



BUSINESS ENVIRONMENT (BE)

STUDY TEXT

THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF NIGERIA



**BUSINESS
ENVIRONMENT (BE)**

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Foreword

As the global economy continues to evolve, the importance of accounting professionals with strong technical skills, professional competence and ethical awareness cannot be overstated. The swift transformation in the business world, driven by globalisation, technological advancements and sustainability considerations, have significantly impacted the finance function and the skills required by professional accountants.

To remain relevant, the Institute's syllabus and training curriculum are designed to equip students with the knowledge and competencies required to succeed in the dynamic fields of accounting and finance. These are regularly reviewed and updated to reflect current trends and future needs of users of accounting and related services.

The Institute of Chartered Accountants of Nigeria (ICAN) is committed to ensuring that its syllabus and training curriculum remain current and relevant. To achieve this, ICAN undertakes a comprehensive review of these documents every three years, supplemented by annual updates to reflect emerging trends and developments in the national and global accountancy profession.

Following a rigorous process, the Syllabus Review, Professional Examinations, and Students' Affairs Committees have developed a new 3-level, 15-subject syllabus. As approved by the Council, the new syllabus will be implemented starting with the November 2025 examination diet.

The publication of the Study Texts has consistently accompanied syllabus reviews, yielding notable improvements in the performance of professional examination candidates. To further

enhance student success rates, the Council has approved the development of new learning materials (Study Texts) for all the subjects. This sixth edition, incorporates significant updates, including IT and soft skills, thereby enhancing the contents, innovation, and quality. This edition has taken into consideration all requirements of the International Panel on Accountancy Education (IPAE).

The Institute engaged renowned writers and reviewers, comprising esteemed scholars and practitioners with extensive experience in their areas of specialisation, to develop high-quality learning materials. The 15 subjects include:

Foundation Level		
1.	Business Environment	A1
2.	Financial Accounting	A2
3.	Management Accounting	A3
4.	Corporate and Business Law	A4

Skills Level		
5.	Financial Reporting	B1
6.	Audit, Assurance and Forensics	B2
7.	Taxation	B3
8.	Performance Management	B4
9.	Financial Management	B5
10.	Public Sector Accounting and Finance	B6

Professional Level		
11.	Strategic Business Reporting	C1
12.	Advanced Audit, Assurance and Forensics	C2
13.	Strategic Financial Management	C3
14.	Advanced Taxation	C4
15.	Case Study	C5

A rigorous quality control process was implemented, featuring a detailed and comprehensive review of the materials developed by the writers and reviewers by the Study Texts Review Technical Subcommittee.

These Study Texts will be valuable resources, not only for our candidates but also for students of other professional bodies, tertiary institutions, and finance and management practitioners, providing valuable resources for their studies and practices.

Chibuzor Noel Anyanechi, (Chief) BSc, MBA, FCA
Chairman, Syllabus Review Committee



Acknowledgement

The Institute expresses its heartfelt appreciation to the following Syllabus Review Committee members, writers, reviewers, and editorial board members for their invaluable contributions, expertise, and scholarly dedication that enabled the successful production of these new Study Texts: They are:

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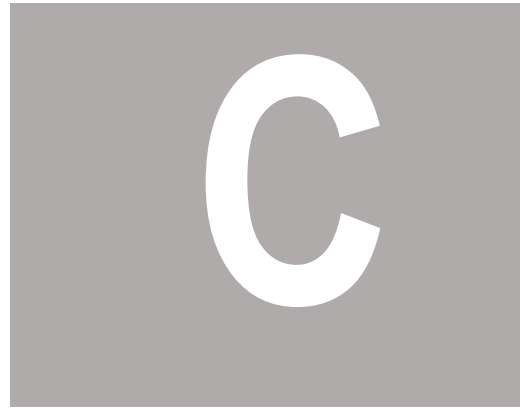
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Foundation Level

Business Environment



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Foundation Level

Business Environment



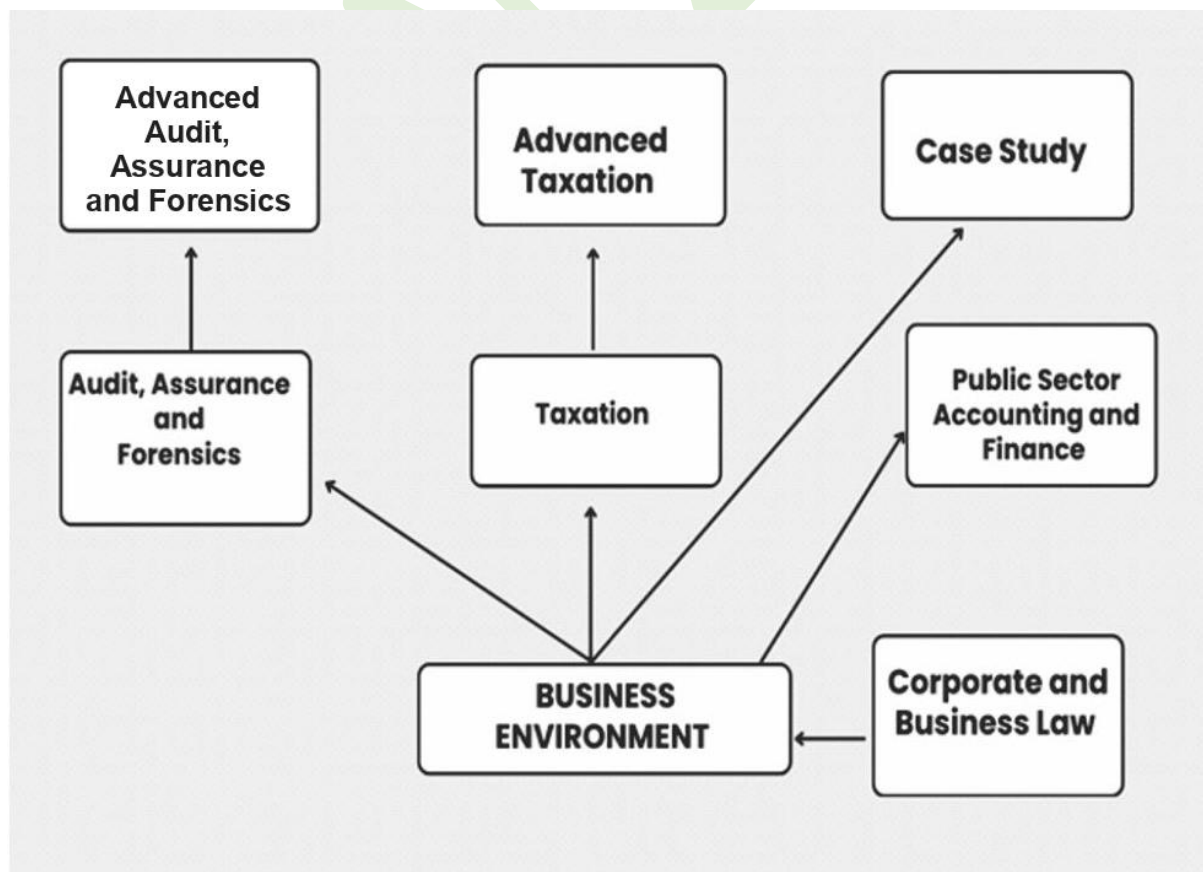
SYLLABUS

Business Environment

Aim

To enable students gain an understanding of business environment (global and national). A sound knowledge of markets, financial markets, entities and organisations to provide a foundation for business professionals. This subject revolves around a basic understanding of economics, management of business; business ethics, governance, corporate social responsibility, management information and sustainability.

Linkage with other subjects



Main Competencies

On successful completion of this paper, candidates should be able to:

- (a) explain the underlining principles of management theory in the context of concepts, functions, ethical considerations and recent developments in business management process;
- (b) explain behavioural aspects of management control and the importance of organisational structure and design;
- (c) understand the basic concepts of leadership and requirements for effective communication within and outside a business organisation;
- (d) understand issues associated with building, leading and managing effective teams and organisational conflict;
- (e) explain strategy, alternative approaches to strategy development, and sustainable competitive advantage; and
- (f) understand the applications of basic economic theories and business planning to solving business environmental problems locally and globally for competitive edge.

Specification grid

The grid below shows the relative weightings of the main sections within this syllabus and should guide the study time spent on each. Over time, the marks available in the assessment will be within the ranges of weightings below, while slight variations may occur in individual assessments to enable suitably rigorous questions to be set.

Syllabus overview		
Grid		Weighting %
A	Business Processes and Environment	30
B	The role of Professional Accountants in business and society	10
C	Management and Organisational Behaviour	25
D	Elements of Economics	25
E	Technology and Data Analysis	10
Total		100

Detailed syllabus				Chapter
A	Business Processes and Environment			
	1.1	Nature of business, types and objectives		1
		a	Explain the nature, types and objectives of business organisation.	1
		b	Explain the basic characteristics, purposes, merits and demerits of the following types of business organisation:	1
		i	Sole proprietorship;	1
		ii	Partnership	1
			• General partnership;	
			• Limited partnership; and	
			• Limited liability partnership	
		iii	Limited liability and unlimited companies:	1
			• Private	1
			• Limited by shares	
			• Limited by guarantee	
			• Unlimited	
			• Public	1
		iv	Non-governmental organisations (NGOs);	1
		v	Public sector organisations;	1
		vi	Alliances;	1
		vii	Cooperative societies; and	1
		viii	Joint Ventures.	
		c	Identify and explain the various business functions;	1
		d	Explain the importance of business to its stakeholders;	1
		e	Explain the different classifications of economic activities based on the following occupations:	1
		i	Profession/vocation;	1
		ii	Employment; and	1
		iii	Business.	1
		f	State the merits and demerits of each of the occupations listed above.	1
	1.2	Business and organisational structures and choices		1
		a	Explain the basic characteristics and purposes of the following organisational structures:	1
		(i)	Centralised;	1
		(ii)	Decentralised;	1

Detailed syllabus					Chapter
			(iii)	Martix and mixed;	1
			(iv)	Networks; and	1
			(v)	Virtual arrangements	1
		b	Explain the advantages and disadvantages of each of the organisational structures listed above.		1
		c	Identify the factors that may influence management choice of organisational structure.		1
		d	List and explain the consequences of poorly designed organisational structure		1
		e	Describe organisational chart		1
		f	Explain the usefulness and limitations of organisational chart		1
		g	Explain the purposes of committees in the organisational structures of a business organisation.		1
		h	State the advantages and disadvantages of committees.		1
		i	Explain the functions of the following board committees		1
			(i)	Audit committee; and	1
			(ii)	Remuneration committee	1
		j	State and explain the roles of the following board members:		1
			(i)	Chairman;	1
			(ii)	Secretary;	1
			(iii)	Managing Director;	1
			(iv)	Executive Director;	1
			(v)	Non-Executive Director; and	1
			(vi)	Independent Non-Executive Director.	1
	1.3	The business environment			1
		a	State the characteristics of business environment		1
		b	Explain the impact of government policies on business.		1
		c	State the legal and regulatory frameworks that affect business operations		1
		d	State and explain the two major models for analysing business environment.		1
		e	Identify and explain how firms can adapt to their environments.		1
		f	Explain the meaning and importance of the following:		1
			(i)	Globalisation/international business;	1
			(ii)	Macroeconomic/national environment;	1

Detailed syllabus					Chapter
			(iii)	Microeconomic/markets and industries; and	1
			(iv)	Stakeholders.	1
		g	Explain the concept of environment scanning, its methods and importance.		1
		h	Explain the various sources of information for environmental scanning.		1
		i	Identify and explain the steps involved in conducting a SWOT analysis.		1
		j	Explain the benefits of SWOT analysis to business firms.		1
		k	State the pitfalls of using SWOT analysis by firms		1
		l	Describe the context environment in which an organisation operates, including the primary political, economic, sociocultural, technological environmental, legal and regulatory aspects (PESTEL)		1
		m	Identify and explain the steps involved in conducting a PESTEL analysis.		1
		n	Explain the benefits of PESTEL analysis to business firms		1
		o	State the pitfalls of using PESTEL analysis by firms.		1
		p	Define and explain the importance of corporate social responsibility (CSR) and sustainability practices by firms.		1
		q	List and describe ways that businesses can adopt in affecting their environment for the benefits of all stakeholders.		1
Detailed syllabus					Chapter
B	The Role of Accountancy in Business and society				
	2.1	Finance function			2
		(a)	List the roles and accounting functions within an organisation including:		2
			(i)	Financial reporting;	
			(ii)	Management accounting; and	
			(iii)	Treasury management	
		(b)	Explain internal checks and internal controls		2
		(c)	Explain internal audit functions within and organisation.		2
		(d)	Explain the role statutory audit and assurance play in the performance of an organisation.		2
	2.2	Ethics and code of corporate governance			2

Detailed syllabus			Chapter
	(a)	Define ethics and explain its importance to the professional accountant.	2
	(b)	Describe the roles of professional bodies and regulators in promoting ethical awareness and discipline.	2
	(c)	State the fundamental principles of ethics	2
	(d)	Explain the code of conduct as established by ICAN and IFAC for professional accountants.	2
	(e)	Describe organisational values that promote ethical behaviours.	2
	(f)	Explain the concept of “acting in public interest”.	2
	(g)	Explain actions that could create ethical conflicts in a business.	2
Detailed syllabus			Chapter
C	Management and organisational behaviour		
	3.1	Basic management functions	3
	(a)	Give various definitions of management	3
	(b)	Identify and explain types of management skill.	3
	(c)	Explain the following basic management functions, their importance and application in the field of accounting:	3
	(i)	Planning;	
	(ii)	Organising;	
	(iii)	Controlling;	
	(iv)	Coordinating;	
	(v)	Directing; and	
	(vi)	Supervising.	
	(d)	Identify and explain the various management roles.	3
	3.2	Management, individual and organisational behaviour	3
	(a)	Explain the nature and significance of formal and informal organisation.	3
	(b)	Explain the role and importance of organisational culture.	3
	(c)	Explain the relationship between leadership and management.	3
	(d)	State the roles of individual and group behaviour in organisations.	3
	(e)	Identify and explain conflict management and various resolution mechanisms.	3
	(f)	Explain the nature and significance of team formation, development and management.	3

Detailed syllabus			Chapter
	(g)	Explain the concept of employee motivation and its relationship with productivity.	3
	(h)	State and explain the various management theories with emphases on scientific, administrative and other modern management theories; such as Frank and Lillian Gilbreth's motion theory, Herzberg's Hygiene, Motivation factor theory and other related theories.	3
	(i)	Explain the uses of technology business modelling.	3
	(j)	Explain project management.	3
	(k)	Explain emotional intelligence.	3
	(j)	Explain social thinking.	3
3.3	Communications in business		3
	(a)	Explain the basic elements of communication.	3
	(b)	Explain verbal and non-verbal communication.	3
	(c)	State the principles of effective listening.	3
	(d)	Explain organisational communication:	3
	(i)	Formal and informal; and	
	(ii)	Internal and external.	
	(e)	Explain methods of business communication.	3
	(f)	State the barriers to effective communication.	3
	(g)	State the different communication patterns.	3
	(h)	Explain the process and conduct of meetings.	3
	(i)	Explain the basic elements of report writing.	3
	(j)	Explain the process of electronic communication.	
3.4	Digital Communication		3
	Explain:		
	(a)	Email systems and its utilisation;	3
	(b)	Website platforms and their utilisation;	3
	(c)	Uses and management of social media accounts;	3
	(d)	Uses and management of social media pages; and	3
	(e)	Digital marketing.	
Detailed syllabus			Chapter
D	Elements of microeconomics and macroeconomics		
4.1	Introduction to economics and the market		4
	(a)	Explain basic economic concepts.	4

Detailed syllabus			Chapter
	(b)	Explain microeconomics and macroeconomics.	4
	(c)	Identify and explain basic economic problems	4
4.2	Demand and supply, and price mechanism Explain:		4
	(a)	Concepts of demand and supply;	4
	(b)	Application of demand supply; and	4
	(c)	Market determination of equilibrium price and quantity	4
4.3	Costs, revenue and productivity Identify and explain cost, revenue and profit concepts		4
4.4	Market structures Identify and explain;		4
	(a)	Perfect competition (shut-down point for a perfect competitive firm);	4
	(b)	Pure monopoly; and	4
	(c)	Monopolistic competition.	
4.5	Market failures, externalities and interventions Identify and explain market failure, types of externalities and intervention.		4
4.6	National income accounting Explain:		4
	(a)	Basic concepts of national income;	4
	(b)	Methods of computing national income;	4
	(c)	Problems of measuring national income; and	4
	(d)	Uses of national income estimates.	4
4.7	Financial institutions Explain the following:		4
	(a)	Central banking;	4
	(b)	Universal/commercial banking;	4
	(c)	Development banking;	4
	(d)	Other financial institutions;	4
	(e)	Money and capital markets; and	4
	(f)	Foreign exchange markets (NAFEM, NAFEX, interbank rates, etc)	4
4.8	Issues in monetary and fiscal policy Identify and explain:		4
	(a)	Monetary policy variables; and	4

Detailed syllabus			Chapter
	(b)	Fiscal policy variables.	4
4.9	Issues of inflation and unemployment Identify and explain:		4
	(a)	Inflation – types and causes;	4
	(b)	Unemployment – types and causes; and	4
	(c)	Philips curve.	
4.10	Issues of economic growth and development Explain:		4
	(a)	Economic growth and development;	4
	(b)	Sources of economic growth; and	4
	(c)	Economic planning.	4
Detailed syllabus			Chapter
E	Technology and data analysis		5
5.1	Business uses of computers and information technology (IT)		5
	(a)	Explain the following:	5
	(i)	Database systems;	
	(ii)	Accounting software;	
	(iii)	Spread sheet applications;	
	(iv)	Enterprise resource planning (ERP);	
	(v)	Artificial intelligence (AI); and	
	(vi)	Customer relationship management (CRM).	
	(b)	Describe how the application of big data and data analytics can improve business operations	5
	(c)	Define cybersecurity	5
	(d)	List the key risks to data that can occur through cyber-attacks.	5
	(e)	List and explain actions that can be put in place to mitigate cyber attacks	5
5.2	E-commerce and electronic businesses.		5
	(a)	Explain:	
	(i)	Business case scenarios for firms' e-commerce proposition;	
	(ii)	IT policies as stepping stone to e-commerce and e-business;	
	(iii)	Making choices for e-commerce and e-business deployment;	

Detailed syllabus					Chapter
			(iv)	Benefits and challenges of e-commerce and e-business;	
			(v)	Business operations outsourcing methodologies; and	
			(vi)	Data centre disaster recovery, contingency plans and recovery alternatives.	
		(b)	Discuss the following concepts in relation to e-commerce:		5
			(i)	IT infrastructure requirements for e-commerce and e-business;	
			(ii)	The internet as the backbone for e-commerce;	
			(iii)	Social media platforms;	
			(iv)	E-commerce models	
			(v)	Payment systems including mobile platforms; and	
			(vi)	Digitisation of the middleman with examples such as Amazon, eBay, Konga, JiJi, etc,	
	5.3	Emerging Technologies and the Accountancy Profession			5
		Explain the following emerging technologies and how they affect business operations:			
		(a)	Cloud Computing;		5
		(b)	Block chain;		5
		(c)	Fintech;		5
		(d)	Statistical Modelling;		5
		(e)	Internet of Things (IoT).		5

Foundation Level

Business Environment

CHAPTER 1

BUSINESS PROCESSES AND ENVIRONMENT

Contents

- 1.0 Learning objective
- 1.1 Learning outcome
- 1.2 Nature of business, types and objective
- 1.3 Business and organisation structure and choices
- 1.4 The business environment
- 1.5 Chapter review

1 Business Process and Environment

1.0 Learning objective

This chapter provides readers with an insight into business organisations, business functions, and micro and macro environments of business.

1.1. Learning outcomes

At the end of this chapter, readers should be able to:

- (a) explain the nature, types and objectives of business organisation;
- (b) explain the basic characteristics, purposes, merits and demerits of the different types of business organisations like – sole proprietorship, partnership, limited and unlimited liability companies;
- (c) identify and explain the various business functions;
- (d) discuss the importance of business to its stakeholders;
- (e) explain the different classifications of economic activities based on different occupations along with their merits and demerits;
- (f) explain the basic characteristics, purposes, advantages and disadvantages of different types of organisational structures;
- (g) identify the factors that may influence management's choice of organisational structure;
- (h) list and explain the consequences of poorly designed organisational structure;
- (i) describe organisational chart along with its usefulness and limitations;
- (j) state and explain the roles of board members in an organisation;
- (k) state the characteristics of business environment;
- (l) state the legal and regulatory frameworks that affect business operations;
- (m) state and explain the two major models for analysing business environment;
- (n) explain the concept of environmental scanning, its methods, the tools for scanning the environment, merits and demerits;
- (o) define and explain the importance of corporate social responsibility and sustainability practices by firms; and
- (p) list and describe ways that businesses can adopt in affecting their environment for the benefits of all stakeholders.

1.2 Nature of business: types and objectives

1.2.1. Nature of business

To discuss the nature of business, we must first establish a clear understanding of what constitutes a business. Business is therefore defined as any form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted.

Business can also be defined as the organised effort, or activities of persons within an organisational context to produce and distribute goods and services for the purpose of profit making.

Business is also defined as any human activity directed towards producing or acquiring wealth through buying and selling of goods. Thus, the term business means continuous production and distribution of goods and services carried out to earn profits under uncertain (unpredictable) market conditions.

Activity performed by a person with a view to earning profit is called a business activity. A person has to produce and exchange goods and services for money in order to earn profit. For example—production of soaps, shampoos, etc..

What is the nature of business?

The nature of business refers to the overall activities of a company in their quest to create, market, and sell a service or a product. Essentially, the main focus for what a company does in a particular sector or industry is known as that company's nature of business. Simply put, the nature of business is like a company's DNA. It pinpoints an enterprise's primary activities and essence, setting the stage for its missions and visions. Just as every individual has a unique story, each business has its distinct character and purpose. It is the heartbeat of entrepreneurial tales.

The business world is vast, but every business revolves around specific fundamental components at its core. These components come together to define a business's structure, purpose, and functions. Here's a deeper dive into these integral elements:

- a. **Purpose:** Every business starts with a purpose. It is the foundation, answering the question: "Why does this entity exist?" For some businesses, the objective is to sell products; for others, it is about providing specialised services, and for many, it is about solving specific market problems. This

purpose becomes the North Star, guiding every business activity and decision.

- b. **Activities:** Just like we engage in daily tasks and routines, businesses have their sets of operations. This could range from designing products, sourcing materials, and manufacturing to marketing and sales. These activities define what the business does daily to fulfil its purpose.
- c. **Scale:** The size or scale of a business can vary. Some operate within small local communities – think of the mom-and-pop shops. Others are sprawling enterprises with footprints that span across countries or even continents. The scale dictates the reach, operations, and, often, the complexities a business might face.
- d. **Stakeholders:** Businesses do not operate in isolation. They involve various stakeholders, including owners, employees, customers, suppliers, and even the communities they operate in. Each stakeholder has a role, an interest, and an expectation from the business.
- e. **Economic Contribution:** A business is not just about its owners or employees. It plays a pivotal role in the broader economy. Through its operations, it contributes to job creation, taxes, boosting trade, and even fostering innovation.
- f. **Risks and Challenges:** The business landscape is dynamic. External factors like competition, market trends, regulations, and even unforeseen events can pose challenges. Recognising and navigating these risks is vital for the business's sustainability and growth.
- g. **Legal Structure:** Businesses operate within a legal framework. Depending on the region or country, various legal structures are available, such as sole proprietorships, partnerships, or corporations. This structure defines legal responsibilities, benefits, and limitations a business has.

The nature of a business defines its primary activities, how it operates, and its role in the market. Whether it is converting raw materials, selling products, offering expertise, or providing essential services, each business nature has its unique challenges and opportunities. Recognising these types helps stakeholders make informed decisions and navigate the vast business landscape more effectively. To sum it up, the nature of business is a blend of its purpose, daily functions, size, interconnected relationships, contributions to the economy, potential challenges, and legal standing. Each component interplays with the other, forming an intricate mosaic of what we know as 'business'.

1.2.2. Types of business

A business entity is an organisation that uses economic resources to provide goods or services to customers in exchange for money or other goods and services. Business organisations come in different types and in different forms of ownership. The three major types of businesses (as to products offered) are:

a) **Service business**

A service-type business provides intangible products (*products with no physical form*). Service-type firms offer skills, labour, expertise, and other similar work in return for professional or talent fees.

Examples of service businesses are:

- i. Business services, such as accounting, advisory, taxation, advertising, engineering, legal, research agencies, computer programming, etc.
- ii. Personal services, such as laundry, beauty salon, photography
- iii. Automotive repairs, car rental, car wash, parking spaces
- iv. Fitness facilities, amusement parks, bowling centres, golf courses, theatres;
- v. Hospitals and clinics, schools, museums, banks; and
- vi. Hotel and lodging, and more.

b) **Merchandising Business**

This type of business involves buying products at wholesale price and selling the same at retail price. They are known as "buy and sell" or "reseller" businesses. They make profit by selling their goods at prices higher than their purchase costs.

A merchandising business buys a product and sells it without changing its form. Examples include all distribution and retail stores such as department, grocery, hardware, clothes and accessories, consumer electronics, home furniture, appliance, and drug stores, etc.

c) **Manufacturing Business**

Unlike a merchandising business, a manufacturing business buys products with the intention of using them as raw materials to make new products. Thus, there is transformation of the products purchased.

A manufacturing business combines *raw materials, labour, and overhead costs* in its production process. The goods produced are then sold to customers. Examples include:

- i. food processing, such as producing canned meat, frozen goods, dairy products, bottled drinks, bakeries and oil mills.

- ii. fabric mills and textile production from cotton, wool, polyester; and also clothing factories that use textiles as raw material;
- iii. wood and metal works, such as in building cabinets, tables, and chairs
- iv. oil refineries, chemical laboratories, plastic and rubber production; and
- v. ship building, car and aircraft manufacturing.

1.2.3 Objectives of business

The Objectives of Business are its driving force. These are the factors that keep the business running. The business objective is a goal, that is where the business wants to reach in the future. For example, a business wants to set up its franchise in another state in the next 3 years or it wants to increase its workforce in the coming months.

Business needs objectives. Without objectives, business is like a car without headlights driving blind. Objectives of business are the purpose for which the business is established and performed. We can call objectives the cornerstone of every business.

Business objectives, broadly categorised as economic, financial, and human, aim to ensure a company's survival, growth, and success through profitability, increased market share, customer satisfaction, and employee well-being.

Objectives are needed in every area where performance and results directly affect the survival and prosperity of a business. The right choice of objectives is critical for the success of the business. The objectives of a business can be classified into two main categories, which are:

a) Economic objectives of business

Business is an economic activity; hence, its purpose is to show positive economic results. Let us clearly understand the economic objectives of business. They are as follows:

- i. **Profit earning:** Business is a set of activities undertaken with the prospect of sale for the purpose of earning a profit. Profit is the extra of income over expenses. The main objective of any business is to earn a profit. Just as a plant cannot survive without water, similarly, a business cannot be sustained without profit. Profit is necessary for growing and expanding business activities. Profits guarantee consistent stream of capital for the modernisation and augmentation of business activities in

the future. Profits, likewise, show the scale of stability, efficiency, and advancement of the business organisation.

- ii. **Market share/creation of customers:** In the words of Drucker, “There is only one valid definition of business purpose; to create a customer. “Profits are not generated out of thin air. They are the result of the hard work of the businessman to satisfy the needs of the customers. In the long run, the survival of the business completely depends upon the market share captured by the business. The creation of goods and satisfaction of the needs of the customer is a crucial purpose of the business. So, to generate profit and demand, the business must supply premium quality and give value-for-money products.
- iii. **Innovation and utilisation of resources:** Innovation normally means to change processes or creating more effective processes, products and ideas. Nowadays, business is ever-changing and dynamic. To keep up with the growing competition, a businessman has to introduce efficient design, latest trends, upgraded machinery, new techniques, etc. Large corporations invest a humongous amount of capital in their Research and Development department to boost innovation. Whereas, on the parallel lines, utilisation of resources is a proper use of workforce, raw materials, capital and technology in the business. A business has limited resources. That is why its main objective is to put these resources to good use.
- iv. **Increasing productivity:** Productivity is a scale to measure the efficiency of the business activity. It is usually the last objective, but just as important, because productivity is measured by the output of the activities. It is the end result of any business activity. Each business must go for more prominent productivity – to guarantee its survival and development. This goal can be accomplished by decreasing wastages and making proficient use of machines and supplies, human resources, cash and so forth.

b) **Social objectives of business**

According to Dayton Hudson “The business of business is serving society, not just making money.” Business is one of the pillars on which the society

stands. Therefore, it is a part of the society. In fact, it cannot thrive without the resources from the society. business earns its income from the sale of products and services to the society. It is mandatory on the part of the business to take care of the social factors.

The necessary social objectives of a business are as follows:

- i. **Providing goods and services at reasonable prices:** Business exists in the first place to satisfy the needs of the society. It is the first and major social objective of business.
- ii. **Employment generation:** Unemployment is one of the major challenges facing society today. Business generates employment, therefore, it is the social objective of a business to give chances of beneficial employment for individuals in the society.
- iii. **Fair remuneration to employees:** Business does not run on its own, but people are responsible for the success and failure of the business. Employees are assets to the business and make ground-breaking contributions to the business. They must be given reasonable pay for their work. Notwithstanding wages and salary, a significant share of profits ought to be distributed among them in acknowledgment of their contributions. This will motivate workers towards increased productivity.
- iv. **Community service:** Corporate social responsibility is one of the contributions of business to society. This includes provision of libraries, hospitals, schools and other needs of society. They can help non-government organisations (NGOs) like Red Cross Society, and others, which render social services to society.

1.2.4. Types of business

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

(a) Sole proprietorship

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

The sole proprietor is solely saddled with the responsibility of raising all the capital from personal resources, friends, relatives, and from the bank. He or she is mainly responsible for all the business decisions. This form of business arrangement is common in retail and wholesale trading, professional practice and construction industry. Because of the high degree of independence of the sole proprietor, this form of ownership can be formed without any written agreement, charter or legally binding agreements.

Features of sole proprietorship

The following are important features of sole proprietorship business:

- (a) It is owned by the promoter as an individual.
- (b) The business is not a legal entity, therefore, not distinct from its owner.
- (c) It is the most common form of business ownership in Nigeria.
 - (i) **Individual initiative dominates:** The owner of the business takes decisions on his own, based on his experience and sense of judgement, without any contributions from anybody.
 - (ii) **Risk bearing:** The risks of the business are borne by the Proprietor alone. The beauty of this, is that he also takes all the profits.
 - (iii) **Management and control:** The Proprietor manages and controls the business. He has the option of engaging a manager or not, and where he does, the manager is assigned insignificant managerial power, while the control still resides with the business owner.
 - (iv) **Unlimited liability:** The Proprietor is responsible for the losses and liabilities of the business. Where there is insufficient capital to run the business, he may sell his personal assets.
 - (v) **Secrecy:** The Proprietor keeps all the business secrets to himself.
 - (vi) **Minimum government regulations:** Government does not interfere much with the operations of this type of business.
- b. The death of the owner might be the end of the business, as continuity is usually not guaranteed.

Advantages of Sole Proprietorship

The benefits of sole proprietorship include:

- a. easy formation;
- b. Inexpensive management;
- c. better control;
- d. pride of ownership;
- e. easy process of establishment and winding up;
- f. high degree of flexibility;
- g. the secrecy of the business operation can be reasonably maintained;
- h. Faster decision-making process; and
- i. Benefits of small-scale operations.

Disadvantages of Sole Proprietorship

Sole proprietorship has the following drawbacks:

- a. lack of continuity;
- b. limitation of size;
- c. slow adoption of new technologies;
- d. limited ability to attract and retain capable employees;
- e. limited access to sources of capital;
- f. limitation of management skills;
- g. Unlimited liabilities; and
- h. Lack of continuity on the death of the owner.

(b) Partnership

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

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

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

(i) Characteristics of Partnership

- a. **Ownership:** It is owned by a minimum of two (2) and a maximum of twenty (20) persons.
- b. **Liability:** the liabilities of partners are usually unlimited.
- c. **Formation motives:** to make profit.
- d. **Legal status:** It is not a legal entity.
- e. **Sources of capital:** Contributions from the partners.
- f. **Methods of withdrawing capital:** Must be approved by other partners as laid down in their partnership deed.
- g. **Disclosures:** There is no requirement for provision of information to the public.
- h. **Partnership deed:** It is guided by a document called partnership deed.
- i. **Governance:** It has no board of directors.

Features of partnership

The features of partnership are as follows:

- a. **Basis of agreement:** This type of business is usually formed on the basis of an agreement between two or more persons to carry on business. The terms and conditions of the partnership are usually stated in the Partnership Deed.
- b. **Profit and loss sharing:** The partners are entitled to share the profits realised and also bear the losses.
- c. **Agency relationship:** The business can operate such that all partners will participate in the operation, with each being a principal partner. Any of the partners can also act on behalf of other partners as agent. By this, every partner can bind the firm by his acts.
- d. **Unlimited liability:** In case some obligations arise, and the partnership assets are not sufficient, private properties of the partners can be taken to defray the liabilities of the firm.
- e. **Common management:** Every partner has a right to participate in the management of the business. Where a partner does not partake in the

running of the business, it becomes imperative that his consent be sought before taking strategic business decisions.

- f. **Restriction in the transferability of interest:** No partner can transfer his/her interest without the consent of all other partners.
- g. **Registration:** It is compulsory to register a partnership business with the Corporate Affairs Commission.
- h. **Deed of partnership:** Activities of the partnership is strictly guided by the Deed of Partnership.

