doing?
- Do we need more or fewer lines of products or services?
- Are product lines obsolete and/or markets eroding?
- What is the environmental dominance under which we operate?
- What is happening technologically, socially, politically that could have impact? To what degree?
- How will this affect us?
- What can we offer?
- What is unique about what we can do?
- Can this uniqueness, if any, be exploited by us?
5.7.3 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 techniques for coordinating effort. An effective plan specifies goals and objectives both for the total organisation and for each of its parts. By working toward 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-capitalise. 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, strategic planning requires managers to look at their organisations in a different way from the way they did the previous year.

(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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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, the managers’ motivation to plan to reinforced, their ability to think; is sharpened and 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. Of course, if a strategy is to have this value, it must be communicated and understood at all levels within the organisation.

5.8 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
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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:** in strategic planning is selecting appropriate strategies. This step indicates how the firm is going to get there. Organisational strategies represent broad based plans of actions 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-pan 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.

### 5.9 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 undertaken.

(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.
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Thanks.

(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 and not meaningful, forecasting is extremely difficult. This constitutes a barrier to effective planning.

(iv) Lack of time and resources. Planning takes substantial time and resources. Lack of the adequate time and resources may constitute a barrier to planning.

5.10 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 1954 book *The Practice of Management*. Since that time, MBO has spurred a great deal of discussions, evaluation, research, and inspired many similar programmes.

The Concept:

- It refers to a formal set of procedures that begins with goal setting and continues through performance review.
- Managers and those they supervise act together to set common goals.
- 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.
- At periodic intervals, the expected results or objectives jointly set by managers and their subordinates are used to monitor and review progress.
- On the basis of the agreed objectives or results, the performance of subordinates is evaluated.

5.11 Summary

Planning has primacy over the other management functions and is a pervasive element in 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
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Concerned with the implementation of strategic plans, involves middle level, while the operations that have become standardized. 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.

5.12 Review Questions

Section a (Attempt all Questions)

Part 1: Multiple choice questions

1. 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.

2. 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.

3. Which of the following is not a reason why plans fail?
   A. Lack of fund
   B. Lack of commitment
   C. Inadequacy of material resources
   D. Programming
   F. Inadequate forecasting
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4. On which of the managerial functions does top management spend most of its time?
   A. Planning
   B. Organizing
   C. Actuating
   D. Controlling

5. Which of these management levels devotes more time to planning?
   A. Top management
   B. Middle level management
   C. Lower level management
   D. A & C above
   E. C & B above

Part II: Short Answer Questions

(1) The activity that provides the basis for both tactical and operating planning is .................

(2) A plan prepared by middle level managers to implement parts of a strategic plan is known 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 specify what is to be done or not in a given situation is known as ..............

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

1. B
2. B
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

3. D
4. A
5. B

SHORT ANSWER QUESTIONS

1. A Strategic plan
2. Tactical plan
3. Operational plan
4. Programme
5. Rules
CHAPTER 6

DECISION MAKING

6.0 Learning objectives

After studying this chapter, you will be able to:

- Define decision making
- Identify and know the types of decisions
- Explain the various steps in Decision making, its advantages and disadvantages.
- Discuss individual decision making, its advantages and disadvantages.
- Discuss group decision making, its advantages and disadvantages.
- Describe various decision making techniques.

6.1 Introduction

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.

To this extent, understanding what makes an organization successful depends upon our knowledge of how people make effective decisions.

A decision is defined as a conscious choice among alternative courses of action followed by activities to implement the choice. Thus, we must recognize that managerial decision making entails both a process and subsequent action.

A decision-making process is a series or chain of related steps that lead up to an action or an outcome and assessment.

Ivancevich et al, (1994) explain 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 have been considered, and possible consequences of actions understood.

6.2 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. An organization’s goals follow from decisions made by various managers. 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 the 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 to reach personal and organizational goals.

### 6.2.2. Types of Decisions

(a) **Programmed and Non-programmed Decisions**

(i) **Programmed Decisions**

If a particular situation occurs often and in the same form, a routine procedure usually will be worked out for dealing with it.

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

**Examples are:** the procedure for opening a bank account; reorder of inexpensive materials; procedure for admitting patients in hospitals.

(ii) **Non-programmed Decisions**

Decisions are non-programmed when the problem is unstructured.
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There is no established procedure for handling the problem because it is complex, important or novel. Such decisions deserve special attention/treatment. 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; purchase of expensive equipment.

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

(i) Decision making certainty

When 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 decisions 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 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).
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Thanks.

(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 organized, 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.

6.3 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 prioritize 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 decisions making is always done in the context of goals and objectives; and that all behaviour is basically goal oriented. If goals and objectives are adequately established, they will dictate what results must be achieved and the measure that indicate whether they have been achieved. Such measure is also referred to as the decision criteria.

Step 3: Generate Alternatives
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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 suggested by 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 firm 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. At some point, 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. On the basis of 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.

**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 will occur when implementing the decision. For example, there is often great resistance in organizations to change.
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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 have to be consulted. Competitors may be affected by the decision, and their reactions will have to be taken into account.

Usually, however, analyzing 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 make a decision, action on it will automatically follow.

Since in most situations, implementing decisions involves people, the test of decision 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 appropriate individuals and groups will 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.

6.4 **Individual Decision Making**

A key function of managers is decision making. A large number of decisions in the organization 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 managers select 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.
6.4.1 The 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.

6.4.2 Some of the 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.

6.5 A 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. Fourth, interacting individuals must also have a common purpose. That is, 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 committees, teams, boards, task forces, etc. This tendency toward group decision making is due in part to organizations’ 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 a 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 technological change, 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 interdependence 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 contribution of each individual.

6.5.1 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 the group members 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’s decisions.

(e) The participative decision making process builds up a 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 the 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.

6.5.2 Disadvantages of Group Decision Making

There are certain drawbacks to group decisions also. Some disadvantages are:
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Thanks.

(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 accord 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.

6.6 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, analyzing 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.

6.6.1 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 firm 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:
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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 utilize and build on the ideas of others.

(c) No idea can be criticized. The session’s purpose is to generate ideas, not to evaluate them.

6.6.2 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 stabilize, 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.

6.6.3 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.
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Thanks.

(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’ physical proximity.

6.6.4 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 maximize 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.

6.6.5 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.
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**Thanks.**

### 6.6.6 Decision Trees:

One of the best ways to analyze 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.

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 6.2 below.
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.

One thing is certain: (a) Decision trees and similar techniques replace broad judgments with a focus on important elements in a decision, (b) brings out into the open premises that are often hidden, and (c) disclose the reasoning process by which decisions are made under uncertainty.

6.7 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 suggested by 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 alternative 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 approach.

They involve nine stages: (i) diagnose and define the problem (ii) Establishing 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. Finally, various management techniques in decision making were highlighted.
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6.8 REVIEW QUESTIONS

SECTION A – (ATTEMPT ALL QUESTIONS)

1. Programmed decision is appropriate for:
   (A) Unclear problems
   (B) Clear problems
   (C) Non-repetitive problems
   (D) Repetitive problems
   (E) Non-routine problems

2. Which of the following is NOT a feature of non-programmed decision?
   (A) Decision is structured
   (B) Decision is not complex
   (C) Decision has established procedures
   (D) Decision is properly identified
   (E) Decision does not deserve special attention

3. 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
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4. A decision made in anticipation of an external environmental change or other conditions is known as:
   (A) Systematic 
   (B) Reactive 
   (C) Pragmatic 
   (D) Intuitive 
   (E) Proactive 

5. 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 

PART II: SHORT ANSWER QUESTIONS

1. A series or chain of related steps that lead up to an action or an outcome and assessment is referred to as a ............... 

2. Decisions that are repetitive and continuous in nature are known as ............... 

3. A situation where a decision maker has some probabilistic estimate of the outcomes of each alternative is referred to ............... 

4. A decision made in anticipation of an external change or other conditions is called ............... 

5. A decision made in response to external changes that have already taken place is known as ...............
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

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

SHORT ANSWER QUESTIONS

1. Decision making
2. Programmed decisions
3. Decision making under risk
4. Proactive decisions
5. Reactive decisions
CHAPTER 7

ORGANISING

7.0 Learning Objectives:

After studying this chapter, you will be able to:

- Understand the nature and purpose of organising.
- Explain the differences between formal organization and informal organisation.
- Explain factors determining organization structure
- Understand the various types of departmentation.
- Describe line, staff and line/staff relationships.
- Explain centralisation and decentralisation.
- Discuss delegation.
- Define coordination and discuss techniques of coordination.

7.1 Introduction

Organising is a management function that is undertaken to actualize the plans put in place to achieve the mission, goals and objectives of management. The need for organizing 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 organizing. According to Ivancevich, Lorenzi and Skinner (1994), organizing is the process of structuring both human and physical resources to accomplish organizational objectives. Robbins and Coulter (2007) define organizing as arranging and structuring work to accomplish the organizations goals.
The result of organizing 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.

Organizing 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.

7.2 Purpose of Organising

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

Organizing builds on the principle of division of labour to secure the advantages of job specialization. As a result 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 organizing are coordination of the diverse units, departments and divisions of the enterprise and harness their efforts for the common purpose of achieving the goals and objectives of the business enterprise efficiently.

7.2.1 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 specialized tasks and performance expectations for each person.

(c) Organising functions to create clear cut line of authority and responsibility in an organisation.

(d) By organising, management ensures division of labour that avoids misuse of resources, conflict and duplication of effort.

(e) It facilitates coordination among people and this brings harmony and synergy.
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Thanks.

(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.

7.3 Formal Versus Informal Organisation

The formal organization is pattern of relationships, communication channels and authority structure recognized 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 and 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, ethnic associations whose primary role is to protect or advance the interests of members employed in the organization, social or economic groups such as cooperative societies, cult groups etc.

Informal organizations have objectives, a structure of roles, patterns of communication, leadership, rules, regulations and procedures. In most cases, these patterns features are written down in a constitution adopted by members. Informal organization is 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, the existence and operation may have negative effect on the formal organization. Examples of this is the operation of cult groups in higher institutions where they create a high sense of insecurity on both staff and students and hence on the primary goals of the institutions.
7.3.1 Advantages of a Formal Organisation

A formal organization:

(a) Helps in achieving objectives
(b) Puts resources to the best use
(c) Ensures that merits of specialization can be achieved 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 predetermined rights and duties of each individual.
(h) Provides for well defined authority and responsibility and accountability to avoid any chance of friction and misunderstanding.
(i) Makes proper standardization of work to become practicable.

7.3.2 Disadvantages of Formal Organisation:

(a) In this type of organisation, procedures, programmes, rules, etc., are followed strictly, that is why frequent 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 takes place in this type of organisation.
(f) No consideration is given to the social and human elements.
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7.3.3 Advantages of Informal Organisation

(a) Information organisation may fill in gaps, if any, in the abilities of managers.

(b) Informal organisation helps in solving work problems of members.

(c) Information 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.

7.3.4 Disadvantages of Informal Organisation

(a) The leader of an informal organisation may turn out to be a trouble shooter 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 have a tendency 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 organisations growth.

(c) Informal communication may give rise to rumours which may create conflict and misunderstanding among the people. Rumours may prove very dangerous for the organisation.

(a) Every member of the informal group is also a member of the formal organisation. Sometimes, role conflict may arise because the ideas, expectations and requirements of the formal organisation may conflict with those of the informal organisation.

(b) 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.
7.4 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 the purpose of 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?

7.4.1 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)

7.4.2 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 belong to. In a manufacturing organisation, there are four basic functions – production, marketing, finance and personnel.

![Department by function diagram]

**Fig. 7.1: Department by function**

**Advantages:**
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(i) It is a simple form of grouping 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 the external stimuli is slow.
(iii) It fosters narrow self-centred perspectives within functions.
(iv) At times, objectives of functional departments may be in conflict.

7.4.3 Departmentation by Product/Service:

This form is suited for large organisations manufacturing variety 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. 7.2.
Fig. 7.2 Departmentation by product/service

Advantages:
(i) Places attention on product and product line.
(ii) It is 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.
(vi) This form enables top management to compare the performance of different products.

Disadvantages:
(i) This form of departmentation results in duplication of staff and facilities.
(ii) Extra expenditure is incurred in maintaining the sales force.
(iii) It fails to encourage the coordination of activities between departments.
(iv) It causes conflicts between corporate priorities and departmental
7.4.4. Departmentation by Process

Departmentation here is on the basis of process or type of equipment or technologies involved in the manufacture of a product. For example, processing industries like textiles, paint, 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 departmentation is illustrated in Fig 7.3.

![Fig 7.3 Departmentation by Process](image)

**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) Achieves economic advantage

(v) Uses specialized technology.

(vii) Utilizes specialised skills

**Disadvantages:**

(i) It will not provide opportunity for overall development of managerial skills and talent.

(ii) It is difficult to compare the performance of different process based
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(iii) Responsibility for profit is at the top.

(iv) Coordination of departments is difficult.

7.4.5 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 departmentalize those units on a geographical basis.

Advantages:

(i) It motivates each regional head to achieve a high performance level.

(ii) It provides the general manager an opportunity to adapt to his local conditions and customers need with speed and accuracy.

(iii) It helps to compare regional performance of the organisation and invest more resources in profitable regions.

(iv) It improves coordination in the region.

Fig 7.4 Departmentation by Geography/Territory

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

Geographic Departmentation is especially popular for sales where division appears feasible according to some geographical segregation.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.
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Thanks.

Disadvantages:

(i) It gives rise to duplication of many tasks.
(ii) Require more persons with general manager abilities.
(iii) Increase 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.

7.4.6 Departmentation by Customer

Some companies departmentalize 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.

![Diagram of Departmentation by Customer]

Fig. 7.5 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 the customer the impression that they have an understanding supplier.
(iv) Develop expertise in the customer areas.