Types of partners

- a. **Active/general/working partners:** These are partners who take active part in the formation, financing, management and general conduct of the business. They receive salaries for the roles they play as managers of the business as spelt out in the partnership deed.
- b. **Inactive/dormant/sleeping partner:** This partner only contributes part of the capital used in the formation and running of the business. He receives no salary, as he does not take part in the management and organisation of the business. He takes part in the sharing of profits or losses of the business as specified in the partnership deed.
- c. **Nominal or passive partner:** This is a partner that exists in name only. She/he contributes nothing financially, except her/his name in the formation of the business. Such a partner does not invest any capital nor does she/he participate in management of the business. Usually, partners of this nature are only men and women of substance in society. Such people could have a share in the profits or losses of the business as specified in the partnership deed.
- d. **Silent partner:** This is a partner who does not take an active part or role in the business, but he/she is known to the public as a partner or one of the partners of the business.
- e. **Secret partner:** This partner takes active role in the business, but he/she is not known to the public as a partner in the business. This is a partner whose membership as a partner is kept secret from the public. His/her liability is unlimited and is liable for the losses of the business. He can take part in running of the business.
- f. **Limited partner:** This is a partner whose liability is limited only to the amount of his/her capital contribution to the business. Such partner cannot take part in the management of the business but can inspect

the accounts and receive profit from the business. Additionally, a partnership cannot be established only with limited partners. Description of the partners (names, responsibilities, initial investments, salaries, and proportion of profits entitled to):

- g. description of business (business names, location, and types of business);
- h. description of the business practices (the fiscal year and accounting system and the amount of fund that can be withdrawn within a given period);
- i. 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); and
- j. signature of partners.
- k. **Partner in profit only:** this is a type of partner, who becomes one, for the sole purpose of profit sharing, but does not share in the losses of the business. He provides capital and is also responsible to third parties like other partners. Such a partner is generally inactive but may provide money and goodwill.
- l. **A minor partner:** A minor is a partner who cannot enter a contract according to the act. Hence, such an individual cannot be made partner in the real sense of the word. He/she cannot play an active role in the management of the firm. However, a minor may be taken as a partner with the consent of all partners. His personal property is not available to defray the debts of the firm but can share in profits of the firm.
- m. **Retired or outgoing partner:** This is a partner that leaves the firm while other partners continue to carry on the business. He/she is liable for his/her own share of the debts incurred by the firm before his retirement. He/she may continue to be liable, if proper notice of his/her retirement is not communicated to creditors.
- n. **Incoming Partner:** A person who joins an existing firm with the consent of all the existing partners is known as a new or incoming partner. He/she is not liable for the debts or obligations of the firm incurred before joining the firm. He/she, however, may be held liable for such debts, only if he/she agrees to it, with the creditors duly informed. Incoming partner will also contribute to the capital of the firm.

- o. Quasi Partner:** A quasi-partner is one who is no longer a partner in the business, but has left his capital in the business as a loan. He receives interest on such, until the loan is paid off.

Deed of partnership

The Article of Partnership comprises a written contract, guidelines and Regulations between partners, to guide the day-to-day running of the business so as to avoid crisis, amongst partners. It also ensures an effective and efficient business practice among partners. This document states each partner's rights and responsibilities, how decisions will be made, if the partners cannot agree on a particular issue. It also includes the portion of profits/losses for each partner.

The deed contains some or all of the following:

- a.** name of firm;
- b.** names of partners;
- c.** the place of business/address;
- d.** the nature of business;
- e.** the amount of capital that each partner is to contribute;
- f.** the role of each partner in the business;
- g.** the method of profits and losses sharing;
- h.** the compensation, if any, the partners are to receive for services rendered to the business;
- i.** the rights of partners in the business;
- j.** duration or length of the partnership;
- k.** how matters shall be determined, either by majority vote or not;
- l.** provision for the admission of new partners;
- m.** the limit of liability of one or more partners;
- n.** arrangements concerning withdrawals or additional investment; and
- o.** arrangement for the dissolution of the partnership/firm in the event of death, incompetence, or other causes of withdrawal of one or more of its partners.

Once each partner has signed the instrument, it serves as a legally enforceable contract.

Advantages of Partnership

Below are some advantages of partnership:

- a. more managerial skills available than in a sole proprietorship;
- b. pooling of financial resources by partners;
- c. reduction of strain on one individual, as responsibilities can be shared with other partners;
- d. new partners can be admitted;
- e. enhanced ability to attract and retain capable employees;
- f. balanced business decision; and
- g. risk sharing.

Disadvantages of Partnership

Disadvantages of partnership include:

- a. unlimited liability;
- b. limited life;
- c. arguments or disagreement can arise among the partners;
- d. limited access to initial capital when compared with companies;
- e. difficulty in withdrawing from the firm; and
- f. risks of implied liability.

Dissolution of partnership

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

- a. court order;
- b. technical insolvency;
- c. mutual agreement;
- d. completion of the assignment or task for which the partnership was established;
- e. death of a partner; and
- f. when the partners consider that the objectives for establishing the partnership have been achieved.

(c) Limited liability partnership

A limited liability partnership (LLP) is provided for in Part C of the Companies and Allied Matters Act (CAMA) 2020 (as amended). This form of partnership differs slightly from the general nature of a partnership, making it unique. Generally, a partnership is not a legal entity and dissolves upon the death of any partner. However, under CAMA, an LLP is a body corporate formed and incorporated under the Act, and it is a legal entity, separate from its partners. It

has perpetual succession and any change in the partners of an LLP does not affect the existence, rights or liabilities of the partnership.

The law permits any individual or body corporate to be a partner in an LLP, provided that such individual shall not be capable of becoming a partner, if he is of unsound mind and has been so found by a court in Nigeria or elsewhere, or if the person is an undischarged bankrupt. Furthermore, in an LLP, the minimum number of partners shall be two partners at all material times. Interestingly, there is no maximum number for the formation of an LLP.

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Finally, for the winding up of an LLP, the law provides that it may be done either voluntarily by the partners or by the Court and the LLP so wound up may be dissolved. This means that the partners can voluntarily decide to wind up the partnership or the Court may do so on the application of the partners.

Features of LLPs in Nigeria

- a. **Separate legal entity:** An LLP is a body corporate, meaning it has a legal personality separate from its partners.
- b. **Limited liability:** Partners' liabilities are limited to the amount they agreed to contribute or what is outstanding in the event of winding up.
- c. **Perpetual succession:** The LLP continues to exist even if there are changes in the partners, ensuring continuity of the business.
- d. **Flexibility:** LLPs combine the flexibility of a partnership with the benefits of a corporate structure.
- e. **Designated partners:** LLPs must have at least two designated partners who are individuals, with at least one being resident in Nigeria.
- f. **No maximum number of partners:** There is no limit to the number of partners in an LLP.

- g. **Registration:** LLPs are registered with the Corporate Affairs Commission (CAC).
- h. **Taxation:** The tax status of LLPs is still being clarified, with some suggesting they are tax-transparent, meaning the partners are taxed on their share of profits.
- i. **Sue and be sued:** An LLP can sue and be sued in its corporate name.

Advantages of LLPs

- a. **Limited liability:** Each shareholder who has paid the full par value of his stock is liable only to the extent of his investment. If the corporation fails, he can lose his investment, but the company's creditors have no claim to his personal property.
- b. **Capital formation:** When members of the general public have confidence in the viability of the business and the soundness of its management, they become encouraged to invest in it by buying its shares and stocks. As a result, the corporation can raise a large amount of capital.
- c. **Perpetual life:** The corporation which has a legal existence is independent of its owners. In the event that a shareholder withdraws by selling his or her shares or dies prematurely, his next of kin can take over ownership of the shares or stocks and the existence of the business is not affected.
- d. **Ease of expansion:** Capital can easily be raised through the sale of shares which can be used to expand and run the business.
- e. **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.
- f. **Competent management team:** Professional and competent managers can be hired. If such managers hired cannot perform, they can easily be replaced by the board of directors.

Disadvantages of LLPs

- a. **Government regulations:** The activities of these corporations are regulated by federal and state laws, because they are legal persons.

- b. **Large initial capital:** More capital is needed in the formation of a corporation than for a partnership or sole proprietorship.
- c. **Lack of secrecy:** A company's financial transactions cannot be shielded from public view, because shareholders must be provided with annual reports of its performance.
- d. **Goal incongruence:** When there is a conflict of interest between individual goal and the business objective, there is goal incongruence. For example, employees are usually concerned with increase in salaries while the organisation is likely to be emphasising profit maximisation.
- e. **Divergence of owners/management's interests:** Since owners want their dividends, while the management may desire growth and expansion, conflict may arise when review of stewardship comes up during the annual general meeting.
- f. **Organisational expenses:** This form of business involves substantial costs of incorporation, allowances for members of the board of directors, salaries of top management staff, etc.

Large size: Their large size may bring about reduction in efficiency as a result of bureaucracy when there is too much complexity, rigid rules and regulations.

(d) **Limited liability company (LLC)**

This is an association of individuals who agree to and jointly pool their capitals together in order to establish and own a business venture that is distinct from its owners.

An LLC is a relatively new type of hybrid business structure that is now permissible in most countries. It is designed to provide the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. Its formation is more complex and formal than that of a general partnership. An LLC is a new form of business structure which was developed for entrepreneurs who want the limited liability benefits of a corporation with the tax benefits of a partnership. Like a corporation, LLCs require shares, however, owners are called members not shareholders.

Types of LLCs

There are two types of limited liability companies that are easily identified. These are:

- a. **Private limited liability company:** This type of company is one whose membership is limited to fifty (50), whereas the minimum membership is two (2). It is also known as close company because the company can neither request nor subscribe to shares from the general public. This type of company is formed with a specified number of persons, and owners' liabilities are limited to their shares.
- b. **Public limited liability company:** Here, the minimum number of persons that can form it is seven (7), while it has no maximum number. This type of company is free to invite members of the public to contribute capital for its running by buying shares. These shareholders, who are the real owners of the company are free to transfer their shares to other people. It is commonly known as Plc.

Differences between public and private limited companies

S/N	Public limited company	Private limited company
1.	It can trade its shares in the stock market and is listed in stock market.	It cannot sell shares to the general public. It can only sell shares to a maximum of 50 people.
2.	It is owned and traded publicly.	It is owned and traded privately.
3	Maximum members unlimited	Maximum number of members is 200
4	It requires a certificate of incorporation and certificate of commencement of business.	It requires only a certificate of incorporation.

5	Minimum directors is three (3)	Minimum directors is two (2)
6	Statutory meetings are mandatory.	Statutory meetings are not mandatory.

Formation of a limited liability company

The formation of a limited liability company usually starts with the preparation of certain documents that will be presented to the Registrar of Companies for his perusal and subsequent registration. This preparation is normally done by a solicitor, accountant, company secretary or a business consultant. The main documents that are involved in company formation include:

- i. **Memorandum of Association:** This document states clearly the relationship between the company and the outside world. It specifies the name, location, objectives, etc. of the company. The memorandum of association has all or some of the following as its contents:
 - a. the name of the company with the “plc” as the last word;
 - b. the location of the registered office of the company;
 - c. the objectives of the company;
 - d. proposed amount of the registered capital;
 - e. a statement indicating the liability of the company’s shareholders; and
 - f. it is a set of regulations laid down to guide the company and its members.
- ii. **Articles of Association:** This document lays down the internal rules and regulations governing the organisation and management of the company. The articles of association of a company contains the following:
 - a. the duties, rights and position of each member of the company;
 - b. the method of the appointment and demand of the directors;
 - c. the rights and powers of the directors;
 - d. how dividends are to be shared;
 - e. how general meetings are to be held and the procedure;

- f. method of electing directors and the voting rights at such election;
- g. method of auditing the company's accounts;
- h. the procedures for the issue and transfer of shares; and
- i. the rights and responsibilities of shareholders.

Articles of Association contain the rules and regulations of conducting the internal affairs of the company.

- iii. **Statutory Declaration:** This document states that the promoters of the company have complied with the requirements of the Companies and Allied Matters Act 2020 (as amended).
- iv. **The Prospectus:** This is a document of notice, circular, advertisement or other invitation offering the public subscription or purchase of shares or debentures of a company. A prospectus is issued by a public limited liability company, and it serves as a mechanism for raising capital. For members of the public not to be misled, it is mandatory that a copy of the prospectus must be filed with the Registrar of Companies after it has been approved by the Council of the Nigerian Stock Exchange. The document contains the following information:
 - a. the names and addresses of all the directors of the company;
 - b. the types of shares;
 - c. when and how shares may be bought;
 - d. minimum and maximum number of shares a subscriber may apply for;
 - e. the relative cost of the shares;
 - f. financial history of the company; and
 - g. possible value of the assets and liabilities of the company.
- v. **Certificate of Incorporation:** This is the certificate issued by the Registrar of Companies to signify that a business unit has been incorporated. This certificate can only be issued after scrutinising two documents namely – the memorandum of association and articles of association – by the Registrar of Companies and he is satisfied. The certificate of incorporation confers legal status on a company.
- vi. **Certificate of Trading:** This is a certificate issued to a public limited liability company, also known as Joint Stock Company by the Registrar

of Companies to commence business and exercise borrowing powers. This certificate is issued only if the Registrar is satisfied that the company has raised the minimum amount of capital needed to get started.

A private limited liability company is not issued with this certificate and does not need it to commence business, whereas the public company needs both the certificate of incorporation and certificate of trading before it can commence full business operations. It should be noted therefore that the certificate of trading is only issued when a public company has fulfilled certain requirements, like raising the minimum required capital from the public, and each director has paid for his own shares, etc.

Features of limited liability company

- a. It is a legal entity.
- b. It has unlimited lifespan, and can only be dissolved by State approval.
- c. The company is taxed differently from its owners.
- d. The personal assets of the owners cannot be sold to pay for the debts of the business (Limited liability).

Advantages of limited liability companies include:

- a. limited liability of the company;
- b. taxed as a partnership;
- c. unlimited number of members allowed; and
- d. members can include individuals, corporations and other LLCs.

Disadvantages of limited liability companies include:

- a. slow decision making;
- b. disagreements amongst directors;
- c. heavy taxes;
- d. registration process is cumbersome; and
- e. some countries do not allow one member LLCs.

Winding up/ending of limited liability companies

This implies bringing the existence of the companies to an end. The following conditions can lead to the winding up of a company:

- a. the expiration of the agreed life span of the company;
- b. unnecessary delays to commence business for about a year from the date of incorporation;
- c. if membership falls below the minimum number of two for private and seven for public liability companies respectively;
- d. if the company defaults in filing its statutory reports;
- e. the occurrence of events beyond the owners' control;
- f. court order; and
- g. bankruptcy.

(e) Unlimited liability

Unlimited liability is the legal obligation of the founders and business owners of a company to repay, in full, the debts and other financial obligations of the company. The legal obligation generally exists in businesses that are sole proprietorship or general partnerships. Under the two business structures, each company owner is equally responsible for repaying the business' financial obligations. In business, "unlimited liability" means owners are personally responsible for all debts and obligations of the business, potentially risking their personal assets if the business fails.

Unlimited liability occurs when a business owner is legally responsible for all debts and liabilities of the business, even if it means using his personal assets to cover them. Sole proprietorships and general partnerships are common examples of business structures that involve unlimited liability, where the business owner and the business are considered the same legal entity. For example, if a sole proprietorship incurs a debt of ₦10,000,000 and does not have enough assets to cover it, the owner's personal assets, such as his home, car, or savings, can be used to pay off the debt. In contrast to unlimited liability, limited liability structures, like corporations or limited liability companies (LLCs), protect the owner's personal assets from business debts and liabilities.

Pros and cons of unlimited liability

- a. Unlimited liability companies are often sole proprietorships, which are easy to set up and dismantle, affording business owners greater autonomy.
- b. Unlimited companies are also not required to disclose their financial records in the same way as their limited counterparts. This non-disclosure could have tax advantages, depending on the size of the company's profits.
- c. Generally, companies with unlimited liability are subject to fewer compliance regulations, and sole traders can retain all of their profits, after tax has been deducted. However, the benefits of unlimited liability comes with some clear caveats.
- d. Having personal liability for company debts could add stress to the existing complications that come from running a business, and this may prove devastating, if the individual has to use his/her own assets to pay a large company debt.

Unlimited liability can make it more difficult for businesses to raise capital and expand operations, as potential investors or lenders may be hesitant to take on the risk of personal liability.

(f) Private Companies

S. 394 (3) of CAMA 2020 (as amended) defines a small company as a company with a turnover of not more than ₦120,000,000 (one hundred and twenty million naira) and net assets not exceeding ₦60,000,000 (sixty million naira).

According to S. 18(2) of CAMA 2020 (as amended), a private company can be incorporated by one person. A private company is required to have a minimum issued share capital (MISC) of ₦100,000, of which at least 51% must be held by its director(s). Private companies must not have any foreigner, government or government corporation as a shareholder. It may hold general meetings virtually (S.240).

It is no longer mandatory for a company to have a company seal (S.98). Private companies can now have a single director. This significantly reduces the bottleneck of the previous requirement to have a minimum of two (2)

directors, thereby making business registration easier and faster for qualified businesses.

Private companies are exempted from the mandatory appointment of a company secretary and auditors. Private companies with annual gross turnover of ₦25 million or less are exempted from companies income tax.

Where a private company has not carried out business since incorporation, CAMA 2020 exempts it from the requirements of the law relating to the audit of accounts in respect of a financial year. This provision is not applicable to insurance companies and banks or any other company as may be prescribed by the CAC.

(g) Company limited by shares

A company is a special form of business entity. Nearly all companies in business are limited liability companies with liability limited by shares.

Ownership of the company is represented by ownership of shares. A company might issue any number of shares, depending largely on its size. A very small company might have just one share of ₦1, whereas a large stock market (publicly quoted) company will have millions of shares in issue. If a company has issued 100 shares, ownership of 40 shares would represent 40% of the ownership of the company.

Unlike a sole trader or a partnership, a company has the status of a 'legal person' in law. This means that a company can be the legal owner of business assets, and can sue or be sued in its own right in the law.

A company is also taxed separately from its owners. Whereas the profits of a sole proprietor and business partners are all taxed as personal income of the business owners, the profits of a company are taxed as income of the company itself.

Limited liability: A company has legal liability as a 'legal person'. This means that if the company owes a supplier ₦1,000 for goods it has purchased, but does not have the money to make the payment, the company alone is liable for the debt. The owners of the business – its 'shareholders' – cannot normally be made personally liable to make the payment. The liability of shareholders is limited to the amount of capital they have invested in the company. If the company's shares are 'fully paid' (which is normal) shareholders have no

further financial liability for any unpaid debts or other obligations of their company. This limited liability of the company's shareholders for the unpaid debts of their company is a major reason why so many small businesses operate as companies, rather than as sole traders or partnerships.

Another feature of large companies is that they may have a large number of issued shares, and a large number of shareholders. In large companies, the main shareholders are not the managers of the business. The managers (executive directors of the company) and owners are different persons. This is sometimes referred to as the 'separation of ownership from control'. This is not found in the businesses of sole traders or partnerships, where the owners are usually also involved in management.

The main operational decisions affecting a large company are therefore taken by their professional managers. Any bad decisions they make affect the company and its profits, but do not affect the managers themselves directly.

When shareholders are not the managers of their company, it becomes essential that information about the position and performance of the company should be reported regularly by the management to the shareholders. This is the main purpose of financial reporting.

However, there might be a risk that the managers of a company would make false reports to shareholders about the financial position and performance of the company. To reduce this risk, the laws on financial reporting and auditing are generally much stricter for companies than for other types of business entity.

(h) Companies limited by guarantee

A company limited by guarantee can be described as one having the liability of its members limited by the memorandum to an amount each of the members undertakes to contribute to the assets of the company, in the event of its being liquidated. A company limited by guarantee has a separate legal identity and can carry out activities in its name as well as institute and defend a lawsuit. The liability of the members is limited just as those of shareholders in a limited liability company, the only difference being that it is not linked to the value of shares since a company limited by guarantee does not issue shares.

Its memorandum of association (MoA) is specifically drafted for its type and has no share capital or shareholders like a normal limited liability company. A company limited by guarantee is owned by members, called guarantors, each of whom guarantees to pay a nominal amount in the event of the company's insolvency. The guarantors do not take profit from the business of the company as all surplus income of the company is ploughed back to promote its non-profit activities. It has a structure that is similar to that of a company limited by shares, in that directors are appointed to manage the company and may appoint a company secretary, if desired.

The permission of the Attorney General of the Federation ("AGF") is the main precondition for the registration of a company limited by guarantee-section 26 (5). Where the AGF does not give his permission to the promoters within 30 days and there are no objections or other convincing reasons for the refusal, promoters can place an advertisement in three national daily newspapers welcoming objection from the public to the incorporation of the would-be company within 28 days.

Where there are no objections, the Corporate Affairs Commission (CAC) may give consent to the application and register the company without the AGF's permission. The minimum contribution of members of a company limited by guarantee is ₦100,000. The use of company seal is discretionary (S.98).

Other features of a company limited by guarantee:

- a. It is set up in the same way as other limited liability companies.
- b. It is normally set up for non-profit purposes.
- c. It must include the suffix "limited" in its name.
- d. It has a distinct legal entity from its owner/guarantor.
- e. It must have at least one director and one guarantor (the director and guarantor can be the same person). Multiple directors and guarantors are allowed, unless restricted by the articles of association.
- f. Guarantors are protected by limited liability, implying that guarantors are not personally held responsible for any of company's debts. Hence, members are protected from being held liable in their personal capacity for the amount borrowed for business in the name of the company.
- g. The sum they each guarantee is the limit of their individual liability thus implying that members are only accountable to the extent of the

guaranteed amount as mentioned in the memorandum of association of the company.

(i) **Non-governmental organisations (NGOs)**

Non-governmental organisations (NGOs) are crucial in addressing humanitarian challenges. These mission-driven entities operate independently from government control, focusing primarily on social, humanitarian, and environmental issues.

While their names suggest complete independence from government institutions, many NGOs receive some government funding alongside private donations and other revenue sources. This creates shifting dynamics based on levels of state support and the wishes of major donors.

An NGO is a mission-driven entity that operates independently of government control, focusing primarily on social, humanitarian, or environmental issues. While most NGOs are not-for-profit organisations, they may receive funding from various sources, including government grants, private donations, and international institutions.

The term "NGO" was introduced in the United Nations Charter in 1945, highlighting their roles as voluntary citizen groups working for the public good. Since then, NGOs have become influential actors in international development, advocacy, and humanitarian aid.

Types of NGOs

According to the World Bank, NGOs can be broadly categorised into two main categories:

- a. **Operational NGOs:** These organisations focus on designing and implementing development-related projects.
- b. **Advocacy NGOs:** These organisations promote specific causes by raising awareness, lobbying, and influencing policies. They work to shape the social and political landscapes around particular issues.

These organisations operate at all levels (from local to international) and work to address issues such as poverty, human rights, health care, education, and environmental protection.

The acronym "NGO" serves as an umbrella term encompassing a diverse ecosystem of groups that have evolved to address specific needs and operational niches. As the non-governmental sector has grown in complexity and reach, various subtypes have emerged that reflect differences in scope, funding sources, governance structures, and relationships with other institutions.

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Types of NGOs at a glance

Table 1.1

Acronym	Full Name	Description	Example
BINGO	Big International NGO	Large NGOs operating across multiple countries with substantial resources and broad scope	The International Red Cross
CSO	Civil Society Organisation	NGOs focused on strengthening civil society and civic participation	Amnesty International
DONGO	Donor Organised NGO	NGOs established and primarily funded by donors to implement their objectives	Gates Foundation
ENGO	Environmental NGO	Organisations focused specifically on environmental issues	Greenpeace, World Wildlife Foundation (WWF)
GONGO	Government-operated NGO	Organisations that appear independent but are actually controlled by governments	USAID China Youth Development Foundation

Acronym	Full Name	Description	Example
INGO	International NGO	NGOs operating across national boundaries in multiple countries	Oxfam
MANGO	Market Advocacy Organisation	NGOs focused on market-based approaches and economic advocacy	Fairtrade International
QUANGO	Quasi-autonomous NGO	Semi-independent organisations that receive public funding with some government appointments	British Broadcasting Corporation (BBC)
RINGO	Religious NGO	Usually guided specifically by a religious organisation and having, at least in part, a religious justification or set of goals	Catholic Relief Services
TANGO	Technical Assistance NGO	Organisations providing specialised technical and professional services	Tango International

Funding of NGOs

Financial sustainability remains a persistent challenge for many NGOs, driving innovation in funding approaches. Organisations increasingly combine conventional funding sources (bilateral and multilateral aid) with unconventional methods like microenterprises and impact investing.

Private donations from individuals, corporations, and philanthropic foundations often form the backbone of many NGOs' financial structures. These contributions may range from small individual gifts to substantial grants from major funders, like the Gates Foundation and Ford Foundation. Membership dues provide another reliable revenue source, particularly for organisations with strong constituent bases or professional affiliations.

Many NGOs also receive significant funding through government grants and contracts. Despite their "non-governmental" designation, these organisations often carry out programmes aligned with government priorities in international development, humanitarian assistance, or social services. Large international NGOs may secure funding from multiple government donors, including agencies like the U.S. Agency for International Development (U.S.A.I.D.) and their counterparts in other nations.

The scale of NGO finances varies dramatically, from small community-based organisations, operating on minimal budgets to international giants managing portfolios worth billions of dollars annually.

Government support for NGOs

While some NGOs maintain strict independence from governments—Amnesty International stands out in this regard—others operate in close partnership with government bodies while still preserving their non-governmental status. Government donors may have self-interest motivations, such as enhancing diplomatic relationships, projecting soft power, or improving their international image through association with humanitarian work.

Nevertheless, many receive funding from government sources without compromising their autonomy. This distinction is important—accepting

government grants or contracts does not automatically transform an NGO into a government mouthpiece or propaganda outlet. Most reputable NGOs maintain strict operational independence, regardless of funding sources.

(j) Public sector organisations

A Public sector organisation is defined as an entity accountable to government, operating distinctively from private and not-for-profit sectors, with decision-making complexity influenced by legal requirements, civil society demands, and government accountability. Public sector organisations are entities owned or controlled by the government, providing services to the public, such as schools, hospitals, libraries, and police departments, funded through taxes and government allocations. A public sector organisation is a legally constituted entity that administers programmes and delivers services for a government unit.

The public sector is usually comprised of organisations that are owned and operated by the government and exist to provide services to citizens. The public sector organisation thus provides government services or public services, which benefit all of society rather than just the individual who uses the services, including health care, the military, law enforcement, infrastructure, public education, water management, etc.

The public sector consists of organisations owned and operated by the government. It provides services deemed necessary for society's welfare. Most services offered through the public sector are typically free or at a reduced cost. The public sector does not include organisations that are voluntary or private. These organisations are owned, operated, and financed by the government.

The role of the public sector

As mentioned above, the public sector plays a critical role in any well-functioning society. It is important to realise that what we do in our everyday lives is made possible because of the public sector. The public sector provides essential goods and services, such as public transit, defence agencies, healthcare and public education. In addition to this,

the public sector also plays an important role in fostering economic growth and stability. The public sector aids economic growth through infrastructure innovation and development, thus generating job opportunities. The public sector issues policies and regulations that support economic stability.

Depending on the country, the role of the public sector can vary, for example, in some countries, the government provides health and education services to ensure that those services remain affordable.

Types of public sector organisations

There are three types of organisations in the public sector.

- a. **Government agencies and departments:** These consist of agencies and departments that work within and are funded by federal, state or local governments.
- b. **Public programme agencies:** These are organisations that provide goods and services, as well as public programmes. They are separate organisations from government agencies and departments and are often governed by a commission or board of directors.
- c. **Public enterprises:** Public or state-owned enterprises provide goods and services to the public but are independent of the government. They typically have other sources of revenue that do not consist of public funding.

Challenges facing the public sector

The three biggest challenges facing the public sector are: .

- a) **Budget constraints:** Because the public sector is controlled by the government, the services it provides are subjected to annual budget processes. This means certain services provided by the public sector can be sacrificed when budgetary constraints force cuts to be made.
- b) **Lack of efficiency:** As mentioned earlier, compared to the private sector, the public sector tends to be less efficient. This is partly due to the public sector not being driven by profit and also partly due to lack of competition.

- c) **Cyber-attacks:** Because public agencies collect and store sensitive data, cybercriminals have started to look at them as targets. One of the cyber-attacks used in targeting the public sector is ransomware. Ransomware is a type of malware that encrypts a computer's files and locks users out of the system. For the victim to get their files back and be allowed back into their system, they have to pay a ransom to the cybercriminal. As cyber-attacks in the public sector increase, it is important for organisations to strengthen their ability to mitigate risk, simplify compliance and combat them.

Examples of public sector organisations

The public sector covers a wide variety of organisations offering a multitude of services. Some examples include:

- a. **Educational institutions:** Education serves to provide children and young people with a basic level of knowledge and skills, which can help them to find jobs and succeed later in life. The educational system also plays a key role in socialising young people and integrating them into society. The government funds schools and tries to ensure everyone has access to education. The national curriculum covers a broad range of important subjects, so that children have a varied education.
- b. **Postal service:** Mail delivery and all other services provided by the post office belong in the public sector in Nigeria.
- c. **Public utilities:** Water, gas, electricity, waste disposal, and sewage services often follow a public or hybrid public-private model.
- d. **Social services:** Disability services, financial aids, food banks, public housing, and health care options assist those who need them. Many members of society require support from others to survive or live comfortably. For example, the government funds care homes for children who need a home or whose parents are incapable of looking after them. Older individuals may also receive social care to help them with their daily tasks, if necessary. This is an essential public service because some people find their lives

improved when they have someone who can help them meet their social needs.

- e. **Emergency services:** Emergency services include the police, fire service and ambulances. When the government makes these services available to everyone, it can help ensure everybody feels safe from crime and other potentially life-threatening events. These services help to keep society peaceful and protect property.
- f. **Transit infrastructure:** The public sector includes public transit frameworks, such as the building and upkeep of airports, bridges, roads, and public transportation, such as buses and train services.
- g. **Healthcare:** Citizens can access the public health system, if they require healthcare. This is an important public service because it helps keep the majority of people healthy and provides essential care to those in need. The taxpayers fund the health system, so that even the most vulnerable people can access treatments.
- h. **Social housing:** The government makes housing available to those who cannot afford it. This helps to reduce social problems, such as homelessness. The housing sector is mostly private, but there is also a large public sector that deals with housing.
- i. **Military:** The military rarely comes to mind when thinking about public services, but it is one. Military forces help to protect countries from threats, both foreign and domestic. They also offer support during unexpected events like flooding and other natural disasters.
- j. **Tax collection:** Tax collection is another public service that the government provides, because it is often easier for the government to perform tasks that affect the whole nation. Governments rely on taxes to pay for all other public services, which makes it an especially important one. The bodies that take care of tax matters in Nigeria include the Federal Inland Revenue Service (FIRS), State Board of Internal Revenue Service and Local Government Revenue Committee.
- k. **Refuse collection:** Waste management is essential for keeping communities clean and free from overflowing rubbish. The refuse collection service helps limit pollution and environmental contamination in addition to benefiting the economy through recycling. Decomposing garbage also pose a threat to human

health, so the government generally removes waste on a regular basis.

(k) **Alliances**

A business alliance is a strategic partnership between two or more companies that collaborate to achieve mutually-beneficial goals, while maintaining their identities. These alliances can take various forms, such as joint ventures, strategic partnerships, or consortiums, and are designed to leverage each partner's strengths to create value that would be difficult to achieve independently. A business alliance is crucial for fostering collaboration, innovation, and market expansion in partner ecosystem management. It enables companies to share resources, expertise, and market access, enhancing their competitive edge.

Business alliances play a pivotal role in partner management automation by streamlining communication, coordination, and operational efficiency. Automated systems facilitate seamless interactions between partners, manage joint activities, and track performance metrics, ensuring the alliance operates smoothly and achieves its objectives. Businesses can optimise their alliances through advanced analytics and automated workflows, leading to improved decision-making and faster time-to-market.

Reasons for alliances

- a. **Enhanced market reach:** Business alliances enable companies to expand their market presence by leveraging each partner's customer base and market knowledge. This expansion can benefit companies entering new geographic regions or industry sectors. By collaborating with a local partner, a company can gain insights into local market conditions, regulatory requirements, and customer preferences, which are critical for successful market entry.
- b. **Shared resources and expertise:** Partners pool their resources and expertise in a business alliance to achieve common goals. Sharing assets like technology, research and development, and human resources can significantly reduce costs and accelerate innovation. Companies can access specialised knowledge and capabilities that they might lack, enhancing their overall value proposition.

- c. **Improved competitive advantage:** By forming strategic alliances, companies can strengthen their competitive position in the market. Collaborating with other businesses can lead to the development of new products, services, or technologies that provide a unique competitive edge. Alliances also help companies respond more effectively to market changes and competitive pressures.
- d. **Risk mitigation:** Business alliances can distribute the risks associated with new ventures or projects among the partners. This risk-sharing aspect is particularly valuable in high-risk industries or when entering uncertain markets. By collaborating, companies can undertake more extensive and ambitious projects with reduced individual risk exposure.
- e. **Enhanced innovation and development:** Alliances foster an environment of collaboration and innovation, where partners can combine their strengths to develop new solutions and improve existing products or services. This collaborative approach can lead to faster innovation cycles and a more dynamic response to market needs.
- f. Business alliances offer significant advantages, including enhanced market reach, shared resources, improved competitive advantage, risk mitigation, and accelerated innovation. These benefits collectively contribute to the success and sustainability of the involved companies. By leveraging each other's strengths, partners in a business alliance can achieve goals that would be difficult to attain independently, ultimately driving growth and innovation.

(i) **Examples of alliances**

- a. **Automotive manufacturing:** Business alliances are common amongst car manufacturers and technology firms in the automotive industry. For instance, a car manufacturer might partner with a tech company to develop autonomous driving vehicles. This alliance allows the manufacturer to integrate cutting-edge technology into their vehicles while the tech firm gains access to the automotive market, creating a win-win situation.

- b. **Consumer electronics:** Companies in the consumer electronics sector often form alliances to co-develop new products. For example, a smartphone manufacturer might collaborate with a semiconductor company to create advanced processors. This partnership enables the smartphone maker to offer high-performance devices, while the semiconductor company benefits from increased sales and market presence.
- c. **Energy production:** In the energy sector, alliances between traditional and renewable energy companies are becoming increasingly common. Such partnerships allow conventional energy companies to diversify their energy portfolios and reduce their carbon footprint, while renewable energy firms gain access to extensive infrastructure and market reach.
- d. **Financial services:** Banks and fintech companies frequently form alliances to offer innovative financial products and services. A traditional bank might partner with a fintech start up to integrate block chain technology into its operations, enhancing security and efficiency. This collaboration helps the bank stay competitive in a rapidly evolving industry, while the fintech company gains credibility and customer trust.
- e. **Food and beverages:** In the food and beverages industry, alliances between food manufacturers and packaging companies can lead to the development of sustainable packaging solutions. By working together, these companies can create eco-friendly packaging that meets consumer demands for sustainability and complies with regulatory standards.
- f. **Healthcare services:** Healthcare providers and pharmaceutical companies often form alliances to advance medical research and development. For example, a hospital might collaborate with a pharmaceutical firm to conduct clinical trials for new drugs. This partnership accelerates the development of new treatments and provides patients with access to cutting-edge therapies.
- g. **Information technology:** IT companies frequently enter alliances to combine their technological expertise and offer comprehensive solutions. For instance, a software company might partner with a

cybersecurity firm to enhance the security features of its software products. This collaboration improves the software's value proposition and ensures better end-user protection.