Disadvantages

(i) It may result in underutilization of resources.
(ii) There may be duplication of facilities.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(iii) Require manager and staff experts in customer problems.

(iv) Customer groups may not be clearly defined.

7.4.7 Departmentation by Time

One of the oldest forms 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 because of economic, technological or other reasons. Generally, Departmentation by time is found in production function.

Advantages

(i) Services can be rendered that goes beyond normal 8 hour 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 equipments.

Disadvantages:

(i) Supervision is 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.

7.4.8 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.
**NOTE:** This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

The result is Fig. 7.6

![Matrix Organisation Diagram](image)

**Fig. 7.6 Matrix Organisation**

As Fig. 7.6 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 to be successful.

**Advantages:**

(i) It provides job enlargement for people.
(ii) It helps to identify people with end products.
(iii) It facilities 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 commands
(iii) It creates conflict between functional and project manager.

(iv) It is costly to implement and maintain.

7.5 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. These relationships in the hierarchy connect the position and tasks of each level with those above and below it.

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 below.

![Diagram of Line Organisation Structure](image)

**Fig. 7.7 Line Organisation Structure**

**Advantages:**

(i) The line organisation is simple to operate.

(ii) Responsibility, authority, and accountability are all clearly cut out and
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.
Thanks.
easily assignable and traceable.

(iii) Communication is fast and easy and feedback can be acted upon faster.
(iv) Due to small structural size, discipline among all can be maintained easily and effective control can be easily exercised.
(v) As usual, the companies with line type of organization are small in size, people 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 less effective.
(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.

7.5.1 Staff Authority:

The ‘staff” refers to those persons in the organisation who provide advice and service to the line staff. In most enterprises the use of the staff can be traced to the need to help in handling details, locating data required for decisions, offering counsel on specific managerial problems.

The staff work consists of investigation, research, recording, standardization and actual execution of the work planned by the staff. It is often said that ‘staff’ thinks’ while the ‘line acts’.

The staff organisation is shown in fig. 7.8
This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

**Fig 7.8  Staff Organisation Structure**

The staff positions in the organisation may take the following forms:

(a) Personal Staff: Are meant to serve executives only. A managing director for example, may have a secretary to assist him in carrying out various tasks such as attending to telephone calls, typing etc.

(b) Specialized Staff: these staff help the line by performing work that requires special skills. Such specialists are in: audit, research and development, and quality control.

The services of specialized staff are available to the managers at all levels of the organisation.

As shown in Fig. 7.8, the line authorities are chief executives, production manager, purchasing manager and the sales manager. The Secretary is the personal staff of the chief executives. The chief internal auditor is a specialized staff to advise the chief executive.

**7.5.2 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 function is largely advisory. Their authority arises because of their expert knowledge in a particular function of the enterprises and the need to utilize their experts’ advice by line managers.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

Fig. 7.9  Line and Staff Organisation Structure

Fig. 7.9 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 and finance, personnel. 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 utilized for training some of the line managers.

(iii) It facilitates speedy operations of line function.

(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 managers’ 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 manager.

(ii) Staff officers may remain ineffective because they do not possess the authority to get their recommendations implemented.

(iii) The allocation of authority and responsibilities may not be clear between line and staff executives.

7.5.3  Line and Staff Conflicts

The line and staff officials should support each other and work harmoniously for the attainment of the 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:
This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(a) The staff people 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 people 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 in terms of its 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 people are generally ignorant, resist change and new ideas.

(b) They fear that changes in methods may expose their inefficiency.

(c) Line people distrust, do not cooperate and even sabotage staff plans.

(d) Line has not enough knowledge to translate advice to 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.

### 7.6 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 structure that would be suitable for the conditions in which the organization operates. As can be expected, no two organizations have similar structure. The structure that enables one to perform well may not be suitable for the other. What works during one time period for a given organization may not work at another period. Hence managers are continuously 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 structure for their organizations.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

The key questions that the manager wants to answer in designing or re-designing the structure of their organization 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?

(iv) 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.
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(1) Size: Size is an important determinant of structure. Small organisations tend to have organic structure. As size increases, the structure tends towards being mechanistic.

(2) 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.

(3) Environmental uncertainty: When the level or environmental uncertainty is low (environment is stable), the structure applicable is mechanistic. When the environmental uncertainty is high, the structure tends to be organic.

(4) Strategy: Organisation may adopt prospector strategy which takes the form of creativity, innovation, growth orientation and risk taking. The other strategy is the defender strategy which emphasizes stable growth, protecting existing markets, serving current customers and minimizing cost. Between these extremes is the analyzer 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.

7.7 Centralisation and Decentralisation

7.7.1 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.

7.7.2 Advantages of Centralisation

(i) Power and prestige are provided the chief executives.

(ii) Uniformity of policies, practices, and decision is fostered.

(iii) Duplication of functions that are similar is minimized.
**NOTE:** This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(iv) Elaborate and extensive controlling procedures and practices are not required.

(v) A strong coordinated top management team is developed.

### 7.7.3 Disadvantages of Centralisation

(i) There is inflexibility and delays in decision making. Because of this centralized organisations are slow in responding to changes in 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.

### 7.7.4 Decentralisation

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

Decentralisation usually entails bringing in additional staff. 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.

### 7.7.5 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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 respective local conditions can be obtained.

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

7.7.6 Disadvantages:

(i) It may bring about diseconomies of scale with the increase in the overhead expenses of each decentralized unit.

(ii) Some managers find it difficult to make decisions even though they have the authority because the methods used to measure accountability are time consuming and instil fear in the managers.

7.8 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.

7.8.1 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.

7.8.2. 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 the higher level management.

(ii) Effective delegation speeds up the decision making.

(iii) Helps train the subordinates for higher responsibilities and also 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.

7.8.3 Barriers to Effective Delegation

(a) Reluctance to delegate by managers may be due to:
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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.

7.9 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. 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.

7.10 Coordination

Coordination is the process of integrating the activities and objectives of the separated units of an organisation in order to efficiently achieve organisational goals.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.
Thanks.

7.10.1 The Need for Coordination

The need for coordination arises because of two factors:

(a) Division of work. The interdependence between units/departments of work group. 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 are departments require that their activities are coordinated to achieve organisational goals.

7.10.2 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. The 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.
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(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 minimization 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.

7.11 **Summary**

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.

In order for the formal organisation to function properly, authority and responsibility must be defined for all organisational members. The various types of Departmentation were exhaustively discussed.

The line, staff and line and staff relationship 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
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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 was the direct opposite showing that the locus of authority was at the top of the organisational hierarchy.

There are several coordinating 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.

7.12 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 the following is not a basis for Departmentation?
   (A) By geography
(B) By product
(C) Customer
(D) Time
(E) Staff

4. Select the statement that best describes the informal organisation.
   (A) It is often quite large and not cohesive.
   (B) It bases its activities mainly on written rules.
   (C) Communication channels are not prescribed.
   (D) It is structured and shown on organisation charts.
   (E) Its activities are formal, differentiated and integrated.

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 practiced.
   (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 ............
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3. An organisational design which attempts to capture the strengths and reduces the weaknesses of both the mechanistic and organic designs is referred to as ……………

4. Those persons who provide advice and service to the line staff in an organisation are known as having ……………

5. The process of systematically concentrating decision making authority in the hands of managers at the higher levels of authority is called…………

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

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

SHORT ANSWER QUESTION

1. Organising
2. Departmentation
3. The Matrix Organization/Team
4. Staff Authority
5. Specialisation
CHAPTER 8

CONTROLLING

8.0 Learning Objectives

After studying this chapter you will be able to:

- Understand and define control.
- Explain the purpose of control.
- Understand types of control systems.
- Describe feedback control, concurrent control and feedforward control.
- Describe the control process.
- Explain characteristics of effective of control systems.
- Describe various control techniques: and
- Discuss the nature, use and limitations of various control techniques.

8.1 Introduction

Control is a fundamental management function, closely linked to planning and organizing processes. It also has an important impact on motivation and team behaviour. Control is both a process (e.g., the product has met standards).

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 must are also required to cover all major activities related to an organization’s input output.

Control is needed to achieve the following:

(a) Standardize performance to increase efficiency

(b) Safeguard organizational assets from theft, waste and misuse.

(c) Standardize quality to meet engineering and customer specifications.

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(d) Set limits within which delegated authority can be exercised.

(e) Measure the job performance of all organizational members

(f) Ensures the effectiveness of management plans and programmes.

The fact that goals have been set and various activities have been planned to achieve them is not enough to guarantee success. Controlling is a management function designed to monitor and ascertain whether goals are actually being met and to take corrective action, if necessary to ensure effectiveness.

8.2 Meaning and Purpose of control

8.2.1 Controlling is the process of monitoring, comparing and correcting performance in order to make sure that organization objectives and plans devised to attain them are being accomplished.

Control is a means of assuring 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 condition that were in existence and perceived during planning phase may change so fast that it becomes difficult to achieve the goals. A properly designed control system can help managers to monitor and respond to changing condition.

(b) Minimizing the 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.
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(d) Minimizing cost.

Control helps to reduce costs. A well-designed control system can eliminate all wastages and losses (non-value-adding activities) and hence minimize cost.

8.3 Types of Control on the Basis of Level in the Organization Hierarchy

8.3.1 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 focuses on how effectively the organization’s corporate, business, and functional strategies are succeeding in helping the organization 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 in the right direction. If the organization adopts new product development as a competitive strategy, it monitors and evaluates the organization’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 organization and focuses on the processes that are used to transform inputs into needed outputs.

8.3.2 Types of Control on the Basis of 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 supplies and the quality of products and services they offer to their customers.
8.3.3 Structual Control

The different types of control here are personal centralized control, bureaucratic control, output control, cultural of clan control.

(i) Personal centralized control involves direct personal supervision and centralization of decision making. This type of control revolves around the individual supervisor who uses his/her personal attributes, direct observation, rewards and punishments as the basis of control.

(ii) Bureaucratic control: relies on elements of bureaucracy as a means of controlling operations. Reliance is place 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 actual output is used as a basis of control.

(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 socialization techniques.

8.3.4 Feedforward/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. On the basis of this, three types of control can be identified.

(a) Feedforward 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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 is able to tackle 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.

8.4 The Control Process

The control process consists of the steps involved in controlling. It consists of four steps – establish 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 utilized in the control process. For the sake of completeness, the establishment of measurable standards is usually discussed also in the control process.

![Fig. 8.3 Basic Steps in the Control Process](image)

(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 customer.

(b) Measure The Performance:

Like all aspects of control, measurement is an ongoing, repetitive process. 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. Still, 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 Fig8.3

(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 organization’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 a merely identifying past failures.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.
Thanks.

8.5 Characteristics of Effective Control Systems:

(a) Accurate

Information on performance must be reasonably accurate in order 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 come off the assembly line.

(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 N60,000 on control to realize a savings of N50,000, 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(f) Organizationally Realistic

The control system, to be workable, has to be compatible with organizational realities. For example, there has to 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 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 usable 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 usually the motivation of employees to decline. Such a negative effect must be taken into account when the efficiency of a control system is assessed.

8.6 Control Techniques

8.6.1 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 helps to show 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.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Description</th>
<th>Completion Time (days)</th>
<th>Prerequisites</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Prepare specifications</td>
<td>8</td>
<td>None</td>
</tr>
<tr>
<td>B</td>
<td>Secure bids and award contracts</td>
<td>5</td>
<td>A</td>
</tr>
<tr>
<td>C</td>
<td>Remove existing equipment</td>
<td>2</td>
<td>A</td>
</tr>
<tr>
<td>D</td>
<td>Train operators for new machines</td>
<td>4</td>
<td>A, B</td>
</tr>
<tr>
<td>E</td>
<td>Electrical modifications</td>
<td>3</td>
<td>A, C</td>
</tr>
<tr>
<td>F</td>
<td>Paint</td>
<td>4</td>
<td>A, C</td>
</tr>
<tr>
<td>G</td>
<td>Install machine</td>
<td>3</td>
<td>A, C, E</td>
</tr>
<tr>
<td>H</td>
<td>Test machine</td>
<td>2</td>
<td>A, B, D</td>
</tr>
</tbody>
</table>
Fig. 8.4 is an example of a PERT Chart
Sources: John M. Ivancevich et al (1994, page 481)

Fig 8.4 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 8.4 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.

The longest path from start to completion of project in terms of time required.

The 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.
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(iii) It forces managers to plan their projects critically and analyze 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 role 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.

8.6.2 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 depend on the sales forecast of raw materials, 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.

Of course, keeping the ware house 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 in what meeting the dates, quantities, and cost commitments on the schedule. The master schedule will affect
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the efforts and success of every department in the company. Therefore it should also reflect the need of the finance, marketing shipping and all other department.

Production managers must plan for flexibility to be able to change form one process to another at short notice. They may use a member of tactile 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.

8.6.3 Management Audit

The periodic assessment of a company’s managerial planning, organizing, 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, present, and future. The areas the company covers are examined with a view to determine whether the company is achieving maximum results out of its endeavours, identifying areas where improvements are needed, and keeping expenditures to minimum while caring our required operations.

The audit itself assesses (i) what the company has done for itself, and (ii) what it has done for its customers of recipients of the product or services provided.

To reach 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 responsibility.

A management audit cannot be conducted until the company has been operating a sufficient time to establish its behaviour 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 shoring up.

(c) Improve 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 developed within the organization.

The managements audit is concerned with the broad scope 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
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or her recommendations if the prerogative of the manager having the particular authority for the activity under question.

8.6.4 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 where total revenue equals the total cost and there is neither a profit nor a loss. The point 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, variable costs, total costs, price per unit, level of output and profit or loss. Their relationships would be useful in the management can study these variables if there is a significant deviation of actual profit from expected profit.