- h. **Pharmaceutical development:** Pharmaceutical companies often form alliances to share the costs and risks associated with drug development. Two pharmaceutical firms might collaborate on researching and developing a new medication, pooling their resources and expertise. This partnership can lead to more efficient drug development processes and quicker market entry.
- i. **Retail industry:** Retailers often partner with logistics companies to improve supply chain efficiency. For example, an online retailer might ally with a logistics provider to ensure timely and cost-effective delivery of products to customers. This collaboration enhances customer satisfaction and streamlines the retailer's operations.
- j. **Telecommunications:** Telecommunications companies frequently collaborate with technology firms to enhance their service offerings. For instance, a telecom provider might partner with a software company to develop new communication tools or services. This alliance helps the telecom provider stay competitive by offering innovative solutions to its customers.

(I) **Cooperative societies**

A cooperative society is a business organisation that is formed with the purpose of promoting economic interest of its members by engaging in business/economic activities. Membership is voluntary and members make use of the services of the society, the control of which rests on the leadership of the society, which are nominated by members, hence the responsibility falls on all members. Usually, the surplus earnings are shared by members in proportion to the use they make of the services.

Principles of cooperatives

- a. **Open membership:** That is, no restriction based on religion, social or political discrimination.

- b. Democratic control: That is, each member has a vote irrespective of shareholding.
- c. Limited interest payment on the capital invested.
- d. Patronage refund: That is, members have dividends in line with their patronage of the cooperative services.
- e. Cash trading at market price: That is, there's no tendency to maximise opportunities and profits.
- f. Continuous education and development of members.

Types of cooperative societies

The following are types of cooperatives:

- a. **Producer societies:** This is an association of people that produce similar type of products. They use their resources collectively to produce particular products. They are usually concerned with agriculture, whereby farmers pool their resources and produce together. Cooperative activities might include marketing, loan and use of equipment and transport. The members also share useful knowledge and skills among themselves.
- b. **Consumer societies:** They are retail business units, organised with the purpose of enabling members to obtain benefits from the profits made by the society in proportion with the goods purchased from the society by its members. Their collective resources enable them to buy in bulk from wholesalers and then resell to members and other customers.
- c. **Credit and thrift cooperative societies:** This is an association of members who contribute money at regular intervals and give it as loans to interested members at a low interest rate. They promote economic interest of their members and:
 - i. encourage members to save;
 - ii. buy essential products and sells to members at reduced rates; and
 - iii. educate members on the necessity of cooperative societies;
- d. **Multi-purpose cooperative society:** As the name implies, a multipurpose Cooperative Society combines two or more functions and features of different types of Cooperative Societies. It is set up to provide comprehensive services to its members.
- e. **Retailers' cooperative society:** This type of cooperative is formed by retailers of same or similar products or by retailers in the same locality.

This type of cooperative society is set up to achieve the following objectives among others.

- i. Pooling resources together to buy in large quantities
 - ii. Increase retailers' profit margin
 - iii. Improve the standard of living of members
- f. **Wholesale cooperative society:** As indicated by the name wholesale, this cooperative is formed by wholesalers of the same or similar products. Its functions are similar to those of retailers' cooperative society.
- g. **Apex cooperative society:** This is an umbrella cooperative society in a given geographical area and it is meant to perform a number of functions which include the following:
- i. training of staff of primary cooperative societies;
 - ii. provision of books of record of cooperative society at affordable prices; and
 - iii. looking for and making available latest developments in other cooperative societies as obtained elsewhere.

(ii) **Advantages of cooperative societies**

- a) They encourage members to save.
- b) Cooperative societies provide credit facilities and loans to their members either through cash or leasing or hiring of equipment.
- c) They stimulate economic growth and development, through encouragement of mass production and distribution processes.
- d) They educate their members in the areas of production, buying and selling, and distribution of goods and services.
- e) They promote the welfare and standard of living of members by making goods available to them at reduced rates.
- f) They encourage interpersonal relationship among members as they treat themselves as brothers, sisters, friends and colleagues.

Disadvantages of cooperative societies

- a) Majority of cooperative members are not well educated and do not understand the working and principles of cooperative societies.
- b) Lack of interest of members in how the society is managed. This could result in mismanagement of funds, and some of them are thus managed by members with poor administrative and managerial acumen.

- c) Insufficient capital is one of the challenges militating against expansion of cooperative societies.
- d) Some cooperative societies have high enrolment rate of members to the extent that the managers find it difficult to effectively coordinate and control the association.
- e) Cooperative societies suffer from lack of secrecy because their affairs are exposed to all members.

(m) Joint ventures

- (i) A joint venture is a business entity created by two or more parties. It is typified by mutual ownership, returns, risks and governance.

Reasons for entering into joint venture arrangement include:

- a) access to a new or an emerging market;
- b) improved efficiencies occasioned by combining assets and operations;
- c) opportunity to share business risk; and
- d) access to competence and skills.

Advantages of a joint venture

It:

- a) provides opportunity to gain new insights and expertise;
- b) enables access to specialised technology, staff and other resources;
- c) has a limited lifespan and short term commitment in the event that the project fails, risks and costs are jointly shared;
- d) eradicates the risk of discrimination;
- e) has disadvantages of a joint venture;
- f) has restricted flexibility;
- g) has unequal degrees of partners' involvement;
- h) may foster clash of cultures and management styles, which may impair the success of the venture ; and
- i) has unclear and unrealistic objectives.

1.2.5 Business functions

Business functions are the high-level groupings of a company's capabilities and processes that describe its work. Business functions ensure that an organisation runs.

properly and does well for its customers, employees, leaders and shareholders. A

company can have one primary business function or may have several. It is common for companies to break down their functions across three levels when they are a service-providing business. Take this example of a marketing firm and the levels of its offerings:

- (a) Level one: Marketing;
- (b) Level two: Promotions; and
- (c) Level three: Social media advertising and graphic design.

Depending on the industry or size of a company, it is possible to have several top-level functions or even dozens or more level three functions. For example, a graphic design company does not need a manufacturing department, while a furniture company does.

Some companies set up these business functions within their own businesses as departments, hire specialists within a field or outsource certain responsibilities to other companies to handle them on their behalf.

Examples of business functions

Find below 15 examples of business functions, whether they are the primary focus of a company or a department within it:

- i. **Strategy:** A strategy firm or department develops the strategy, approach and way to implement change for a company. Strategy-based businesses help others reach their goals and objectives through thoughtful planning, decision making and risk assessment. They discover the strengths and weaknesses of a company, find its competitive advantage and plan how to reach business goals, like increasing revenue, expanding to new markets or distributing internationally. Common business strategies include:
 - (a) horizontal or vertical integration;
 - (b) diversification;
 - (c) market penetration or expansion;
 - (d) social media engagement;
 - (e) search engine optimisation;
 - (f) sales channels;
 - (g) cost leadership; and
 - (h) cooperative strategic partnerships.
- ii. **Finance:** A finance and accounting firm or department handles business-related aspects like funding, budgets, accounting and financial

oversight. They process tax payments, file tax returns, invoice customers, distribute employee pay cheques and track paid time off, record cash flows and expense payments, conduct audits and handle finance or tax law. Another type of financing firm provides companies and small businesses with loans to purchase equipment, inventory or supplies, most often used to raise capital in the manufacturing industry.

- iii. **Sales and marketing:** Sales and marketing businesses or teams promote a company to connect with potential investors, clients, customers or sponsors with the goal of building brand awareness and generating revenue. This includes responsibilities like determining products or services sold, setting competitive pricing and promotions, developing a brand logo and motto and creating effective marketing and advertising campaigns. Marketing firms or departments can also oversee website development, digital and social media advertising, search engine optimisation and public relations. Other duties of a marketing firm or department include:
 - (a) product packaging design;
 - (b) event and media planning;
 - (c) influencer marketing; and
 - (d) email marketing.
- iv. **Research and development:** Research and development (R&D) firms or departments lead innovation. They conduct market research, industry comparisons, trend identification, product development and business experimentation to help companies develop new products, services or revenue streams to generate more profit. Research and development firms and departments have strong analysis experience and a deep understanding of current market conditions for a certain industry or sector. Many technology companies invest in R&D firms or teams to develop and release devices that are more appealing than their competitors' and get to the market first.
- v. **Information Technology:** Information technology is about the development and operation of applications, systems and hardware and software. IT companies or departments install and maintain communications and security systems, digital networks, internet and

cloud storage. They deploy computers, printers and other electronic devices to employees and help with technical assistance. Sometimes IT firms or departments also help with website development and maintenance and client relationship management.

- vi. **Customer Service:** Customer service companies or departments manage the relationship a company has with its customers. They may handle customer questions, purchases, returns or issues and are highly skilled in communication, conflict management, empathy and patience. With growing technology, customer service representatives can work in-person, over the phone or through online chat platforms to assist customers.
- vii. **Human resources:** Human resource (HR) companies and departments focus on functions related to employees like recruiting talent, screening candidates, hiring employees, explaining benefits, handling performance management and employee relations, developing corporate policies and fostering organisational culture. HR businesses or departments also ensure compliance with local, state and national labour and employment laws, resolve conflicts and investigate claims or allegations.
- viii. **Design:** Design firms or departments handle the visual aspects of brand strategy, identity and design. They create work for both internal or external audience, like employees or customers, and produce content for print or online advertisements, billboards, websites, radio and television, social media or mobile applications. Aspects of design are important because they help foster a brand's image and reputation.
- ix. **Communications:** A communications department or agency handles all aspects of public relations, corporate communications and crisis management for a company or brand. They write press releases, reach out to reporters and journalists to promote a company, operate as spokespersons when responding to issues or concerns and write speeches or talking points for executives.

- x. **Governance:** Corporate governance is the direction and control of a company through a system of rules, processes and practices. The department oversees the performance of management, how a company is governed and to what extent by identifying what roles and positions have authority and accountability in decision-making. The guiding philosophy of corporate governance often focuses on these four concepts: people, purpose, process and performance.
- xi. **Production:** Production departments or companies are the manufacturing branches of a business to produce products or delivery of services to customers. This could be a factory setting, where teams make airplane parts, for example, or the kitchen of a bakery where loaves of bread and sweets are made for a small business or as a supplier to another business. Another kind of production team is one that manages the making of a television show or commercial, movie or musical record.
- xii. **Sourcing:** A sourcing department or company handles the pricing and purchasing of materials, components, equipment, supplies and services, often buying high volumes of items with the goal of lower costs. Job responsibilities can include purchasing, supply chain management, logistics and strategic partnerships for one company or product or several at a time. Sourcing plays a key role in the cost structure of any size of business and its long-term competitiveness.
- xiii. **Quality management:** Quality management firms or departments ensure a product or service is consistent and reliable. Quality management procedures often focus on these four steps of production: quality planning, quality assurance, quality control and quality improvement. Teams test a product works to its manufacturing specifications and review and resolve causes of quality issues, not only for the product itself but for the method and means by which it was made.
- xiv. **Distribution:** Distribution is the process of reaching the customer with products or services on behalf of a company. The manufacturer or company can do the selling and delivery directly itself or through other

channels, like distributors or intermediary partners, for example. Retail distribution often have three distinct levels:

- (a) Intensive distribution: To as many outlets as possible;
- (b) Selective distribution: To select outlets in specific areas or locations; and
- (c) Exclusive distribution: To limited outlets.

xv. Operations: Operations is the core business process for a company or organisation, and it can vary by industry. For example, an IT company may list its operations as deploying, maintaining and supporting IT services and infrastructure and a manufacturing company lists production and distribution. A restaurant's operations are in the kitchen, often run by an executive chef while an office manager and administrative team run operations for a doctor or law practice, for example. Regardless of the industry or product, hired teams oversee the operations.

1.2.6 Importance of business to its stakeholders

- (a) Any commercial, corporate, or professional organisation or entity may be called a “business”. A business aims to organise economic production (goods or services). In other words, businesses may be profit-making entities or not-for-profit organisations with a charity goal or a commitment to advancing a social cause. Business generally refers to individuals’ attempts and actions to create and sell products and services for a profit.

Put differently, business may be defined as an organisation or worldwide enterprise involved in commercial, or professional activity. Businesses are the driving engines for economic development. They enhance wealth, offer jobs, and act as doorways to innovations, contributing to a country’s GDP. Businesses help produce profitable goods and services. The wealth created by businesses is key to a standard life, financial stability, and an increased asset, which assures a good and flourishing lifestyle.

(b) Importance of business

The following activities can determine the importance in today’s world:

- 
- i. **Catalyst for economic growth:** Businesses are the backbone of economic growth, driving various economic activities that sustain national and global economies. Businesses contribute significantly to the prosperity of a nation by producing and selling goods and services, leading to increased income, employment, and improved living standards. So, the importance of business as a catalyst for economic growth cannot be denied.
 - ii. **Contribution to GDP:** Businesses contribute significantly to the Gross Domestic Product (GDP) of countries by producing goods and services that are essential for economic stability and growth.
 - iii. **Job creation and employment opportunities:** One of the primary reasons why business is important is its role as an engine of job creation. Millions of people around the globe benefit from the employment opportunities offered by businesses. From small start-ups to large corporations, businesses hire individuals with diverse skill sets, driving economic stability and reducing unemployment rates.
 - iv. **Innovation and technological advancements:** Innovation is at the heart of successful businesses. They continuously strive to develop new products and services, driving technological advancements that benefit society. Innovation fosters efficiency, sustainability, and an improved quality of life.
 - v. **Meeting society's needs: Goods and Services:** The role of business in society is to fulfil the needs and wants of consumers by producing a wide array of goods and services. They enhance the quality of life by providing essential items, such as food, clothing, housing, healthcare, and entertainment.
 - vi. **Community development and social importance:** Successful businesses contribute to the development of communities. They invest in infrastructure, support local initiatives, and participate in social causes, making positive impact on society's well-being.
 - vii. **Entrepreneurship and empowerment:** The importance of businesses is also evident in their encouragement of entrepreneurship and empowerment. They inspire individuals to pursue their dreams and take calculated risks to establish innovative ventures that create value, jobs, and economic growth.
 - viii. **Global connectivity and interdependence:** In the era of globalisation, businesses foster global connectivity and interdependence. They facilitate trade, allowing countries to exchange goods and services, fostering mutual growth and cultural understanding.

- ix. **Business ethics and social responsibility:** The importance of business lies not only in profitability but also in ethical practices and social responsibility. Ethical businesses prioritise fair treatment of employees, environmental sustainability, and ethical sourcing, earning the trust of consumers and contributing to a better society.
- x. **Individual growth and development:** Working in or running a business provides individuals with opportunities to develop skills, gain experience, and achieve personal and professional goals. This growth leads to better job prospects and career advancements.
- xi. **Impact on environmental conservation:** Businesses can play a significant role in environmental conservation by implementing eco-friendly practices, supporting conservation projects, and raising awareness about environmental issues among consumers and stakeholders.

1.2.7 Classifications of economic activities based on occupation

Economic activities of individuals can be categorised by occupation and described using the following headings:

Profession/vocation

A profession is an occupation involving the provision of a personal service of a specialised nature, based on a professional education, training and experience in a specialised role. Professionals are members of professional bodies and adhere strictly with professional standards and Codes of Ethical Conduct set by these bodies. Many professionals provide services to clients, in return for fees (Some professionals choose to work for employers, in which case they are employees).

Some professionals establish their own practices, in which case, they are classified as 'business' in the of economic activity category. Professionals:

- i. are individuals who have acquired special knowledge and skills;
- ii. are usually paid a prescribed 'fee' to render their services;
- iii. are regulated by professional bodies, which frame the code of conduct to be followed by members of the professions, for example, the Institute of Chartered Accountants of Nigeria (ICAN);

- iv. are expected to acquire specialised knowledge from polytechnics, universities and specialised institutes, such as the Institute of Chartered Accountants of Nigeria;
- v. establish their own firms and charge fees for services rendered. Alternatively, professionals may opt for paid employment as employees of organisations; and
- vi. are members of regulatory bodies which have the authority to discipline any professional member that breaches the Code of Conduct of the regulatory bodies (for example, ICAN). Where such a member has been licenced, the licence can be withdrawn depending on the gravity of the offence committed.

Employment

Employment involves the provision of a service by an individual to an employer, under a contract of employment, in return for a wage or salary. The employer decides what activities the employee should undertake, and the employee follows the rules of conduct set by the employer.

The main features of employment

- i. A person (known as an employee) works for another (known as an employer). In return for the labour rendered, an employee receives a salary (usually paid monthly) or wages (usually paid on a daily or weekly basis).
- ii. There is usually an employment contract which binds both the employer and employee and a breach by either party permits the other party to take legal action for the enforcement of his/her legal right.
- iii. When employment specifies the acquisition of specialist skills or technical knowledge, a certain level of basic or technical education is expected.
- iv. The motive for seeking employment is to secure assured income by virtue of wages and/or salaries.
- v. Either party can terminate the contractual relationship giving adequate notice, as specified in the contract of employment.

Business

Individuals may establish their own businesses. Business are organisations that are concerned with the production of goods or provision of services with

the objective of making profits. Businesses are classified into different types, such as industrial businesses, trading businesses and businesses that assist industrial and trading businesses, such as transport and warehousing, banking and insurance, advertising and so on.

The main features of business

- i. The major objective of business is to make profit. This is considered important for the survival and growth of the business.
- ii. Business is an activity in which a person engages in manufacturing or selling of goods and/or services.
- iii. The transactions must be continuous to be regarded as business. A single transaction is usually not treated as a business activity. For example, if a person sells his old television at a profit, this would not be regarded as a business activity. However, where he engages in selling television sets on a continuous basis, this shall be regarded as business activity.
- iv. Business involves the investment of capital before its commencement and regularly as may be required for the survival and growth of the business. Every business involves an element of risk.

Benefits and drawbacks of business

All three types of economic activity have their benefits and drawbacks.

- i. Professionals and individuals in other specialised vocations contribute specialised skills, and in following the rules of their profession, they contribute value to clients and individuals by providing service of a high standard. Some professionals contribute significantly to society and the economy, for example, doctors and nurses contribute to the wellbeing of society and accountants support businesses by providing information. However, some professional tasks may be criticised for contributing little value to the real economy, whilst creating considerable personal wealth for the individuals concerned: for example, some aspects of banking and auditing may be criticised in this way.
- ii. Most businesses need employees to carry out their operations. Employment is therefore at the heart of the business economy. However, most employees do what they are asked to do by their employer, and do

not contribute entrepreneurship to the economy. A growing economy needs entrepreneurs and innovation to sustain its growth.

- iii. Businesses provide entrepreneurship. They are also the source of much of the real value created by an economy. A criticism of businesses, however, is that many businesses have owners who do not contribute directly to the activities of the business. Shareholders of companies, for example, may not be involved in the activities of their company; but they benefit from the profits that the business makes.

1.3. Business organisational structures and choices

1.3.1. Organisational structures

An organisational structure is the way that a company, organisation, or team is set up. It can be hierarchical, with different levels of management. Or it can be divisional, with different product lines and divisions. Sometimes, there is little to no hierarchy at all. Every company and team has an organisational structure, even if it is not formally defined.

An organisational structure defines how job titles, roles, and responsibilities are assigned within a company. It helps to determine who reports to whom, and who make decisions about what. Organisational structures are important because they help businesses implement efficient decision-making processes. By assigning specialised roles to lower-level employees, businesses can make better decisions faster.

1.3.2. Centralised organisational structure

A centralised organisational structure puts management and decision-making at the top. It focuses on coordinating financial, human, and other resources. A senior leader handles strategic planning, goal setting, budgeting, and talent acquisition. Centralised management suits companies focused on manufacturing and cutting costs. It promotes department teamwork, streamlines practices, and coordinates with outside partners. This traditional structure is common in older and smaller businesses.

A centralised organisational structure is an organisational structure in which decision making is concentrated at the top level. Upper-level managers retain decision-making authority and slightly delegate it to lower levels. The degree of centralisation depends on several factors, such as the organisation's size, management style, and the quality of managers at each level. This structure is important for controlled decision-making.

The top-level managers make decisions, and the managers below them just have to follow their directions.

Finally, it reduces the drift at the lower level. An example of an organisation with a centralised structure is a retail chain. Top managers make key decisions, from inventory, to products and prices. Meanwhile, all branches operate in the same way. The Store Manager works according to the guidelines of the top management. And, they have little input on how their respective stores are operated.

The Determinants of a centralised organisational structure

There are various factors to consider, including:

- i. **Cost:** Centralisation saves cost. For example, it supports higher economies of scale. For example, when departmental managers have the authority to procure office equipment, they may not be able to enjoy discount facilities. However, if done centrally, the company can buy on a large scale from suppliers. As a result, suppliers are more likely to offer discounts to the company. Finally, procurement costs become lower than when carried out independently by each department, and companies benefit from purchasing economies of scale.
- ii. **Organisation size:** In some cases, large companies tend to delegate decisions to lower-level management. It is almost impossible for a few people to take all the decisions because the operation is more complex. Take, for example, multinational companies. Top-level management at headquarters delegate decisions and grant autonomy to strategic business unit management. The same case applies to other companies, such as retail chains.
- iii. **Management style:** Centralised structures are common under authoritarian leadership. The leader dominates decisions and leaves no room for subordinates to participate. Moreover, authoritarian leaders demand absolute adherence to what they decide.
- iv. **Quality managers at every level:** Centralisation can be a suitable choice when managers at each level have varying qualities. For example, top-level managers are trained to make decisions. In contrast, lower-level managers do not have such qualities. Thus, bad decision-making can be avoided by concentrating decisions at the top level.
- v. **Geographical spread:** A centralised organisational structure is an option when a company operates a location. Conversely, they will rely

on decentralisation if they operate in many different geographic areas, such as multinational companies.

- vi. **Business environment:** In centralised structure, if decisions have to be made by top-level managers, it can take a long time. And it can become even more acute when a problem occurs because a decision does not come right away.

Advantages of a centralised organisational structure

Greater control over decisions is among the advantages of a centralised organisational structure. In addition, lower-level managers are less likely to make inconsistent decisions because they do not have the authority to do so. Other advantages of a centralised organisational structure are:

- i. **Consistent decisions:** Decisions are taken by top-level managers, and subordinates just have to carry them out. Thus, it will be consistent at all levels down to the lowest chain of command.
- ii. **Easy to make decisions:** Top-level managers make decisions at their discretion. They do not need to consult.
- iii. **A clear chain of command:** Who has decision-making authority is clearly defined. So, everyone knows who has the right to make decisions when, for example, problems arise. Finally, overlap or confusion in decision-making can be minimised.
- iv. **Maintained quality:** Top-level managers rely on a control system through procedures, standards, and rules to ensure subordinates' compliance. Working in a factory is an example. Product specifications and production techniques are regulated at the top management level. There is no opportunity for supervisors to make decisions independently. Imagine if they could make decisions independently. The output may not meet specifications, and what is worse, the production process can be disrupted because there is no coordination between them.
- v. **Unity towards the goal:** Centralised decisions allow everyone to move in the same direction. Once a decision has been made, lower-level managers act on it without any opportunity for them to make other choices. Finally, the company can more easily fulfil its vision.

- vi. **Order in business:** Top-level managers ask employees to comply with every decision made. As a result, the company's operations are more orderly and smoother.
- vii. **Saving money:** Centralisation minimises problems due to inconsistent decisions and duplicate roles. In addition, it also supports economies of scale, as demonstrated in the case of office equipment procurement above.
- viii. **Good business image:** The company can maintain a consistent business image in the eyes of the public. By being concentrated, the message to the public is more coordinated. It becomes critical when accompany faces a crisis and has to confront the public.

Disadvantages of a centralised organisational structure

A centralised structure makes companies slow to make decisions. So, they are less flexible in responding to changing business environments. When a critical problem occurs at a lower level, it has to go through several layers before a decision is made. Likewise, when a decision is taken, it has to go through the same layers for implementation. That up and down communication is time-consuming and it will be significant if the company, for example, operates in several geographically dispersed locations. Eventually, the problem worsens even when a decision has not been made. Other disadvantages of a centralised organisational structure are:

- i. **Message distortion:** Messages may be distorted as they go through the managerial layers. For example, middle managers may be reluctant to fully communicate problems at lower levels to their superiors. They may think it will hurt their careers because they are considered incompetent to handle subordinates. Finally, they are more likely to distort messages and hide harmful information.
- ii. **Good decisions, bad implementation:** Without a good control system, good decisions are poorly implemented, and top-level managers cannot monitor how their decisions are implemented at lower levels because they spend more time dealing with decisions.
- iii. **Demotivating:** Without delegation, subordinates do not have the space to participate in making decisions related to their work. They feel that their superiors are not empowering them, so, they are discouraged.
- iv. **High turnover:** Demotivation drives subordinates to leave the company. They do not have the space to participate, so it is difficult to

actualise personal initiative. Finally, they are disloyal to the company, resulting in high turnover.

- v. **Low creativity:** Less subordinate participation means fewer ideas are brought into the management system. As a result, it leads to less creativity within the organisation.
- vi. **Bet for success:** If top-level managers are good decision-makers, that is not a problem. But, on the other hand, if they are incompetent, it can be disastrous for the company.
- vii. **Rigid work culture:** Since subordinates are only carrying out orders and decisions of superiors, they may feel like machines, so, they become whatever the leader wants them to be.
- viii. **Undeveloped competencies:** There are fewer opportunities for subordinates to actualise and develop themselves by being involved in decision-making.
- ix. **Business interruption:** Business operations can be disrupted if top-level managers leave the company. Lower-level managers are not ready to replace them due to insufficient experience and competence in making decisions.
- x. **Heavy workload:** The workload of executives becomes heavy because decisions are concentrated on them. They have to spend a lot of time formulating decisions, and the burden becomes even greater when there are many problems they have to solve.

Decentralised organisational structure

A decentralised organisational structure is where decision-making authority is spread across various levels and divisions, increasing employee autonomy and responsiveness. This is different from traditional organisational structures, where the chain of command usually follows a top-down approach.

In recent years, many organisations have started to embrace decentralisation to overcome the limitations of the traditional models.

A decentralised organisational structure is one where senior management has delegated the authority for making certain decisions to the lower levels of the organisation.

Companies operating decentralised structures often have mid- and lower-level managers making most of the decisions rather than the senior

management team. In many cases, however, decision-making authority is delegated even further down to the regular employees themselves.

While the top tier of the organisation will still retain control over making significant, organisation-wide decisions (for example, setting its strategic plan), most day-to-day decision-making is delegated as far down the ranks as possible.

1.3.3 A decentralised organisational structure works particularly well in the following scenarios:

- i. where a company needs to deliver highly individualised customer service;
- ii. when a business has a vast network that cannot be controlled by upper management alone;
- iii. when the nature of the market means that decisions must be made quickly; and
- iv. when the business model is constantly changing.

It is common for businesses to start life with centralised structures and gradually decentralise as they grow. This happens as a growing workforce and burgeoning workloads pile pressure on upper management, prompting them to delegate day-to-day tasks and decision-making to the employees below them.

Understanding centralisation and decentralisation

In a centralised organisational structure, the decision-making authority comes from the top levels of management. This means that senior leaders make the important decisions, and information flows from the top down. This type of structure is suitable for organisations needing tight control and consistency, such as large corporations or government agencies.

On the other hand, a decentralised organisational structure encourages decision-making authority throughout all levels of the organisation, giving employees more autonomy to make decisions relevant to their roles. It is usually used by companies that need to be flexible and able to respond quickly to changing trends, like tech start-ups, creative agencies, and businesses in fast-paced industries.

Characteristics of a decentralised organisational structure

Here are the key features that set decentralised organisational structure apart from traditional models:

- a. **Distribution of authority and decision-making:** Instead of waiting for approvals from the top, managers and employees at different levels have the power to make decisions based on their roles. This speeds up decision-making and processes as those who are closest to the issues and have the most relevant information make the call.
- b. **Empowerment of lower-level employees:** A decentralised organisational structure empowers employees at lower levels by giving them the authority to make decisions, so employees feel more valued and motivated. This can lead to higher job satisfaction, better performance, and a stronger sense of ownership over their work.
- c. **Flexibility and adaptability:** Decentralised organisations are flexible and able to adapt quickly to changes. Because decision-making is spread out, these companies can respond faster to market shifts, customer needs, and new opportunities, which are important in fast-paced industries.
- d. **Communication channels and information flow:** In a decentralised structure, the flow of information is more open and multi-direction. Information is transmitted not just from the top down but also laterally and from the bottom up. This creates a more collaborative environment where ideas and feedback are freely shared, which can lead to better problem-solving and innovation.

Advantages of a decentralised organisational structure

No matter what an employee's role is within an organisation, a decentralised organisational structure can help them operate more independently and make their own decisions. While implementing a decentralised organisational structure can bring with it many positive returns, it requires commitment at all levels. Some of the benefits of operating with a decentralised organisational structure include:

- (i) **Top management can focus on the long term:** A decentralised organisational structure alleviates the burden of day-to-day tasks and gives top managers and executives more time to focus on the long-term goals of the organisation, such as setting its mission and devising growth strategies.
- (ii) **Decisions are made quickly:** In contrast to a centralised organisation, where decisions usually take a long time to be made, decisions in decentralised organisations are made much more quickly. This is

because lower-level managers, and in many cases regular employees, have the authority to make and implement decisions without having to seek and wait for approval from higher-ups. This is beneficial in situations where quick decisions are the key to operational success.

- (iii) **Employees feel more empowered:** Decentralised organisations provide employees with the opportunity to make decisions that impact their work. This serves to give these employees a sense of importance, value, and belonging within the organisation, thus leading to an increase in employee engagement and a reduction in turnover.
- (iv) **Identify employees for development:** Delegating decision-making authority to lower-level managers and regular employees is a great way to reveal those who potentially have the skills to progress to higher positions within the organisation in the future.

Disadvantages of a decentralised organisational structure

Although decentralised organisational structure has many benefits, there are some distinct disadvantages to be aware of. These include:

- a) **Potential for less knowledge sharing:** The delegation of decision-making can sometimes lead to divisions, departments, and individual teams operating in silos. This is bad for knowledge sharing because siloed teams are more likely to keep information such as project updates, decision-making processes, and procedures to themselves.
- b) **Teams putting themselves first:** When lower-level managers and employees are given the power to make their own decisions, there is a good chance that over time, teams will begin putting themselves first and basing decisions on what best benefits them rather than the organisation and its mission as a whole.
- c) **Difficulties in communication and collaboration:** When teams and individuals are independent and are responsible for their own decisions, workloads, and schedules, communication can become difficult. Each manager might have his/her own preferences, and this can lead to confusion. Collaboration may also suffer because, with so many different managers, processes, and schedules, it can be difficult for two different teams to coordinate efforts together.

1.3.4 Matrix and mixed organisational structure

A matrix organisation is a structure in which there is more than one line of reporting. Effectively, it means that each employee of the organisation has more than one boss. The matrix organisation structure is complex but helps in achieving the ultimate goal that is, reaching higher productivity. It has various benefits. This type of structure is used in organisations which have diverse product lines and services. It breaks the monotony and gives more flexibility to the organisation.

Employees work with colleagues of different departments who have expertise in different functions. When different people from diverse departments work together, it helps solve problems in a more efficient way. It does lead to overall development of employees, as each one is exposed to different functions apart from his/her core job.

Advantages of matrix organisational structure

Matrix structure encourages exchange of ideas and diverse perspectives by bringing together individuals from different departments and backgrounds. As team members work together on projects, mentorship opportunities develop. Communication and idea-sharing allow employees to understand their roles better and enhance their expertise. The key advantages of matrix organisational structure are:

- a) **Enhanced flexibility and adaptability:** Cross-functional teams quickly respond to changes in market conditions and evolving project requirements. It makes organisations responsive and agile, giving them a competitive edge in fast-paced industries.
- b) **Improved resource utilisation:** Matrix structure also enables optimal utilisation of human resources. Employees work on different projects simultaneously, which enhances their skills and expertise. Better resource allocation reduces overloading or underutilisation of employees.
- c) **Cross-functional collaboration:** Employees from different functional areas work together on projects breaking silos. They gain a more holistic understanding of organisational goals and objectives. It leads to improved problem-solving and better decision-making.
- d) **Specialised expertise utilisation:** Matrix structures allow project managers to build well-rounded teams with experts from different functional units. They can use their diverse skills and knowledge for better problem-solving and high-quality project outcomes.

- e) **Faster decision-making:** Decision-making is streamlined by involving relevant stakeholders. It leads to less bureaucratic delays in the decision-making process and faster implementation.
- f) **Employee development opportunities:** The matrix structure offers employees a significant advantage of continuous learning and development opportunities. They gain exposure by working on various projects and collaborating with managers from multiple departments. It enhances their versatility, adaptability, and skillset.
- g) **Global and local integration:** Matrix structure also facilitates the integration of global and local perspectives. Employees from different regions and cultures work together to understand local market requirements and prepare tailored strategies. It enables better market penetration and customer satisfaction.

Disadvantages of a matrix organisational structure

The matrix organisational structure presents challenges that can impact employee performance and productivity.

- a. **Communication challenges:** Effective communication becomes challenging as employees report to multiple managers. Miscommunication and misunderstandings may lead to delays in decision-making.
- b. **Conflicting information:** Diverse instructions from functional and project managers can cause confusion and hinder productivity.
- c. **Role ambiguity:** Employee performance is impacted if they are unclear about their roles and responsibilities. They may feel overwhelmed with conflicting tasks and expectations from different managers.
- d. **Decision-making complexities:** With multiple managers involved, reaching a consensus may be challenging, leading to delays in important decisions. It can cause frustration among employees and affect their morale.
- e. **Dissatisfaction and burnout:** Employees struggle to prioritise tasks and find it difficult to manage their time effectively. It results in lower productivity levels and increased stress.
- f. **Power conflicts:** Each manager has his/her own objectives and goals, which can lead to conflicts in a competitive environment. It delays decision-making and hinders teamwork.

1.3.5 Networks

Businesses can thrive using many types of organisational structures, but when a company has many divisional components in different geographic locations, a network organisational structure offers several unique benefits.

A network organisational structure is one in which organisations group certain types of employees together, based around a common specialisation. These employees then form partnerships with other specialists throughout the organisation to take on new projects and work towards common goals. For instance, a company may have a product development team and a marketing team, each operating as different division. However, when new projects arise, members of those teams can pair up to tackle projects together.

Compared with other businesses, networked organisations do not have a hierarchical organisational chart, where the chain of command runs through a cascading line of middle managers. Instead, networked organisations tend to feature clusters made up of different departments, business units, or local offices, and these clusters work together on an ad-hoc basis. The company eschews strict templates for workflows and reporting relationships. Instead they focus on using the full resources of the organisation to meet customer needs.

How a network organisational structure works

Most network organisations function via the following principles:

- a) **A fairly non-hierarchical structure:** Even large organisations that use a network model do not lean on hierarchical organisation charts. Most organisation charts are project-specific, where pods of workers report to a project manager or division head, who then reports back to executive management.
- b) **An affinity for outsourcing:** Network organisation structures lend themselves quite naturally to outsourcing. If a team needs a specific skill, whether it is customer service, public relation, or mechanical engineering, the organisation may choose to outsource the work to contractors rather than to full-time employees.
- c) **Concentration on specialisation:** A networked organisation often features silos divided by specialty or by geographic locations. These silos include different departments (like product development or human resources), different regional offices, or different business units.

- d) **Empowered project managers:** Most of the daily work and decision-making of a networked organisation takes place when team members come together based on their needs. They make use of each other's competencies to take on projects. Project managers and team leaders report back to the organisation's central leadership.
- e) **Lean central leadership:** The executive team of a networked organisation tends to be fairly lean. Executives handle overall organisational design and big picture decision-making. However, day-to-day operations and problem solving usually fall upon the individual pods of the company's organisational network.
- f) **Overlap with divisional organisational structure:** The network organisational structure shares a lot in common with the divisional organisational structure that breaks companies into divisions based on product lines. Network organisations break their workforce into silos, but these silos tend to be based on specific competencies rather than product lines. As such, employees in a network organisation get more opportunities to collaborate with people from other departments, which happens when they are paired together on new projects.

Advantages of a network organisational structure

Business leaders choose a network organisational structure on account of the following advantages:

- a) **Natural communication:** Workers have opportunities to interface with team members from different divisions. This sparks natural dialogue and a sense of common purpose.
- b) **Openness to organisational change:** Employees are less likely to feel emotionally tied to hierarchies and specific workflows. This can smoothen the path to organisational change.
- c) **Versatility and adaptability:** Team members can flow freely from one project to another without having to worry about the limitations of a hierarchical organisational chart.

Disadvantages of a network organisational structure

Network organisational structure does not fit the needs of every company. Here are three reasons why some companies reject this type of organisational structure:

- a) **Potential for redundancy:** Networked organisations can end up with multiple teams doing similar work. This leads to inefficiencies that rarely occur in hierarchical structures (like a matrix organisational structure or a functional organisational structure).
- b) **Relatively weak leadership:** Compared to functional organisations or matrix organisations, networked organisations have fewer checkpoints for management to exert control over the workforce. Some employees may see this as a positive thing, but it can hinder corporate executives who favour a traditional chain of command.
- c) **Unbalanced workloads:** Many networked organisations end up with some cohorts stretched to their limits and others doing the bare minimum. This particularly comes into play when the organisation focuses on a particular project that only involves some members of the overall team.

1.3.6 Virtual arrangements

A virtual organisational structure is a modern, flexible business model that leverages information and communication technologies to support operations despite geographical barriers. Employees can work remotely, while the organisation can manage and coordinate work seamlessly.

The virtual network organisational structure, also known as a network structure, brings together various independent entities towards a common goal or project. It relies heavily on outsourcing, partnerships, and contractual agreements.

This structure is ideal for businesses that require specialised skills or resources from different regions. It promotes efficiency and reduces costs. However, it can be challenging to manage due to varying service terms and policies of different entities involved. The virtual organisational structure is helpful in the following ways:

- a) **Reduced operating costs:** By outsourcing tasks to external entities, organisations can make significant savings.
- b) **Global access to expertise and resources:** This structure opens up opportunities to collaborate with experts and resources from around the globe.

- c) **Flexibility:** The network structure provides ample room to adapt and restructure based on changing project requirements or market dynamics.

For example, a software development firm, the central hub could be located in the US, with software development outsourced to India, website creation to Nigeria, and customer service to Kenya. Here, each branch is part of the virtual network, contributing different services.

Key steps in using a virtual organisational structure

The steps in implementing a virtual organisational structure are not merely procedural transitions, but involve behavioural changes across the organisation. However, the following key steps can help in navigating the transition smoothly:

- a) **Plan and assemble resources:** Evaluate the resources needed to support a virtual structure and ensure they are readily available. This involves not just physical resources like computers and secure internet connections, but also the necessary digital tools for communication and collaboration, like video conferencing tools, project management platforms, and more.
- b) **Employee training:** Prepare the team members for the transition by offering necessary training on work protocols, communication guidelines, and use of digital tools. Remember, the shift to a virtual structure is a significant change for many, and proper training can ease the transition.
- c) **Setting goals:** Each team member must understand their roles and responsibilities clearly. This requires a well-articulated performance measurement system with transparent objectives.
- d) **Communication:** Regular and robust communication is vital to a successful virtual team. Ensure that clear communication channels, both formal and informal, are in place.
- e) **Building trust:** In a virtual environment, trust becomes paramount. Leaders should find ways to foster transparency, encourage team collaboration, and build a trusting environment.

These steps ensure that the transition to a virtual structure is as smooth as possible. However, each organisation may face unique challenges, and these steps should, therefore, serve as a guide, rather than a rigid framework.

How a virtual team organisational structure works

The concept of a virtual team organisational structure is rooted in the principle that, given the right technological tools and application, physically separated employees can work together effectively to achieve common goals. The framework of a virtual team organisational structure primarily revolves around four central aspects: **Communication, Coordination, Balance, and Trust.**

- a) **Communication:** In a virtual team, employees may be located across various time zones and geographical regions. Therefore, clear and effective communication is critical. This is often facilitated through digital tools and platforms, allowing for synchronous (real-time) and asynchronous (delayed) communication.
- b) **Coordination:** In a virtual team organisational structure, maintaining a system that synchronises tasks and schedules is also essential. This is achieved through high-quality project management tools, ensuring every team member is informed of his/her responsibilities, deadlines, and the broader project timelines.
- c) **Balance:** This involves balancing various elements like work time, personal time, and time for collaborative tasks within a team. Implementing a flexible work routine to cater for different time zones and personal commitments can be a valuable strategy.
- d) **Trust:** Trust is a fundamental factor in a virtual team. Since face-to-face interactions are minimal, fostering a safe environment built on reliability, integrity, and mutual respect is vital.

Advantages of a virtual organisational structure

From increased flexibility to cost savings, a virtual organisational structure presents a range of attractive benefits.

- (i) **Cost savings:** With the adoption of a virtual organisational structure, companies can reduce many overheads associated with a traditional office setup. This includes costs of office rent, utilities, maintenance and travel expenses for employees. These savings can then be allocated to other business areas.
- (ii) **Enhanced flexibility:** A virtual organisational structure provides increased flexibility for both the organisation and employees. Without being tied to physical locations or traditional office hours, employees can manage their work schedules efficiently, which often leads to

increased productivity. Additionally, the organisation can operate on a 24/7 basis if necessary, catering for clients in different time zones.

- (iii) **Access to global talent:** Companies can recruit from a broader talent pool, unrestricted by geographical boundaries. This can result in access to a more diverse, highly skilled workforce, contributing to the business's ability to innovate and improve.
- (iv) **Improved employee satisfaction:** By offering greater work-life balance and removing commuting hassles, a virtual organisational structure often leads to improved employee satisfaction and retention.
- (v) **Carrying out environmental responsibility:** By reducing emissions from commuting and lessening the demand for office space, a virtual organisational structure contributes to environmental sustainability.

Disadvantages of a Virtual Organisational Structure

While promising, a virtual organisational structure could also come with potential drawbacks that must be navigated smartly to ensure overall success.

- a) **Communication barriers:** Although technology enables communication, issues like time zone differences and language barriers can hinder effective communication. Measures such as defining clear communication protocols and using appropriate technology tools can help mitigate such issues.
- b) **Decreased team cohesion:** Employees working remotely may experience a sense of isolation which can negatively impact team cohesion and workplace culture. Strategies such as regular team meetings and social interaction opportunities can help foster a sense of community among remote team members.
- c) **Difficulty in monitoring performance:** In a virtual organisational structure, managing and monitoring employee performance can be challenging. To overcome this, managers can implement robust performance tracking systems and clearly outline their expectations.
- d) **Dependence on technology:** A virtual organisation relies heavily on technology for communication, coordination, and execution of tasks.

Any technological failures or service disruptions can, therefore, severely impact operations.

- e) **Security concerns:** With employees accessing sensitive data remotely, companies may face increased security risks. Strong IT policies, employee cybersecurity training, and the use of secure technology solutions can help in mitigating these risks.

As highlighted, it is necessary to consider potential challenges while harnessing the many benefits of a virtual organisational structure. By identifying these challenges upfront, organisations can take proactive steps to mitigate them and set the stage for a successful transition to a virtual setup. It is about leveraging technology and global talent while ensuring a strong sense of team cohesion and maintaining secure, effective operations.

Factors influencing management's choice of organisational structure

The design of an organisation's structure is not a mere game of trial and error. Instead, it is a strategic decision influenced by various factors. Just as architects consider environmental, functional, and aesthetic factors when designing a building, business leaders must weigh numerous elements when determining the optimal organisational structure. The following are some of the considerations that play a role in this crucial choice of organisational structure type:

- i. **Company size and scale:** Simply put, a company's size refers to its number of employees, while its scale pertains to its operational reach and complexity. A local bakery will have different structural needs from a multinational tech corporation. Smaller companies might find a flat structure more conducive, with its swiftness and direct lines of communication. Equally, large enterprises often lean towards hierarchical or matrix structures to manage their vast operations efficiently.
- ii. **Business goals and strategy:** Every company operates with a set of objectives, whether it is market dominance, innovation, or customer satisfaction. The main strategy maps the route to achieve these goals. A company aiming for rapid innovation might adopt a matrix or divisional structure to foster cross-functional collaboration. On the other hand, an

entity focused on cost leadership might prioritise a functional structure for its efficiency.

- iii. **Industry and market dynamics:** This refers to the external environment a company operates within. Tech industries are fast-paced and ever-evolving, while sectors like utilities may be more stable and predictable. In volatile markets, organisations may prefer flexible structures like matrix or flat to adapt swiftly. Stable industries might tend towards traditional hierarchical models, valuing stability and clarity.
- iv. **Company culture and values:** Culture sums up the collective values, beliefs, and behaviours within an organisation. It is the intangible vibe, dictating how things get done. A company that values autonomy and innovation might veer towards a flat or divisional structure, empowering employees at all levels. On the other hand, a firm that emphasises discipline and clear chains of command might opt for a more hierarchical setup.
- v. **Regulatory and compliance needs:** Certain industries, like finance or healthcare, are bound by stringent regulatory requirements. Compliance is not optional; it is mandatory. In sectors with heavy regulations, the clarity of a hierarchical or functional structure might be favoured. Clear delineation of roles can aid in ensuring compliance with standards.
- vi. **Technological advancements:** As the digital era progresses, technology continues to reshape how businesses operate, from AI-driven insights to remote work tools. Companies at the forefront of technological adoption might lean towards dynamic structures, like matrix or divisional, to harness the benefits of technological innovations fully. These structures can support the agility and collaboration needed in a tech-centric world.

1.3.7 Consequences of a poorly designed organisational structure

For a business to succeed and grow, there must be a fit between its organisational structure and the industry in which it operates. Evidence of a bad organisational structure includes low productivity, high employee turnover and hiring problems, misalignment between technology and decision-making, and the inability of the business to grow.

- a. **Poor communication:** A poor organisational structure can lead to miscommunication because, people might not be sure who needs information or where to send important messages. For example, a sales manager at a small company might create a new customers sign-up form to help new customers start ordering more easily, getting approval from the owner of the company to use the form. If the new form is not shared with the bookkeeper, he/she might not know how to assess new customers for credit or invoice them properly. This can lead to delayed orders and long waits for payment from customers. This also can result in customers not getting products, forcing them to find other suppliers.
- b. **Conflicts and lack of coordination:** This may be as a result of conflicting goals and people working at cross-purposes because of lack of clarity on objectives and priorities; failure to bring people together into teams and through lack of liaison; and breakdown between planning and actual operational work.
- c. **Lack of strategic management:** To maximise growth potentials, there is the need to make plans for the future that create opportunities, rather than simply wait for new business. Without an organisational structure that puts key executives or employees together on a regular basis, it will be difficult to create effective long-term strategies. Strategic management includes creating growth through objectives, such as introducing new products, using new distribution channels, expanding geographically or going after a new target market. These strategies often require input from marketing, accounting, information technology, production and sales managers.
- d. **Reduced productivity:** When an organisation is not set up to create effective communications or does not foster creative strategic management, it can miss opportunities, allow problems to continue and reduce employee morale. An employee who has two superiors might get conflicting directions and not want to follow either, until he/she gets approval from higher authority. When employees are not happy, they might not volunteer new ideas or might leave for a better job. Poor organisational structure can lead to a reduction in productivity, decreasing growth potentials. For example, when sales personnel do not communicate with production managers about impending large orders, the production department cannot make the most effective scheduling plans, leading to a lack of production capacity, labour availability, warehouse storage space and shipping efficiencies.

- e. **High employee turnover:** An inefficient organisational structure can result in high employee turnover and difficulty hiring qualified employees. A business that operates a centralised organisational structure in an industry that must remain fluid and dynamic, may have a hard time attracting highly skilled employees. These employees may feel their contributions are wasted in a firm where they have no decision-making authority and see few opportunities for fulfilment.
- f. **Damaged company:** In addition to the external frustration an employee can experience with a poor organisational structure, he/she can create problems for customers when they do not get timely answers to their questions, receive poor customer service or have to wait longer than normal for delivery of products. When this happens, the company might lose customers, lose references and the ability to attract new customers thereby reducing revenues and damaging the reputation of the business.

1.3.8 Organisational chart

Clarity around roles, responsibilities, and reporting lines is critical for any organisation. An organisational chart offers that clarity by visually representing the structure of an organisation, showing who reports to whom and how teams are arranged.

Organisational charts help clarify roles and responsibilities, making it easier for employees to understand who oversees specific functions, who reports to whom, and how various teams interact. They serve as a key reference for both internal and external stakeholders to comprehend the organisation's structure. At its core, an organisational chart answers these fundamental questions:

- a. Who is responsible for what?
- b. Who reports to whom?
- c. How do teams fit together?

Summing up, organisational charts are important because they help a company with:

- i. **Better communication:** Employees know exactly who to approach for approvals, advice, or collaboration.
- ii. **Role clarity:** Clearly defined responsibilities reduce overlapping tasks and confusion.

- iii. **Efficiency:** A well-structured team can work more efficiently with clear reporting lines, leading to faster decision-making.
- iv. **Onboarding support:** New hires get up to speed quickly when they understand the organisational structure and their places within it.

Types of organisational charts

A company's organisational chart is as unique as its business. Depending on the company's structure and size, the company may use one of the following organisational charts:

- i. **Hierarchical:** A hierarchical chart reflects the most traditional organisational structure. Each employee has one direct supervisor, making it easy to understand authority lines.
- ii. **Divisional:** A divisional organisational chart visually represents a company's structure by grouping employees into divisions, based on products, services, or geographic regions. Each division operates independently with its own resources and leadership. This allows teams to quickly respond to specific market demands while maintaining accountability within each segment.
- iii. **Matrix:** A matrix organisational chart represents a dual-reporting system where employees report to both functional managers and project or product managers. This structure promotes collaboration across departments while visualising the complex relationships between different roles, functions, and project teams.
- iv. **Flat:** A flat organisational chart is suitable for companies with few management levels, like start-ups. Flat organisational chart depicts a structure with few or no layers of middle management, allowing employees and leadership to work directly together. It highlights an organisation that values open communication, faster decision-making, and autonomy by reducing bureaucratic barriers.

Advantages of organisational charts

The following are the advantages of organisational charts:

- i. **Shows clear reporting structure:** employees know who to report to, who to contact when there is an issue that needs resolving or a question that needs to be answered. This is especially important in large

organisations where there are many departments. Someone else from another department can quickly get in touch with the relevant person of another department.

- ii. **Helps new employees:** Enables them to get to know the people they are working with even before meeting them, thus helping them to connect much more easily.
- iii. **Helps to manage workload:** A well-managed organisational chart helps to visualise the workload of individuals. This is especially useful to manage the workload of managers because you can clearly see how many people they are managing and in some cases how many departments are under them.
- iv. **Makes planning easier:** Because one can visualise the structure, it helps in future. One can allocate resources better, quickly find competencies of individuals and much more.

Disadvantages of organisational charts

Depending on the situation, organisational charts can be a disadvantage as well. The following are some of the advantages of organisational chart:

- i. **Not showing informal channels:** This is one of the biggest disadvantages of organisational charts. Not all communication channels are formal and well defined, so organisational charts fail to capture them. Although organisational charts are not meant to capture them, informal channels are vital in any organisation or business, so failing to capture them, might hinder communication.
- ii. **Maintenance problem:** An outdated organisational chart is almost worthless. But keeping it up to date is very hard, especially for large organisations. Employees might change departments, leave the company, assigned new roles, etc. in a short period of time. Since it is hard to keep track of these changes properly, maintaining an organisational chart will be time consuming.
- iii. **Management style:** Organisational charts often do not provide information about management styles or how managers interact with their teams, which can be crucial for understanding organisational culture and dynamics.

- iv. **Over-simplification:** They can oversimplify complex organisational structures and relationships, potentially leading to a distorted view of the organisation.
- v. **Lack of customer focus:** Organisational charts often do not include customers or external stakeholders, which can be a significant oversight in understanding the organisation's overall ecosystem.

1.3.9 Purposes of committees in organisational structure

A committee is a group of individuals within an organisation who are designed to handle specific tasks or focus areas. Committees are often formed to address ongoing concerns, special projects, or strategic initiatives. By delegating responsibilities to smaller groups, boards can ensure that specialised knowledge and skills are brought to the forefront, fostering more focused decision-making and better resource allocation.

Committees are the operating organs of an association. Committees involve members in the development and delivery of services, present member opinions in decision-making, and help serve member needs through interactions. They also offer the opportunity for group problem-solving and can be a forum for presenting multiple points of view. Committees are also the training grounds for future leadership and an arena where emerging leaders can test and refine their skills and abilities. For these reasons, committee effectiveness is critical to an organisation's operations.

Below are some of the purposes of a committee in an organisation:

Supporting decision-making:

- a) **Informed decisions:** Committees ensure thorough research, analysis, and deliberation on specific issues, leading to more informed and well-rounded decisions by the Board or leadership team.
- b) **Streamlined processes:** By handling detailed work, committees can streamline the decision-making process, allowing the Board to focus on broader, strategic matters.
- c) **Expertise:** Committees can leverage the expertise of members with specific knowledge or skills to address relevant issues.
- d) **Enhancing expertise:**
 - i. **Specialised knowledge:** Committee membership enables members to develop specialised knowledge of the matters under their jurisdiction.

- ii. **Focused work:** Committees allow Board members with specific expertise to focus on relevant issues, leading to more informed decisions.
- e) **Improving efficiency:**
 - i. **Workload distribution:** Committees help distribute the workload and allow for a more efficient use of resources by delegating specific tasks.
 - ii. **Streamlined meetings:** By delegating tasks and diving deeper into complex matters, committees can streamline Board meetings and improve efficiency.

1.3.9 Advantages and disadvantages of committees

Advantages of committees

The main advantages of committees are as follows:

- i. **Benefits of specialisation:** A committee is a group of highly qualified and specialised people. Members are required to be well educated and experienced in different fields. So, there is benefit of specialisation in this organisational structure.
- ii. **Better solution:** Because of specialisation and collective knowledge of members, quality decisions are possible. It helps to find better solutions to complex problems.
- iii. **Participative management:** Committee provides equal participation to all members while taking decisions. All members can express their views and opinions while taking major decisions.
- iv. **Several alternatives:** Committee can identify several possible alternatives to solve problems because of the collective knowledge of highly qualified experts and specialists. It helps the management to select the most appropriate alternative.
- v. **Better communication:** It promotes better and proper communication among members of the committee to minimise conflict and misunderstanding.
- vi. **Team spirit:** It promotes team spirit and sense of cooperation among the members, which helps to motivate them towards the achievement of specific objectives.

Disadvantages of committee in an organisation

The main drawbacks or disadvantages of committee are as follows:

- i. **Delayed decision:** There are several members with different qualifications and backgrounds. So, their opinions and ideas may differ. Divided opinions may delay the decision-making.
- ii. **Lack of secrecy:** Because of large number of members from different classes, it is not easy to maintain secrecy and privacy in this type of organisational structure.
- iii. **Expensive device:** It takes more time and cost to make a committee work effectively. Sometimes, experts and specialists might be hired to get better results. So, it is an expensive form of organisation.
- iv. **Lack of accountability:** Individual members cannot be blamed for wrong decisions. It is very difficult to place accountability in a committee organisation.
- v. **High chance of conflict:** There is a high chance of conflict amongst members, because of ego and selfishness.

1.3.10 Functions of audit committee

An audit committee is a group of board members responsible for overseeing an organisation's financial reporting, risk management, and other internal controls. These board members ensure that financial statements are accurate and audits are conducted independently. Composed of independent directors with relevant expertise, the audit committee acts as a key safeguard to ensure transparency, integrity, and accountability in a company's financial operations. These responsibilities include:

- i. **Risk oversight:** The audit committee ensures that the company's risk management plan is well-defined and effective. Management should discuss the company's policies and guidelines that govern risk management. Both parties should be knowledgeable about major financial risk exposures and the steps managers should take to monitor and control risks.
- ii. **Oversight of the independent auditor:** An essential part of the audit committee's duties is to be responsible for appointing, compensating and overseeing the duties of the independent auditor. This responsibility extends

to resolving any disagreements between the independent auditor and management. Audit committee members should meet with the independent auditor at least quarterly.

- iii. **Oversight of internal audit:** The roles of audit committee members require them to oversee and make suggestions for improving the company's internal controls covering operations and processes.
- iv. **Facilitate external audit:** During the annual audit, the audit committee meets separately with external auditors to examine matters that need to be discussed privately. It is important for audit committees to work towards preventing fraud. Auditors with forensic audit expertise are adept at detecting wilful accounting errors and anomalies. Because of their unique relationship with external auditors and the importance of their duties, audit committees must have authority over their budgets and for managing external auditors.
- v. **Manage financial reporting and controls:** The role of the audit committee requires them to be familiar with the processes and controls for financial reporting and internal controls. This requires working with members of management, independent auditors and internal auditors to acquire adequate knowledge about the company's financial reporting and internal controls. The committee uses this information to determine whether the company's financial reporting processes are well designed and operating effectively.
- vi. **Review of filings and earnings releases:** Financial analysts, ratings agencies and other financial experts rely on audit committees to oversee earnings releases, SEC filings containing financial information and other financial reports to ensure that they are transparent and fair. Audit committee teams are also responsible for working with legal teams to ensure that disclosures are accurate and complete, and include reporting on financial trends.
- vii. **Provide recommendations to management:** The audit committee should allow management adequate time to review and comment on the audit committee's annual audit findings. An important function of an audit committee is to provide management with an audit committee report and final management letter that offers recommendations on how to comply with best practices for financial reporting and internal controls.

- viii. Internal control and risk management:** Audit committees are responsible for reviewing the company's internal control systems to ensure they effectively mitigate risks. This includes collaborating with the risk committee in accordance with the risk committee's terms of reference to evaluate and implement strategies that address operational, financial, and compliance risks.
- ix. Compliance and regulatory controls:** Audit committees ensure that the organisation operates within legal and ethical frameworks, adhering to applicable regulations and industry guidelines. The committee members review compliance programmes to assess their effectiveness and identify any gaps or areas of improvement. Audit committees also stay abreast of regulatory changes and assess their impacts on the organisation. They monitor developments in laws and regulations relevant to the company's industry and operations.
- x. Whistle-blower and ethics programs:** Audit committees establish mechanisms to enable employees and stakeholders to report concerns regarding accounting practices, fraud, or ethical violations. The audit committee oversees the effectiveness of these programmes and ensures they provide a safe and confidential environment for reporting. As part of their oversight, audit committees review reports of alleged misconduct or violations received through the whistle-blower and ethics programmes. They assess the nature and significance of these issues and determine the appropriate courses of action, which may involve initiating investigations or engaging external resources, such as forensic auditors or legal counsel.

Audit committee members are responsible for performing a wide variety of duties, working closely with different stakeholders. Financial regulations are also evolving, especially during these volatile economic times. Audit committees should stay current with financial trends, global risk reports, and new or evolving legal or regulatory requirements. These are all to ensure that the company has sound financial reporting practices and robust internal controls.

1.3.10 Functions of remuneration committee

A remuneration committee is a designated subcommittee of a company's board of directors. Its principal responsibility is supervising and deciding the compensation packages of the organisation's executive directors and senior managers. This entails deciding on a base salary, plus calculating bonus payments, termination

payments, fixed remuneration, performance-based incentives, long-term compensation plans, and other special remuneration arrangements.

A remuneration committee has several objectives. It aims to recruit and motivate board members, by providing competitive and performance-based compensation. Simultaneously, they work to ensure that remuneration policies are fair and reasonable, and in line with the company's performance and shareholder interests.

Remuneration committee's functions

Remuneration committees play a crucial role in corporate governance. They attract and retain the best talents while ensuring that executive compensation aligns with the company's goals. The responsibilities of remuneration committee include:

- i. **Designing competitive compensation packages:** These include comparing salaries with the industry standards, determining basic salary and bonus structures, and developing long-term incentives, such as stock options and performance share units.
- ii. **Performance-based rewards:** Linking bonuses and incentives to well-defined key performance measures ensures that the actions of executives align with strategic goals.
- iii. **Transparency and accountability:** Remuneration committee is responsible for developing and delivering clear compensation policies to stakeholders like shareholders and the general public.
- iv. **Collaboration with other committees:** Strong participation with the nominating committee ensures that CEO succession is consistent with remuneration standards, while tight collaboration with the audit committee minimises excessive risk-taking, motivated by incentive schemes.
- v. **Alignment with company strategy:** Understanding the board's long-term vision and the executive committee's operational strategies, allows the committee to develop pay packages that incentivise Chief Executive Officer (CEO) to create value for the firm.

1.3.11. Roles of board members

Chairman

A Chairman of the board (COB) holds the most power and authority on the board of directors and provides leadership to the officers and executives of the company. The Chairman of the board ensures that the company's responsibilities to

shareholders are being fulfilled, by acting as a link between the board and top management. The Chairman is a key officer in a company's board of directors, presiding over meetings, providing strategic vision, helping to steer the company, and sometimes serving as a spokesperson for the organisation. The roles and responsibilities of the Chairman of the board include: .

- i. **Preparing board meetings:** The Chairman sets the agenda, determines the frequency of meetings, etc.
- ii. **Presiding over the board of directors:** The Chairman calls the meeting to order, ascertains that a quorum is formed before the commencement of the meeting, announces when the board arrives at a decision, helps steer the meeting, keep discussions to the point, and enforces rules when needed.
- iii. **Providing strategic vision:** The board looks to the chairperson as the leading figure in determining the organisation's long-term goals, its mission, values, and desired end results.
- iv. **Engaging with the CEO:** The board Chairman acts as a bridge between the board and the CEO, and other senior level executives, ensuring proper communication between the governance side (the board) and the implementation side (the CEO and executive management).
- v. **Facilitating communication with the board:** The Chairman works to bring out the best value out of each board member, making sure everyone is heard and encouraging directors to make useful contributions to issues at hand.
- vi. **Representing the company:** The duties of the Chairman of the board include acting as an ambassador of the company, making public announcements, working with the media or with government officials, and protecting the company's reputation.
- vii. **Providing guidance to senior management:** The Chairman provides guidance to ensure that company actions conform with its overall mission and values.
- viii. **Appointing sub-committees:** Following board decisions, the Chairman of the board can appoint audit, governance, or compensation committees, among others.

Company Secretary

Company Secretaries are instrumental in the preparation and planning of board meetings. This involves collaborating with top management to set the meeting agenda, ensuring that it aligns with the company's strategic objectives, and distributing it to board members, well in advance. The responsibilities of a Company Secretary are multifaceted. Among other things, they must be highly detail-oriented, organised, and knowledgeable about corporate laws and compliance requirements.

The duties of a Company Secretary vary based on the industry and the needs of the company.

Responsibilities of a company secretary

- (a) **Record-keeping:** Company Secretaries must maintain an organised repository of all board documents, including the minutes of meetings and formal correspondence. They must also maintain historical records of board activities for auditing.
- (b) **Advising the board on governance:** The Company Secretary must stay informed of the best practices, latest trends and regulatory requirements in governance. They are also responsible for facilitating the development of policies relating to governance and keeping the board updated on any changes in governance standards. A Company Secretary provides support and advice to board of directors and executive management.
- (c) **Planning of meetings:** The Company Secretary collaborates with the Chairman to create meeting agendas. They must ensure that all members receive the agenda and supporting materials beforehand. They must also maintain accurate attendance records, prepare and distribute minutes of meeting and assist in preparing board resolutions.
- (d) **Compliance oversight:** Staying updated on the relevant laws and regulations is crucial for Company Secretary to ensure that all board activities comply with them. They must also maintain and update the company's memorandum and articles of association (MEMAT) to reflect any changes in these documents.
- (e) **Running board evaluations:** Secretaries typically facilitate the board evaluation process by distributing evaluation forms, collecting

responses and summarising results. They also assist board members to ensure a compliant evaluation process.

- (f) **Facilitating board communication:** Another important task is to simplify communication between directors. This includes issuing notices of meetings and ensuring the timely distribution of meeting documents. Company Secretaries also handle official correspondence on behalf of the board.
- (g) **Corporate advisors:** Company Secretaries serve as resident experts, advising executives and directors on a broad range of best-practice corporate governance and compliance issues. Examples of such issues include designated directors' roles and responsibilities, appropriate governance practices, voting processes, subsidiary management, and legal compliance requirements. The responsibilities of Company Secretaries include facilitating board evaluations, managing succession planning, and serving as liaison to shareholders and corporate contractors.
- (h) **Trainer:** Leads or organises orientation and training for new directors, and development programmes for existing directors to keep them informed on current governance issues such as cybersecurity or evolving regulatory requirement.

Key skills for a company secretary

The key skills for a Company Secretary include:

- (a) **Multi-tasking:** Secretaries spend most of their time managing multiple tasks simultaneously, such as preparing for meetings, keeping members updated and coordinating with management.
- (b) **Strong communication skills:** A good Secretary knows how to maintain an effective line of communication between the board, shareholders and executive management.
- (c) **Deep understanding of company operations:** The Company Secretary must have a handle on how the company works and adequate knowledge of the operations of its department. He/she should be equipped to translate management theory into practical frameworks.

- (d) **Organisational skills:** A good sense of order and knowing which tasks to prioritise are critical skills. The secretary must maintain organised board calendars with dates and deadlines of key events and projects.

Managing Director

A managing director is a high-level executive responsible for leading and overseeing the overall operations and business strategy of an organisation. Managing directors wield significant decision-making authority, serving as the bridge between the company's board of directors, shareholders, and the executive team.

The roles of Managing Director (MD)

The Managing Director is responsible for turning the board's vision into reality and serve as Chief Executive Officer of the company. He performs the following roles:

- (a) exercising executive stewardship of the company's resources:
- (b) developing the companies and ensuring their profitable operations:
- (c) preparing and submitting to the board, annual budgets, objectives, policies, strategies and plans of the company:
- (d) ensuring timely and effective implementation of objectives, policies, strategies and plans set by the board and of other decisions taken by or on behalf of the board:
- (e) ensuring that appropriate objectives, policies, strategies and plans are adopted for each of the business unit. The MD is also responsible for developing appropriate budgets and establishing and monitoring performance indices to guide the operations of the company:
- (f) ensuring that safety, health and environmental programmes of the company are implemented in line with the policies agreed by the board:
- (g) driving innovation and identifying opportunities for growth and expansion, ensuring the company remains competitive in the market:
- (h) recommending to the Chairman and the remuneration and nomination committee, appointments and nominations (including retirements and discharges) to very senior positions which are direct reports. He is also responsible for ensuring that adequate career development, succession

and remuneration arrangements exist for these positions and the company generally, so as to attract and retain top talents;

- (i) leading the company's processes for communicating to, and consulting with, employees;
- (j) keeping the Chairman and the board informed as appropriate on his involvement in stakeholder relations, including relations with the company's shareholders, governments, other public organisations, other companies and the public generally; and
- (k) keeping the Chairman and the board informed on all strategic matters.

The Managing Director coordinates the activities of all departments and units. Depending on the size of the company, the Managing Director may have one or more deputies to help him handle the workload.

Executive Director

An Executive Director is a senior-level executive responsible for the management and leadership of a business unit of a company. The Executive Director reports to the Board of Directors through the MD.

He has to be skilled, informed, and motivated to discharge the aspect of the company's vision under his portfolio. To ensure a high level of productivity in the role, an Executive Director should display the following qualities:

- i. **Consistent leadership:** To inspire others in the organisation to perform their roles with confidence.
- ii. **Versatile communication skills:** To help other stakeholders understand their tasks.
- iii. **Previous experience in the field** or a similar industry.
- iv. **Ability to focus** and make progress towards goals, deadlines, and the formation of strategic plans.

Roles and responsibilities

Executive directors will always have some distinct requirements for their organisation, but here are some responsibilities that apply to organisations of all sizes and industries:

- a) **Strategic leadership:** The Executive Director must have the capacity to be an active voice in developing and enacting the organisation's overall vision

and the objectives it needs to hit to achieve them. In most situations, executive directors work with the board to create strategic plans, but in smaller organisations, they may be asked to handle a majority of executive duties. People in the role must develop working relationships with other board members so they can mediate during board meetings and resolve conflicts when they arise. Executive Directors may also be asked to serve as mentors to younger board members and staffers. This helps the mentor and mentee to acquire new skills, thereby improving the overall performance of the company.

- b) **Functional oversight:** An Executive Director will exercise oversight over his designated functional area, such as finance, marketing, information technology, production, etc. He would be required to report to the board on the designated functional area to the board through the Managing Director.

Leadership: He would be expected to provide leadership to managers and staff in his functional area.

Non-Executive Director (NED)

A non-executive director is a member of a company's board of directors who does not hold an executive office. Non-executive directors act as independent advisors and are not responsible for the daily operations of the company. However, they face the same legal responsibilities and liabilities as the executive directors and are involved in the planning and framing of company policies and strategies. Non-executive directors generally receive payments for their services; however, they are not considered employees of the company.

Roles of a Non-Executive Directors

Non-Executive Directors dedicate a part of their time to overseeing the company, participating in executive management meetings and board meetings. They add value by providing broad perspective to the company's issues and protecting the interests of shareholders. They are responsible for the following:

- i. **Performance review:** Non-Executive Directors are required to evaluate the performance of the management team, in terms of meeting goals and objectives. They also monitor the executive members of the board, may even

remove the senior management, and plan the subsequent appointments. These directors are also required to oversee the performance reporting of the company. Additionally, they ensure that the responsibilities towards the stakeholders are understood and accomplished consistently.