As a control tool it emphasizes the marginal concept through various marginal difference in the values of the affecting variables, the result of the variations 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 of 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 whether there is any unit produced or not.

(b) Variable costs: These costs are related to production. They change with the production levels.

(c) These costs include labour costs, material costs packaging and shipping of the product costs etc.

(d) Total cost Total costs 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.

\[ \text{BEP} = \frac{TRC}{P - VC} \]

Where \( \text{BEP} \) = Level of production in units at which the
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

Organization break-even

\[
\text{TFC} = \text{Total Fixed Cost of production} \\
\text{P} = \text{Sales price per unit} \\
\text{VC} = \text{Variable cost associated with each unit produced and sold.}
\]

Example: To calculate BEP, assuming that a publisher of books, in publishing a particular book has incurred a total fixed cost of N100,000 and each book has been established at N10 per book. Then the BEP would be:

\[
\text{BEP} = \frac{\text{N100,000}}{\text{N10} - \text{N5}} = 20,000 \text{ BOOKS}
\]

The publisher must sell 20,000 books to break even. Any additional books sold in excess of 20,000 would bring in the profits.

The graphical method. In the graphical breakeven analysis, a graph is constructed which show all critical elements and their relationships. The general graph would be as follows:

In the diagram above:

- BC represents the fixed costs (BC is a straight line showing that this cost is constant no matter what the production along line AG)
- BD represents the total cost which is the combination of variable cost and fixed cost.
- AF is the break-even point identified by the intersection of line AF and BD. This point is reach eth the level of production X along the line AG.
8.6.5 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.

The ratio analysis comparisons can be made in one of two ways:

(a) comparison over a time period: ratio in the past (or with a future projection);
(b) comparison with other similar organisation or with the industry as a whole. The first type of comparison will indication has changed the doing relative to its competitors.

Because financial statements are expended in numerical terms, people sometime assume that the information obtained from them will be precise in nature. However, may financial figures, such as those for depreciation, may be based on loose estimated In addition, accounting systems vary significantly form on considered when ratios are being analyses and compared. As a general rule, several of an organization’s ratios need to be evaluated in order of judgement of that organization’s financial performance to be meaningful. Thus, we can obtain a complete picture of the organization’s financial heath using a combination of ratios rather than a single ratio.

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 an ability to pay short-term obligations are called liquidity ratios. Of these, the current ratio measures the extents 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.

\[
\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}
\]

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.

\[
\text{Acid-test ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}
\]
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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.

\[
\text{Time-interest earned ratio} = \frac{\text{Income before taxes} + \text{Interest expense}}{\text{Interest expense}}
\]

(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 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 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 general sales.

\[
\text{Total assets turnover} = \frac{\text{Net Sales}}{\text{Total assets}}
\]

The turnover of net worth is an indication of management’s efficiency in using stockholders equity.
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Turnover of net worth = \( \frac{\text{Net Sales}}{\text{Net worth (Stockholders' equity)}} \)

Finally, a measure to determine the effectiveness in using resources is provided by the turnover of net working capital ratio.

Turnover of net working = \( \frac{\text{Net Sales}}{\text{Net working capital}} \)

(current assets – 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 expedient of profit as a percentage of sales.

Profit return on net = \( \frac{\text{Net income after taxes}}{\text{Net sales}} \)

*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.

Profit return on total assets = \( \frac{\text{Net income after taxes}}{\text{Total assets}} \)

(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 funds.

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 expended by the following formula:

\[
\frac{\text{Sales}}{\text{Investment}} = \frac{\text{Profit}}{\text{Sales}} = \text{ROI}
\]
8.6.6 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. Budgetary control is commonly termed bun terms

The Purpose of Budgeting

(a) The purpose of budgeting is to allocate resources efficiently.

(b) It permits the manager to see clearly what capita will be spent by whom, where and what expense, revenue or units of physical input of output the plan will involve.

8.6.7 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 budges and

(d) cash budgets

(i) Revenue and expense budget:

This budget spells out plans for revenues and operating expenses in naira terms The most basics of this is the sales budget which is a formal and detailed expression of the sales forecast just as 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 furnishes the principals income to pa operation expenses and yield profits.

Operating expense budgets may deal with individual items of expense such as travel, data processing, entrainment, advertising, telephone, and insurance.

Sometimes a department head will include in 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
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of N7,200. To budget this cost each month at N600 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 unit produced.

Most firms budget product output and most production department budget their share of the output of components of the final product. 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 express 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, inventories, and other items. Whether for a short term or a long one, these budgets require care because they give definite form to plans for spending 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 of existence, and 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 profit-making investment of surpluses.

8.6.8 **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.
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For example, an expense budget based on annual sales of N12 million may be completely off truck if sale of N15 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 manager to keep to the original expense budget.

To deal with the 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.

8.6.9 Zero-Based Budgeting [ZBB]

Zero-based budgeting enables the organisations to look at its activities and priorities afresh. 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 organization’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 its 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 unnecessary 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.

### 8.7 Summary

The managerial function of controlling is the measurement and correction of performance in order to ensure that enterprise objectives and the plans devised to attain them are being 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.
In order 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 need 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 categories.

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.

8.8 Review Questions

Section A (Attempt all Questions)

Part I: Multiple Choice Questions

1. The type of control that focuses on how effectively the strategies of the organisation are helping the organisation meet its goals is known as:

(A) Strategic control
(B) Financial control
(C) Operations control
(D) Structural control
(E) Tactical control

2. Correcting deviations from standards is an aspect of:

(A) Planning process
(B) Control process
(C) Actuating process
(D) Leading process
3. Which of the following is not an activity that is associated with the control function?

(A) Adapting to changing conditions
(B) Coping with organisational complexity
(C) Minimizing the errors
(D) Maximizing the errors
(E) Minimizing costs

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. The system that measures outputs of a process and feeds into the system corrective actions to obtain desired outputs is known as:

(A) Congruent control
(B) Feed forward control
(C) Process control
(D) Concurrent control
(E) Feedback control

Part II: (Short Answer Questions)

1. The regulation of organisational activities so as to facilitate goal attainment is known as ..........
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2. A type of control system where action is taken only after a significant deviation has occurred is known as …………..

3. The control that is concerned with the organization’s financial resources is referred to as …………

4. The periodic assessment of a company’s managerial planning, organising and controlling compared to what might be called the norm of successful operation is called ………….

5. The calculation of one or more financial ratios to assess some aspects of the organization’s financial health is referred to as ………….

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

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

SHORT ANSWER QUESTIONS

1. Control
2. Feedback Control
3. Financial Control
4. Management Audit
5. Ratio Analysis
CHAPTER 9

MOTIVATION AND COMMUNICATION

9.0 Learning objectives

After completing this chapter you 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.

9.1 Introduction

What accounts for the differences in the performance 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? This chapter attempts to answer these questions in the next six sections:

9.2 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 workers/worker awards/award to ten workers from each distribution outlets. 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 realize 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.
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– sometimes up to 40 percent of the staff leave, often without notice. Most of the staff seems 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 conductive 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 directs 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.

9.3 Motivation Theories

Management writers have proposed a number of theories to explain motivation. These theories may be broadly categorized into three:

- Content Theories
- Process Theories
- Reinforcement Theory

9.3.1 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 Hertzberg’s Motivation – Hygiene theory.

(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:

- **Physiological Needs** include food, shelter, air, rest, sleep, clothing, sexual fulfilment and the like.
- **Safety Needs** has to do with the need for job security, freedom from injury; freedom from deprivation, coercion and arbitrary treatment.
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Thanks.

- **Social Needs** include the need for acceptance by others, friendship, belongingness, affection, team membership and the like.
- **Esteem needs** include desire for respect, self-confidence and self-esteem.
- **Self-actualization Needs** has 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 9 – 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.

![Maslow’s Hierarchy of Needs Theory](image)

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 criticized 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 need 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...
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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 Hertzberg’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 Hertzberg) 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 Hertzberg) 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 higher factor.

**9.3.2 Process Theories**

Process theories focus on the goals or processes by which employees are motivated. The major process theories are:

- Vroom’s Expectancy Theory
- 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 x 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.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>0</th>
<th>+1</th>
</tr>
</thead>
</table>

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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 0.9. 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 $Motivation = V(1) \times E(0.9)$.

The expectancy theory shows that motivational forces differs from one individual to another and emphasizes individual perception as an important factor in motivation. It also stresses that the ability of a specific technique to motivate an individual depends largely on his or her preference for some outcomes. Koontz and Weihrich (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 salary compares favourably with 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.

9.3.3 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 B.F. Skinner (1984) are as follows:
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Thanks.

(a) Employees are motivated by proper design of their working 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 analyze work environment and remove factors that impede effective performance.
(d) Provide regular feedback to employees and reward good performance.

Table 9 – 1 compares the various theories and indicates their use in management.

Table 9 – 1: Comparison of Motivation theories

<table>
<thead>
<tr>
<th>Theory</th>
<th>Feature</th>
<th>Implications for management practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Maslow</td>
<td>• Man has five basic needs arranged in a hierarchy.</td>
<td>• Managers need to find out subordinates’ level on the hierarchy.</td>
</tr>
<tr>
<td></td>
<td>• People want more but what they want is influenced by what they have already.</td>
<td>• Satisfaction of physiological, safety, social, esteem and social needs motivate employees to work hard.</td>
</tr>
<tr>
<td>2. Motivation – Hygiene Theory</td>
<td>• Company policy, supervision working conditions and money do not motivate employees.</td>
<td>• Money is not a motivator of behaviour.</td>
</tr>
<tr>
<td></td>
<td>• Achievement, recognition growth and responsibility motivate employees.</td>
<td>• Employees could be motivated if the manager emphasizes achievement, Recognition, Growth and Responsibility.</td>
</tr>
<tr>
<td>3. Vroom’s Expectancy</td>
<td>• Individuals are rational, aware of their goals and are influenced by the expected outcomes of their actions.</td>
<td>• Emphasizes management by objectives.</td>
</tr>
<tr>
<td></td>
<td>• Behaviour with positive consequences tends to be repeated, while behaviour with negative consequences tends not to be repeated.</td>
<td>• Individual perception is an important factor in motivation.</td>
</tr>
<tr>
<td>4. Equity</td>
<td>• An individual’s motivation depends on his or her evaluation of the equity or fairness of the reward given to him or her.</td>
<td>• Wages and salary increments will motivate employees only when they are perceived as fair when compared to other employees.</td>
</tr>
<tr>
<td>5. Reinforcement</td>
<td>• Behaviour with positive consequences tends to be repeated, while behaviour with negative consequences tends not to be repeated.</td>
<td>• Employees are motivated by proper design of the working environment.</td>
</tr>
</tbody>
</table>

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9.4 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, 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.

9.5 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 you through the basic features of communication in an organisation and discuss its impact on organisations.

9.5.1 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.

### 9.5.2 The communication Process in an organisation

Communication flow in an organisation may be analysed through the communication process model shown below:

![Communication Process Model](image-url)
This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.

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 the message there is a feedback. Anything in the environment which interferes with or distorts the transmission of the message is called noise. The key aspects of the model are explained in table 9 – 2.

Table 9-2: The Communication Process Model – Explanation of Terms

<table>
<thead>
<tr>
<th>Feature</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sender</td>
<td>This refers to the person who initiates the transmission process, thinks about the message and encodes it.</td>
</tr>
<tr>
<td>Encoding</td>
<td>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).</td>
</tr>
<tr>
<td>Message</td>
<td>This is the information being transmitted. The sender has to use a channel suitable for transmitting the message.</td>
</tr>
<tr>
<td>Channel</td>
<td>This refers to any media 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).</td>
</tr>
<tr>
<td>Decoding</td>
<td>The process by which the receiver extracts some meaning out of the message received.</td>
</tr>
<tr>
<td>Noise</td>
<td>Anything in the environment which interferes with the transmission of the message is called noise. Noise can be physical, or psychological.</td>
</tr>
<tr>
<td>Feedback</td>
<td>There is feedback when the receiver replies the message transmitted. The feedback can take the form of a verbal or non-verbal messages or carrying out an action requested by the sender. Feedback helps the sender to know if the message has been understood.</td>
</tr>
</tbody>
</table>

The model helps us to analyze 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.

9.5.3 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 flow. 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 9 – 4.

(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 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 contracts, 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

Table 9 – 3: Comparison of information flows in an organization

<table>
<thead>
<tr>
<th>Type</th>
<th>Kind of information transmitted</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upward</td>
<td>• Employee views and Suggestions • Answer to Queries. • Reports and data • Employee Grievances.</td>
<td>• Top and middle managers know what is happening. • Managers get information for policy and decision-making.</td>
<td>• Information may be filtered or distorted when transmitted upwards.</td>
</tr>
<tr>
<td>Downward</td>
<td>• Instructions • Request for Information.</td>
<td>• Managers get things done. • It is used to monitor performance.</td>
<td>• Information may have veiled threat behind it.</td>
</tr>
<tr>
<td>Horizontal</td>
<td>• Data and Information.</td>
<td>• Improved coordination of activities of departments and organization.</td>
<td>• It does not follow chain of command and could lead to conflicts.</td>
</tr>
<tr>
<td>Crosswise</td>
<td>• Data and Information.</td>
<td>• Improved coordination. • Cooperation.</td>
<td>• Does not follow chain of command. • Could lead to conflicts.</td>
</tr>
</tbody>
</table>

9.5.4 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.
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Thanks.

(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 the information.

(g) Poor organizational structure: Communication in an organisation may be impeded by long chains of command, highly centralized authority structure and unsuitable span of management.

(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.

9.5.5 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; 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. 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) Break down 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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.

9.6 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 a new company, introduction of new accounting software or involve ‘hard’ 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.