- ii. **Strategic direction:** Non-Executive Directors are responsible for objectively looking at the plans framed by the executive team. They help with formulating and overseeing the corporate strategy by providing constructive criticisms and a broader view of the external factors affecting the business. They provide an external perspective and challenge the existing plans, thus helping to improve business strategies. Non-Executive Directors also set values and standards for the company in collaboration with the Executive Directors.
- iii. **Time commitment:** Non-Executive Directors must commit a substantial amount of time to overseeing the company. Hence, when appointed, the NEDs should disclose to the board their other important time commitments. They should keep the board informed of any significant changes to their schedules. They should obtain the chairman's approval before accepting any additional commitments that can affect their roles. Non-Executive Directors are required to take time out of their schedules to meet the expectations outlined in their appointment letters.
- iv. **Risk management:** Non-Executive Directors share with the Executive Directors the responsibility of developing frameworks and controls for accessing and regulating risks. They should assure the stakeholders that the financial information is accurate, and financial controls and risk management system are robust and secure.
- v. **People:** Non-Executive Directors can make connections outside the company and add further value to the company. These external connections can help the company in achieving its objectives and mission. In addition, a Non-Executive Director can represent the company on outside engagements. Working with other board members, they ensure that sufficient financial and human resources are available to meet business objectives.
- vi. **Professional development:** Non-Executive Directors can take advice on certain issues and discuss them in the board meetings. They may be authorised to obtain independent training required to discharge their duties, at the expense of the company.

- vii. **Participation in committee meetings:** Non-Executive Directors may be required to actively participate in committee meetings and execute their duties as committee members. They should be made aware of the terms of reference of their committees and additional responsibilities, if any.

Independent Non-Executive Directors

Independent Non-Executive Directors (INEDs) play a crucial role in corporate governance by providing objective oversight, ensuring ethical conduct, and holding management accountable, ultimately enhancing corporate accountability and promoting transparency. Here is a more detailed breakdown of their roles:

- i. **Strategic oversight:** INEDs contribute to developing and reviewing the company's long-term strategy, ensuring it aligns with the company's goals and stakeholders' interests.
- ii. **Performance monitoring:** INEDs monitor the performance of the company and its management team, evaluating their effectiveness and making recommendations for improvement.
- iii. **Risk management:** INEDs play a vital role in overseeing risk management processes, ensuring that the company has adequate controls in place to mitigate potential risks.
- iv. **Ethical conduct and compliance:** INEDs are responsible for upholding ethical standards and ensuring that the company operates in compliance with laws and regulations.
- v. **Accountability and transparency:** INEDs help ensure that the company is accountable to its shareholders and other stakeholders, promoting transparency in its operations and decision-making.
- vi. **Independent judgment:** They provide independent perspectives and judgment to the board, which is crucial for making sound decisions and resolving conflicts of interest.
- vii. **Challenging management:** INEDs are expected to constructively challenge management when necessary, ensuring that the board is fully informed and able to make informed decisions.
- viii. **Fiduciary duty:** INEDs have the same fiduciary duties as other directors, including the duty of care, skill, and diligence.

- ix. **Stakeholder representation:** INEDs are expected to represent the interests of all stakeholders, including shareholders, employees, and the community.
- x. **Committee participation:** INEDs often serve on various board committees, such as audit, compensation, and nomination and remuneration committees, contributing their expertise and experience.

1.4. The Business Environment

There are several internal and external factors that can influence a company's business decisions. Different combinations of these factors, like price, social changes and regulatory changes, can influence the overall environment in which a business operates. A business environment comprises all the components that affect a business. These include both internal factors, like employees and resources, and external factors, like customers and markets. Each of these contributes to a company's working environment and can influence how the business functions.

1.4.1. The characteristics of business environment

The business environment is defined as ***“The sum total of all individuals, institutions and other forces that are outside the control of a business enterprise, but the business still depends upon them as they affect the overall performance and sustainability of the business.”***

Characteristics of a business environment include:

- (a) **Complexity:** The business environment is a complex system of many interacting elements, including internal factors (like employees and resources) and external factors (like customers, markets, and competitors). Changes in one area can have ripple effects on other areas, making it difficult to predict outcomes.
- (b) **Dynamism:** The business environment is constantly changing, influenced by both internal and external factors. Businesses must adapt to these changes to remain competitive and successful.
- (c) **Multifaceted nature:** The business environment is made up of various factors, including economic, social, political, technological, legal, and environmental dimensions. Understanding these different dimensions is crucial for businesses to make informed decisions.

- (d) **Uncertainty:** Uncertainty is an inherent characteristic of the business environment, as businesses cannot always predict future events or outcomes with certainty. Businesses must be prepared to handle unexpected challenges and opportunities.
- (e) **Interrelatedness:** The different components of the business environment are interconnected and influence one another. Changes in one area can have ripple effects on other areas.
- (f) **Relativity:** The business environment is relative, meaning it varies from one location to another and from one industry to another. Businesses must tailor their strategies to the specific environment in which they operate.
- (g) **Far-reaching impact:** The business environment has a significant impact on the survival and growth of businesses. Understanding and adapting to the business environment is crucial for long-term success.
- (h) **Importance of identifying opportunities and first mover advantage:** The business environment presents both challenges and opportunities for businesses. Identifying opportunities and being the first to capitalise on them can provide significant competitive advantage.

1.4.2. Impact of government policies on business

Government policy is an announcement of government political activities, schemes, and targets relating to a particular purpose. Free markets are often assumed to have little government intervention. However, governments intervene to stabilise markets, synchronise transactions, set up institutional frameworks, and impose contract law and property rights regulations. When markets break down, governments can intervene with bailouts and other measures. Governments have the power to make extensive changes to monetary and fiscal policy, raising or lowering interest rates, which have enormous impacts on business.

Governments put in place many policies that give direction to businesses. The government can amend the fiscal policy, which provokes changes in taxes, commerce, subsidies, regulations, interest rates, licensing, and more. Businesses should be flexible enough to respond to changing rules and policies. Government policies are material at all levels, from national to local levels, such as states and local governments. These local authorities have their own sets of laws, bye-laws and regulations. There are some international treaties which can shape the way companies do business.

The following show how government policies affect businesses:

- (a) **Taxation:** Tax policies, including income, property, and sales taxes, directly affect business costs and profitability. Government policy can affect how much tax the sector pays, pensions, relocation status and laws, penalties or fines for violation of rules, education system, business and trade in an economy. For example, increased taxes can lead to higher operating costs, potentially necessitating price increases or reduced profits. Tax incentives or exemptions, on the other hand, can encourage investment and growth in specific sectors. In Nigeria for example, businesses face a range of taxes, including state and local taxes, which can impact their competitiveness and profitability.
- (b) **Subsidies and incentives:** Governments can provide subsidies or incentives to support specific industries or businesses, promoting growth and competitiveness. For example, subsidies can help reduce production costs, while tax breaks can encourage investment and job creation. The Lagos State Employment Trust Fund (LSETF) offers various initiatives, including financial and non-financial support, to help Small and Medium Enterprises (SMEs) thrive.
- (c) **Regulations and compliance:** Government regulations, including environmental, labour, and consumer protection laws, create frameworks for business operations and compliance. For example, compliance with regulations can involve costs for businesses, but also ensures a level playing field and protects consumers and the environment. Businesses in Lagos State must comply with various regulations, including those related to business registration, environmental standards, and labour laws.
- (d) **Infrastructure development:** Government investments in infrastructure, such as roads, ports, and energy, can significantly impact business operations and competitiveness. For example, improved infrastructure can reduce transportation costs, facilitate trade, and attract investments. In Nigeria, Lagos State is a major hub for commerce and industry, and the development of infrastructure is crucial for supporting business growth and competitiveness.
- (e) **Monetary and fiscal policies:** Government policies related to interest rates, exchange rates, and government spending can influence business investments, spending, and overall economic conditions. For instance, lower interest rates can encourage borrowing and investment, while fiscal policies can stimulate or restrain economic activity. Businesses in Lagos State for instance are affected by national and international economic conditions, including fluctuations in exchange rates and interest rates.

- (f) **Trade policies:** Government policies related to international trade, such as tariffs and trade agreements, can impact businesses that engage in international trade. Tariffs can increase the cost of imported goods, while trade agreements can facilitate trade and investment. Businesses that engage in international trade are heavily influenced by government policies related to trade.

1.4.3. Legal and regulatory frameworks that affect business operations

An industry, sector, or jurisdiction is governed by a regime of laws, rules, and regulations, or a legal and regulatory framework. These frameworks offer a structure and instructions for people, groups, and governments to function within a legal framework and guarantee adherence to relevant regulations and standards. Laws passed by legislative bodies, such as constitutions, statutes, and codes, provide legal frameworks. Legal frameworks serve as foundation for settling conflicts, supporting the rule of law, enforcing contracts, and safeguarding property rights. Regulatory frameworks, on the other hand, are intended to supervise and monitor the operations of specific industries or sectors. The following are the key components of legal and regulatory frameworks:

- (a) **Laws:** These are binding legal rules enforced by the government, forming the foundation of the legal framework.
- (b) **Regulations:** These are guidelines and standards created and enforced by regulatory bodies to ensure compliance within specific industries or sectors.
- (c) **Policies:** These are broad statements or principles that guide decision-making and actions within a specific area, often developed by government agencies or industry associations.

The areas covered in the legal and regulatory frameworks in business include:

- (a) **Company formation and registration:** These include the legal requirements for establishing a business, such as registering with the Corporate Affairs Commission (CAC) and meeting capital requirements.
- (b) **Taxation:** Businesses must comply with tax laws and regulations, including income tax, value-added tax (VAT), and other levies.
- (c) **Labour laws:** These govern employment contracts, working conditions, minimum wages, termination of employment, and employee benefits.
- (d) **Intellectual property protection:** Laws protect trademarks, patents, copyrights, and other forms of intellectual property, crucial for businesses to safeguard their innovations and brand identities.

- (e) **Contract law:** This governs the formation, interpretation, and enforcement of contracts between businesses and other parties.
- (f) **Financial and sustainability reporting:** Regulatory frameworks ensure accurate, consistent, and reliable financial reporting, protecting investors and other stakeholders.
- (g) **Sector-specific regulations:** Certain industries, like finance, telecommunications, and energy, are subject to specific regulations designed to ensure safety, fairness, and stability.
- (h) **Foreign exchange control:** Regulations govern the movement of foreign currency into and out of the country, impacting businesses involved in international trade and investment.
- (i) **Data protection:** Nigeria Data Protection Act 2023 and the Nigeria Data Protection Regulation (NDPR) govern the collection, processing, and storage of personal data, ensuring compliance and protecting individuals' privacy.
- (j) **Corporate Governance:** This framework ensures that businesses are run ethically and responsibly, promoting transparency and accountability.

Importance of understanding the frameworks

- (a) **Compliance:** Businesses must understand and comply with the legal and regulatory frameworks to avoid penalties and legal issues.
- (b) **Fairness and transparency:** The frameworks promote fair and transparent business practices, building trust with stakeholders.
- (c) **Stability and predictability:** A well-defined framework provides a stable and predictable environment for businesses to operate and invest.
- (d) **Protection of rights:** The framework protects the rights of businesses and individuals, ensuring a level playing field.
- (e) **Building trust:** Adherence to the legal and regulatory frameworks is crucial for building trust with investors, lenders, and customers.

1.4.4. Models for analysing business environment

Business environmental analysis is a strategic tool which helps companies know how external and internal environment factors influence their operations and performances. It is as a function used to examine things like economic trends,

technological advancements, regulatory landscapes, competitive dynamics and social changes that can influence the business's ability to meet its objectives.

These analyses highlight a company's distinctive features, areas for improvement, weaknesses, and threats to the organisation. Such discoveries can help derive strategies that exploit strengths while addressing weaknesses. The key components of this process PESTEL Analysis and SWOT Analysis, which offer a comprehensive view of internal and external factors. They are preventive methods that ensure the flexibility, competitiveness, and relevance of a business in a dynamic economy.

(a) Purposes of business environmental analysis

- i. **Recognising opportunities:** Recognising business opportunities that may take longer to become noticeable is the primary goal of the environmental analysis of a business. Through an in-depth analysis of market data, such as trends, customer tastes, technology, and law, businesses can learn about opportunities for growth and innovation. This upfront movement makes companies leverage early opportunities to create a significant advantage and opens the chance for them to expand to new markets/segments for growth.
- ii. **Managing threats:** Identifying and managing potential risks is also an essential purpose of business environmental analysis. External factors, such as competitive responses, economic fluctuations, and changes in legislations create serious risks for businesses. By identifying these risks beforehand, companies may develop alternative plans, complement their product lines or modify their strategies to maintain continuity of their operations and profitability in the long run.
- iii. **Crafting strategies:** The insights delivered by business environmental analysis are valuable for developing an intelligent and successful business strategy. Analysis of the internal and external business environments enables the company to align its strengths and weaknesses with the available opportunities and threats. This alignment is important for the setting of clear objectives, sound strategic decision-making, and the allocation of resources wisely so as to deliver intended results.

- iv. **Strengthening competitive edge:** Business environmental analysis is a major tool that helps a company increase its competitive advantage. Through an active and ongoing assessment of the wider business environment, companies will be able to stay ahead of emerging trends and needs of customers, innovate in response to changing factors and differentiate themselves from their competitors. Such adaptations to changes in the environment is key to remaining relevant in the market and having a long-term competitive advantage.

The two major models for analysis of the business environment are:

- a) PESTEL analysis; and
- b) SWOT analysis.

(b) **PESTEL analysis model of business environment**

The PESTEL model is a comprehensive business framework used to analyse the external environment that impacts an organisation's operations. It examines the following six key dimensions:

- i. **Political:** The political side looks into the part where government policies can affect business operations, for example, instability of government in a country or its tax policies and labour laws can be detrimental to a business. Trade restrictions can also affect the operations of businesses. This dimension is very significant for establishing the ways in which political decision-making and changes in legislative structure affect the business environment.
- ii. **Economic:** On an economic dimension, an organisation looks into the economic factors that might influence its profitability. Such types of fluctuations can be noted in interest rates, exchange rates, inflation rates, economic growth dynamics, unemployment indices, and fiscal policy mechanisms. Reading the indicators which are present within the economic environment helps business foresee the possible developments, plan their budgeting and strategic evolution to avoid

being misled into making wrong decisions on expansion, putting prices on their products and controlling their costs.

- iii. **Social:** The social dimension relates to demographic shifts, cultural practices, lifestyle characteristics and personal attitudes towards particular product or services. This component gives businesses good perception of the social backgrounds in which they operate to ensure that they can fine-tune goods and services, as well as market strategies, in line with changing needs and preferences of their targeted market.
- iv. **Technological:** The technology component includes the speed of technology change, technology adoption, the advancement of technologies, Research and Development activities, and automation. Examining this element shows the constant search for new technological opportunities, careful consideration of how new technologies affect operations, and finally, responding to the developing technologies by increasing efficiency and offering new products to customers.
- v. **Environmental:** Environmental factors cover the effect of the physical environment and climate change on business operations, and how the operations of the business affects the environment. Regulations on the environment include ecological requirements, sustainable operation, environmental pollutions and waste of non-renewable resources. Companies, on the other hand, assess this dimension to create an environmentally sustainable culture in their business settings, adapt to environmental challenges, comply with regulations, and integrate sustainability into their operational and corporate social responsibility strategies.
- vi. **Legal:** The legal dimension is typically looking at how laws and regulations impact the conduct of business. This includes employment laws, Health and Safety Acts, consumer protection laws, and environment regulations. Having the legal environment in mind, it is essential for businesses to ensure compliance, minimise legal risks, and navigate the business-specific legal system in the host country.

(c) SWOT Analysis Model of Business Environment

A SWOT (strengths, weaknesses, opportunities, threats) analysis can help you understand how the business is positioned in relation to the market and its competitors. You can use SWOT analysis for any of the following:

- (i) brainstorming.
- (ii) business planning;
- (iii) strategic planning;
- (iv) competitor evaluation;
- (v) marketing;
- (vi) product development; and
- (vii) business reports.

SWOT example: Internal factors to assess

Below is an example of a typical SWOT analysis with information and examples of what to include in the internal factors section.

Strengths	Weaknesses
Advantages of the proposition, product or business	Disadvantages of the proposition, product or business
Product capabilities	Gaps in capabilities
Competitive advantages over rivals	Competitive weakness versus other similar businesses
Innovative aspects of the product/business	Outdated aspects of the product/business
Any unique selling points	Financial constraints
Resources, assets, people	Poor processes and systems

Strengths	Weaknesses
Experience, knowledge, and data	Lack of necessary accreditations
Processes, systems, IT and communications	Restrictions on IT, systems or communications

Examples of strengths

- a) product is superior to other competitors
- b) product lifespan or durability
- c) costs - compared to competitors
- d) manufacturing processes are efficient
- e) IT system can easily handle expansion

Examples of weaknesses

- a) competitors' products are superior or cheaper
- b) budget is limited
- c) staff are untrained in new processes

SWOT example: External Factors to Assess

Below is an example of a typical SWOT analysis with information and examples of what to include in the external factors section.

Opportunities	Threats
Market developments	Political factors
Competitors' vulnerabilities	Competitors
Geographical or export opportunities	Environmental pressure
Seasonal influences	Technological change

Opportunities	Threats
Current styles or trends	Legislative changes
Niche markets	Customer demand decrease

Examples of opportunities

- a) poor products currently on the market
- b) potential market for your product or service overseas

Examples of potential threats

- a) changes of government or legislation
- b) competitors' product or service is at a more advanced stage
- c) increasing interest rates

Advantages of a SWOT analysis

SWOT analysis offers many benefits, including helping you to:

- a) understand the key issues affecting your business;
- b) spot and deal with weaknesses;
- c) minimise risks and deter threats;
- d) capitalise on opportunities;
- e) take advantage of your strengths;
- f) develop business goals; and
- g) identify strategies for achieving your goals.

SWOT analysis is typically also low- or no cost, and relatively quick and simple to carry out.

1.4.5. How Firms Can Adapt to their Environments

Firms adapt to their environment by becoming flexible, innovative, and proactive. This includes altering business models, restructuring, or changing product/service offerings. They can do this by regularly scanning their environment for opportunities and threats, and developing strategies to capitalize or mitigate them. Furthermore, embracing innovation, continuous learning, and building strong networks are crucial for adapting to change. The following are some of the ways that firms adapt to their environments:

- i. **Flexibility and Adaptability:** Firms should be able to quickly respond to market changes, trends, and industry shifts. This requires being agile, having processes and systems that allow for rapid adjustments, and fostering a culture of adaptability.
- ii. **Innovation:** Encouraging creativity, experimentation, and risk-taking can lead to game-changing ideas that help firms stay ahead of the competition.
- iii. **Continuous Learning and Development:** Investing in employee training and development ensures that the workforce has the skills needed to navigate change and adapt efficiently.
- iv. **Strategic Planning:** Firms should conduct regular environmental scans to identify potential opportunities and threats and develop strategies to capitalize on or mitigate them.
- v. **Building Strong Networks and Partnerships:** Collaborating with other businesses and industry partners can provide access to new technologies, expertise, and resources.
- vi. **Technology:** Utilizing technology effectively can help streamline processes, improve efficiency, and stay competitive.
- vii. **Embracing a Growth Mind-set:** Firms should encourage a culture of continuous improvement and learning, viewing challenges as opportunities for growth.
- viii. **Change Management:** Implementing effective change management processes can help minimize disruption and manage resistance during periods of significant transformation.
- ix. **Sustainable Practices:** Implementing sustainable practices can help firms reduce their environmental impact, improve their reputation, and potentially benefit from opportunities in the green economy.
- x. **Understanding Consumer Behaviour and Competitor Strategies:** Analysing consumer behaviour and assessing competitor strategies can help firms understand changing preferences and demands and stay ahead of the competition.

1.4.6. Globalisation/International Business

Globalisation is the process by which ideas, knowledge, information, goods and services spread around the world. In business, the term is used in an economic context to describe integrated economies marked by free trade, the free flow of

capital among countries and easy access to foreign resources, including labour markets, to maximize returns and benefit for the common good.

Globalisation is driven by the convergence of cultural and economic systems. This convergence promotes -- and in some cases necessitates -- increased interaction, integration and interdependence among nations. The more countries and regions of the world become intertwined politically, culturally and economically, the more globalized the world becomes.

How Globalisation Works

In a globalized economy, countries specialize in the products and services they have a competitive advantage in. This generally means what they can produce and provide most efficiently, with the least amount of resources, at a lower cost than competing nations. If all countries were specializing in what they do best, production should be more efficient worldwide, prices lower, economic growth widespread and all countries benefiting -- in theory.

Policies that promote free trade, open borders and international cooperation drive economic globalisation. They enable international businesses to access lower priced raw materials and parts, take advantage of lower cost labour markets, and access larger and growing markets around the world in which to sell their goods and services.

Money, products, materials, information and people flow more swiftly across national boundaries than ever. Advances in technology enable and accelerate this flow and the resulting international interactions and dependencies. These technological advances have been especially pronounced in transportation and telecommunication.

Among the recent technological changes that have played a role in globalisation are the following:

- i. **Internet and Internet Communication.** The internet has increased the sharing and flow of information and knowledge, access to ideas and exchange of culture among people of different countries. It has contributed to closing the digital divide between more and less advanced countries.
- ii. **Communication Technology.** The introduction of 4G and 5G technology has dramatically increased the speed and responsiveness of mobile and wireless networks.

- iii. **Internet of Things and Artificial Intelligence.** IoT and AI technologies are enabling the tracking of assets in transit and as they move across borders, making cross-border product management more efficient.
- iv. **Blockchain.** This technology provides a transparent ledger that centrally records and vets transactions in a way that prevents corruption and breaches. It facilitates the secure access to data required in industries such as healthcare and banking. It has also enabled the development of decentralised databases and storage that support the tracking of materials in the supply chain.

There are three types of globalisation.

- i. **Economic Globalisation.** This type of globalisation focuses on the integration of international financial markets and the coordination of financial exchange. Free trade agreements, such as the North American Free Trade Agreement and the Trans-Pacific Partnership, are examples of economic globalisation. Multinational corporations which operate in two or more countries, play a large role in economic globalisation.
- ii. **Political globalisation.** This type covers the national policies that bring countries together politically, economically and culturally. International organisations such as NATO and the United Nations are part of the political globalisation effort.
- iii. **Cultural Globalisation.** This aspect of globalisation focuses in large part on the technological and societal factors that are causing cultures to converge. These include increased ease of communication, the pervasiveness of social media and access to faster and better transportation.

These three types of globalisation influence one another. For example, liberalised national trade policies drive economic globalisation. Political policies also affect cultural globalisation, enabling people to communicate and move around the globe more freely. Economic globalisation also affects cultural globalisation through the import of goods and services that expose people to other cultures.

Effects of Globalisation

The effects of globalisation can be felt locally and globally, touching the lives of individuals as well as the broader society in the following ways:

- i. **Individuals.** A variety of international influences affect ordinary people. Globalisation can make it easier for people to access raw materials, products

and services. It can also lower the prices they pay and their ability to travel to other countries.

- ii. **Communities.** Globalisation also changes how local and regional organisations, businesses and economies function and interact. It affects who lives in communities, where they work, who they work for, their ability to move out of their community and into one in another area, etc. Globalisation also changes the way local cultures develop within communities.
- iii. **Institutions.** Multinational corporations, national governments and other organisations such as colleges and universities are all affected by their country's approach to and acceptance of globalisation. Globalisation affects the ability of a company to grow and expand, a university's ability to diversify and grow its student body and a government's ability to pursue specific economic policies.

Importance of Globalisation/International Business

Globalisation enables countries to access less expensive natural resources and lower cost labour. As a result, they can produce lower cost goods that can be sold globally. Advocates of globalisation argue that a global economy improves the state of the world in many ways, such as the following:

- i. **Solving Economic Problems:** Globalisation moves jobs and capital to places that need these resources. It gives more developed countries access to lower cost resources and labour, and less developed countries access to jobs and the investment funds they need for development.
- ii. **Promoting Free Trade:** Globalisation puts pressure on nations to reduce tariffs, subsidies and other barriers to free trade. This promotes economic growth, creates jobs, makes companies more competitive and lowers prices for consumers.
- iii. **Spurring Economic Development:** Globalisation can give developing countries access to foreign capital and technology they wouldn't otherwise have, thus bridging the digital divide. Foreign investment can result in an improved standard of living for the citizens of those nations.
- iv. **Encouraging Positive Trends in Human Rights and The Environment:** Advocates of globalisation point to improved attention to human rights on a global scale and a shared understanding of the impact of people and production on the environment.

- v. **Promoting Shared Cultural Understanding:** Advocates view the increased ability to travel and experience new cultures as a positive part of globalisation that can contribute to international cooperation and peace.

.In conclusion, globalisation has fundamentally changed the landscape of international business, creating both opportunities and challenges for companies seeking to operate and compete on a global scale.

1.4.7 Macroeconomic/National Environment

The macroeconomic environment refers to the overall state and conditions of a country's or region's economy, influencing businesses and industries. It encompasses factors like inflation, unemployment, interest rates, and economic growth. Essentially, it is the broad, external factors that shape the economic landscape in which businesses operate. Macroeconomics examines the economy, focusing on aggregate variables like output, spending, and the price level.

Important macroeconomic indicators include:

- i. **Inflation:** The rate at which the general price level of goods and services is rising.
- ii. **Unemployment:** The percentage of the labour force that is unemployed and actively seeking work.
- iii. **Interest rates:** The cost of borrowing money, which influences investment and spending.
- iv. **Economic growth:** The increase in the value of goods and services produced by an economy over time.

Macroeconomic variables are important because they offer a comprehensive view of an economy's health, allowing for informed decision-making by policymakers, businesses, and individuals. They help to assess an economy's strengths and weaknesses, guide economic policy, and enable informed investment decisions. Below is the importance of macroeconomic variables:

- i. **Assessing Economic Health:**
 - a) Macroeconomic indicators like Gross Domestic Product (GDP), unemployment rate, inflation, and interest rates provide a snapshot of the overall economic performance.
 - b) These variables help in evaluating whether an economy is growing, stagnating, or contracting.
 - c) By analysing these trends, policymakers can better understand the challenges and opportunities facing the economy.

- ii. **Guiding Economic Policy:**
 - a) Governments and central banks use macroeconomic data to develop and implement economic policies.
 - b) For example, if inflation is high, policymakers might raise interest rates to cool down the economy.
 - c) Similarly, if unemployment is high, they might consider measures like tax cuts or increased government spending to stimulate demand.
- iii. **Enabling Informed Investment Decisions:**
 - a) Macroeconomic variables influence investment decisions by individuals, businesses, and financial institutions.
 - b) Investors will be more likely to invest in countries or sectors with positive macroeconomic trends like low inflation and high GDP growth.
 - c) Understanding macroeconomic conditions helps businesses make strategic decisions about production, expansion, and market entry.
- iv. **Understanding the Interconnectedness of the Economy:**
 - a) Macroeconomic variables are interconnected, and changes in one variable can have ripple effects throughout the economy.
 - b) For example, a sudden increase in the price of oil (a commodity) can lead to higher inflation and lower economic growth.
 - c) Understanding these linkages is crucial for policymakers and businesses to anticipate and manage potential risks.
- v. **Promoting Stability and Growth:**
 - a) By managing macroeconomic variables effectively, governments can promote economic stability and growth.
 - b) This includes reducing inflation, promoting employment, and encouraging sustainable economic growth.
 - c) Macroeconomic stability is essential for creating a favourable environment for businesses to thrive and for individuals to improve their living standards.

In conclusion, macroeconomic variables are not just numbers; they are powerful tools that help us understand the health and direction of an economy. They are essential for policymakers, businesses, and individuals to make informed decisions and contribute to a more prosperous and stable future.

1.4.8 Microeconomic/Markets and Industries

Microeconomics is the social science that studies the implications of incentives and decisions and how they affect the utilisation and distribution of resources on an individual level. Microeconomics shows how and why different goods have different values. It addresses how individuals and businesses conduct and benefit from efficient production and exchange and how individuals can best coordinate and cooperate with each other. Microeconomics provides a more detailed understanding of individuals, firms, and markets.

Microeconomic variables describe individual economic units: a family, a person, or a company. The different types of variables are:

- a) **Price:** it is the amount of money required for payment of a goods or service
- b) **Individual Expenditure:** it is the amount of money spent by an individual. It can also be the expenditure of a family, business, or individual.
- c) **Quantity Demanded:** The total amount of goods or services that people or businesses are willing to buy.
- d) **Consumption:** The total amount of money that a person spends on goods or services
- e) **Quantity Produced:** The number of goods produced by a person or a company in a given period.
- f) **Wages:** Amount of payment received in exchange for work or services on a regular interval time.
- g) **Cost of Input:** A set of expenditures incurred in producing or providing a product or service.
- h) **Individual Investment:** It is a kind of expenditure that does not have an immediate benefit but will provide a future benefit.
- i) **Market Share of Business:** It is the share of sales by the company concerning the market's total sales.

Importance of Microeconomic/Market and Industries

Microeconomic variables delve into the intricate dynamics at the individual, firm, and industry levels. These variables wield significant influence over decision-making processes, resource allocation, and market behaviours, collectively shaping the microcosms that constitute a thriving economy. The following are the importance of microeconomic:

- i. At the micro level, understanding GDP helps businesses assess market conditions. Firms utilise GDP data to anticipate consumer demand, adjust production levels, and make strategic decisions in response to broader economic trends.

- ii. Microeconomic variables such as prices and market structures directly affect individual businesses. Firms navigate pricing strategies, responding to supply and demand fluctuations, competitive forces, and consumer behaviours to optimize revenue and market share.
- iii. Microeconomics delves into the intricacies of consumer behaviour. Variables like individual preferences, income levels, and purchasing patterns guide businesses in tailoring products and services to meet specific market demands.
- iv. Microeconomic variables elucidate production costs, a critical consideration for firms aiming to maximize profits. Efficient resource allocation, cost minimization, and pricing strategies are intricately linked to microeconomic principles.
- v. At the micro level, labour market variables, including wages and employment conditions, influence a company's ability to attract and retain skilled workers. Understanding these dynamics is crucial for human resource management and strategic planning.
- vi. Microeconomic variables intersect with the regulatory environment. Firms navigate legal frameworks, taxation policies, and industry-specific regulations, impacting business operations, compliance costs, and market competitiveness.

Microeconomic variables form the foundation of economic decision-making at the individual and business levels. Their impact ripples through markets, influencing production, pricing, and resource allocation. In the intricate tapestry of economic interactions, a nuanced understanding of microeconomic variables empowers businesses and individuals to navigate the complexities of their economic microcosms.

1.4.9 Stakeholders

A stakeholder is an individual or a group of individuals with an interest, often financial, in the success of a business. The primary stakeholders in a corporation include its investors, employees, customers, and suppliers.

Types of Stakeholders

Stakeholders can be internal or external to an organisation.

Internal stakeholders are people whose interest in a company comes through a direct relationship, such as employment, ownership, or investment. Internal stakeholders are within the organisation. The project directly impacts them as they

serve and are employed by the organisation managing it. Internal stakeholders can include employees, owners, the board of directors, project managers, investors and more.

External stakeholders do not directly work for or with a company but are affected by the actions and outcomes of the business. Suppliers, creditors, and public interest groups are all considered external stakeholders. External stakeholders are outside of the organisation and are indirectly impacted by the project. They are influenced by the organisation's work but are not employees of the organisation. These people can be suppliers, customers, creditors, clients, intermediaries, competitors, society, government and more.

Examples of Stakeholders

As earlier mentioned, there are many types of stakeholders, many of which fall under the internal or external stakeholder categories. Let us take a look at some of the more common stakeholder examples.

- i. **Senior Management or Executives:** These are leaders who make strategic decisions and have an interest in the project's contribution to organisational goals.
- ii. **Investors:** These are stakeholders looking for a financial return and can be shareholders and debtholders. They have invested capital in the business and want a return on that investment.
- iii. **Employees:** These stakeholders rely on their employment and job security. They have a direct stake in the organisation as it supports them and provides them with benefits.
- iv. **Customers:** These stakeholders want the product or service that the project delivers and they expect it to be of quality and contain value.
- v. **Company Owners:** This person or group of people has a financial stake in the overall success of the organisation.
- vi. **Competitors:** Other organisations in the same industry may be impacted by the project's success or failure.
- vii. **Other Departments:** Adjacent departments or teams in the same organisation may be impacted by the project's outcome or even involved in its implementation (customer service, sales, operations).

- viii. **Suppliers and Vendors:** These stakeholders have their revenue tied up with the project as they sell goods and services to the business managing the project. Project success means more business for them.
- ix. **Communities:** These stakeholders don't want the project to negatively impact their health, safety or economic development. The organisations that are housed in their communities or working on projects in their communities can impact job creation, spending and more.
- x. **Government:** These stakeholders get taxes and gross domestic product from a project. They are major stakeholders as they collect taxes from both the company on a corporate level and individually from those it employs.

The following are the importance of Stakeholders to business:

i. **Providing Resources:**

- a) **Financial Support:** Investors, for example, provide the capital needed for operations and growth.
- b) **Labour and Expertise:** Employees contribute their skills and knowledge, which are essential for daily operations.
- c) **Revenue and Market Access:** Customers, suppliers, and partners provide revenue and influence market access.

ii. **Influencing Decision-making:**

- a) **Strategic planning:** Stakeholder engagement allows businesses to understand diverse perspectives, leading to more informed decisions.
- b) **Risk Management:** Stakeholders can help identify potential risks and opportunities before they become major issues.
- c) **Innovation and Creativity:** Diverse stakeholder input can spark new ideas and improve business operations.

iii. **Building Relationships and Trust:**

- a) **Improved Communication:** Engaging stakeholders foster open dialogue and understanding, leading to better relationships.
- b) **Enhanced Reputation:** Strong stakeholder relationships build trust and confidence, enhancing the company's reputation.
- c) **Greater Alignment:** Engaged stakeholders are more likely to support the company's goals and initiatives.

iv. **Enhancing Business Performance:**

- a) **Increased Efficiency:** Understanding stakeholder needs allows businesses to streamline operations and improve resource allocation.
- b) **Better Project Outcomes:** Stakeholder engagement ensures that projects align with overall business goals and are more likely to succeed.
- c) **Long-term Sustainability:** Addressing stakeholder concerns helps businesses achieve sustainable growth and avoid potential conflicts.

1.4.10 Environmental Scanning

Environmental scanning is a process that systematically surveys and interprets relevant data to identify external opportunities and threats that could influence future business decisions. It is closely related to a SWOT analysis and should be used as part of the strategic planning process.

The purpose of the scan is the identification of opportunities and threats affecting the business for making strategic business decisions. As a part of the environmental scanning process, the organisation collects information regarding its environment and analyses it to forecast the impact of changes in the environment. This eventually helps the management team to make informed decisions.

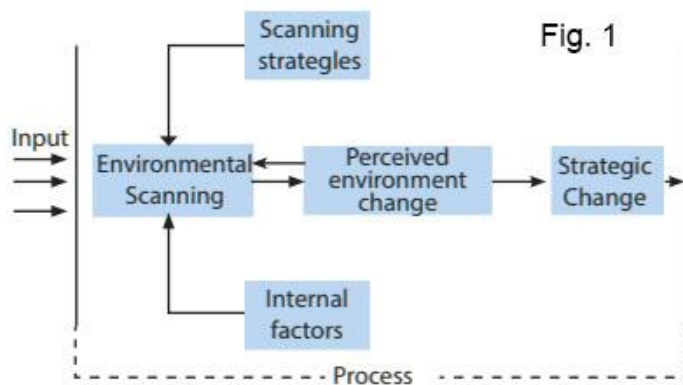


Figure 1.1

As seen from the figure above, environmental scanning should primarily identify opportunities and threats in the organisation's environment. Once these are identified, the organisation can create a strategy which helps in maximizing the opportunities and minimizing the threat.

The environmental scanning can be achieved by several ways but three important ways of scanning environment are given below:

- a) **Ad-hoc Scanning:** Very un-predicted and short-term, mostly used in emergencies or crisis.
- b) **Regular Scanning:** This scanning process being done after a certain period but regularly (e.g. once in a quarter or once in a year)
- c) **Continuous Scanning:** This is an ongoing process and remains in continuous state, have broad range of spectrum.

Nowadays most of the business likes to implement the continuous scanning. The continuous scanning allows businesses to take actions very quickly and effectively with keep tracking the work.

Importance of environmental scanning

Environmental scanning is important for the organisation to step out or find the exact solution for company's procedure. Environmental scanning helps organisations to improve or enhance the ability of working for changing environment in stable means. The following highlighted points are given below:

- i. It enables organisation to gain capitalise of the business in early stages of the business as compare to their competitor.
- ii. Environmental scanning give alerts to the organisation well before time for the impending problems. These problems can be handled and solutions can be found well before time if they are noticed well before time.
- iii. This process sensitizes the company's exact time of changing in environment process to meet the wishes and desire of their potential customers.
- iv. This scanning process helps to find out the qualitative information in regards to the environment to assist the strategist to find the best suitable strategies for the company.
- v. It helps to strategy making bodies in their decision-making process by providing them the simulation of the resource and risks.
- vi. Give more opportunities to increase the business and adds extra points in the good will of the company by adding the ability of environment scanning person.
- vii. It provides opportunity to company's executive in continuing the broad-based studies.

- viii. Helps the strategy developers in finding the latest and up-to date strategies for the organisation.

Important Factors for Environmental Scanning

Before scanning the environment, an organisation must take the following factors into consideration:

Events – These are specific occurrences which take place in different environmental sectors of a business. These are important for the functioning and/or success of the business. Events can occur either in the internal or the external environment. Organisations can observe and track them.

Trends – As the name suggests, trends are general courses of action or tendencies along which the events occur. They are groups of similar or related events which tend to move in a specific direction. Further, trends can be positive or negative. By observing trends, an organisation can identify any change in the strength or frequency of the events suggesting a change in the respective area.

Issues – In wake of the events and trends, some concerns can arise. These are Issues. Organisations try to identify emerging issues so that they can take corrective measures to nip them in the bud. However, identifying emerging issues is a difficult task. Usually, emerging issues start with a shift in values or change in which the concern is viewed.

Expectations – Some interested groups have demands based on their concern for issues. These demands are Expectations.

Each organisation must identify what external factors are most impactful to make the environmental scan a useful tool.

The next step is to conduct an internal scan of the organisation. Review the company's vision, mission and strategic plan. Examine the organisation's strengths and weaknesses. Consider where the company is now and where it plans to be in five or 10 years. Interview or survey leaders of the company. Once an organisation has gathered information about the external world, its competitors and itself, it should then develop strategies to respond to impacts when the need arises.

When conducting an environmental scan, a variety of methods should be used to collect data, including reviewing publications, conducting focus groups, interviewing leaders inside and outside the organisation, and administering surveys.

Environmental scanning is an important component of strategic planning as it provides information on factors that will affect the organisation in the future. The information gathered will allow leadership to proactively respond to external impacts.

Every organisation has an internal and external environment. In order for the organisation to be successful, it is important that it scans its environment regularly to assess its development and understand factors that can contribute to its success. Environmental scanning is a process used by organisations to monitor their external and internal environments.

Sources of information for environmental scanning

Environmental scanning information can be gathered from internal sources like organisational records and employees, as well as external sources like customers, competitors, industry reports, and government publications. Additional sources include online databases, media outlets, and even specialized agencies that offer information and analysis. This is a more detailed breakdown:

i. INTERNAL SOURCES:

- a) **Organisational Records:** This includes internal documents, files, reports, and management information systems (MIS).
- b) **Employee Expertise:** Employees can provide valuable insights into internal processes, customer feedback, and industry trends.
- c) **Organisational Standards and Guidelines:** These can reveal areas where the organisation is strong or needs improvement.

ii. EXTERNAL SOURCES:

- a) **Customers:** Gather feedback, analyse purchasing behaviour, and understand customer needs.
- b) **Suppliers:** Understand supply chain dynamics, potential disruptions, and technological advancements.
- c) **Competitors:** Analyse their strategies, market share, and innovations.
- d) **Trade Directories, Journals, and Magazines:** Provide industry-specific news and analysis.
- e) **News Media:** Monitor current events, economic indicators, and social trends.

- f) **Government Publications:** Access reports, regulations, and policies that impact the business.
- g) **Market Research Reports:** Provide data on market size, trends, and consumer behaviour.
- h) **Online Databases and Search Engines:** Access a wealth of information on various topics.
- i) **Industry Associations:** Provide information on industry standards, best practices, and emerging trends.
- j) **Consultants and Educational Institutions:** Offer specialized knowledge and analysis.
- k) **Specialised Agencies:** Some agencies specialize in providing information on specific industries or issues.

Tools of environmental scanning

Swot analysis

In order to analyse and understand the external and internal business environments, organisations turn to SWOT analysis – an acronym for strengths, weaknesses, opportunities, and threats. The idea is simple, the strengths and weaknesses of an organisation are matched with the threats and opportunities of the environment to formulate an effective strategy. In order to create an effective strategy, it is important that the organisation capitalizes on the opportunities by using its strengths. Also, it must avoid the threats by reducing the impact of the weaknesses.

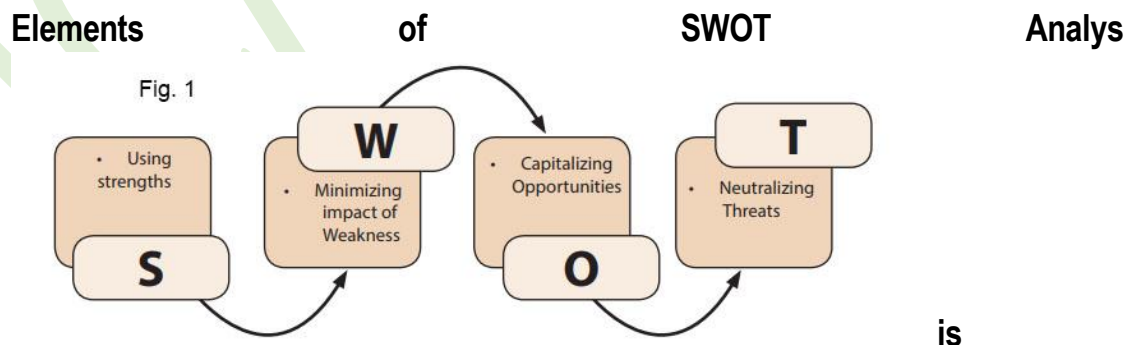


Figure 1.2

- a) **Strengths** – are the aspects of an organisation that make it better than its competitors. For example, the strength of a company can be having one of the best technological tools in the market. A thorough analysis can help the company use it to improve its business.
- b) **Weaknesses** – areas where the organisation needs to improve to remain competitive in the industry. Some examples of weaknesses are high debts, lack of capital, inadequate supply chain, etc.
- c) **Opportunities** – are external factors that can help an organisation in gaining competitive advantage. For example, if a country changes its import laws, then a car exporter can increase his sales by taking advantage of this opportunity.
- d) **Threats** – are factors which have the potential to cause harm to an organisation. For example, a drought is a threat to a crop-producing company as it can destroy the crop.

A SWOT Analysis helps an organisation identify its core strengths and weaknesses as well as opportunities and threats and create a strategy to achieve success. It can be used for specific segments like production, marketing and sales.

Executing a swot analysis

Before an organisation starts a SWOT analysis, it is important to create a company profile. This is primarily a description of what the business does and who its customers are. In the case of large organisations, creating a profile for each segment is equally important. Also, outline the perceived strengths, weaknesses, opportunities, and threats.

Once the basics are in place, a management team can get together and start populating the four elements as specified above. As the list gets populated, the team can brainstorm and find ways to increase the opportunities and improve on its strengths.

In a nutshell, a SWOT analysis gives you a bird's eye view of the current situation of an organisation. The most important factor in a SWOT analysis is the quality of data. Hence, it is important to capture the strengths, weaknesses, opportunities, and threats accurately. Remember, the analysis is merely the beginning of change and improvement.

Benefits of swot analysis to business firm

Expanding on the benefits of SWOT analysis provides an opportunity to delve into how this strategic tool empowers organisations, leaders, and teams to navigate the

complexities of their environments with greater clarity, purpose, and effectiveness. The SWOT framework, by dissecting the internal and external landscapes into Strengths, Weaknesses, Opportunities, and Threats, offers a comprehensive platform for strategic thought and action. Let's take a more detailed look at each benefit and uncover the depth of insight and strategic leverage SWOT analysis can provide.

Comprehensive Overview

The SWOT analysis gives a wider viewpoint. It forces organisations to look at their operational area in a panoramic way, combining self-reflection with studying the environment. This all-inclusive view makes sure that strategic planning stays realistic by considering both the internal abilities of an organisation and outside elements that might affect its path. SWOT analysis takes the complexity and makes it simple to understand, changing abstract ideas into something more manageable.

Identifying Opportunities for Growth

In the SWOT framework, chances are opportunities that exist outside of an organisation's environment to enhance performance. Identifying these opportunities brings two benefits. First, it helps companies match their strengths with external trends for maximum possible success. Second, it boosts the making of proactive strategies. This method helps organisations seize opportunities quickly and efficiently. Be it entering new markets, using technological advancements, or reacting to changes in customer preferences, SWOT analysis shows directions for growth that might remain unknown without such an evaluation.

Recognising and Mitigating Risks

As far as threats go, SWOT analysis works like an early warning system. By learning about possible dangers - such as competitors in the market, changes in regulations, or economic downturns - organisations can make plans to lessen these risks. This is important for creating strategies that are strong enough to handle unforeseen problems. It ensures threats are managed with an understanding of their possible effects on operations and success. Having the power to foresee and prevent dangers before they come into existence could become a vital competitive edge.

Leveraging Internal Strengths

The examination of strengths in SWOT gives companies a reflection of their distinct advantages. These assets are frequently not fully utilised or recognized, and they may include things like special technology, a skilled staff, a powerful brand image, or effective supply chains. By understanding and utilizing these abilities,

organisations can strengthen their place in the market, improve what they have to offer, and create long-lasting competitive edges. Using strengths strategically for increasing impact is an important way to reach the goals and purposes of an organisation.

Addressing Internal Weaknesses

Conversely, examining weaknesses gives a useful stage for internal organisational improvements. Recognizing weaknesses in processes, resources, abilities, or diversity allows organisations to deal with these gaps intentionally and methodically. This could be done via focused investments, reorganizing affairs, or forming strategic alliances - all of which help to reduce weaknesses within an organisation's structure thus making it more flexible while pursuing its strategic aspirations.

Facilitating Strategic Alignment

Strategic alignment, an often-overlooked benefit of SWOT analysis, ensures all parts of the organisation are working together towards similar goals. When teams and departments understand the strengths, weaknesses, opportunities, and threats of their organisation they can align efforts to avoid wasteful duplication or clash in actions. This alignment helps to bring about a united strategy and action which improves the ability of the organisation to achieve its objectives efficiently. It also cultivates a culture of openness and cooperation where those involved in the organisation's strategy share a common vision.

Enhancing Agility and Adaptability

SWOT analysis helps with organisational agility because it fosters ongoing re-evaluation of strategic goals through the lens of rising trends and changes in competitive surroundings. This flexible strategy method lets organisations shift direction quickly when there is a change externally, ensuring they stay relevant and competitive. SWOT analysis, when combined with agility in the strategic planning stage, assists organisations to flourish and not merely endure in an unpredictable environment.

Unlocking Innovation

A detailed exploration of the advantages of SWOT analysis shows its power to stimulate innovation in organisations. Organisations can develop a culture where they recognize and support innovative ideas by using SWOT analysis to find opportunities and utilise internal strengths. SWOT analysis can identify areas that are ready for innovation, such as meeting market demands that have not been fulfilled yet, utilizing new technological advancements, or changing the way current

products and services are provided. This emphasis on innovation promotes constant development and can result in significant discoveries that set the organisation apart from competitors.

Cultivating Strategic Thinking Across the Organisation

SWOT analysis aids in fostering a culture of strategic thinking across the organisation. By engaging different levels of the organisation in the SWOT process, employees become more aware of strategic difficulties and chances that confront their group. This makes decision-making better at all ranks as people and teams consider the wider strategic effects of their actions. Promoting a strategic approach throughout the organisation helps all its talent focus on gaining lasting victory.

Empowering Decision-Making

SWOT analysis gives a clear view that positively impacts decision-making. When leaders have a good understanding of their organisation's place and external situations, they can make decisions with knowledge that is strategic, fair, and future-focused. This advantage in decision-making is very important for dealing with complicated business situations, using resources wisely, and guiding the organisation toward its main goals.

Pitfalls of Using SWOT Analysis by Firms

- i. Some SWOT analysis users oversimplify the amount of data used for decisions – it is easy to use insufficient data.
- ii. The risk of capturing too much data may lead to 'paralysis by analysis'.
- iii. The data used may be based on assumptions that later prove to be unfounded.
- iv. Access to quality internal data sources can be time consuming and politically difficult (especially in more complex organisations).
- v. It lacks detailed structure, so key elements may get missed.
- vi. The pace of change makes it increasingly difficult to anticipate developments that may affect an organisation in the future.

Pestel analysis

We know that a business firm in an economy is affected by both micro and macro factors in its external environment. In addition, these factors are not in control of the firm themselves. However, PESTEL analysis is a tool that helps in analysing these factors. Furthermore, this is what firms use to understand and monitor the macro-environmental factors. So let us see how this is done.

PESTLE or PESTEL Analysis is a tool which helps companies have a ten-thousand-foot view of the macro environment it is operating in. PESTEL is an acronym and the letters stand for **Political, Economic, Social, Technological, Environmental and Legal**. Also, this framework helps to keep track of all the changes happening in the environment.

Moreover, this framework has undergone many changes and also has many variations. Previously it was only PEST analysis. Then the legal environment was included later. At the present time, a debate is going on about including ethics in the framework.

Furthermore, PESTLE is a more comprehensive and inclusive framework than its previous counterparts. As it is relatively easy to understand and implement. Also, it aids management in the decision-making process and urges proactive actions. Thus, the firm is not only reacting to the changes in the environment but also is converting opportunities into results.

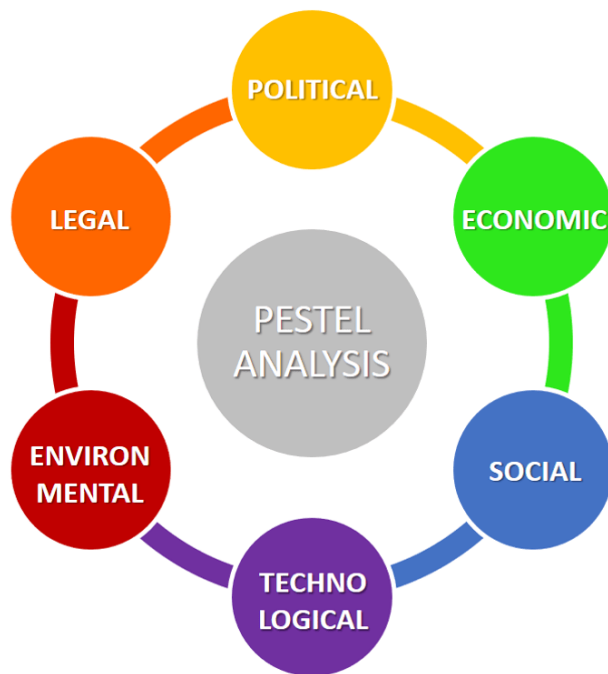


Figure 1.3

Factors of pestel analysis

I. Political

These include factors that affect the extent and the impact of the government on the economy of a country. For example, the laws, taxation policies, monetary

policies, etc. are all a part of the political environment. Additionally, some political factors to consider are as follows:

- a) The political stability of the country
- b) Political ideologies of the government
- c) Taxation policies
- d) Regulatory practices and governing bodies
- e) Term of the government and any expected changes in the future
- f) Influential political leaders and their ideas

II. Economic

Economic factors have a huge effect on the firm and its success. Some of the factors to consider when monitoring the economic environment are as follows:

- a) Economic growth
- b) The current phase of the Trade Cycle (Expansion, Depression, etc)
- c) Inflation rates
- d) Unemployment Rates
- e) Current Interest Rates prevailing in the economy
- f) Important factors of the specific industry
- g) Consumer Spending potential

III. Social

Everything that goes on in a society greatly affects the organisation. Therefore, it is important to analyse social factors while studying the social environment. For example,

- a) Demographics of the market
- b) Consumer Buying Patterns
- c) Religious and Cultural factors
- d) State and influence of the media
- e) Lifestyle trends in place at the time

IV. Technological

The changes in the technological environment can be either an opportunity or a threat to the firm. Hence, some technological factors to look for are:

- a) New production technology
- b) Manufacturing technology (increase in output, lowering of production cost, etc.)
- c) New innovations
- d) Intellectual Property, Patents, etc.
- e) Maturity of technology

V. Legal

This refers to the laws made by the government that the company has to follow in order to continue its operations. For example,

- a) Business Laws
- b) Environment Laws and guides
- c) Health and safety guidelines
- d) International Trade Agreements and Treaties
- e) Regional/Local Laws and Circulars

VI. Environmental

These factors affect industries and their ability to function smoothly. For example, such factors are:

- a) Environmental Issues
- b) Energy/Power Consumption
- c) Insurance Policies
- d) Safe Waste Disposal
- e) Dealing with hazardous material

Steps involved in conducting a pestel analysis

Below is a detailed breakdown of the steps:

- i. **Identify the Objective and Scope:**
 - a) Determine the purpose of the PESTLE analysis. What questions are you trying to answer?
 - b) Define the scope of the analysis. What geographical areas, industries, or products are you focusing on?
- ii. **Research Each Factor:**
 - a) **Political:** Research government policies, regulations, and political stability.

- b) **Economic:** Analyse economic trends like inflation, unemployment, interest rates, and disposable income.
 - c) **Social:** Consider social factors like demographics, cultural values, consumer preferences, and lifestyles.
 - d) **Technological:** Evaluate technological advancements, innovations, and their potential impact on the industry.
 - e) **Environmental:** Analyse environmental regulations, climate change, and sustainability issues.
 - f) **Legal:** Research relevant laws and regulations related to the business or project.
- iii. **Interpret and Organise Data:**
- a) Summarize the findings for each factor.
 - b) Identify key trends and potential impacts.
 - c) Organise the information in a way that is easy to understand and use.
- iv. **Put the Data to Use:**
- a) Make predictions about future trends and their potential impact.
 - b) Adjust strategies, reallocate resources, and make informed decisions based on the PESTLE analysis.
 - c) Communicate the findings to the team to ensure smooth implementation of changes.

Benefits of pestel analysis to business firm

- i. **Quality foresight** - A PESTEL analysis prepares you for future market trends. That knowledge then lets you mitigate potential threats while capitalising on emerging opportunities.
- ii. **Encourages strategy** - A PESTEL analysis helps you gain a deeper understanding of your market, allowing for improved strategic planning.
- iii. **Simple to run** - A PESTEL analysis is easy to set up and produces significant amounts of information.

Pitfalls of using pestel analysis by firms

- i. **Danger of oversimplification** - PESTEL results work on assumptions, and analysts risk disregarding the context of their data. This could lead to making wrong decisions.

- ii. **Difficulty in measuring change** - Markets can shift quickly, and it is often difficult to measure all trends at a particular point in time.
- iii. **Large amounts of data** - A PESTEL analyses many variables, but capturing too much data at once can be overwhelming. Make sure you define the variables needed for your case before you dive into the actual research.

Porter's five (5) forces

Porter's Five Forces is a model that identifies and analyses five competitive forces that shape every industry and helps determine an industry's weaknesses and strengths. Five Forces analysis is frequently used to identify an industry's structure to determine corporate strategy. Porter's model can be applied to any segment of the economy to understand the level of competition within the industry and enhance a company's long-term profitability. The Five Forces model is named after Harvard Business School professor, Michael E. Porter.

Porter's five forces are:

- i. Competition in the industry
- ii. Potential of new entrants into the industry
- iii. Power of suppliers
- iv. Power of customers
- v. Threat of substitute products

I. Competition in the industry

The first of the five forces refers to the number of competitors and their ability to undercut a company. The larger the number of competitors, along with the number of equivalent products and services they offer, the lesser the power of a company. Suppliers and buyers seek out a company's competition if they are able to offer a better deal or lower prices. Conversely, when competitive rivalry is low, a company has greater power to charge higher prices and set the terms of deals to achieve higher sales and profits.

II. Potential of new entrants into an industry

A company's power is also affected by the force of new entrants into its market. The less time and money it costs for a competitor to enter a company's market and be an effective competitor, the more an established company's position could be significantly weakened. An industry with strong

barriers to entry is ideal for existing companies within that industry since the company would be able to charge higher prices and negotiate better terms.

III. Power of suppliers

The next factor in the five forces model addresses how easily suppliers can drive up the cost of inputs. It is affected by the number of suppliers of key inputs of a good or service, how unique these inputs are, and how much it would cost a company to switch to another supplier. The fewer suppliers to an industry, the more a company would depend on a supplier. As a result, the supplier has more power and can drive up input costs and push for other advantages in trade. On the other hand, when there are many suppliers or low switching costs between rival suppliers, a company can keep its input costs lower and enhance its profits.

I. Power of customers

The ability that customers have to drive prices lower or their level of power is one of the five forces. It is affected by how many buyers or customers a company has, how significant each customer is, and how much it would cost a company to find new customers or markets for its output. A smaller and more powerful client base means that each customer has more power to negotiate for lower prices and better deals. A company that has many, smaller, independent customers will have an easier time charging higher prices to increase profitability.

II. Threat of substitutes

The last of the five forces focuses on substitutes. Substitute goods or services that can be used in place of a company's products or services pose a threat. Companies that produce goods or services for which there are no close substitutes will have more power to increase prices and lock in favourable terms. When close substitutes are available, customers will have the option to forgo buying a company's product, and a company's power can be weakened.

Understanding Porter's Five Forces and how they apply to an industry, can enable a company to adjust its business strategy to better use its resources to generate higher earnings for its investors.

1.4.11 Corporate social responsibility

Corporate social responsibility (CSR) is a type of international private business self-regulation that aims to contribute to societal goals of a philanthropic, activist, or charitable nature by engaging in or supporting volunteering or ethically oriented practices.

While it has been considered a form of corporate self-regulation for some time, it has moved considerably from voluntary decisions at the level of individual organisations, to mandatory schemes at regional, national and international levels.

CSR may be based within the human resources, business development or public relations departments of an organisation, or it may be a separate unit reporting to the CEO or the board of directors.

Types of corporate social responsibility

All businesses must do more than seek strong profit margins for success; being socially responsible is part of business survival in today's economy. Companies should take a stance on important social issues to build a brand that consumers trust and respect.

The four types of Corporate Social Responsibility are:

- i. Philanthropy
- ii. Environment conservation
- iii. Diversity and labour practices
- iv. Volunteerism.

I. Philanthropic Efforts

The largest companies in the world are aligned with philanthropic efforts. Microsoft works closely with the Bill and Melinda Gates Foundation to bring technology to communities around the world. The company understands that its success requires not just continued innovation, but building a next generation capable of understanding, using and improving technology.

II. Environmental Conservation

Environmental concerns regularly make the headlines, whether a long-term problem like global climate change or a more local issue such as a toxic chemical spill. Companies that align themselves in these efforts help minimize environmental problems by taking steps such as reducing their overall carbon footprint.

III. Company Diversity and Labour Practices

Business leaders realize that diversity in the workplace is beneficial when everyone is getting along and working as a team. However, labour policies must apply to all employees, even those at the highest levels of the company. As a business leader, review your own diversity policies and protocol to address any complaints and violations. This is not only good for your company image, it also helps build a positive company culture with good morale and high productivity.

IV. Supporting Volunteer Efforts

Local communities and charities always need help. Smart business leaders know that being involved in the community in a productive way is good for the company. Business leaders have the opportunity to choose where to spend volunteer efforts to best help the local area along with the company. The important thing for businesses is to choose a cause and contribute time.

Corporate social initiatives

Corporate social responsibility includes six types of corporate social initiatives:

- i. **Corporate Philanthropy:** company donations to charity, including cash, goods, and services, sometimes via a corporate foundation.
- ii. **Community Volunteering:** company-organised volunteer activities, sometimes while an employee receives pay for voluntary work on behalf of a non-profit organisation
- iii. **Socially-responsible Business Practices:** ethically produced products which appeal to a customer segment
- iv. **Cause Promotions and Activism:** company-funded advocacy campaigns
- v. **Cause-related Marketing:** donations to charity based on product sales
- vi. **Corporate Social Marketing:** company-funded behaviour-change campaigns

All of the six corporate initiatives are forms of corporate citizenship.

Companies generally do not have a profit motive when participating in corporate philanthropy and community volunteering. On the other hand, the remaining corporate social initiatives can be examples of cause marketing, in which there is both a societal interest and profit motive.

Engagement plan of business stakeholders to environment

An engagement plan can assist in reaching a desired audience. A corporate social responsibility individual or team plans the goals and objectives of the organisation. As with any corporate activity, a defined budget demonstrates commitment and scales the program's relative importance. The Engagement plan in Corporate Social Responsibility is as follows:

- I. **A CSR program can be an aid to recruitment and retention**, particularly within the competitive graduate student market. Potential recruits often consider a firm's CSR policy. CSR can also help improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering. CSR has been credited with encouraging customer orientation among customer-facing employees.
- II. **CSR is known for impacting employee turnover**. Several executives suggest that employees are their most valuable asset and that the ability to retain them leads to organisation success. Socially responsible activities promote fairness, which in turn generate lower employee turnover. On the other hand, if an irresponsible behaviour is demonstrated by a firm, employees may view this behaviour as negative.
- III. **Corporate Social Responsibility (CSR) allows businesses large and small to enact positive change**. When companies choose to do what is right not only for their bottom line but also benefit financially while building trust with consumers. Consumers feel that when they use a product or service of a socially responsible company, they are doing their part. The more socially responsible the company, the more supportive the community and consumers become.
- IV. **Corporate social responsibility helps build trust, raise awareness, and encourage social change**. Although there are tens of thousands of companies doing their part, large global corporations' efforts have far-reaching results that can impact major world issues from hunger and health to global warming.

Importance of corporate social responsibility

The benefits of CSR speak volumes about how important it is and why you should make an effort to adopt it in your business. Some clear benefits of corporate social responsibility are:

- I. **Improved Public Image.** This is crucial, as consumers assess your public image when deciding whether to buy from you. Something simple, like staff members volunteering an hour a week at a charity, shows that you are a brand committed to helping others. As a result, you'll appear much more favourable to consumers.
- II. **Increased Brand Awareness and Recognition.** If you are committed to ethical practices, this news will spread. More people will therefore hear about your brand, which creates an increased brand awareness.
- III. **Cost Savings.** Many simple changes in favour of sustainability, such as using less packaging, will help to decrease your production costs.
- IV. **An Advantage Over Competitors.** By embracing CSR, you stand out from competitors in your industry. You establish yourself as a company committed to going one step further by considering social and environmental factors.
- V. **Increased Customer Engagement.** If you are using sustainable systems, you should shout it from the rooftops. Post it on your social media channels and create a story out of your efforts. Furthermore, you should show your efforts to local media outlets in the hope they'll give it some coverage. Customers will follow this and engage with your brand and operations.
- VI. **Greater Employee Engagement.** Similar to customer engagement, you also need to ensure that your employees know your CSR strategies. It is proven that employees enjoy working more for a company that has a good public image than one that doesn't. Furthermore, by showing that you are committed to things like human rights, you are much more likely to attract and retain the top candidates.
- VII. **More Benefits for Employees.** There are also a range of benefits for your employees when you embrace CSR. Your workplace will be a more positive and productive place to work, and by promoting things like volunteering, you encourage personal and professional growth.

Various ways by which a firm can become socially responsible

The various activities, programmes and projects which an organisation can undertake to earn the title of a socially responsible company, may include the following:

- i. Constructing roads and bridges and building public schools in towns and various communities.
- ii. On the part of companies, providing employee welfare thorough giving them good pay, other fringe benefits including housing and medical facilities.
- iii. Providing parks, garages, recreation centre for public use.
- iv. Providing health-care facilities and making effort to protect the environment
- v. Funding research projects and encouraging the endowment of professional chairs in the universities
- vi. Sponsoring sporting activities nationally and internationally
- vii. Contributing to welfare and security in communities, villages and towns
- viii. Doing something to reduce social ills, such as, armed robbery, prostitution, kidnapping, drug-pushing, ritual killings, etc.

Test questions

- 1(a). List and explain the economic and social objectives of business.
- 1(b). Highlight any five (5) features of Sole Proprietorship.
- 1(c). List any ten (10) items contained in the of Deed of Partnership.

Suggested solution

1(a). **Economic Objectives of Business**

Business is an economic activity. Hence, its purpose is to show economic results. Let us clearly understand the economic objectives of business. They are as follows:

- a) **Profit Earning:** Business is a set of activities undertaken with the prospect of sale for the purpose of earning a profit. Profit is the extra income over the expenses. The main objective of any business is to earn a profit. Just as a plant cannot survive without water. Similarly, a business cannot sustain without profit. Profit is necessary for growing and expanding business activities. Profit guarantee a consistent stream of capital for the modernization and augmentation of business activities in the future. Profits likewise show the scale of stability, efficiency, and advancement of the business organisation.

- b) **Market Share / Creation of Customers:** In the words of Drucker, “There is only one valid definition of business purpose; to create a customer. “Profits are not generated out of thin air. They are the result of the hard work of the businessman to satisfy the needs of the customers. In the long run, the survival of the business completely depends upon the market share captured by the business. The creation of good and satisfaction of the needs of the customer is a crucial purpose of the business. So to generate profit and demand, the business must supply premium quality and give value for money products.
- c) **Innovation & Utilisation of Resources:** Innovation normally means to change processes or creating more effective processes, products and ideas. Nowadays, business is ever-changing and dynamic. To keep up with the growing competition a businessman has to introduce efficient design, latest trends, upgraded machinery, new techniques, etc. Large corporations invest a humongous amount of capital in their Research & Development department to boost innovation. Whereas, on the parallel lines, utilisation of resources is a proper use of workforce, raw material, capital and technology used in the business. A business has limited resources and that is why its main objective is to put these resources to correct divisions.
- d) **Increasing Productivity:** Productivity is a scale to measure the efficiency of the business activity. It is usually the last objective but just as important because productivity is measured by the output given by the activities. It is the end result of any business activity. Each business must go for more prominent productivity – to guarantee its survival and development. This goal can be accomplished by decreasing wastages and making proficient utilisation of machines and supplies, HR, cash and so forth.

Social Objectives of Business

According to Dayton Hudson “The business of business is serving society, not just making money.” Business is one of the pillars on which the society stands. Therefore, it is a part of the society. In fact, it cannot thrive without the resources from the society. The business earns its income from the sale of products and services to the society. It is mandatory on the part of the business to take care of the social factors.

The necessary social objectives of a business are as follows:

- a) **Providing Goods & Services at Reasonable Prices:** Business exists in the first place to satisfy the needs of the society. It is the first and major social objective of the business. Products and services ought to be of better quality

and this ought to be provided at sensible costs. It is additionally the social commitment of business to keep away from misbehaviours like boarding, Black promoting and manipulative advertising.

- b) **Employment Generation:** One of the major problem today's generations facing is unemployment. Business generates employment. Therefore, it is the social objective of a business to give chances to beneficial employment to individuals of the society. In a nation like India, unemployment has turned into a critical issue.
- c) **Fair Remuneration to Employees:** The business does not run on its own but the people are responsible for the success and failure of the business. The people on the inside of the business are more valuable that is, employees. They are an asset of the business and make a ground-breaking contribution to the business. They must be given reasonable pay for their work. Notwithstanding wages and salary, a significant piece of profits ought to be distributed among them in acknowledgment of their commitments. Such sharing of benefits will expand the inspiration and proficiency of employees.
- d) **Community Service:** Business must give back something to the society. As a result, the Library, dispensary, educational foundations and so on which a business can make and help in the advancement of society are created. Business enterprises can build schools, colleges, libraries, hospitals, sports bodies and research institutions. They can help non-government organisations (NGOs) like Red Cross Society, and others which render services to weaker sections of society.

1(b). **Features of Sole Proprietorship**

The following are the important features of sole proprietorship business:

- i. It is owned by the promoter as an individual.
- ii. The business is not a legal entity, therefore, not distinct from the owner.
- iii. It is the most common form of business ownership in Nigeria.
- iv. **Individual Initiative Dominates:** The owner of the business takes decision on his own based on experience and sense of judgement without any contributions from anybody.
- v. **Risk Bearing:** The risks of the business are borne by the Proprietor alone. The beauty of this is that he also takes all the profit.
- vi. **Management and Control:** The Proprietor manages and controls the business. He has the option of engaging a manager or not and where

he does, he is assigned insignificant managerial power while the control still resides with the business owner.