9.6.1 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 and roles and organisation structure.

(c) Changes in social trends, values and attitudes of the society in which the business operates could influences 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 could bring about changes in strategy and policies.
9.6.2 Why employees resist changes

Employees traditionally resist changes 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 on 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 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 change in the past.
(i) *Threat to expertise*.
(j) Threat to established resource allocation, power relationship.

9.6.3 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.
(c) 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 of the changes on the organisation; the pace etc.
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Thanks.

(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, resistance builds up. Let the pace of change keep pace with employee’s ability to 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 dropping resistance.

(j) Manipulation and cooption – management may present certain facts in favour of the change and ignore these against cooptation involves given some leaders in the group resisting change key roles so that they may drop their resistance.

9.7 Summary

We have defined motivation as the needs and desires which direct the individual’s behaviour towards specific goals. Motivation theories may be broadly classified into content theories, process theories and reinforcement theories. Communication has to do with the transfer of information from one person to another. Change has to do with modification or alternation of the status quo in an organisation. A variety of forces could lead to organizational change – new technology, change in legislation, new management policies competition, mergers and acquisition etc. Employees resist change if they are not involved in its introduction, lack information and if it threatens the status quo. Management can manage change through employee participation, training, incentives etc.
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9.9 Review Questions

1. Explain the following theories briefly:
   i. Maslow’s Hierarchy of needs.
   ii. Motivation – Hygiene theory.
   iii. Equity theory.

2. What is the importance of communication in an organisation?

3. List and explain five reasons why employees resist change?

MULTIPLE CHOICE QUESTIONS

1. In Hertzberg’s Two-Factor Motivation theory, one of the following is NOT a motivator:
   A. Achievement
   B. Responsibility
   C. Money
   D. Recognition
   E. Growth

2. Motivation theories are categorized into content theories, process theories and reinforcement theories. Only one of the following is a process theory:
   A. B. F. Skinners theory of motivation
   B. Maslow’s Hierarchy of Needs theory
   C. Fred Fiedler’s Motivation Theory
   D. Adam’s Equity Theory of Motivation
   E. F. W. Taylors Theory of motivation

3. One of the following is NOT a form of communication in organizations:
   A. Crosswise communication
   B. Upward communication
   C. Internet communication
   D. Horizontal communication
   E. Downward communication

4. All of the following influence change in organization EXCEPT
   A. New Chief Executive Officer
   B. Marketing policies of the organisation
   C. New Government policies
   D. New work methods
   E. Marketing strategies of competitors

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5. Managers attempt to reduce resistance to change through the following strategies EXCEPT

   A. A general salary increase to workers
   B. Education and communication
   C. Coercion
   D. Manipulation and cooptation
   E. Encouraging participation

SHORT ANSWER QUESTIONS

1. When an employee channels his/her efforts persistently to achieve an agreed target because of fear of retrenchment, he/she is motivated by ………………… Need.

2. The theory in which motivation is described as a function of valence and expectancy is attributable to ……………

3. The motivation theory that suggests that employees compare the outcomes of their effort in relation to their inputs with the outcomes to others effort in relation to their inputs is called …………… theory.

4. Communication that takes place among employees through channels set up by themselves is known as ……………

5. When management adopts a strategy designed to help employees understand the need for change as a means of reducing resistance to change, it is said to adopt …………… strategy.

Solutions
Multiple Choice Questions
1. C
2. D
3. C
4. E
5. A

Short Answer Questions
1. Safety needs
2. Expectancy theory
3. Equity theory
4. Informal Communication
5. Education and communication
CHAPTER 10

GROUPS AND LEADERSHIP IN ORGANISATIONS

10.0 Learning objectives

After completing this chapter you should be able to:

- Define and explain the meaning of a group.
- Describe the features of groups’ and explain why people join groups.
- Identify the stages of group development.
- Explain the importance groups.
- Describe the causes of conflicts in an organisation and how these are managed.
- Define and explain leadership.
- Identify the various approaches to leadership.

10.1 Introduction

We all work in, with or through groups. We join groups to satisfy our social needs, gain power, security, achieve our personal goals and enhance our self-esteem. This chapter will walk you through all aspects of group theory and practice. The chapter also examines the process of influencing members of work groups towards goals. It also discusses the key leadership theories and their implications for management practice.

In Section 10.2 we examine how individuals interact with each other through informal and formal groups. It also examines the key stages in group formation and development.

In Section 10.5 – 10.7 we examine the nature of conflict in groups and organisations and how these conflicts could be managed.
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Thanks.

In Section 10.7 – 10.9 we turn our attention to nature and role of leadership and ways of improving leadership effectiveness in organisations.

10.2 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.

10.2.1 Formal Groups

These are groups deliberately created by managers in order to perform or fulfil specific tasks directly related to the fulfilment 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 exists as long as their mission are unfulfilled 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.

10.2.2 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.
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(c) Random Clique: Made up of 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.

10.2.3 Teams

A team can be defined as a collection of individuals having a specific purpose or purposes and are committed to:

- Achieving a goal
- High performance
- 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.

10.2.4 Group and Team Formation and Development

Studies have shown that groups and teams pass through five developmental stages informing, 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 at this
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Thanks.

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 an unconscious level. Members seem more concerned with being accepted by other than with the task ahead. At this stage, this 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 is done through for example:

- Frequent meetings comprising introductory session
- Start up type activities such as party, and other social type events
- Communication of group’s terms of reference

2. Storming Phase

At 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:

- Conflict about values
- Disagreement about goals and task
- Disaffection about role may surface
- Clarification of goals begins
- Role clarification begins
- Members challenge the leader and each other
- Formation of sub-groups and coalitions
- Group intolerance to sub-groups, cliques and coalitions
- Increased member participation
- Decreased conformity
- Deviation from emerging group norms
- Attempt at conflict resolution begins
- Conflict resolutions if successful, increase trust and cohesion

The leader must:

- recognize the fact that at the stage conflict is natural. He must recognize what is happening and remain calm, seeing the process as part of the development.
- Employ listening and conflict management skills that ensure that everyone has their say in a reasoned and controlled manner.
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Thanks.

- Focus efforts on re-establishing his leadership role and clarify group’s goals and objectives and individual roles
- 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
- Communicate group’s terms of reference

3. **Norming Phase**

During this phase, group cohesion develops and a hierarchy of rules establish, which members may be observed. When a group has passed through the inevitable conflict stage, member trust, commitment to the group and willingness to cooperate increases. Focus shifts away from their issues and becomes task oriented.

**Identifying the Norming Phase**

- Increase goal clarity and consensus are evident
- Roles and task adjust to increase the likelihood of group achievements
- The leaders’ role becomes less directive and more consultative
- The communication structure becomes more task oriented
- Pressure to conform increase again
- Helpful deviation is tolerated
- Coalitions and subgroup continues to occur
- Increase tolerance of subgroups, cliques and coalition 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 and achievements
- The ability of confronting 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 fullest. 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 do so.

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 to 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 phases.

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. This is usually due to internal crisis or change in the organizations level of support. Commitment to success is therefore necessary from all members and the organization.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

![Diagram of Group and Team Development]

**Fig. 10.1. Schematic Diagram of Group and Team Development**

### 10.2.5 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 understands the part he/she have 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 elsewhere in this text, conflicts are inevitable in all groups but in effective groups conflicts are resolved peacefully.
This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.

(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 10–1.

Table 10–1: Differences between an effective group and ineffective group

<table>
<thead>
<tr>
<th>Group</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective</td>
<td>• Achieves its purpose.</td>
</tr>
<tr>
<td></td>
<td>• Able to increase output.</td>
</tr>
<tr>
<td></td>
<td>• Common understanding of group purpose among members.</td>
</tr>
<tr>
<td></td>
<td>• Members are committed.</td>
</tr>
<tr>
<td></td>
<td>• Each member understands his/her role in the group.</td>
</tr>
<tr>
<td></td>
<td>• Good leadership.</td>
</tr>
<tr>
<td></td>
<td>• Effective conflict handling.</td>
</tr>
<tr>
<td></td>
<td>• Members obey group norms.</td>
</tr>
<tr>
<td></td>
<td>• Group is cohesive.</td>
</tr>
<tr>
<td></td>
<td>• Communication flows freely.</td>
</tr>
<tr>
<td></td>
<td>• Participation in-group activities.</td>
</tr>
<tr>
<td></td>
<td>• Members are satisfied.</td>
</tr>
</tbody>
</table>
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

<table>
<thead>
<tr>
<th>Group</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ineffective group</td>
<td>• Poor leadership.</td>
</tr>
<tr>
<td></td>
<td>• Ineffective conflict handling.</td>
</tr>
<tr>
<td></td>
<td>• Poor communication flow.</td>
</tr>
<tr>
<td></td>
<td>• Low commitment to group goals.</td>
</tr>
<tr>
<td></td>
<td>• Conflicting roles and understanding of group purpose.</td>
</tr>
<tr>
<td></td>
<td>• Low productivity.</td>
</tr>
<tr>
<td></td>
<td>• Poor interpersonal relationships among members.</td>
</tr>
<tr>
<td></td>
<td>• Low participation in-group activities.</td>
</tr>
</tbody>
</table>

10.2.6 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 rely 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 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.

10.2.7 Team-Based Pay

This is 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.
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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 (Sometimes equally)

Advantages of Team-Based Pay

a) It encourage teamwork and correctness
b) Aids in the clarification of team goal and priority
c) It encourages acquisition of several skills by individual members of the group.
d) Provide incentive for improvement collective performance
e) It encourages improved team performance by less effective members.

Disadvantages of Teams-Based Pay

a) It only works in nature 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 came 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>
<thead>
<tr>
<th>GROUPS</th>
<th>TEAMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong, clearly focused leader</td>
<td>Shared leadership role</td>
</tr>
<tr>
<td>The group’s purpose is the same as the broader organizational mission</td>
<td>Specific team purpose that the team delivers</td>
</tr>
<tr>
<td>Individual work product</td>
<td>Collective work product</td>
</tr>
<tr>
<td>Run efficient meetings</td>
<td>Encourage open ended discussions and active problem solving meetings</td>
</tr>
</tbody>
</table>
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.


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<table>
<thead>
<tr>
<th>GROUPS</th>
<th>TEAMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measures its effectiveness indirectly by its influence on others (e.g. overall reduction in cost of the organization)</td>
<td>Measures performance directly by assessing collective work products</td>
</tr>
<tr>
<td>Discusses, decides and delegates together</td>
<td>Discusses, decides and does the work together</td>
</tr>
</tbody>
</table>

*Table 10.1 Differences between groups and teams*

### 10.3 Nature of Conflicts in Organisation

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. To 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 an individual 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 the organisations and other organisations.

#### 10.3.1 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(f) Differences in values or perceptions among people in the organisation.

10.3.2 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.

10.3.3 Management of organizational 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.

10.4 Nature and role of leadership

You may recall that in 10.2 we discussed groups and group effectiveness and implied that one of the key determinants of an effective work group is good leadership. Effective leaders define the vision of the group (section, department or organisation) and use their power of influence to inspire the group to achieve the vision. 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. This definition exposes key features of leadership:
10.4.1 Importance of leadership

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”*.  

10.4.2 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 analyzing 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 has 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. 9.3.

  1.1 Improvised – 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 employers.

  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.
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Fig. 9 – 3: Management Grid

- *The Tannenbaum and Schmidt Continuum theory suggests* that leadership styles 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 depend on his/her background/traits, the type of subordinate(s) and situational factors.

<table>
<thead>
<tr>
<th>High Concern for people</th>
<th>9 (team) 9.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 1.9 (country club)</td>
<td>7 5.5 (middle road)</td>
</tr>
<tr>
<td>7</td>
<td>6 1.1 (impoverished)</td>
</tr>
<tr>
<td>6</td>
<td>5 (task) 9.1</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>1 1.1 (impoverished)</td>
<td>2 5 (middle road)</td>
</tr>
<tr>
<td>2</td>
<td>1 5 (country club)</td>
</tr>
<tr>
<td>1</td>
<td>0 1 (task)</td>
</tr>
</tbody>
</table>

- Authoritarian
- Democratic
- Task orientation
- Relationship

Leader presents decision and announces it invites subordinates questions Leaders defines decision ideas and subject to amendment Leaders allows tentative suggestions, and makes a decision a problem, gets limits and his goals and asks the group to act as they make the wish, within decision specific limits
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.
Thanks.

Fig. 9–4: 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.

10.5 **Summary**

We defined a group as two or more individuals who interact with other. Groups may be formal or informal. The effectiveness of groups may be impeded or enhanced by conflicts depending on the type of conflict. Leadership was defined as the process of influencing the activities of a group or followers towards specific goals. The chapter also identified three approaches to leadership as qualities or trait, style and situational.

10.6 **MULTIPLE CHOICE QUESTIONS**

1) The following are phases in group development EXCEPT…………phase.
   a) Performing
   b) Norming
   c) Opening
   d) Closing
   e) Storming

2) Self managed work teams are……………………
   a) Groups that combine the highly interdicted jobs together with assignment of task among members, planning etc.
   b) Group from the same hieratical levels but different work areas coming together to perform a task.
   c) Grouping working together on the same tasks by connected only vie the internet.
   d) Groups working on an assignment and combining this with supervisory assignment.
   e) Group made up of middle level management of an organisation working together on some interrelated tasks
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3) Which of the following is a type of organisation conflict?
   a) Intrapersonal conflict
   b) Interpersonal conflict
   c) Task related conflict
   d) Work related conflict
   e) Job related conflict

4) The following are ways of managing organisational conflict EXCEPT ……………………..
   a) Clear definition of rules and regulation governing group activities.
   b) Removal of barrier to flow of information in group
   c) Encouragement of frequent interaction among members
   d) Clear definition of role of each member
   e) Increase management influence a group activities

5) Which of the following is true about trait approach to leadership?
   a) Success in leadership depends on how physically or psychologically passion is endowed
   b) Success in leadership is achieved through concern for people
   c) Success in leadership is based on development of teamwork and cooperation among members
   d) Success in leadership is achieved through extensive consultation with subordinates
   e) Success in leadership depends on characteristics of follower

10.7 SHORT ANSWER QUESTIONS

1. Groups formed to perform tasks that are recurrent in nature are called…………………….
2. A group where members feel insecure but do not verbalise this for fear of rejection is likely to be in the ……………phase.
3. The method which rules on co-worker or supervisors to carry out the evaluation of team performance is called…………………….
4. The disagreement between two or more organisation members or groups arising from the fact that they must engage in interdependent work activities is referred to as…………………….
5. The managerial grid was developed by…………………….
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NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.
Thanks.

10.8 SOLUTIONS

MULTIPLE CHOICE QUESTIONS
1. C
2. A
3. B
4. E
5. A

SHORT ANSWER QUESTIONS
1. Permanent formal group
2. Forming phase
3. 360-Degree feedback or multisource feedback
4. Workplace conflict or conflict
5. Robert Blake and Jane Morton
CHAPTER 11

HUMAN RESOURCE MANAGEMENT

11.0 Learning Objectives

After completing this chapter you 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.

11.1 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 inseparable part of every manager’s function so long they have people working under them. In organisations with a large number of staff a separate department often handles substantive human resource functions. 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.

In Section 11.2 we shall outline the major functions of human resource management. The section provides simple definitions of each function and key activities carried out by human resource management. Sections 11.3 and 11.4 examines two activities that influence these functions – human resource planning and job analysis.

In Section 11.3 we shall discuss briefly human resource planning – a core function which impact heavily on the effectiveness of the functions described in section 11.2.

In Section 11.5 where you will be introduced to how organisations attract new staff and the processes they use to choose the right applicant(s) to fill vacancies.
In Section 11.6 we shall examine how organisations provide employees with the right knowledge and skills to help them perform their jobs better and discuss the benefits of training and development.

In Section 11.7 we would describe the key methods used in organisations to assess how well employees perform their present jobs and their potential for development (Appraisal). We shall also look at the importance of appraisal and the limitations that impede its effectiveness in an organisation.

In Section 11.8 we shift focus to money issues. The section will throw a search light on how organisations establish wages and salaries structure, decide methods of compensating employees and motivate them through financial incentives.

In Section 11.9 we shall examine employee welfare services and Benefits (or fringe benefits) provided by organisation to encourage, attract and retain qualified employees and motivate them to increase output.

In Section 11.10 we shift focus again and examine the management of employees not as individuals but as groups (industrial relations). We shall also briefly look at the role of employers associations, government and employee associations in industrial relations.

### 11.2 Meaning and functions of Human Resource Management

Human resource management has been defined as all management decisions and actions that affect the relationship between the organisation and employees. In most organisations human resource management is grouped under several functions:

- Recruitment, Selection, Placement and Induction.
- Training and Development.
- Performance Appraisal.
- Employee Compensation.
- Welfare Services and Benefits.
- Industrial Relations.

#### 11.2.1 Human Resource Planning

Human Resource planning as mentioned in 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 and 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, S. P. & Coulter, M. 2007). Human Resource planning involves the following activities:
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Thanks.

(a) Detailed analysis of the organisation’s work force.
(b) Analyzing and recommending policies and procedures for effective utilization of the organisation 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.

11.2.2 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.

11.2.3 Training and Development

This has to do with all activities related to giving employees 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) Design appropriate training programme that will fill the identifying 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.

11.2.4 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.
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11.2.5 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.

11.2.6 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.

11.2.7 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.

11.3 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 poorly defined job descriptions and training not 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.

11.3.1 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) **Analyze existing human resources:** This stage consists of detailed inventory of the organisation’s existing workforce in terms of number, skills, age, working 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:** The 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:
11.3.2 Importance of Human Resource Planning

(a) Importance of human resource planning guides management in making the right decisions relating to the type of employees to recruit.
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Thanks.

(b) It also helps the organisation to adapt to changing trends in the labour market and forecast employees needed to achieve its objectives.

(c) It helps the organisation to plan training and development programmes more systematically.

11.4 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 defined 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.

11.4.1 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 organisations.
d) Knowledge, skills and attitudes required to perform the job.
e) Conditions under which the job is carried out.

11.4.2 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.
Thanks.

Table 12-1: Methods of job analysis

<table>
<thead>
<tr>
<th>Method</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interview</td>
<td>The job analyst obtains the data through detailed face-to-face of interviews of the jobholder.</td>
</tr>
<tr>
<td>Questionnaire</td>
<td>The jobholder or supervisor fill questionnaires on the activities, knowledge, skills, and abilities required for the job and the conditions under which the job is carried out.</td>
</tr>
<tr>
<td>Observation</td>
<td>Here the job analyst directly observes the jobholder as he works. The observation could be face to face or through films or photographs.</td>
</tr>
<tr>
<td>Diaries</td>
<td>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.</td>
</tr>
</tbody>
</table>

11.4.3 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 relationships 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. 11–1.
11.4.4 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, 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.

11.4.5 Uses of Job Analysis

The results of job analysis helps managers to make decisions or develop policies and procedures in the areas explained in table 11.2.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

Table 11 - 2: Uses of Job Analysis

<table>
<thead>
<tr>
<th>Area/Function</th>
<th>Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment</td>
<td>Job analysis helps to define exactly the type of person to be recruited to fill the position.</td>
</tr>
<tr>
<td>Selection</td>
<td>By specifying the knowledge, skills and attitudes of a person needed to fit a job specification, it helps to select the right person.</td>
</tr>
<tr>
<td>Training and Development</td>
<td>By specifying the knowledge, skills and attitudes required to carry out a job it helps to develop the right training programme.</td>
</tr>
<tr>
<td>Compensation Administration</td>
<td>Job Analysis data helps in job evaluation.</td>
</tr>
<tr>
<td>Performance Appraisal</td>
<td>Job specification provides criteria against which the performance of an employee could be measured.</td>
</tr>
<tr>
<td>Employee benefits and services</td>
<td>During job analysis, hazards affecting the job are uncovered. This helps to devise effective ways to minimise or eliminate these hazards.</td>
</tr>
<tr>
<td>Industrial relations</td>
<td>Job descriptions influence collective bargaining over pay, working conditions and other terms of the collective agreement.</td>
</tr>
</tbody>
</table>

11.5 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 employing people from outside the organisation.

11.5.1 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 suits 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 of the organization to apply.
This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.

(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.

11.5.2 External Recruitment

This has to do with the recruitment of employees outside the organisations 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 looking for employment. Some of these applications are kept in view and the applicants are written to 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 for employment to interested organisations.

(f) Advertisement: This is the recruitment of employees by advertising on the internet, newspapers, television, radio etc.

Table 11–3: Advantages and disadvantages of internal and external sources of recruitment

<table>
<thead>
<tr>
<th>Internal Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. It creates promotion opportunities for employees.</td>
<td>i. Qualified people may not be available within the organisations.</td>
</tr>
<tr>
<td>ii. It reduces the cost of recruitment.</td>
<td>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.</td>
</tr>
<tr>
<td>iii. The internal applicant is better known than those from external sources – the selection process is therefore simplified.</td>
<td>iii. The organisation may lag behind other within the industry which are recruiting people with superior skills from outside.</td>
</tr>
<tr>
<td>iv. The organisation benefits from investment it made in training of employees.</td>
<td></td>
</tr>
<tr>
<td>v. There is less risk in making mistakes in selection because it is easy to appraise the performance</td>
<td></td>
</tr>
</tbody>
</table>
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

<table>
<thead>
<tr>
<th>of internal applicants.</th>
</tr>
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<table>
<thead>
<tr>
<th>External</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advantages</strong></td>
<td><strong>Disadvantages</strong></td>
</tr>
<tr>
<td>i. It creates a large pool of people from which the organisation could recruit the best.</td>
<td>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.</td>
</tr>
<tr>
<td>ii. It helps bring in better qualified people into the organisation.</td>
<td>ii. The organisation could make the wrong choice of employees.</td>
</tr>
<tr>
<td>iii. Reduced training costs</td>
<td></td>
</tr>
</tbody>
</table>

11.6 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.

11.6.1 Analysis of application form

This 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 sorting out of suitable applicants who meet the requirements of the organisation. Most application forms require the following information about applicants:

(a) Name of applicant.
(b) Name of parents.
(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.
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(j) Previous employer, job experience-post, salary, period, type of work, reasons for leaving.

(k) Position being applied for and reasons.

(l) References.

11.6.2 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 valued and reliable information on the level of intelligence, personality characteristics, abilities, aptitude and attainment of the applicant. Examples of selection tests are as follows:

(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 applicants 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.

11.6.3 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 in 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.
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### 11.6.4 Medical/Physical Examinations

This involves medical examination of the applicant at the employers 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.

### 11.6.5 Background Investigation

Most organizations investigate the background of applicants before giving them an appointment letter. Background investigation helps to confirm the truth of the information provided by the applicant on the application form or at the interview.

**Table 11 – 4: Comparison of Selection Methods**

<table>
<thead>
<tr>
<th>Selection method</th>
<th>Features</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application forms</td>
<td>- Form designed to collect key information on applicant.</td>
<td>- Used to carry out preliminary screening.</td>
<td>- May be too detailed.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Provides basic information used for interviewing.</td>
<td></td>
</tr>
<tr>
<td>Selection Tests</td>
<td>- May test latent or potential abilities logical thinking, performance and social interaction.</td>
<td>- Helps to find out if applicant has the right aptitude for the job.</td>
<td>- Could scare away good candidates.</td>
</tr>
<tr>
<td></td>
<td>- Used as a preliminary screening tool.</td>
<td>- Provides data needed to predict performance of employee.</td>
<td>- May not be valid or reliable.</td>
</tr>
<tr>
<td>Selection interview</td>
<td>- Formal conversation between employer and prospective employee.</td>
<td>- Helps to meet prospective applicants in person.</td>
<td>- Interviews may be biased or prejudiced.</td>
</tr>
<tr>
<td></td>
<td>- Interviews could be panel or one-on-one.</td>
<td>- Helps to verify and clarify information on the applicant.</td>
<td>- Poor quality interviewers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Helps to assess applicant’s ability, physical make up, attainment, intelligence and interests.</td>
<td>- Environment of the interviews may influence outcome.</td>
</tr>
<tr>
<td>Medical examination</td>
<td>- Involves medical and physical examination of applicant.</td>
<td>- Helps the employer to drop applicants whose physical abilities do not meet requirement of the job.</td>
<td>- May be discriminatory against people perceived to have certain diseases.</td>
</tr>
</tbody>
</table>
### Selection method

<table>
<thead>
<tr>
<th>Selection method</th>
<th>Features</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Background investigation</td>
<td>• This involves investigating the background of applicants.</td>
<td>• Helps to confirm the truth of information provided by the applicant. • Could help determine the suitability of applicant.</td>
<td>• Referees may be unreliable. • Information may not be available.</td>
</tr>
</tbody>
</table>

### Placement

Placement is the process of assigning specific job to selected candidates. It involves assigning a specific rank and responsibility to an individual. It requires matching the requirement of a job with the qualifications of the candidate.

### 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.

#### Aims of Induction

(a) Smoothen preliminary stages when everything is likely to be strange and unfamiliar to new employees.
(b) To establish favourable attitude to the company in the mind of new employees so that he or she is 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.

#### 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.
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(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.
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Thanks.

11.8.3 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 adequate relevant information.

11.9 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 immediate knowledge, skills and attitudes required 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.

11.9.1 The Training and Development Process

Training and development process is made up of five steps:
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(a) **Training Needs Analysis:** Training needs are differences between employee 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 date 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.

### 11.9.2 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 the 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:

- **Demonstration:** Here, the trainer shows in a systematic manner the method of carrying out a specific job and allows the trainee do it himself.
- **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.
- **Job Rotation/Planned Experience:** Job rotation is the practice of rotating people from job to job or from one department to another, or
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from one branch to another with a view to exposing them to new challenges and diversified skills.

- **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.

- **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:

- Sponsorship for short courses organized by consultants and educational institutions.
- Day releases to enable employees attend professional courses.
- Distance learning
- 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 again for training. Examples of this type of training are as follows:

- Internship.
- Study tours.
- Attachments.

### 11.9.3 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) **Improve 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 maintenance costs.

(d) **Increased Productivity:** By improving the standard of performance, quality of workmanship and morale of workers, training helps to increase production and 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.
11.10 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 in 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.

11.10.1 Performance Appraisal Methods

The appraisal methods currently in use include the following:

(a) *Descriptive essay:* Basically this method requires the supervisor to write down 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 a clearly defined job standard 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:

- A list of personality traits or qualities desired for a particular job is drawn up. Some of the desire 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.
- Forms are designed each containing the personality traits or quality traits.
- The rater is supplied with these forms, one for each person to be rated.
- The rater observes the actual performance of the employee and ticks off on the form the traits which describe exactly his work performance.
- In addition, the forms often includes 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.
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11.10.2 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.

11.10.3 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 it 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.

11.10.4 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 career within the company, in accordance with available opportunity.

Transfers: Management are often compelled to move people to enhance production. Changes within and outside the organization often requires 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.
11.11 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 issues. 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.

11.11.1 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 and public sectors 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 the 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 the employee.

(f) Qualifications: Some organisations’ wages and salary structure is 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 a relationship among the wages offered for jobs in an organisation may be determined by job evaluation.
11.11.2 Establishment of Methods of Compensating Employees

There are many methods of remunerating employees. The most popular are *Piece rate* where employees are paid on the basis of output and *Time rates* where 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.