- vii. **Unlimited Liability:** The Proprietor is responsible for the losses and liabilities of the business. Where there is an insufficient capital to run the business, he may sell his personal assets.
- viii. **Secrecy:** The Proprietor keeps all the business secrets to himself alone.
- ix. **Minimum Government Regulations:** Government does not interfere with the operations of the business.
- x. The death of the owner might be the end of the business as continuity is usually not guaranteed.

1(c) The deed of partnership contains some or all of the followings:

- a) Name of firm
- b) Names of the partners
- c) The place of business / address
- d) The description of the nature of business/ what the business does
- e) The amount of capital that each partner is to contribute
- f) The role of each partner in the business
- g) The method of profits and losses sharing
- h) The compensation, if any, the partners are to receive for services rendered to the business.
- i) The rights of partners in the business.
- j) Duration or length the partnership.
- k) How matters shall be determined either by majority vote or not.
- l) Provision for the admission of new partners.
- m) The limit of liability of one or more partners.
- n) The arrangements concerning withdrawals or additional investment.
- o) Arrangement for the dissolution of the partnership/firm in the event of death, incompetence, or other causes of withdrawal of one or more of its partners.

2(a). Explain Business Function.

2(b). List and explain any ten (10) examples of Business Functions.

Suggested solution

2(a). Business functions are the high-level groupings of a company's capabilities and processes that describe its work. Business functions ensure an organisation runs properly and does well for its customers, employees, leaders and shareholders. A company can have one primary business function or may have several. It is common for companies to break down their functions across three levels when they are a service-providing business. Take this example of a marketing firm and the levels of its offerings:

- a) Level one: Marketing
- b) Level two: Promotions
- c) Level three: Social media advertising and graphic design

Depending on the industry or size of a company, it is possible to have several top-level functions or even dozens or more level three functions. For example, a graphic design company likely does not need a manufacturing department, though a furniture company does. Some companies set up these business functions within their own businesses as departments, hire specialists within a field or outsource certain responsibilities to other companies to handle them on their behalf.

2(b). **Examples of business functions**

Find below 15 examples of business functions, whether they are the primary focus of a company or a department within it:

- i. **Strategy:** A strategy firm or department develops the strategy, approach and way to implement change for a company. Strategy-based businesses help others reach their goals and objectives through thoughtful planning, decision making and risk assessment. They discover the strengths and weaknesses of a company, find its competitive advantage and plan how to reach business goals, like increasing revenue, expanding to new markets or distributing internationally, for example. Common business strategies include:
 - a) Horizontal or vertical integration
 - b) Diversification
 - c) Market Penetration or Expansion
 - d) Social media engagement
 - e) Search engine optimization
 - f) Sales funnels
 - g) Cost Leadership
 - h) Cooperative strategy partnerships

- ii. **Finance:** A finance and accounting firm or department handles business-related aspects like funding, budgets, accounting and financial oversight. They process tax payments, file tax returns, invoice customers, distribute employee pay checks and track paid time off, record cash flow and expense payments, conduct audits and handle finance or tax law. Another type of financing firm provides companies and small businesses with loans to purchase equipment, inventory or supplies, most often used to raise capital in the manufacturing industry.
- iii. **Sales and marketing:** Sales and marketing businesses or teams promote a company to connect with potential investors, clients, customers or sponsors with the goal of building brand awareness and generating revenue. This includes responsibilities like determining products or services sold, setting competitive pricing and promotions, developing a brand, logo and motto and creating effective marketing and advertising campaigns. Marketing firms or departments can also oversee website development, digital and social media advertising, search engine optimization and public relations. Other duties of a marketing firm or department include:
 - a) Product packaging design
 - b) Event and media planning
 - c) Influencer Marketing
 - d) Email Marketing
- iv. **Research and development:** Research and development (R&D) firms or departments lead innovation. They conduct market research, industry comparisons, trend identification, product development and business experimentation to help companies determine new products, services or revenue streams to generate more profit. Research and development firms and departments have strong analysis experience and a deep understanding of current market conditions for a certain industry or sector. Many technology companies invest in R&D firms or teams to develop and release devices that are more appealing than their competitors and get to market first.
- v. **Information Technology:** Information technology is about the development and operation of applications, systems and hardware and software. IT companies or departments install and maintain communications and security systems, digital networks, internet and cloud storage. They deploy computers, printers and other electronic devices to employees and help with technical

assistance. Sometimes IT firms or departments also help with website development and maintenance and client relationship management.

- vi. **Customer Service:** Customer service companies or departments manage the relationship a company has with its customers. They may handle customer questions, purchases, returns or issues and are highly skilled in communication, conflict management, empathy and patience. With growing technology, customer service representatives can work in-person, over the phone or through online chat platforms to assist customers.
- vii. **Human resources:** Human resource (HR) companies and departments focus on functions related to employees like recruiting talent, screening candidates, hiring employees, explaining benefits, handling performance management and employee relations, developing corporate policies and fostering organisational culture. HR businesses or departments also ensure compliance with local, state and national labour and employment laws, resolve conflicts and investigate claims or allegations.
- viii. **Design:** Design firms or departments handle the visual aspects of brand strategy, identity and design. They create work for both an internal or external audience, like employees or customers, and produce content for print or online advertisements, billboards, websites, radio and television, social media or mobile applications. Aspects of design are important because they help foster a brand's image and reputation.
- ix. **Communications:** A communications department or agency handles all aspects of public relations, corporate communications and crisis management for a company or brand. They write press releases, reach out to reporters and journalists to promote a company, operate as spokespersons when responding to issues or concerns and write speeches or talking points for executives.
- x. **Governance:** Corporate governance is the direction and control of a company through a system of rules, processes and practices. The department oversees the performance of management, how a company is governed and to what extent by identifying what roles and positions have authority and accountability in decision-making. The guiding philosophy of corporate governance often focuses on these four concepts: people, purpose, process and performance.

- xi. **Production:** Production departments or companies are the manufacturing branches of a business to produce products or delivery of services to customers. This could be a factory setting, where teams make airplane parts, for example, or the kitchen of a bakery where breads and sweets are made for a small business or as a supplier to another business. Another kind of production team is one that manages the making of a television show or commercial, movie or musical record.
- xii. **Sourcing:** A sourcing department or company handles the pricing and purchasing of materials, components, equipment, supplies and services, often buying high volumes of items with the goal of lower costs. Job responsibilities can include purchasing, supply chain management, logistics and strategic partnerships for one company or product or several at a time. Sourcing plays a key role in the cost structure of any size business and its long-term competitiveness.
- xiii. **Quality management:** Quality management firms or departments ensure a product or service is consistent and reliable. Quality management procedures often focus on these four steps of production: quality planning, quality assurance, quality control and quality improvement. Teams test a product works to its manufacturing specifications and review and resolve causes of quality issues, not only for the product itself but for the method and means it was made.
- xiv. **Distribution:** Distribution is the process of reaching the customer with products or services on behalf of a company. The manufacturer or company can do the selling and delivery directly itself or through other channels, like distributors or intermediary partners, for example. Retail distribution often has three distinct levels:
 - a) Intensive distribution: To as many outlets as possible
 - b) Selective distribution: To select outlets in specific areas or locations
 - c) Exclusive distribution: To limited outlets
- xv. **Operations:** Operations is the core business process for a company or organisation, and it can vary by industry. For example, an IT company may list its operations as deploying, maintaining and supporting IT services and infrastructure and a manufacturing company lists production and distribution. A restaurant's operations are in the kitchen, often run by an executive chef while an office manager and administrative team run operations for a doctor

or lawyer practice, for example. Regardless of the industry or product, hired teams oversee the operations.

3(a). Highlight the internal and external stakeholders to an organisation.

3(b). List the common examples of stakeholders in any organisation.

3(c). State and explain the importance of stakeholders to an organisation.

Suggested solution

3(a) Types of Stakeholders

Stakeholders can be internal or external to an organisation.

Internal stakeholders are people whose interest in a company comes through a direct relationship, such as employment, ownership, or investment. Internal stakeholders are within the organisation. The project directly impacts them as they serve and are employed by the organisation managing it. Internal stakeholders can include employees, owners, the board of directors, project managers, investors and more.

External stakeholders do not directly work for or with a company but are affected by the actions and outcomes of the business. Suppliers, creditors, and public interest groups are all considered external stakeholders. External stakeholders are outside of the organisation and are indirectly impacted by the project. They are influenced by the organisation's work but are not employees of the organisation. These people can be suppliers, customers, creditors, clients, intermediaries, competitors, society, government and more.

3(b). Examples of Stakeholders

As earlier mentioned, there are many types of stakeholders, many of which fall under the internal or external stakeholder categories. Let us take a look at some of the more common stakeholder examples.

- i. **Senior Management or Executives:** These are leaders who make strategic decisions and have an interest in the project's contribution to organisational goals.
- ii. **Investors:** These are stakeholders looking for a financial return and can be shareholders and debtholders. They have invested capital in the business and want a return on that investment.

- iii. **Employees:** These stakeholders rely on their employment and job security. They have a direct stake in the organisation as it supports them and provides them with benefits.
- iv. **Customers:** These stakeholders want the product or service that the project delivers and they expect it to be of quality and contain value.
- v. **Company Owners:** This person or group of people has a financial stake in the overall success of the organisation.
- vi. **Competitors:** Other organisations in the same industry may be impacted by the project's success or failure.
- vii. **Other Departments:** Adjacent departments or teams in the same organisation may be impacted by the project's outcome or even involved in its implementation (customer service, sales, operations).
- viii. **Suppliers and Vendors:** These stakeholders have their revenue tied up with the project as they sell goods and services to the business managing the project. Project success means more business for them.
- ix. **Communities:** These stakeholders do not want the project to negatively impact their health, safety or economic development. The organisations that are housed in their communities or working on projects in their communities can impact job creation, spending and more.
- x. **Government:** These stakeholders get taxes and gross domestic product from a project. They are major stakeholders as they collect taxes from both the company on a corporate level and individually from those it employs.

3(c). The following are the importance of Stakeholders to business:

i. **Providing Resources:**

- a) **Financial Support:** Investors, for example, provide the capital needed for operations and growth.
- b) **Labour and Expertise:** Employees contribute their skills and knowledge, which are essential for daily operations.
- c) **Revenue and Market Access:** Customers, suppliers, and partners provide revenue and influence market access.

- ii. **Influencing Decision-making:**
 - a. **Strategic planning:** Stakeholder engagement allows businesses to understand diverse perspectives, leading to more informed decisions.
 - b. **Risk Management:** Stakeholders can help identify potential risks and opportunities before they become major issues.
 - c. **Innovation and Creativity:** Diverse stakeholder input can spark new ideas and improve business operations.
- iii. **Building Relationships and Trust:**
 - a. **Improved Communication:** Engaging stakeholders foster open dialogue and understanding, leading to better relationships.
 - b. **Enhanced Reputation:** Strong stakeholder relationships build trust and confidence, enhancing the company's reputation.
 - c. **Greater Alignment:** Engaged stakeholders are more likely to support the company's goals and initiatives.
- iv. **Enhancing Business Performance:**
 - a) **Increased Efficiency:** Understanding stakeholder needs allows businesses to streamline operations and improve resource allocation.
 - b) **Better Project Outcomes:** Stakeholder engagement ensures that projects align with overall business goals and are more likely to succeed.
 - c) **Long-term Sustainability:** Addressing stakeholder concerns helps businesses achieve sustainable growth and avoid potential conflicts.

Unlimited limited Companies

An unlimited liability company is one wherein the liabilities of the members or owners are unlimited to any amount (as stipulated in its memorandum). By implication, in the event that such a company becomes insolvent (its liabilities exceed its assets), and is eventually liquidated or wound up, it becomes mandatory for members of the company to contribute funds (in proportion to their shareholding) in order to settle the unpaid financial obligations of the company. However, it should be noted that the joint or several and non-limited liability of the members or shareholders of such unlimited company to meet the unpaid financial obligations of the company becomes applicable only upon formal liquidation of the company.

Other features of an unlimited liability company, include:

- a) Unlike the limited liability company, the liability of the owners or members of the company are not limited to the amount that they have contributed. This is the main reason why such companies are described as unlimited liability companies, implying that there would be no limit to the losses that might have to be borne by the owners or members of the company.
- b) It is mandatory to state the fact that the company is an unlimited company in its memorandum and articles (MEMAT).
- c) The appellation “Unlimited” must end the name of the company.
- d) Most unlimited liability companies are privately owned companies.
- e) Public companies are obligated to carry out their meetings physically;
- f) 25% of the issued share capital of a public company must be paid up at all times;
- g) The use of common seal is optional;
- h) Appointment of company’s secretary is mandatory;
- i) Directors are mandated to disclose their ages on appointment and other directorship appointments in other public companies;
- j) Public companies must have always at least three (3) independent directors
- k) A restriction on any person from being a director in more than 5 public companies at a time;
- l) Regulation of the allotment of shares to be carried out in accordance with the provisions of the Investment and Securities Act, (“ISA”), and the Federal Competition and Consumer Protection, Act (“FCCP, Act”).
- m) This is to guard the interest of the company with respect to creepy acquisition of company’s control;
- n) Appointment of auditor (s) during the annual general meeting of such companies is mandatory;
- o) Audited financial statement must be hosted on the company’s website; and
- p) The ordinary business for annual general meeting (AGM) of a public company would include disclosure of remuneration of managers of the company, consideration of financial statements, declaration of dividends, appointment and removal of directors, appointment and remuneration of auditors and election of members of audit committee.

1.4.12. Nongovernmental Organisation (NGO)

Nongovernmental organisations (NGOs) are crucial in addressing global humanitarian challenges. These mission-driven entities operate independently from government control, focusing primarily on social, humanitarian, and environmental

issues. There are about 1.5 million NGOs in the United States alone. Both in the U.S. and internationally, they are found wherever humanity's challenges are greatest.

While their name suggests complete independence from government institutions, many NGOs receive some government funding alongside private donations and other revenue sources. This creates shifting dynamics based on levels of state support and the wishes of major donors.

An NGO is a mission-driven entity that operates independently of government control, focusing primarily on social, humanitarian, or environmental issues. While most NGOs are non-profit, they may receive funding from various sources, including government grants, private donations, and international institutions.

The term "NGO" was introduced in the United Nations Charter in 1945, highlighting their role as voluntary citizen groups working for the public good.

Since then, NGOs have become influential actors in international development, advocacy, and humanitarian aid.

Types of NGOs

According to the World Bank, NGOs can be broadly categorized into two main categories:

- i. **Operational NGOs:** These organisations focus on designing and implementing development-related projects.
- ii. **Advocacy NGOs:** These organisations promote specific causes by raising awareness, lobbying, and influencing policies. They work to shape the social and political landscape around particular issues.

These organisations operate at all levels (from local to international) and work to address issues such as poverty, human rights, health care, education, and environmental protection.

The acronym "NGO" serves as an umbrella term encompassing a diverse ecosystem of groups that have evolved to address specific needs and operational niches. As the nongovernmental sector has grown in complexity and reach, various subtypes have emerged that reflect differences in scope, funding sources, governance structures, and relationships with other institutions:

NGO Types at a Glance

Acronym	Full Name	Description	Example
BINGO	Big International NGO	Large NGOs operating across multiple countries with substantial resources and broad scope	The International Red Cross
CSO	Civil Society Organisation	NGOs focused on strengthening civil society and civic participation	Amnesty International
DONGO	Donor Organised NGO	NGOs established and primarily funded by donors to implement their objectives	Gates Foundation
ENGO	Environmental NGO	Organisations focused specifically on environmental issues	Greenpeace, WWF
GONGO	Government-operated NGO	Organisations that appear independent but are actually controlled by governments	China Youth Development Foundation
INGO	International NGO	NGOs operating across national boundaries in multiple countries	Oxfam

Acronym	Full Name	Description	Example
MANGO	Market Advocacy Organisation	NGOs focused on market-based approaches and economic advocacy	Fairtrade International
QUANGO	Quasi-autonomous NGO	Semi-independent organisations that receive public funding with some government appointments	British Broadcasting Corporation (BBC)
RINGO	Religious NGO	Usually guided specifically by a religious organisation and having, at least in part, a religious justification or set of goals	Catholic Relief Services
TANGO	Technical Assistance NGO	Organisations providing specialized technical and professional services	Tango International

Table 1.1

Funding of NGOs

Financial sustainability remains a persistent challenge for many NGOs, driving innovation in funding approaches. Organisations increasingly combine

conventional funding sources (bilateral and multilateral aid) with unconventional methods like microenterprises and impact investing.

Private donations from individuals, corporations, and philanthropic foundations often form the backbone of many NGOs' financial structures. These contributions may range from small individual gifts to substantial grants from major funders like the Gates Foundation and Ford Foundation. Membership dues provide another reliable revenue source, particularly for organisations with strong constituent bases or professional affiliations.

Many NGOs also receive significant funding through government grants and contracts. Despite their "nongovernmental" designation, these organisations often carry out programs aligned with government priorities in international development, humanitarian assistance, or social services. Large international NGOs may secure funding from multiple government donors, including agencies like the U.S. Agency for International Development (U.S.A.I.D.) and their counterparts in other nations.

The scale of NGO finances varies dramatically, from small community-based organisations operating on minimal budgets to international giants managing portfolios worth billions of dollars annually.

Government Support for NGOs

While some NGOs maintain strict independence from governments—Amnesty International stands out in this regard—others operate in close partnership with government bodies while still preserving their nongovernmental status. Government donors may have self-interested motivations, such as enhancing diplomatic relationships, projecting soft power, or improving their international image through association with humanitarian work.

Nevertheless, many receive funding from government sources without compromising their autonomy. This distinction is important—accepting government grants or contracts does not automatically transform an NGO into a government mouthpiece or propaganda outlet. Most reputable NGOs maintain strict operational independence, regardless of funding sources.

1.4.13. Cooperative Societies

Definition: Co-operative

A co-operative is a farm, business, or other organisation which is owned and run jointly by its members, who share the profits or benefits.

In Nigeria, co-operatives are governed by the Nigerian Co-operative Societies Act which mandates eligibility as follows:

- a) Agricultural societies must have 50+ members;
- b) A saving and credit co-operative must have 20+ members;
- c) Other types of co-operative societies need 10+ members.

Co-operatives are organisations in which there are members, and all members:

- a) are actively involved in its activities, and
- b) share in the benefits that the co-operative provides.
- c) There are different types of co-operative.
- d) In a workers' co-operative, a number of individuals co-operate to carry out related activities, such as operating a farm or a factory. They work for the co-operative and they share the benefits that the co-operative provides.
- e) A number of individuals might form a co-operative for the purchase and use of expensive equipment. Each member of the co-operative is entitled to some use of the assets. For example, a number of small farmers might form a co-operative to purchase and use expensive agricultural equipment.
- f) In a retail co-operative society, the members buy goods and services from the retail outlets of the co-operative society, and each year they receive a share of the profits that the society has made.

Co-operatives are more common in some countries than in others.

Example: The UK Co-operative Society

The UK also has a Co-operative Society, whose activities include operating a chain of retail stores and a commercial bank. Individuals can become members by shopping in the Society's outlets, and they receive a share of the Society's annual profits. The size of their profit share depends on the amount of profits that Society has earned and the amount of shopping they have done in the Society's stores.

Co-operatives may be either commercial businesses or not-for-profit organisations. If they are commercial businesses, the profits are shared by the members. In not-for-profit co-operatives, other benefits (such as the output produced by the co-operative) are shared by the members.

Example: Co-operatives in Nigeria

The types of co-operative in Nigeria include:

- a) Consumer co-operatives – established to provide affordable goods and services which are essential to the overwhelming majority of people.
- b) Credit co-operatives – providing savings and affordable loan services to its members.
- c) Agricultural and farmers' co-operatives –the most popular type of co-operative among Nigerians as the agricultural sector involves over 40% of the population (at the time of writing).
- d) Housing co-operatives – a type of co-operative enabling members to buy land, participate in building houses and invest in a real estate business.
- e) Fishing co-operatives – providing fresh or processed fish products as well as discounts for members to buy fishing nets and equipment.
- f) Multipurpose co-operatives – covering a broad range of needs and
- g) sectors. Specific examples of co-operatives in Nigeria include:
- h) GreenLife Multipurpose Co-operative Society – providing agri-technology solutions to entrepreneurs and agricultural co-operatives;
- i) Nasara Agricultural Co-operative Society – an agricultural association that provides agri-based entrepreneurship, empowerment and education;
- j) Happy homes multipurpose co-operative society – established to provide affordable and accessible housing for its members;

- k) Rehabilitation Village Farms Co-operative Society – a 30-member farmers' co-operative which aims to create employment and income generating opportunities for members and other smallholder farmers in Akwa Ibom state. Activities include oil palm plantation development, palm oil milling and the sale of crude palm oil, palm kernel and oil palm seedlings. The society also provides training and technical assistance to small-scale farmers in Akwa Ibom state.

Cooperatives offer a number of benefits to their members.

- a) Cooperatives exist for the benefit of its patron members who, as the owners, also have a direct financial interest in the organisation. This motivates members to pledge their support to the cooperative as both customers consuming the products and as managers/employees/volunteers in running the organisation.
- b) Cooperatives that require mandatory contribution promote a 'savings culture' that helps balance against consumption and spending beyond one's means. A mandatory contribution may be set up as compulsory periodic contributions such as wages or salary deductions.
Adopting a 'savings culture' can be particularly difficult in low-income environments where the immediate pressures to survive are immense. In such situations, the cooperative can help establish a culture of regular savings for future investment and growth.
- c) Cooperatives can assist individuals in accessing loans in the form of cash or goods. This is particularly helpful for low-income earners unable to pledge collateral. An individual's contributions to the cooperative can serve as collateral and fellow contributors may be accepted as guarantors.
- d) There may be an opportunity for individuals to participate in the running of the cooperative. This will help them acquire knowledge and expertise in areas such as enterprise and project management i.e. transferrable skills they can use in future life and business.

Cooperatives also have some drawbacks.

- a) Cooperatives are membership groups run by their membership for their membership. There is a danger that a cooperative might be inefficiently run and whose managers lack the freedom enjoyed by businesses that are motivated by, and accountable to, the profit motive.

- b) Cooperatives may struggle to attract competent managers and other employees who may find higher-paid jobs in commercial businesses more attractive.
- c) Unlike owning shares which are freely traded on a public market, the membership stake in a cooperative can be difficult to transfer or exit

1.4.14 Joint Ventures

A joint venture is a business entity created by two or more parties. It is typified by mutual ownership, returns, risks and governance.

Reasons for entering into joint venture arrangement:

- i. Access to a new or an emerging market;
- ii. Improved efficiencies occasioned by combining assets and operations;
- iii. Opportunity to share business risk;
- iv. Access to competence and skills.

Advantages of a joint venture

- i. Provides opportunity to gain new insights and expertise
- ii. Enables access to specialised technology, staff and other resources
- iii. It is of a limited lifespan and short term commitment In the event that the project fails, risks and costs are jointly shared
- iv. Eradicates the risk of discrimination
- v. Disadvantages of a joint venture
- vi. Flexibility can be restricted
- vii. Degree of partners' involvement may not be equal
- viii. Clash of cultures and management styles may impair the success of the venture iv. It has unclear and unrealistic objectives

1.4.15. Business Functions

Business functions are the high-level groupings of a company's capabilities and processes that describe its work. Business functions ensure an organisation runs properly and does well for its customers, employees, leaders and shareholders. A company can have one primary business function or may have several. It is common for companies to break down their functions across three levels when they are a service-providing business. Take this example of a marketing firm and the levels of its offerings:

- a) Level one: Marketing

- b) Level two: Promotions
- c) Level three: Social media advertising and graphic design

Depending on the industry or size of a company, it is possible to have several top-level functions or even dozens or more level three functions. For example, a graphic design company likely does not need a manufacturing department, though a furniture company does. Some companies set up these business functions within their own businesses as departments, hire specialists within a field or outsource certain responsibilities to other companies to handle them on their behalf.

Examples of business functions

Find below 15 examples of business functions, whether they are the primary focus of a company or a department within it:

- a. **Strategy:** A strategy firm or department develops the strategy, approach and way to implement change for a company. Strategy-based businesses help others reach their goals and objectives through thoughtful planning, decision making and risk assessment. They discover the strengths and weaknesses of a company, find its competitive advantage and plan how to reach business goals, like increasing revenue, expanding to new markets or distributing internationally, for example. Common business strategies include:
 - (i) Horizontal or vertical integration
 - (ii) Diversification
 - (iii) Market Penetration or Expansion
 - (iv) Social media engagement
 - (v) Search engine optimization
 - (vi) Sales funnels
 - (vii) Cost Leadership
 - (viii) Cooperative strategy partnerships
- b. **Finance:** A finance and accounting firm or department handles business-related aspects like funding, budgets, accounting and financial oversight. They process tax payments, file tax returns, invoice customers, distribute employee pay checks and track paid time off, record cash flow and expense payments, conduct audits and handle finance or tax law. Another type of financing firm provides companies and small businesses with loans to purchase equipment, inventory or supplies, most often used to raise capital in the manufacturing industry.

- c. **Sales and marketing:** Sales and marketing businesses or teams promote a company to connect with potential investors, clients, customers or sponsors with the goal of building brand awareness and generating revenue. This includes responsibilities like determining products or services sold, setting competitive pricing and promotions, developing a brand, logo and motto and creating effective marketing and advertising campaigns. Marketing firms or departments can also oversee website development, digital and social media advertising, search engine optimization and public relations. Other duties of a marketing firm or department include:
- a) Product packaging design
 - b) Event and media planning
 - c) Influencer Marketing
 - d) Email Marketing
- d. **Research and development:** Research and development (R&D) firms or departments lead innovation. They conduct market research, industry comparisons, trend identification, product development and business experimentation to help companies determine new products, services or revenue streams to generate more profit. Research and development firms and departments have strong analysis experience and a deep understanding of current market conditions for a certain industry or sector. Many technology companies invest in R&D firms or teams to develop and release devices that are more appealing than their competitors and get to market first.
- e. **Information Technology:** Information technology is about the development and operation of applications, systems and hardware and software. IT companies or departments install and maintain communications and security systems, digital networks, internet and cloud storage. They deploy computers, printers and other electronic devices to employees and help with technical assistance. Sometimes IT firms or departments also help with website development and maintenance and client relationship management.
- f. **Customer Service:** Customer service companies or departments manage the relationship a company has with its customers. They may handle customer questions, purchases, returns or issues and are highly skilled in communication, conflict management, empathy and patience. With growing technology, customer service representatives can work in-person, over the phone or through online chat platforms to assist customers.

- g. **Human resources:** Human resource (HR) companies and departments focus on functions related to employees like recruiting talent, screening candidates, hiring employees, explaining benefits, handling performance management and employee relations, developing corporate policies and fostering organisational culture. HR businesses or departments also ensure compliance with local, state and national labour and employment laws, resolve conflicts and investigate claims or allegations.
- h. **Design:** Design firms or departments handle the visual aspects of brand strategy, identity and design. They create work for both an internal or external audience, like employees or customers, and produce content for print or online advertisements, billboards, websites, radio and television, social media or mobile applications. Aspects of design are important because they help foster a brand's image and reputation.
- i. **Communications:** A communications department or agency handles all aspects of public relations, corporate communications and crisis management for a company or brand. They write press releases, reach out to reporters and journalists to promote a company, operate as spokespersons when responding to issues or concerns and write speeches or talking points for executives.
- j. **Governance:** Corporate governance is the direction and control of a company through a system of rules, processes and practices. The department oversees the performance of management, how a company is governed and to what extent by identifying what roles and positions have authority and accountability in decision-making. The guiding philosophy of corporate governance often focuses on these four concepts: people, purpose, process and performance.
- k. **Production:** Production departments or companies are the manufacturing branches of a business to produce products or delivery of services to customers. This could be a factory setting, where teams make airplane parts, for example, or the kitchen of a bakery where breads and sweets are made for a small business or as a supplier to another business. Another kind of production team is one that manages the making of a television show or commercial, movie or musical record.
- l. **Sourcing:** A sourcing department or company handles the pricing and purchasing of materials, components, equipment, supplies and services,

often buying high volumes of items with the goal of lower costs. Job responsibilities can include purchasing, supply chain management, logistics and strategic partnerships for one company or product or several at a time. Sourcing plays a key role in the cost structure of any size business and its long-term competitiveness.

- m. **Quality management:** Quality management firms or departments ensure a product or service is consistent and reliable. Quality management procedures often focus on these four steps of production: quality planning, quality assurance, quality control and quality improvement. Teams test a product works to its manufacturing specifications and review and resolve causes of quality issues, not only for the product itself but for the method and means it was made.
- n. **Distribution:** Distribution is the process of reaching the customer with products or services on behalf of a company. The manufacturer or company can do the selling and delivery directly itself or through other channels, like distributors or intermediary partners, for example. Retail distribution often has three distinct levels:
 - a) Intensive distribution: To as many outlets as possible
 - b) Selective distribution: To select outlets in specific areas or locations
 - c) Exclusive distribution: To limited outlets
- o. **Operations:** Operations is the core business process for a company or organisation, and it can vary by industry. For example, an IT company may list its operations as deploying, maintaining and supporting IT services and infrastructure and a manufacturing company lists production and distribution. A restaurant's operations are in the kitchen, often run by an executive chef while an office manager and administrative team run operations for a doctor or lawyer practice, for example. Regardless of the industry or product, hired teams oversee the operations.

1.4.16. Importance of Business to its stakeholders

a. Definition of a Stakeholder

Definition

A stakeholder in an organisation is a person who has an interest (or 'stake') in what the organisation does, and who might therefore try to influence the decisions and actions of the organisation.

Stakeholders are individuals and other organisations, but they often have a common interest. It is therefore possible to categorise some stakeholders into groups of people with a similar interest.

Stakeholders can be either:

- a. people or groups within the organisation (internal stakeholders), or
- b. people, groups or other entities that are external to the organisation (external stakeholders).

Internal stakeholders

Within a business organisation, internal stakeholders can be categorised into groups as follows:

- a) Shareholders
- b) executive directors and senior managers
- c) other managers and current employees.

It might be appropriate to divide management and employees into sub-categories, where there are groups with differing interests and concerns. For example, managers and employees in different divisions of the company or in different functional departments might have different interests and concerns.

Shareholders/owners

In large companies, the main shareholders are not usually involved in the day-to-day management (although there are some exceptions). Shareholders in a large company are usually investors, seeking to earn a return on their investment in the form of dividends and a higher share price.

Shareholders leave the management of their company to the board of directors and executive management team. However, they might become more closely involved in the company, and try to influence the decisions of the directors,

when they feel that their interests are threatened. For example, shareholders might express their concerns about any of the following:

- a) Falling profits and a falling share price
- b) Lower dividend payments
- c) A proposal to invest in a major project where the business risk is high
- d) A proposed takeover bid for another company or from another company.

When shareholders feel that their interests are threatened, they might try to become more actively involved in the company. Major shareholders can discuss their concerns with the company chairman and other senior directors. All shareholders might be able to express their displeasure by voting against the directors at a general meeting of the company, although their rights and powers are restricted by company law.

A company might have a majority shareholder, who owns enough shares in the company that the shareholder is able to control the composition of the board and the decisions that the company's directors make. When there is a majority shareholder, the interests of this shareholder might differ from those of the minority shareholders owning the remainder of the shares. (In other words, the majority shareholder and the minority shareholders might be different stakeholder groups.)

Executive Directors and Senior Managers

A board of directors might consist of executive directors and non-executive directors. Executive directors are usually full-time employees of the company (whereas non-executives are not).

As executives and full-time employees, executive directors are involved in the management of the company. Their interests are therefore often similar to the interests of other senior executives, who do not have a position on the board of directors.

The interests of executive directors and senior managers are affected by matters such as:

- a) their remuneration, which consists of basic salary, pension rights, cash bonuses and share incentive schemes
- b) power and status
- c) career prospects

d) job security.

Executive directors and other senior managers often want their company to grow in size, because in a larger company, they expect larger remuneration, more power and status and better career prospects. However, growing the company is not necessarily in the best interests of shareholders, who are more concerned about profitability, dividends and the share price.

Other managers and Employees

Managers in the middle and junior ranks of a management hierarchy might have ambitions to become senior managers. However, their interests and concerns are different. Often, junior managers and other employees share common interests, such as:

- (i) pay
- (ii) working conditions
- (iii) job security
- (iv) job satisfaction
- (v) quality of life.

External stakeholders

Business organisations, particularly large organisations, have a large number of external stakeholders. These include:

- (i) lenders
- (ii) suppliers
- (iii) government
- (iv) customers
- (v) local communities
- (vi) the general public, including special interest groups and pressure groups
- (vii) non-executive directors.

Lenders

Lenders to a company include banks and bondholders. (Companies might issue bonds or debentures in order to raise finance. Interest is paid on the bonds, which represent a debt that the company must eventually repay.) The main concerns of lenders are that the borrower should be able to repay the debt, with interest, on schedule.

Lenders might therefore be concerned about heavy borrowing by a business organisation, because when a borrower gets into heavy debt, the risks increase that it will not be able to meet all the claims for interest and debt repayment, especially if profitability falls.

Suppliers

Business organisations buy goods and services from suppliers. Suppliers will usually agree to allow their customers some credit (time to pay) but their main interests are that:

- a. a customer will pay what is owed and will not become a bad debt
- b. customers will continue to buy from them
- c. customers will treat them fairly, and deal with them in an ethical way.

Government

The government has an interest in all business organisations, but especially large organisations, for a wide range of reasons.

- i. Businesses pay tax on profits, so government has an interest in company profitability.
- ii. The government should want to create and maintain a strong economy. This depends partly (or largely) on new investments by business. Government might therefore want to encourage business investments.
- iii. The government should want to achieve low levels of unemployment. Businesses are major employers.
- iv. The government regulates many different aspects of business activity: employment law, environmental law, health and safety regulations and company law are just a few examples.
- v. The government might be a significant external stakeholder in a business because of its power to introduce new laws and regulations, or amend existing laws.

Customers

Customers have a stake in a business organisation because they expect to obtain value from the goods or services that they buy. The significance of the customer for marketing and business strategy will be explained later in this text.

Local communities

In some cases, local communities might be stakeholders in a business organisation, especially when the organisation is a major employer in the area and the local economy depends on the work and business activity that the organisation brings to the area.

The concerns of a local community might be very strong when a business organisation proposes to close down operations in the area, and make its employees redundant. Business shut down by a major employer in an area has a knock-on effect for other businesses, which will lose trade and income.

Local communities may be interested in the impact of the business operation on the environment and ultimately on the health and economic wellbeing of the immediate environment.