11.11.3 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 used in some organisations:

(a) *Job Ranking System (or Order of Merit System):* Under this system jobs in the organisation are systematically compared with each other 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:

- Electrician
- Tool maker
- Mechanic
- Assembler
- Drill Press operator
- Punch Press operator
- Spray Painter
- Material Handling man
- Labourer
- 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
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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:
- Elements or factors upon which the job is to be evaluated are established. These factors include the underlisted:
  - *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 covers 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 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 resources 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.

11.11.4 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:
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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 allowed to buy the company’s shares, and are entitled to payment of dividends.

(c) **Commission:** There are several variations 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) **Gain 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.

### 11.11.5 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 working 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.

### 11.11.6 Types of Employee Welfare Services and Benefits

Welfare services can be categorized 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 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 subsidized 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 subsidized 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.

11.12 **Health and safety**

The maintenance of good health and safety working conditions is often delegated to the human resources manager (or the factory manager in some organisations). The main reasons for employers’ interest and attention to health and safety issues in their organisations are as follows:

a) To eliminate the spread of contagious disease.
b) To enforce government legislation on health and safety.
c) To motivate employees to work hard.
d) To improve the health of employees.
e) To minimize the cost of accidents and medical bills.
f) To satisfy trade unions concerns over health and safety issues as a result of increasing rates of accidents.
g) To satisfy the organisation’s social responsibility towards employees and society.

11.12.1 **Causes of Accident and Safety Hazards in an Organisation**

An accident is defined as “an unplanned and uncontrolled event which has led to or could have led to injury to persons, damage to plant or other loss” (United Kingdom definition). Accidents/safety hazards in most organisations are caused by a variety of factors:
a) **Poorly designed premises:** a poorly designed factory/premises with poorly designed stair cases; wrong sitting of utility service points; narrow access ways/corridors, short head-rooms and wrong plan layout could easily cause/lead to accident/safety hazards

b) **Poor environment:** where employees work in poorly ventilated and dusty/smoky environment, accidents might occur. Sometimes poor personal hygiene on the part of employees’ and unsanitary conditions around the premises could aggravate the problem.

c) **Lack of maintenance:** in a factory without a good preventive maintenance programme, machines and facilities develop faults and break down frequently and could pose danger to employees.

d) **Faulty work process:** where work methods/procedures and technology being used is inherently unsafe, there could be accidents.

e) **Poor Supervision:** supervisors are expected to train subordinates on basic safety procedures and enforce his adherence. Where they neglect this important duty, there could be accidents. Furthermore, where the organisation has no recognized section/officer responsible for enforcing safety in the organisation, a fertile ground for accidents is created.

f) **Lack of protective equipment/clothing/devices:** where the organisation lacks protective equipment/clothing/ devices or neglects to enforce their use, accidents can occur.

g) **Horseplay and unsafe behaviour:** running around, playing of music, playing with dangerous jokes, sleeping and daydreaming at the work place should be checked to prevent accidents.

h) **Lack of training:** poorly trained employees are often prone to accidents.

i) **Poor labour relations:** In an organisation with highly motivated staff; good worker/management relations; democracy and fair play employees obey and enforce safety rules. Where these features are lacking employees could be prone to accidents.

### 11.12.2 Management of health and safety

To prevent or minimise accidents and safety hazards in an organisation the following measures are suggested:

a) Well designed premises with a good plant layout.

b) Provision of safe working environment.

c) Installation of preventive maintenance policy.

d) Improved training in general and safety procedures in particular.

e) Improvement in and adoption of safe work processes.

f) Improved supervision over staff especially in relation to safety issues.

g) Provision of safety equipment and devices.

h) Adoption of a sound safety programme.
11.12.3 Features of a Sound Safety Programmes

a) **Facilities for dealing with safety**: the organisation should provide facilities for dealing with accidents such as first aid services, clinic, health personnel and the like.

b) **Safety training for employees**: the organisation must have a training programme for the employees. To complement the training programme the unit in charge of safety must ensure wide dissemination of safety literature (such as brochures, safety booklets, safety videos/film and safety officers).

c) **Involve employees in the running of the safety programme** e.g. through the formation of safety committees (made up of representatives of management and employees). These committees could be given authority to implement safety procedures throughout the organisation.

d) By ensuring that the general environment of the organisation is safe e.g. promoting personal hygiene, proper layout of facilities, good ventilation and lighting.

e) **Maintenance of safety records**: detailed statistics must be kept on all accidents and breaches of safety procedures. The cause of all accidents must be investigated and documented and all efforts must be made to prevent re-occurrences.

f) **Job safety analysis**: The organisation must institute a job safety analysis system under which detailed analysis of various jobs are undertaken to ensure that the work methods are inherently safe and all unsafe practices are eliminated.

g) **Institution of safety awards**: to motivate employees to be safety conscious, management could institute a safety award system under which individual workers or their departments maintaining good safety/accident records are rewarded.

h) **Ensure the institution of the right engineering standards**: In the layout of the factory; installation of machines and equipment and design of new products and work process. Management must ensure that inherent work hazards are eliminated.

i) **Appointment of safety officers**: a competent industrial safety officer responsible to the Human Resource Manager must be appointed to coordinate all safety matters in the organisation. Responsibilities assigned to such a safety officer includes:

- Advising on and drafting of safety policies and procedures.
- Keeping detailed records on accidents and breaches of safety.
- Educating employees on safety procedures.
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Thanks.

- Making routine safety inspection on machines, and buildings and other facilities owned by the organisation.
- Advising line managers on engineering designs and modifications of equipment which will improve safety.
- Investigating safety.
- Auditing periodically the safety programme of the organisation and suggesting improvements where necessary.
- Monitoring of activities likely to cause accidents or breach safety procedures.
- Investigate complaints made by employees on safety and hazards.

### 11.12.3 Benefits of Sound Safety Programmes/Policies

(a) Cost incurred on accidents reduces.

(b) It protects the employer against claims for workmen’s compensation arising from injuries received in the course of employment.

(c) It helps to minimise dislocations in production arising from the absence of the key workers who suffer accidents.

(d) A healthy accident free atmosphere encourages employees to work hard.

(e) It improves the general health of employees and maximizes their general contribution to the organisation.

### 11.13 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) 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 arbiter in the resolution of industrial disputes.
11.13.1 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 in government bodies whose activities affect their interests.
(d) Provide machinery for discussing with unions 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.

11.13.2 Employee associations

There are two types of employee associations – Trade Unions and Senior Staff Association. 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 its 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 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.
11.13.3 Collective bargaining

Collective bargaining has been defined as to 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 more representative 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.

11.13.4 Contents of Collective Agreements

Most collective agreements contain the following provisions:

(a) A statement recognizing the 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 that is 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 Agreements states that all employees engaged shall be informed in writing at the time of engagement, 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 particulars i.e. 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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.

11.13.5 Importance of Collective Bargaining

Collective Bargaining has benefited all the three actors on the industrial relations scene:

(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 organisation 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.

11.13.6 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 in 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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 Managing Director 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 fails, the labour law provides the following means through which disputes can be resolved:

(i) Conciliation: This is an attempt to resolve disputes and 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’s Dispute Act of Nigeria also provides for the establishment of the National Industrial Court (NIC) which have 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 varies from one organization to another. This procedure also covers the resolution of disputes arising from relationships between workers in an organization.

11.14 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 procedure or logical steps to be taken before disciplinary action is taken against an employee who infringes the rules or standards of behaviour.

11.14.1 Examples of disciplinary problems

Common Disciplinary problems issues 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(b) Dishonesty and related problems: These include 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.

11.14.2 Disciplinary Procedures

Most Collective Agreements have provisions covering discipline and disciplinary procedures. A typical disciplinary procedure should follow three basic steps:

- Oral warning
- Written warning and
- 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.

11.14.3 Features of an effective disciplinary processes

An effective disciplinary procedure must have the following features:

(a) 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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.

11.15 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 the two main forms of worker participation - Direct and Indirect. In direct participation, the worker takes a direct part in making 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.

11.16 Record Keeping

Record keeping is a very important activity necessary for the success of any business. In most organizations, records relating to Human Resources activities are handled by the Human Resources or Personnel Department. Some of HR records kept by most organizations include:

(a) Personal details about individual employees which includes: 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.

11.16.1 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 provides 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) Employees Turnover Monitoring and Control: Accurate record keeping provides valuable data on rate of employee turnover, including its
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks. 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 integral 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 is requisite to effective skills and inventory audit.

(f) **Appointment, Promotion and Training Decision** in HR records informs 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. It is also used as a basis for disciplinary action.

(h) **Career Management:** Information obtained from accurate records keeping is used for implementing career management policies and procedures.

11.16.2 **Confidentiality in HR Record Keeping**

Human Resources Managers must ensure that HR records are available only to authorized 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 authorized personnel within the HR department.

11.17 **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 installed 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 to a particular 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
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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 got various shop floor committees such as Safety Committees; Production Committees; Health/Sanitation Committees; Welfare Committees 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.

11.18 **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 focuses 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.

11.19 **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
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.
Thanks.

C. Forecast of future production and sales level
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 12

PRODUCTION MANAGEMENT

12.0 Learning objectives

After reading this chapter you 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.

12.1 Introduction

This chapter discusses in detail how organisations transform inputs (raw materials, money, information etc) to produce goods and services that satisfy our needs and wants. We would also examine the systems used for the transformation process.

Section 12.2 kicks off your study of production management by introducing you to the meaning of production system. In Section 12.3 we explore production systems further by discussing the three major types of production systems used by organizations.
In section 12.4 the key factors that influence the location of organisations are examined.

In section 12.5 you will be introduced to factors influencing how organisations arrange their facilities, machines (workstations) and offices to facilitate workflow and movement of materials, labour and other users. This is called facilities or plant layout.

In sections 12.6 we move into the factory environment and discuss in detail how organisations convert customer orders into actual output, plan what to produce, when to produce and how to produce. The section also looks at how the production department monitors the progress of the production process from the raw material stage to the finished stage.

In 12.7 we look briefly at productivity issues in organizations.

In section 12.8 we end the chapter by looking at how organisations keep their facilities operational at all times through maintenance of facilities.
12.2 Meaning of Production

Most of our wants and needs are satisfied by consuming goods or services. Goods refer to tangible products/items we buy to satisfy our wants and needs. (E.g. food, furniture, fuel, books and clothing). Services have to do with intangible products/items we buy to satisfy our wants and needs. (E.g. health care, entertainment, telephone services, and sports). Goods and services that satisfy our wants are produced by organisations and individual entrepreneurs. They transform inputs (raw materials, money, machines, labour, information etc) into goods and services. Production is defined as the process of transforming inputs into outputs (goods and services) using a production system. 

A production system has to do with any environment within which inputs are transformed into goods 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 changes its form). In commerce the transformation process is locational because the inputs are moved from one point to another to satisfy the customer.

12.2.1 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:

- Deciding on the type of production system to use.
- Planning the location of the organisation’s facilities.
- Planning the layout of the organisation's facilities.
- Planning and controlling the production process.
- Research and development of new products.
- Maintenance of facilities of the organisation.
- 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 – 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. These issues are discussed in detail in section 13.5.

(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 customer’s 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.

(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 minimizes 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. We explore these in detail in section 13.8.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(g) 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.

12.3 Deciding on type of Production System to use

Production Systems abound in the area where you live. The local bakery, tailor, salon, furniture/carpentry shop, building, barbering, road construction site, restaurant or even schools are all examples of production systems. These production systems produce different good 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 etc). For convenience these production systems are categorized into three (a) intermittent flow/job production, (b) continuous flow/mass production and (c) repetitive manufacturing /batch production. We shall discuss these categories in this section.

(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. 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. Example are found in the Cement, brewing and petroleum refining industries.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

It must also be noted that many organisations operate more than one of these production systems. Table 12–1 provides further details on these production systems.

**Table 12-1: Comparison of various types of Production Systems**

<table>
<thead>
<tr>
<th>Type of Production</th>
<th>Features</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| **Job**            | - Machines performing similar functions are grouped together  
                    - Production is intermittent i.e. on-and-off.  
                    - Items are often made-to-order.  
                    - 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 speeded up.  
                    - Demand for job production products is 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**          | - Work-in-progress often high.  
                    - Production is intermittent and not continuous.  
                    - Machines and equipment are general purpose.  
                    - Items are made-to-stock  
                    - Machines used are general purpose and could be adapted to different uses.  
                    - The machines are independent of each other.  
                    - 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**           | - 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.  
                    - 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 out trouble spots on the production line because when a machine breaks down it affects the whole production process.  
                    - 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. |

**12.3.1 Factors influencing type of production system used**

The choice of any of the above types of production systems depends on the following factors:
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.

(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.

12.4 **Facilities (Plant) location**

You may have noticed that businesses producing the variety of goods and services you use tend to congregate at certain places to do business. Locating at the right place helps to reduce cost of production. You don’t have to provide electricity, water, telephone and other facilities because these might be there already. You don’t also have to transport bulky raw materials to your production site. Furthermore, locating at the right place helps you to have access to customers and probably enjoy certain incentives provided by the government. There are five main factors that influence the location of an organisation’s facilities – raw materials, government policy, and proximity to the market, commercial and social infrastructure and characteristics of the site. In section 12.4.1 we discuss these factors.

12.4.1 **Factors influencing facilities location**

(a) **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 government in West Africa have been able to influence citing of production facilities.
(c) **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 includes:

- Location of competitors.
- Cost of the site - rent, cost of leasing/purchase.
- Size - possibility for further expansion.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.
- Utility services - electricity, water, telephone etc.
- Convenience and accessibility of the site.
- Disposal facilities for waste products.
- Traffic density and parking space.

12.5 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. This section would examine these layouts and factors that influence the design and layout of organisation’s facilities.

12.5.1 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 12 - 2: Comparison of various types of Production Systems

<table>
<thead>
<tr>
<th>Type of Production</th>
<th>Features</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| Line/flow (Product layout) | - Machines arranged in sequence.  
- Machines are specialized and standardized.  
- Used in mass/flow production. | - Improves processing time.  
- Minimise material handling. | - Machines are dependent on each other. The breakdown of one affects the production process. |
| Process (Functional layout) | - Machines performing similar type of work are grouped together.  
- It is associated with job and batch production. | - Machines are general purpose and can be used for the production of different products.  
- Efficiency often very | - There may be lack of balance in the activities of different workstations. |
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

<table>
<thead>
<tr>
<th>Type of Production</th>
<th>Features</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| Fixed Position Layout | • The product stays in one place for assembly  
• Used for job production involving assembly of large single item | • Saves the cost and inconvenience of moving product from one process to the other. | • Application limited to only large items |

12.5.2 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 these 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
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

facilitates the flow of work and movement of operators and materials. Finally, it provides some security against fire, accidents and natural disasters.
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 parities, funerals, birthdays 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 class in the area. This section will introduce you briefly to the key activities involved in production planning and production control.

12.6.1 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.

12.6.2 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 12– 3: Comparison of quality control techniques/tools**

<table>
<thead>
<tr>
<th>Types/Technique</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inspection</td>
<td>This involves detailed analysis and sorting out good products from bad ones. There are three types of inspection – raw material, working-in-progress and finished goods:</td>
</tr>
<tr>
<td></td>
<td>- <em>Raw Materials inspection:</em> This has to do with the inspection of incoming raw materials to ensure that they conform to the quality standards and specifications of the organisation.</td>
</tr>
<tr>
<td></td>
<td>- <em>Work-in-Progress inspection:</em> Work-in-progress inspection sorts out defective work-in-progress before they reach the finishing stage.</td>
</tr>
<tr>
<td></td>
<td>- <em>Finished goods inspection:</em> 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.</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>- Compares the performance of the company in quality with the best practice in the industry.</td>
</tr>
<tr>
<td></td>
<td>- The organisation compares its quality control practices with the best practice in the industry and improves its practices.</td>
</tr>
<tr>
<td>Statistical quality control</td>
<td>- 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.</td>
</tr>
<tr>
<td>Quality circles</td>
<td>- This refers to committees made up of workers and supervisors set up in the factory floor to monitor production activities including quality.</td>
</tr>
</tbody>
</table>
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 image.

12.7 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 increase profits of various business organisations, expands the tax base and employment avenues.

12.7.1 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 - \[ \text{Productivity} = \frac{\text{Output}}{\text{Inputs used (human resources, land or capital) or total output per dollar, naira or cedi (¢) of investment}}. \] Labour productivity refers to the total net output achieved by an organisation per worker. Mathematically, labour productivity could be measured by: \[ \frac{\text{Output}}{\text{Number of Man-hours used}}. \] 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.

12.7.2 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.
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(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 by for instance adding planning and evaluating responsibilities. Job enrichment enhances motivation and productivity.

12.8 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.

12.8.1 Types of Maintenance Policies and Procedures

As mentioned above organizations adopt three major maintenance polices: (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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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 12-3: Comparisons of Maintenance Policies and Procedures

<table>
<thead>
<tr>
<th>Type of Maintenance</th>
<th>Features</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| Preventive          | • It aims to prevent the failure of facilities.  
                      • It is used where the organisation uses highly sophisticated equipment. | • It anticipates failure of equipment and prevents dislocations that result from breakdown of machines.  
                      • It is cheaper to repair a fault in equipment than wait for a complete breakdown before major repairs. | • It may interfere with the production process.  
                      • Some equipment can be maintained only when the system is shut down. |
| Breakdown           | • The organisation operates the equipment till it breaks down.  
                      • Machines are independent and breakdown of one machine will not affect others. | • The organisation need not spend money on maintenance – the equipment could be allowed to breakdown and repaired. | • It is not applicable in situations using sensitive and complex equipment.  
                      • It may be very expensive to maintain some equipment when they breakdown. |
| Shutdown            | • Maintenance is carried out at certain specific times of the year. | • The production process is not interrupted by maintenance activity. | • It might disrupt supplies of the organisation’s product.  
                      • The organisation needs large buffer stock of finished goods during shut down. |
12.9 Total Quality Management (TQM)

In the quest to achieve best practice and quality improvement in product and service delivery several management technique has 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, lies 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 cooperation 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, better 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.

12.10 Summary

Production has to do with the transformation of inputs into goods and services to satisfy our 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.

12.11 Review 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 underlisted facilities layout:
   i. Product Layout
   ii. Process Layout

4. List and explain types of maintenance used in an organisation.

12.12 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?
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

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
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

CHAPTER 13

MARKETING

13.0 Learning Objectives
After reading this chapter, you 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.

13.1 Introduction
In chapter 12 you learnt some basic ideas about how organisations convert inputs into goods and services. These goods and services are not produced for their own sake – they need to be made available to customers who need them. This is where marketing comes in. Marketing bridges the gap between what the organisation produces and what the consumer wants. This chapter will take you through all aspects of marketing.

13.2 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 enjoyment of the goods and services by the consumer. 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 country. It has made a big impact on our economy in general 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 through 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.

13.3 Marketing Functions

Agbonifoh et al (2007) identified the following functions performed in marketing:

(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

13.4 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. Of course, the 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
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

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.

13.5 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, 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 coordinated 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.

13.5 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 13 – 1 summarises the features of both markets.

<table>
<thead>
<tr>
<th>Type of Market</th>
<th>Features</th>
</tr>
</thead>
</table>
| Consumer       | • 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     | • Goods and services purchased for further production  
                | • Goods purchased are classified as raw materials, installations, components, supplies  
                | • Small market and restricted to organisations that buy goods for further production |

13.5.1 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.

13.5.2 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 13-2: Comparison of Segmentation methods

<table>
<thead>
<tr>
<th>Bases of segmentation</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>Here customers are divided according to income e.g. High income, Middle income and Low income.</td>
</tr>
<tr>
<td>Sex (gender)</td>
<td>Men and women sometimes purchase different things. Under this method therefore the organisation categorises its customers into male and female.</td>
</tr>
<tr>
<td>Geography</td>
<td>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.</td>
</tr>
<tr>
<td>Age</td>
<td>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.</td>
</tr>
<tr>
<td>Social Classes</td>
<td>Customers are categorised according to the social class they belong to e.g. Upper Class, Middle Class and Lower Class.</td>
</tr>
<tr>
<td>Sector</td>
<td>The market is divided according to sector of the economy e.g. agriculture, manufacturing, trade etc.</td>
</tr>
</tbody>
</table>
13.5.3 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.

13.6 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

- Searching for
- Purchasing
- Using
- Evaluating and
- Disposing of products and services that they expect will satisfy their needs.

13.6.1 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

13.6.2 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.

13.6.3 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 determine 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
- Identify and evaluate market opportunities.
- Develop product features or attributes to satisfy the needs, desires and expectations of consumers.
- Determine the appropriate distribution channels
- Design promotion and communication strategies that take into account the nature and characteristics of consumers and buyers.
- Select pricing methods
- Handle consumer or buyer complaints.

13.6.4 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.

<table>
<thead>
<tr>
<th>Cultural</th>
<th>Social</th>
<th>Personal</th>
<th>Psychological</th>
<th>Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Culture</td>
<td>• Reference Groups</td>
<td>• Age and life cycle stage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Subculture</td>
<td>• Family</td>
<td>• Occupation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Social Class</td>
<td>• Roles and statuses</td>
<td>• Economic circumstances</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Life Style</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Personality</td>
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</tbody>
</table>
13.6.5 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 in an effort 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.
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 product, where they can buy the product, how to use it, maintain it and dispose of it when necessary.

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 a learned behaviour.

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 toward it. Hence, substantial promotional activities are directed at influencing the attitudes of the consumer.

13.6.6 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.

13.6.7 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.

13.6.8 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
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.

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.

13.7 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) **Products**: 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. 13 – 1: The marketing mix](image)

13.8 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
13.8.1 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 a good source of information on any subject.

13.8.2 Field Research

This is the collection of data through the organisation’s own research efforts. Sources of data in field research are surveys, observation and experimentation:

(a) Survey Method: This refers to the gathering of primary data by interviewing a number of people in 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.

13.8.3 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.
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(c) It provides the organisation with information to select the right pricing and distribution strategies.

13.9 Product

Products as mentioned already may be broadly classified into two – Consumer and Industrial products.

13.9.1 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 13.3 we compare the various types of consumer products and marketing strategies used to sell them.

<table>
<thead>
<tr>
<th>Type of Product</th>
<th>Features</th>
<th>Marketing strategies for the product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience</td>
<td>• There are several brands.</td>
<td>• Most producers set low prices.</td>
</tr>
<tr>
<td></td>
<td>• The consumer knows of different brands.</td>
<td>• They are widely distributed through many outlets.</td>
</tr>
<tr>
<td></td>
<td>• The product is purchased frequently, often with little planning or</td>
<td>• Products are mass promoted on all available media.</td>
</tr>
<tr>
<td></td>
<td>comparison and with minimum effort.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• They are often low priced.</td>
<td></td>
</tr>
<tr>
<td>Shopping products</td>
<td>• Relatively expensive.</td>
<td>• Promotion efforts often focusing on advertising and</td>
</tr>
<tr>
<td></td>
<td>• There are many brands and</td>
<td></td>
</tr>
</tbody>
</table>

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NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

<table>
<thead>
<tr>
<th>Speciality</th>
<th>consumers often compare product features, price etc before purchase.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Less frequently purchased but purchased after a lot of planning.</td>
</tr>
<tr>
<td></td>
<td>personal selling.</td>
</tr>
<tr>
<td></td>
<td>• Products often attractively packaged to attract consumers.</td>
</tr>
<tr>
<td></td>
<td>• Sales often focus on few distribution outlets.</td>
</tr>
</tbody>
</table>

13.9.2 **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 equipments.

(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 repairs 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.

13.10 **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. Product may also be introduced as a result
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Thanks.

of technological inventions and innovations or to replace old products which have declined in sales and profits.

13.1.0 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, style and quality, packaging 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.

13.1.2 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 answer some of these questions.

(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 prove 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 produce on a limited but at a carefully selected scale to test its commercial viability. Test marketing is very necessary before a firm decision is taken whether 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 on a large scale.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.
13.11 The product life cycle

Most new products once they are introduced into the market and enter the market 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 stage. Profits also show a similar behaviour, climbing sharply in the growth stage, levelling out in the maturity/saturation stage and finally declining completely.

13.11.1 Stages of the Product Life Cycle

(a) *Introductory Stage:* At this stage the product has just been born 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. 13 - 2: The Product Life Cycle*
13.11.2 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 a loss. Table 14 – 5 summarizes the various strategies.

Table 13 – 4 Summary of Product life cycle strategies

<table>
<thead>
<tr>
<th>Stage of the product life cycle</th>
<th>Marketing strategy</th>
<th>Product</th>
<th>Price</th>
<th>Distribution</th>
<th>Promotion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>Offer a basic product</td>
<td>Use cost plus pricing method</td>
<td>Build selective distribution.</td>
<td>Build product awareness and use heavy sales promotion.</td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>Offer product extensions, service warranty.</td>
<td>Price to penetrate the market.</td>
<td>Build intensive distribution.</td>
<td>Reduce sales promotion but continue to build consumer awareness.</td>
<td></td>
</tr>
<tr>
<td>Maturity</td>
<td>Diversify brand and models.</td>
<td>Price to match or beat competitors.</td>
<td>Build intensive distribution.</td>
<td>Stress differences and benefits of brand in advertising. Sales promotion should encourage brand switching.</td>
<td></td>
</tr>
<tr>
<td>Decline</td>
<td>Phase out weak products.</td>
<td>Cut price to survive</td>
<td>Phase out unprofitable outlets.</td>
<td>Reduce promotion to the barest minimum to reduce cost.</td>
<td></td>
</tr>
</tbody>
</table>

[Source: Adopted from Phillip Kotler, Marketing Management: Analysis Planning, Implementation and Control (1994).]

13.11.3 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
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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.

13.12 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 activate 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 the 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 to re-use the package for other items.

Packaging has three advantages: Firstly, it makes a product easier and convenient to use. Secondly, 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. Thirdly, it may increase consumer purchases and 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.

13.13 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, e.g.: Poki, No 1, Datsun etc.

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
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.

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 as 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.

13.14 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.

13.14.1 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 N1000 and the expected profit margin (mark up) of the seller is N500, the sale price will be N1,500.

(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 £200,000 and wishes to achieve a profit of say 40% the selling price will be: 200,000 x 40% + (200,000)/ 100,000 = £2.8.

(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 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 production costs fall in proportion to increases in sales volume.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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.

13.14.2 Factors which influence pricing

Organisations take the following factors into consideration when setting prices:

(a) Cost of Production: This is one of the most 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.

13.15 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.

13.15.1 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
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.

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 and 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 the organisations to interact with members of the public effectively and create favourable 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.

13.15.2 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 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 release.
(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 good will and favourable corporate image. Through the publication and distribution of newsletters, brochures, leaf-lets, souvenirs, house journals and other publicity events, the organisation explains its activities and policies to the public, thereby promoting better understanding of its operations.
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 include pencils, ashtrays, pens, T-shirts, calendars etc that bear a company’s name, logo or its adverts. These specialities are usually given to the customers as gifts or mementos to promote customer loyalty and goodwill.

(c) **Demonstration**: Organisation that produce industrial products like paints, tractors, office equipments 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 that 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
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 organisations products. Sales promotion also helps to improve the image and goodwill towards the organisation and its products.

13.15.4 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 interacts 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.

The personal selling effort of organisations revolves around and is executed by the sales persons who perform some of the under listed 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 help 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.

13.16 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
13.16.1 Functions of intermediaries

Intermediaries perform the under listed 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.

13.16.2 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:

Channel 1: Producer ——— Customer

Channel 2: Producer ——— Retailer ——— Customer

Channel 3: Producer ——— Wholesaler ——— Retailer ——— Customer

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
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.

Thanks.

buys in bulk from the producer and stores the goods for later 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 equipments 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.

13.16.3 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.
13.1 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 underlisted 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.

13.1.5 Distribution Policies

There are three kinds of distribution policies which an organisation can adopt:

- Exclusive distribution
- Intensive distribution
- 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
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Thanks.

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.

13.17 **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 customers doorstep.

**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 ________________
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

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 14

OFFICE PRACTICE AND PROCEDURE

14.0 Learn objectives

After reading this chapter you should be able to:

- Define and explain the functions of an office.
- Discuss the functions of basic office equipments.
- Identify the causes of accidents in offices and how they can be prevented.
- Write a good report.

14.1 Introduction

You are probably training to work as an accountant or in a managerial capacity in an organization. Any of this might 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, safety and report writing:

In section 14.2 we would walk you through the definition and functions of an office. This paves the way for Section 14.3, which examines office layout.

In section 14.4 we examine office machines and briefly discuss their uses.

In 14.5 we discuss the classification and retrieval of office records.

In section 14.6 we discuss one of the tools for improving productivity in an office - Organization and Methods (O& M).

In section 14.7 we wrap up the chapter with a discussion on report writing – an invaluable skill you will need in any office.

14.2 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:

(a) *Provides a convenient place where managers carry out their functions.*
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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.

### 14.3 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 office. A closed office is an office where each individual is given his/her separate office. An open plan office is one in which more than one person share the same room.

#### Table 14-1: Comparison of Closed and Open Office Layout

<table>
<thead>
<tr>
<th>Type of office</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| Closed         | i. There is privacy for confidential discussions.  
                 ii. The occupant of the office can concentrate because there is very little disturbance from other employees. | 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.  
                 iv. It might slow down the flow of some activities which require constant interaction among employees. |
| Open plan      | i. It easy to supervise since everybody is in view.  
                 ii. It economizes space.  
                 iii. Exchange of information among staff is easy and this facilitates the flow of work.  
                 iv. Certain facilities may be used commonly e.g. printers  
                 v. Lower energy costs.  
                 vi. Few communication barriers.  
                 vii. Could easily be rearranged. | 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. |
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.
14.4 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 specifies five 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.

14.5 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) Improves the quality of work.
(c) Use of office machines saves space.
(d) They help to simplify the work of employees.

14.5.1 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
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

machine that converts the electronic signals back to the original text or image. The machine converts printed material or images into electronic signals. Suitable for transmission through telephone lines, cables or satellite networks, facsimile machines could store messages and transmit them later at a time when transmission costs are cheaper.

(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 content 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 a document or content of a file together.

(i) Typewriters: used for typing documents. Its use is fast becoming obsolete.

(j) Paper cutter and Envelope Openers: 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.
Thanks.

(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.

(q) Book cases and Shelves.

14.6 **Storage and retrieval of records**

A record is any information that is written down or preserved for future reference. These records are stored to make it easier to retrieve them with minimum delay.

14.6.1 **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** includes 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 balance sheets and profit and loss accounts, invoices and sales records and accounting records etc.

(c) **Useful records** have to do with 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.

14.6.2 **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. The 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 the documents are filed according to the subject or topic. For example, the human resource 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.

14.6.3 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 filing 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.

14.6.4 Do’s and don’ts for filing documents

(a) Ensure the document (letter, memoranda, documents, 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 documents 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.
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress. Thanks.

(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 which will make it easy to identify it.

(i) Keep a file register.

(j) Design a book, which will help you keep track of the movement of files and documents 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 the 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.

14.5 Organization 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 the task.

(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.

14.5.1 Steps/Procedures in O & M study

An O & M study involves the following basic steps:

- Selection of the work or table.
14.5.2 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.

14.6 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 and triplicates or more, when information gathered on it needs to be distributed to several departments within the organization. This can be done using carbon papers. 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 papers etc. Otherwise, for the purpose of 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.
14.6.1 Control of Forms

Controls exist only for forms that are classified as security documents. Security documents are documents whose content 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 in 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 to a large extent 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.

14.7 Information Technology Application in Management

Information technology is concerned with the use of computer and communication based technologies to solve varieties of human, organisation and even country-wide problems. It is technology based systems that enhances 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.

<table>
<thead>
<tr>
<th>Managerial Functions</th>
<th>Role of IT</th>
</tr>
</thead>
</table>
| Planning             | 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           | Organisations become change agent  
                      | New organisational forms (e.g. outsourcing, online operations).  
                      | Knowledge work promotes non-hierarchical structures |
| Staffing             | Specialised technical knowledge needed  
                      | Greater mobility of workers in changing jobs  
                      | Information enhances workers’ upward mobility  
                      | Specialised knowledge workers 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              | 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          | Ease of control  
                      | Detection of deviation of correction from plan  
                      | Facilitates productivity measurement at low costs  
                      | Internet enables worldwide selling outside scanning mode easier and faster |

14.8 Summary

In the chapter, we looked at key functions of an office. An office is defined as a place in an organisation where business, clerical and professional activities take place. We noted that functions of an office among others provides a convenient place where managers carry out their functions, collect information from within the organisation and records 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 elucidated. These factors include: churn rate, statutory requirements, business needs, accommodation standard and available space. Office equipment and furniture such as facsimile was also mentioned. We also discussed organisation and method. We also defined forms and control of forms and factors to be considered in its design. The chapter was concluded with the application of IT in management

14.9 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 Policy

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. Which of the following is a procedure in organisation and methods study?
   A. Selection of the right resources
   B. Recording of use of resources
   C. Risk assessment
   D. Developing an Improved Method
NOTE: This is a work in progress. All topics in the syllabus are covered but editing for necessary corrections is in progress.
Thanks.

E. Evaluation of new method

5. Any document with fields in which to write or select is ------------------
A. A Record
B. A Form
C. A File
D. A Register
E. A Folder

14.10 Short Answer Questions

1. A place in an organisation where business, clerical and professional activities take place is called -------------
2. In planning an office layout, the percentage of staff moved during the year is known as ------------------
3. Machines for transmitting scanned images of documents via telephone lines are called ------
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. E
5. B

SHORT ANSWER QUESTIONS

1. Office
2. Churn rate
3. Facsimile (fax) machine
4. Organisation and Methods (O & M)
5. Information & Communication Technology
CHAPTER 15

STRATEGIC MANAGEMENT

15.0 Learning Objectives

At the end of this Chapter, you should be able to:

- Define Strategic Management
- Explain Strategic Management Process
- Discuss SWOT Analysis
- Discuss corporate, divisional and functional strategies
- Explain growth strategies

15.1 Introduction

In Chapter 5, you learnt about planning in organizations, its importance, process etc. In this chapter, we will discuss a specialized type of planning called strategic planning. Strategic planning occupies an important position in management because it provides requisite tools to gain competitive advantage over rivals in the market and the achievement of organizational objectives. Without competitive advantage, an organization risks being outcompeted by rivals and locked into mediocre financial performance; thus underscoring the importance of strategic management as a tool for winning in the market place.

In Section 15.2, we shall define strategy and strategic management highlighting its aim. This is followed by Section 15.3 when we will explain the importance of strategic management to organizations.

In Section 15.4, we shall discuss the strategic management process which is divided into four stages: Defining an organisation’s vision, mission and objectives, SWOT analysis, formulating, implementing and evaluating strategies.

In Section 15.5, we shall discuss the various types of strategies which include: Corporate strategy, Business strategy, Functional strategy and Operational strategy. A diagram explaining hierarchy of strategies will also be explained in this section.

15.2 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, organizing, 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.

15.3 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.

15.4 Strategic Management Process

Strategic management process 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:
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Thanks.

“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 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 helps 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.
15.5 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.

15.5.1 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 strategies 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.

15.5.2 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.

15.5.3 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 part 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 having final approval.
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15.5.4 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.
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 merges into one called Business strategy which is orchestrated by top level management. Next in the hierarchy is functional strategy followed by operating strategy.

15.6 Summary

In this chapter, we discussed strategic management and its process. 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 operators and achieve other organizational objectives. Importance of strategic management include: performance enhancements, managing change, making coordination more effective and giving focus to all organizational activities. The strategic management process is made up of four stages: developing vision, mission and objectives, SWOT analysis, formation, implementation and evaluation of strategies. We also discussed four types of strategy: Corporate Strategy, Business Strategy, Functional Strategy and Operational Strategy. This was also done with the aid of a hierarchy of strategy diagram.

15.8 MULTIPLE CHOICE QUESTIONS

1. 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

2. A statement showing the direction of an organization is called …………………
   A. Vision
   B. Mission
   C. Objective
   D. Focus
   E. Goal

3. The following are components of the strategic management process EXCEPT
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A. Forecasting Human Resources needs
B. Developing an organization’s objectives
C. Crafting of strategy
D. SWOT Analysis
E. Analysis of internal environment

4. Which of the following strategies is crafted by the Plant Managers?

A. Divisional Strategy
B. Operating Strategy
C. Corporate Strategy
D. Business Strategy
E. Functional Strategy

5. Activities of competitors is an example of an organization’s ............

A. Strength
B. Weakness
C. Opportunity
D. Threat
E. Strategic focus

15.8 SHORT ANSWER QUESTIONS

1. To be the nation’s best accounting firm is an example of an organization’s ........

2. Any activity the organization does well or the unique resources that it has are the organization’s .................

3. The negative trends in the external environment are called ............

4. Documents containing an organization’s vision, mission, performance targets and strategy is called .............

1. Strategies crafted by the head of marketing of an organization is an example of ............ strategy.

SOLUTIONS

MULTIPLE CHOICE QUESTIONS

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

SHORT ANSWER QUESTIONS

1. Vision
2. Strength
3. Threats
4. Strategic Plan
5. Functional strategy
CHAPTER 16

HEALTH AND SAFETY AT WORK

16.0 LEARNING OBJECTIVES
At the end of this chapter, you will be able to:-

- 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.

16.1 Introduction
Despite the level of development in a country like the United Kingdom, it was estimated over five hundred people are killed at work every year and several hundred thousand more are injured or suffer ill health (Armstrong, 2006). This figure will likely be more in most West African countries. This underscores the importance of effectively managing health and safety at work. In this chapter, we will discuss causes of accidents and sources of danger at the workplace and how such can be prevented. We will also discuss various legislations relating to workplace health and safety.

16.2 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, from customers and the wider community.

b. Health and safety at 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.
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c. In most countries, there are legal statutes on health and safety issues which organizations must comply with. Failure to do this might attract government sanctions.

16.3 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 Workman’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.


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. In essence, its main objective is to prevent occupational hazard and diseases in workplaces. The law makes it obligatory for employers of labour to take various precautions to protect their workers. The law deals with issues such as cleanliness, ventilation, lighting, sanitary, conveniences, fire prevention etc. The law also prescribes how machinery and equipment that could cause injury at work should be handled such as fencing, wearing of helmets etc. The law prescribes various penalties for contravention.

The Workman 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 an accident arising out of or in the course of employment of the workman.

16.4 Sources of Danger to Health and Safety at the Workplace

Common sources of safety hazard at the workplace are as follows:

a. Slippery floors
b. Open cabinets
c. Frayed carpets
d. Poorly lit stairways or officer
f. Unsafe work processes
g. Poor ventilation
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Thanks.

h. Careless storage of hazardous items such as sharp objects, dangerous chemicals etc
i. Dangerous fumes
j. Wrong use/handling of equipment/machinery at the workplace.
k. Manufacturing equipment which may be compounded by inadequate maintenance.
l. Poor factory layout.
m. Horseplay at the workplace.
n. Congestion.
o. Dirty environment
p. Inadequate safety equipment/gadgets.
q. Failure to use safety equipment or refusal to adhere to safety procedures during work.

16.5 Prevention and Protective Measures for Safety

a. Safety Policy: The first step towards protection of injury or death at the workplace is to put in place a safety policy. In some developed counties, 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 a 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.

16.6. **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.

16.7. **Summary**

In this chapter we 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 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 importance of health and safety training.

Multiple Choice Questions

1. 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

2. 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

3. The following are common sources of danger at the workplace EXCEPT:
   A. Careless storage of hazardous items
   B. Dangerous fumes
   C. Absence of sewage facilities
   D. Workplace stress
   E. Film at the workplace

4. Which of the following is a content of health and safety policies?
   A. General policy statement
   B. Hazard risk assessment report
   C. Accident investigation report
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D. Laws governing health and safety
E. Health and safety training programme

5. The following are benefits of health and safety at the workplace EXCEPT:
   A. Prevention of lost production due to injury of some workers.
   B. It helps organization fulfil the moral obligation of keeping the workplace safe.
   C. It helps management of the organization to be more efficient.
   D. It avoids loss of goodwill that could arise from negative image of labelling the organization as an unsafe place to work.
   E. Compliance to relevant laws.

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. Removal of dangerous equipment from workers as a safety measure is called ………………………………
5. Replacement of hazardous equipment with less dangerous one as a safety measure is ………………………

SOLUTION
MULTIPLE CHOICE QUESTIONS
1. A
2. C
3. D
4. A
5. C
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SHORT ANSWER QUESTIONS

1. Risk Assessment
2. Health and Safety Policy
3. Hazard elimination
4. Use of barriers
5. Substitution
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