The general public

The general public might consider that it has a stake or interest in major companies, because the actions of these companies can affect society as a whole. Public concerns might be expressed by action groups or pressure groups. Areas of public concern might include:

- (i) public health, especially in the case of food manufacturers and manufacturers of drugs and medicines
- (ii) protection of the environment, reducing pollution, and creating 'sustainable businesses'
- (iii) corruption in business practices (such as bribery)
- (iv) the exploitation of the consumer through mis-selling and misleading descriptions of goods
- (v) the monopolisation of a market by one or a small number of companies. (In the UK for example there is public concern about the dominance of supermarket chains in the retail market, and the shift of retailing from town centres to out-of-town locations.)

Non-executive Directors

Oddly, perhaps, non-executive directors are external stakeholders in a company. Although they are members of the board of directors, they are not full-time employees, and they are usually appointed to a company's board because:

- a. they bring experience and knowledge to the board that they have gained outside the company, and which executive directors often do not have
- b. their interests are different from those of executive directors and senior executives: they are not affected by concerns about remuneration (bonuses and performance incentives), power and status or job security.

Appointing independent non-executive directors (NEDs) to the board of directors of a company is good corporate governance practice, because independent NEDs can help to prevent a company from being dominated by the personal interests of the executive directors.

The main stakeholders

The main stakeholders in a business organisation, internal or external, are those who exercise the greatest influence.

The most influential stakeholders in a company are usually the board of directors, and possibly also senior executives below board level. These are the individuals with the power to make most of the decisions for the company.

The directors will often be influenced by the opinions of their shareholders, especially their largest shareholders, because shareholders can take some action against the directors if they are dissatisfied. For example, shareholders can vote against the re-election of directors (and in extreme cases can vote to have a director removed from office).

Connected stakeholders

Other stakeholder groups, other than the directors, senior management and the shareholders, might influence the decisions that directors and senior management make. The term 'connected stakeholder' means a stakeholder who:

- a) is not a decision-maker, or

- b) is not a part of the permanent (full-time) infrastructure of the organisation, but
- c) is nevertheless very influential in shaping the future of the organisation and the decisions of its leaders.

The main connected shareholders in a company are usually:

- a) non-executive directors
- b) employees
- c) key suppliers
- d) key customers.

The main connected stakeholders in a business organisation must have some power that they are able to use to influence decisions. Some sources of power, and the stakeholders who might have them, are listed below.

Source of power: the power comes from an external source	Example
Legal rights	Shareholders have some legal voting rights under company law. Lenders have legal rights under the terms of their lending agreements: for example, a lender has a right to take action in the event of default by a borrower.
Publicity, and ability to influence customers or legislators	Pressure groups and protest groups might be influential. These include environmental protection groups, human rights protection groups, and animal welfare activists.
Control over key resources	A major supplier could exert influence by controlling the supply of a key resource to the organisation.
Buying power	Customers can exert influence collectively through their buying power. If they do not like what a business organisation is doing, they can switch to buying from competitors.

Position power	Individual employees might be in a position of power within the organisation, perhaps because of special expertise that they possess. Top consultants and investment bankers are examples.
Claim on resources	Power might arise from a claim or control that exists over particular resources of the business. For example, the power of employees or trade union representatives might come from their ability to withhold labour in the event of a dispute with management.
Personal charisma or influence	Some individuals might exercise considerable influence through their personal qualities and charisma.

a. Stakeholder mapping: Mendelow's power/interest matrix

The managers of a business organisation should manage its stakeholders, particularly those with the greatest influence. Stakeholder mapping is a technique that can help senior managers to assess their main stakeholders and consider what should be done (if anything) to win the support of particular stakeholders for particular decisions.

One approach to stakeholder mapping is to evaluate each stakeholder group using a 2×2 matrix. One such matrix is a stakeholder power/interest matrix. This is sometimes called a Mendelow matrix, named after the person who 'invented' it.

The matrix can be used to identify the position of each group of stakeholders in a matter affecting the organisation. The matrix compares:

- a) the amount of interest that the stakeholder has in a particular issue, on a scale ranging from not at all interested (0) to very interested (+10), and

- b) the relative power of the stakeholder, on a scale from very weak (0) to very powerful (+10).

		Interest of the stakeholder	
		Very low (0)	Very high (10)
Power of the stakeholder	Weak (0)	Minimal effort	Keep informed
	Strong (10)	Keep satisfied	Key players

The recommended approach to dealing with the stakeholder group is indicated in each quadrant of the matrix. The key stakeholders are those who have considerable power or influence, and also a keen interest in the matter or decision that management is considering.

- If a stakeholder has very little power and very little interest in a matter, minimal effort is needed trying to keep the stakeholder informed or satisfied about the matter.
- If a stakeholder has very little power but a strong interest in a matter, the appropriate way to deal with them is to keep them informed about what is happening and why. The stakeholder should be kept informed even if they oppose what the organisation is doing.
- If the power of a stakeholder is strong but the stakeholder has very little interest in the matter, it is important to keep the stakeholder satisfied. It is essential to avoid any course of action that will increase the stakeholder's interest and persuade the stakeholder to exercise its power.

- d) The most significant stakeholders are those with a large amount of power and a high level of interest in a matter. These stakeholders are key players, and it is essential to obtain and keep their support.

Example: Mendelow 1

The board of directors of a major company wants to make a takeover bid for another company. Stock market rules require that the agreement of the shareholders must be obtained before any such takeover can go ahead.

In this situation, the shareholders are stakeholders with large power and a high level of interest. Clearly, the board of directors must ensure that they win the full support of the shareholders so that the takeover will go ahead.

Example: Mendelow 2

The directors of a company are planning to shut down an operations centre, because it is losing money.

The employees who will be made redundant or transferred to other jobs within the company are a stakeholder group that probably has relatively little power to affect the shutdown decision. However, their interest in the matter is strong. The directors should keep the employees fully informed about developments, what the company is planning to do, and how this will affect each employee personally.

d. Stakeholder Conflicts of interest

The objectives of stakeholders differ but need not be in direct conflict with each other. For example, shareholders want to receive a good return on their investment. This need not conflict with the objective of executive directors and senior managers to earn high remuneration, especially if their remuneration is performance-related. Employees want a secure job, good pay and good working conditions: these objectives are not inconsistent with the objective of making profits. Customers want value for the money they spend: business organisations make profits by meeting customer needs more successfully than competitors.

A business organisation is therefore normally able to meet many of the objectives of different stakeholders, provided that some compromises are accepted. However, in some exceptional cases, there might be a strong conflict of interests between stakeholder groups in a business organisation.

Avoiding serious conflicts of interest

A company's directors and senior managers should try to avoid serious conflicts of interest between stakeholder groups. One approach is to apply principles of good corporate governance and to recognise the corporate social responsibility of companies.

Corporate governance and corporate social responsibility are explained in a later chapter in this text.

1.4.17 Classifications of Economic Activities Based on Occupation

Economic activities of individuals can be categorised by occupation and described using the following headings:

- a) Profession/vocation;
- b) Employment; and
- c) Business.

Profession/Vocation

A profession is an occupation involving the provision of a personal service of a specialised nature, based on a professional education, training and experience in a specialised role. Professionals are members of a professional body and work to professional standards and a code of ethical conduct set by this body. Many professionals provide services to a client, in return for a fee. (Some professionals choose to work for an employer, in which case they are employees.

Some professionals establish their own business, in which case they come in the 'business' category of economic activity.) The main features of a profession are:

- a) A profession can be described as an occupation for which the individual has to acquire a special knowledge and skill.
- b) Professionals are usually paid a prescribed 'fee' to render their services.

- c) Most professionals are regulated by a professional body, which frames the code of conduct to be followed by members of the profession, for example, the Institute of Chartered Accountants of Nigeria (ICAN).
- d) Professionals typically acquire specialised knowledge from polytechnics, universities and specialised institutes such as the Institute of Chartered Accountants of Nigeria.
- e) Professionals often establish their own firm and charge a fee for services rendered. Alternatively, professionals may opt for a paid job as an employee of an organisation.
- f) The regulatory body has the authority to discipline any professional member that breaches the code of conduct of the regulatory body (e.g. ICAN). Where such a member has been licensed, the license can be withdrawn depending on the gravity of the offence committed.

Employment

Employment involves the provision of a service by an individual to an employer, under a contract of employment, in return for a wage or salary. The employer decides what activities the employee should undertake, and the employer follows the rules of conduct set by the employer. The main features of employment are:

- a) A person (known as an employee) works for another (known as an employer). In return for the labour rendered, an employee receives a salary (usually paid monthly) or wages (usually paid on a daily or weekly basis).
- b) There is usually an employment contract which binds both the employer and employee and a breach by either party permits the other party to take legal action for the enforcement of his/her legal right.
- c) When employment specifies the acquisition of specialist skills or technical knowledge, a certain level of basic or technical education is expected.
- d) The motive for seeking employment is to secure assured income by virtue of wages and/or salaries.
- e) Either party can terminate the contractual relationship giving adequate notice as specified in the contract of employment.

Business

Individuals may establish their own business. A business is an organisation that is concerned with the production of goods or provision of services with the objective of making a profit. Businesses are classified into different types, such as industrial businesses, trading businesses and businesses that assist industrial and trading

businesses, such as transport and warehousing, banking and insurance, advertising and so on. The main features of business are:

- a) The major objective of business is to make profit. This is considered important for the survival and growth of the business.
 - b) Business is an activity where a person engages in manufacturing or selling of goods and/or services.
 - c) The transaction must be continuous to be regarded as business. A single transaction is usually not treated as a business activity. For example, if a person sells his old television at a profit, this would not be regarded as a business activity. However, where he engages in selling television sets on a continuous basis, this shall be regarded as business activity.
- Business involves the investment of capital before its commencement and regularly as may be required for the survival and growth of the business. Every business involves an element of risk.

Benefits and Drawbacks

All three types of economic activity have their benefits and drawbacks.

- a) Professionals and individuals in other specialised vocations contribute specialised skills, and in following the rules of their profession they contribute value to clients and individuals by providing service of a high standard. Some professionals contribute significantly to society and the economy; for example, doctors and nurses contribute to the wellbeing of society and accountants support business by providing information. However, some professional tasks may be criticised for contributing little value to the real economy, whilst creating considerable personal wealth for the individuals concerned: for example, some aspects of banking and auditing may be criticised in this way.
- b) Most businesses need employees to carry out their operations. Employment is therefore at the heart of the business economy. However, most employees do what they are asked to do by their employer, and do not contribute entrepreneurship to the economy. A growing economy needs entrepreneurs and innovation to sustain its growth.
- c) Businesses provide entrepreneurship. They are also the source of much of the real value created by an economy. A criticism of businesses, however, is that many businesses have owners who do not contribute directly to the

activities of the business. Shareholders of companies, for example, may not be involved in the activities of their company; but they benefit from the profits that the business makes.

1.4.18. The Characteristics of Business Environment

The business environment is defined as ***“The sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but the business still depends upon them as they affect the overall performance and sustainability of the business.”***

The following are the characteristics of a business environment:

- i. **Complexity:** The business environment is a complex system of many interacting elements, including internal factors (like employees and resources) and external factors (like customers, markets, and competitors). Changes in one area can have ripple effects on other areas, making it difficult to predict outcomes.
- ii. **Dynamism:** The business environment is constantly changing, influenced by both internal and external factors. Businesses must adapt to these changes to remain competitive and successful.
- iii. **Multifaceted Nature:** The business environment is made up of various factors, including economic, social, political, technological, legal, and environmental dimensions. Understanding these different dimensions is crucial for businesses to make informed decisions.
- iv. **Uncertainty:** Uncertainty is an inherent characteristic of the business environment, as businesses cannot always predict future events or outcomes. Businesses must be prepared to handle unexpected challenges and opportunities.
- v. **Interrelatedness:** The different components of the business environment are interconnected and influence each other. Changes in one area can have a ripple effect on other areas.
- vi. **Relativity:** The business environment is relative, meaning it varies from one location to another and from one industry to another. Businesses must tailor their strategies to the specific environment in which they operate.
- vii. **Far-Reaching Impact:** The business environment has a significant impact on the survival and growth of businesses. Understanding and adapting to the business environment is crucial for long-term success.

- viii. **Importance of Identifying Opportunities and First Mover Advantage:** The business environment presents both challenges and opportunities for businesses. Identifying opportunities and being the first to capitalize on them can provide a significant competitive advantage.

1.4.19. Stakeholders

A stakeholder is an individual or a group of individuals with an interest, often financial, in the success of a business. The primary stakeholders in a corporation include its investors, employees, customers, and suppliers.

Types of Stakeholders

Stakeholders can be internal or external to an organisation.

Internal stakeholders are people whose interest in a company comes through a direct relationship, such as employment, ownership, or investment. Internal stakeholders are within the organisation. The project directly impacts them as they serve and are employed by the organisation managing it. Internal stakeholders can include employees, owners, the board of directors, project managers, investors and more.

External stakeholders do not directly work for or with a company but are affected by the actions and outcomes of the business. Suppliers, creditors, and public interest groups are all considered external stakeholders. External stakeholders are outside of the organisation and are indirectly impacted by the project. They are influenced by the organisation's work but are not employees of the organisation. These people can be suppliers, customers, creditors, clients, intermediaries, competitors, society, government and more.

Examples of Stakeholders

As earlier mentioned, there are many types of stakeholders, many of which fall under the internal or external stakeholder categories. Let us take a look at some of the more common stakeholder examples.

- i. **Senior Management or Executives:** These are leaders who make strategic decisions and have an interest in the project's contribution to organisational goals.
- ii. **Investors:** These are stakeholders looking for a financial return and can be shareholders and debtholders. They have invested capital in the business and want a return on that investment.

- iii. **Employees:** These stakeholders rely on their employment and job security. They have a direct stake in the organisation as it supports them and provides them with benefits.
- iv. **Customers:** These stakeholders want the product or service that the project delivers and they expect it to be of quality and contain value.
- v. **Company Owners:** This person or group of people has a financial stake in the overall success of the organisation.
- vi. **Competitors:** Other organisations in the same industry may be impacted by the project's success or failure.
- vii. **Other Departments:** Adjacent departments or teams in the same organisation may be impacted by the project's outcome or even involved in its implementation (customer service, sales, operations).
- viii. **Suppliers and Vendors:** These stakeholders have their revenue tied up with the project as they sell goods and services to the business managing the project. Project success means more business for them.
- ix. **Communities:** These stakeholders don't want the project to negatively impact their health, safety or economic development. The organisations that are housed in their communities or working on projects in their communities can impact job creation, spending and more.
- x. **Government:** These stakeholders get taxes and gross domestic product from a project. They are major stakeholders as they collect taxes from both the company on a corporate level and individually from those it employs.

The following are the importance of Stakeholders to business:

a. Providing Resources:

- i. **Financial Support:** Investors, for example, provide the capital needed for operations and growth.
- ii. **Labour and Expertise:** Employees contribute their skills and knowledge, which are essential for daily operations.
- iii. **Revenue and Market Access:** Customers, suppliers, and partners provide revenue and influence market access.

b. Influencing Decision-making:

- i. **Strategic planning:** Stakeholder engagement allows businesses to understand diverse perspectives, leading to more informed decisions.
- ii. **Risk Management:** Stakeholders can help identify potential risks and opportunities before they become major issues.
- iii. **Innovation and Creativity:** Diverse stakeholder input can spark new ideas and improve business operations.
- c. **Building Relationships and Trust:**
 - i. **Improved Communication:** Engaging stakeholders foster open dialogue and understanding, leading to better relationships.
 - ii. **Enhanced Reputation:** Strong stakeholder relationships build trust and confidence, enhancing the company's reputation.
 - iii. **Greater Alignment:** Engaged stakeholders are more likely to support the company's goals and initiatives.
- d. **Enhancing Business Performance:**
 - i. **Increased Efficiency:** Understanding stakeholder needs allows businesses to streamline operations and improve resource allocation.
 - ii. **Better Project Outcomes:** Stakeholder engagement ensures that projects align with overall business goals and are more likely to succeed.
 - iii. **Long-term Sustainability:** Addressing stakeholder concerns helps businesses achieve sustainable growth and avoid potential conflicts.

1.5 Chapter review

This chapter explains the nature, types and objectives of business organisations, organisational structures and business environment.

Worked examples

Questions

1(a). Business is an economic activity. Hence, its purpose is to show economic results. Let us clearly understand the economic objectives of business. They are as follows:

Required:

Explain the economic and social objectives of business.

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

Required:

Highlight **FIVE** (5) features of sole proprietorship.

1(c). This arrangement occurs when two or more individuals come together and agree to organise and operate an enterprise jointly with profit as the motive.

List **TEN** (10) items contained in the of Deed of Partnership.

In today's dynamic and competitive marketplace, organisations must operate with clarity, purpose, and efficiency. Whether a startup or a multinational corporation, every business relies on a structured approach to achieve its objectives and deliver value to customers.

2(a). Explain business function.

2(b). Explain **TEN** (10) examples of business functions.

3. Every organisation operates within a network of relationships that influence its decisions, performance, and long-term success. These relationships are shaped by individuals and groups who have a vested interest in the organisation's activities, outcomes, and direction.

Required:

(a). Explain the internal and external stakeholders of an organisation.

- (b). Identify **FIVE (5)** stakeholders of an organisation.
- (c). Explain the importance of stakeholders to an organisation.

Suggested solutions

1(a). **Economic Objectives of Business**

Business is an economic activity. Hence, its purpose is to show economic results. Let us clearly understand the economic objectives of business. They are as follows:

- i. **Profit Earning:** Business is a set of activities undertaken with the prospect of sale for the purpose of earning a profit. Profit is the extra income over the expenses. The main objective of any business is to earn a profit. Just as a plant cannot survive without water. Similarly, a business cannot sustain without profit. Profit is necessary for growing and expanding business activities. Profit guarantee a consistent stream of capital for the modernization and augmentation of business activities in the future. Profits likewise show the scale of stability, efficiency, and advancement of the business organisation.
- ii. **Market Share/Creation of Customers:** In the words of Drucker, “There is only one valid definition of business purpose; to create a customer. “Profits are not generated out of thin air. They are the result of the hard work of the businessman to satisfy the needs of the customers. In the long run, the survival of the business completely depends upon the market share captured by the business. The creation of good and satisfaction of the needs of the customer is a crucial purpose of the business. So to generate profit and demand, the business must supply premium quality and give value for money products.
- iii. **Innovation and utilisation of resources:** Innovation normally means to change processes or creating more effective processes, products and ideas. Nowadays, business is ever-changing and dynamic. To keep up with the growing competition a businessman has to introduce efficient design, latest trends, upgraded machinery, new techniques, etc. Large corporations invest a humongous amount of capital in their Research & Development department to boost innovation. Whereas, on the parallel lines, utilisation of resources is a proper use of workforce, raw material, capital and technology used in the business. A business has limited resources and that is why its main objective is to put these resources to correct divisions.

- iv. **Increasing productivity:** Productivity is a scale to measure the efficiency of the business activity. It is usually the last objective but just as important because productivity is measured by the output given by the activities. It is the end result of any business activity. Each business must go for more prominent productivity – to guarantee its survival and development. This goal can be accomplished by decreasing wastages and making proficient utilisation of machines and supplies, HR, cash and so forth.

Social objectives of business

According to Dayton Hudson “The business of business is serving society, not just making money.” Business is one of the pillars on which the society stands. Therefore, it is a part of the society. In fact, it cannot thrive without the resources from the society. The business earns its income from the sale of products and services to the society. It is mandatory on the part of the business to take care of the social factors.

The necessary social objectives of a business are as follows:

- i. **Providing goods and services at reasonable prices:** Business exists in the first place to satisfy the needs of the society. It is the first and major social objective of the business. Products and services ought to be of better quality and these ought to be provided at sensible costs. It is additionally the social commitment of business to keep away from misbehaviours like boarding, Black promoting and manipulative advertising.
- ii. **Employment generation:** One of the major problem today's generation facing is unemployment. Business generates employment. Therefore, it is the social objective of a business to give chances to beneficial employment to individuals of the society. In a nation like India, unemployment has turned into a critical issue.
- iii. **Fair Remuneration to employees:** The business does not run on its own but the people are responsible for the success and failure of the business. The people on the inside of the business are more valuable i.e. employees. They are an asset of the business and make a ground-breaking contribution to the business. They must be given reasonable pay for their work. Notwithstanding wages and salary, a significant piece of profits ought to be distributed among them in acknowledgment of their commitments. Such sharing of benefits will expand the inspiration and proficiency of employees.

- iv. **Community service:** Business must give something back to the society. As a result, the Library, dispensary, educational foundations and so on which a business can make and help in the advancement of society are created. Business enterprises can build schools, colleges, libraries, hospitals, sports bodies and research institutions. They can help non-government organisations (NGOs) like Red Cross Society, and others which render services to weaker sections of society.

1(b). Features of sole proprietorship

The following are the important features of sole proprietorship business:

- i. It is owned by the promoter as an individual.
- ii. The business is not a legal entity, therefore, not distinct from the owner.
- iii. It is the most common form of business ownership in Nigeria.
- iv. **Individual initiative dominates:** The owner of the business takes decision on his own based on experience and sense of judgement without any contributions from anybody.
- v. **Risk bearing:** The risks of the business are borne by the Proprietor alone. The beauty of this is that he also takes all the profit.
- vi. **Management and control:** The Proprietor manages and controls the business. He has the option of engaging a manager or not and where he does, he is assigned insignificant managerial power while the control still resides with the business owner.
- vii. **Unlimited liability:** The Proprietor is responsible for the losses and liabilities of the business. Where there is an insufficient capital to run the business, he may sell his personal assets.
- viii. **Secrecy:** The Proprietor keeps all the business secrets to himself alone.
- ix. **Minimum government regulations:** Government does not interfere with the operations of the business.
- x. The death of the owner might be the end of the business as continuity is usually not guaranteed.

1(c) The deed of partnership contains some or all of the following:

- i. Name of firm
- ii. Names of the partners
- iii. The place of business/address
- iv. The description of the nature of business/what the business does

- v. The amount of capital that each partner is to contribute
- vi. The role of each partner in the business
- vii. The method of profits and losses sharing
- viii. The compensation, if any, the partners are to receive for services rendered to the business.
- ix. The rights of partners in the business.
- x. Duration or length the partnership.
- xi. How matters shall be determined either by majority vote or not.
- xii. Provision for the admission of new partners.
- xiii. The limit of liability of one or more partners.
- xiv. The arrangements concerning withdrawals or additional investment.
- xv. Arrangement for the dissolution of the partnership/firm in the event of death, incompetence, or other causes of withdrawal of one or more of its partners.

2(a). Business functions are the high-level groupings of a company's capabilities and processes that describe its work. Business functions ensure an organisation runs properly and does well for its customers, employees, leaders and shareholders. A company can have one primary business function or may have several. It is common for companies to break down their functions across three levels when they are a service-providing business. Take this example of a marketing firm and the levels of its offerings:

- a) Level one: Marketing
- b) Level two: Promotions
- c) Level three: Social media advertising and graphic design

Depending on the industry or size of a company, it is possible to have several top-level functions or even dozens or more level three functions. For example, a graphic design company likely does not need a manufacturing department, though a furniture company does. Some companies set up these business functions within their own businesses as departments, hire specialists within a field or outsource certain responsibilities to other companies to handle them on their behalf.

2(b). Examples of business functions

Find below 15 examples of business functions, whether they are the primary focus of a company or a department within it:

- i. **Strategy:** A strategy firm or department develops the strategy, approach and way to implement change for a company. Strategy-based businesses help others reach

- their goals and objectives through thoughtful planning, decision making and risk assessment. They discover the strengths and weaknesses of a company, find its competitive advantage and plan how to reach business goals, like increasing revenue, expanding to new markets or distributing internationally, for example. Common business strategies include:
- a) Horizontal or vertical integration
 - b) Diversification
 - c) Market Penetration or Expansion
 - d) Social media engagement
 - e) Search engine optimisation
 - f) Sales funnels
 - g) Cost Leadership
 - h) Cooperative strategy partnerships
- ii. **Finance:** A finance and accounting firm or department handles business-related aspects like funding, budgets, accounting and financial oversight. They process tax payments, file tax returns, invoice customers, distribute employee pay checks and track paid time off, record cash flow and expense payments, conduct audits and handle finance or tax law. Another type of financing firm provides companies and small businesses with loans to purchase equipment, inventory or supplies, most often used to raise capital in the manufacturing industry.
- iii. **Sales and marketing:** Sales and marketing businesses or teams promote a company to connect with potential investors, clients, customers or sponsors with the goal of building brand awareness and generating revenue. This includes responsibilities like determining products or services sold, setting competitive pricing and promotions, developing a brand, logo and motto and creating effective marketing and advertising campaigns. Marketing firms or departments can also oversee website development, digital and social media advertising, search engine optimization and public relations. Other duties of a marketing firm or department include:
- a) Product packaging design
 - b) Event and media planning
 - c) Influencer Marketing
 - d) Email Marketing
- iv. **Research and development:** Research and development (R&D) firms or departments lead innovation. They conduct market research, industry comparisons,

trend identification, product development and business experimentation to help companies determine new products, services or revenue streams to generate more profit. Research and development firms and departments have strong analysis experience and a deep understanding of current market conditions for a certain industry or sector. Many technology companies invest in R&D firms or teams to develop and release devices that are more appealing than their competitors and get to market first.

- v. **Information Technology:** Information technology is about the development and operation of applications, systems and hardware and software. IT companies or departments install and maintain communications and security systems, digital networks, internet and cloud storage. They deploy computers, printers and other electronic devices to employees and help with technical assistance. Sometimes IT firms or departments also help with website development and maintenance and client relationship management.
- vi. **Customer Service:** Customer service companies or departments manage the relationship a company has with its customers. They may handle customer questions, purchases, returns or issues and are highly skilled in communication, conflict management, empathy and patience. With growing technology, customer service representatives can work in-person, over the phone or through online chat platforms to assist customers.
- vii. **Human resources:** Human resource (HR) companies and departments focus on functions related to employees like recruiting talent, screening candidates, hiring employees, explaining benefits, handling performance management and employee relations, developing corporate policies and fostering organisational culture. HR businesses or departments also ensure compliance with local, state and national labour and employment laws, resolve conflicts and investigate claims or allegations.
- viii. **Design:** Design firms or departments handle the visual aspects of brand strategy, identity and design. They create work for both an internal or external audience, like employees or customers, and produce content for print or online advertisements, billboards, websites, radio and television, social media or mobile applications. Aspects of design are important because they help foster a brand's image and reputation.
- ix. **Communications:** A communications department or agency handles all aspects of public relations, corporate communications and crisis management for a company or brand. They write press releases, reach out to reporters and journalists to

promote a company, operate as spokespersons when responding to issues or concerns and write speeches or talking points for executives.

- x. **Governance:** Corporate governance is the direction and control of a company through a system of rules, processes and practices. The department oversees the performance of management, how a company is governed and to what extent by identifying what roles and positions have authority and accountability in decision-making. The guiding philosophy of corporate governance often focuses on these four concepts: people, purpose, process and performance.
- xi. **Production:** Production departments or companies are the manufacturing branches of a business to produce products or delivery of services to customers. This could be a factory setting, where teams make airplane parts, for example, or the kitchen of a bakery where breads and sweets are made for a small business or as a supplier to another business. Another kind of production team is one that manages the making of a television show or commercial, movie or musical record.
- xii. **Sourcing:** A sourcing department or company handles the pricing and purchasing of materials, components, equipment, supplies and services, often buying high volumes of items with the goal of lower costs. Job responsibilities can include purchasing, supply chain management, logistics and strategic partnerships for one company or product or several at a time. Sourcing plays a key role in the cost structure of any size business and its long-term competitiveness.
- xiii. **Quality management:** Quality management firms or departments ensure a product or service is consistent and reliable. Quality management procedures often focus on these four steps of production: quality planning, quality assurance, quality control and quality improvement. Teams test a product works to its manufacturing specifications and review and resolve causes of quality issues, not only for the product itself but for the method and means it was made.
- xiv. **Distribution:** Distribution is the process of reaching the customer with products or services on behalf of a company. The manufacturer or company can do the selling and delivery directly itself or through other channels, like distributors or intermediary partners, for example. Retail distribution often has three distinct levels:
 - a) Intensive distribution: To as many outlets as possible
 - b) Selective distribution: To select outlets in specific areas or locations
 - c) Exclusive distribution: To limited outlets

- xv. **Operations:** Operations is the core business process for a company or organisation, and it can vary by industry. For example, an IT company may list its operations as deploying, maintaining and supporting IT services and infrastructure and a manufacturing company lists production and distribution. A restaurant's operations are in the kitchen, often run by an executive chef while an office manager and administrative team run operations for a doctor or lawyer practice, for example. Regardless of the industry or product, hired teams oversee the operations.

3(a) **Types of stakeholders**

Stakeholders can be internal or external to an organisation.

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As earlier mentioned, there are many types of stakeholders, many of which fall under the internal or external stakeholder categories. Let us take a look at some of the more common stakeholder examples.

- i. **Senior Management or Executives:** These are leaders who make strategic decisions and have an interest in the project's contribution to organisational goals.

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- i. **Providing resources:**

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 - b) **Labour and expertise:** Employees contribute their skills and knowledge, which are essential for daily operations.
 - c) **Revenue and market access:** Customers, suppliers, and partners provide revenue and influence market access.
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 - b) **Enhanced reputation:** Strong stakeholder relationships build trust and confidence, enhancing the company's reputation.
 - c) **Greater alignment:** Engaged stakeholders are more likely to support the company's goals and initiatives.
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- a) **Increased efficiency:** Understanding stakeholder needs allows businesses to streamline operations and improve resource allocation.
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Foundation Level

Business Environment

CHAPTER

2

THE ROLE OF ACCOUNTANCY IN BUSINESS AND SOCIETY

Contents

- 2.0 Learning objective
- 2.1 Learning outcome
- 2.2 Finance function
- 2.3 Ethics and code of corporate governance
- 2.4 Chapter review

2. The role of accountancy in business and society

2.0. Learning objective

This chapter seeks to offer background understanding of the finance function within an organisation, which includes – financial reporting, management accounting, treasury management internal control, and ethics.

2.1. Learning outcome

At the end of this chapter, readers should be able to:

- (a) list the roles and accounting functions within an organisation to include – financial reporting, management accounting and treasury management;
- (b) explain internal checks and internal controls;
- (c) explain internal audit functions within an organisation;
- (d) explain the roles of statutory audit and assurance in the performance of an organisation;
- (e) define ethics and explain its importance to the professional accountant;
- (f) describe the roles of professional bodies and regulators in promoting ethical awareness and discipline;
- (g) state the fundamental principles of ethics;
- (h) explain the code of conduct as established by ICAN and IFAC for professional accountants;
- (i) describe organisational values that promote ethical behaviours;
- (j) discuss the concept of “acting in public interest”; and
- (k) explain actions that could create ethical conflicts in a business.

2.2. Financial function

2.2.1. Financial reporting

Financial reporting is the process of documenting and communicating financial activities and performance over specific time periods, typically on a quarterly or yearly basis. Companies use financial reports to organise accounting data and report on current financial status. Financial reports are also essential in the projections of future profitability, industry position and growth, and many financial reports are available for public review. There are several primary statements to use when reporting financial data, and the information included in these documents fulfil several key objectives of financial reporting:

- a) tracking cash flow;
- b) evaluating assets and liabilities;
- c) analysing shareholder equity;

- d) measuring profitability; and
- e) importance of financial reporting.

2.2.2 Roles of financial reporting

Financial reporting is a critical practice that is important because it:

- a. **Monitors' income and expenses:** Tracking income and expenses is another important process that financial reporting supports. Monitoring financial documentation is necessary for effective debt management and budget allocation and provides insight into key areas of spending. Monitoring income and expenses ensures that companies track debts regularly to remain transparent in competitive markets. Therefore, financial reporting gives documentation methods to track current liabilities and assets. Accurate financial documentation is also necessary to measure important metrics, including debt-to-asset ratios, which investors use to evaluate how effectively companies settle debts and generate revenue.
- b. **Ensures compliance:** Financial reporting encompasses specific processes that companies follow to comply with mandatory accounting regulations. Each document that is used to evaluate financial activities comes under the review of several financial regulatory institutions. This makes accurate documentation crucial to ensure that all financial reports comply with tax regulations and financial reporting criteria. Accurate financial reporting also simplifies tax, valuation and auditing processes, reducing the time to complete necessary financial obligations and further validating financial compliance.
- c. **Communicates essential data:** Key shareholders, executives, investors and professionals all rely on current financial data to make decisions, plan budgets and monitor performance. The importance of open communication and transparency is necessary to support funding, investment opportunities and financial review. Many investors and creditors rely on the information that companies communicate in financial documentation to assess profitability, risk and future returns.
- d. **Supports financial analysis and decision-making:** Financial reporting is crucial for performing analysis to support business decisions. Using financial statements improves accountability and supports the analysis of critical financial data. Documents like the income statement and statement of financial position provide information that one can use to track historical performance, identify key areas of spending and create forecasts more

accurately. With better-developed data models and detailed financial analysis, reporting helps businesses to evaluate current activities and make decisions for future growth.

Types of financial reports

Most companies prepare three key financial statements which includes statement of financial position, income statement and cashflow statement. The following documents make up the primary records of a company's financial activities:

Statement of financial position

A statement of financial position records the total assets, liabilities and equity of a company. A quick review of the statement shows that the total assets equal the equity and liabilities. Typically, businesses track the statement on a monthly, quarterly or yearly basis from its financial records and the statement also provides an assessment of current assets, liquidity and debt coverage. Commonly, it outlines the following line items:

- i. non-current assets;
- ii. current assets;
- iii. non-current liabilities;
- iv. current liabilities; and
- v. equity.

a. Income statement

Businesses prepare income statements monthly, quarterly or yearly to monitor financial performance. The income statement shows performance of revenue, expenses and profits or losses. There are several key elements on the statement:

- i. revenue (sales turnover);
- ii. cost of sales;
- iii. gross profit;
- iv. Overheads;
- v. net profit;
- vi. tax expense; and
- vii. profit after tax.

b. Statement of cash flow

The statement of cash flow is important for measuring the efficiency with which companies generate cash for its operations. The statement shows details of cash generated from the business operating, investing and financing activities. The statement can also provide investors with valuable insight into whether a business presents a higher investment risk. Typical element of the statement of cash flow are:

- i. operational activities;
- ii. Investing activities; and
- iii. Financing activities.

Users of financial reports

Businesses and corporations depend on analysis and review of financial reports to make investment and financial decisions.. Financial institutions also rely on financial reports to make decisions on providing credit facilities to businesses. The following are the users of financial reports:

- a) **Shareholders and potential investors:** review financial reports to assess companies financial and non-financial performance, and the returns on their investments .
- b) **Creditors:** also use data from financial reports to determine whether to extend credit facilities to a business.
- c) **Managers:** managers also use financial reports to review monthly, quarterly and yearly performance. This will enable them to take appropriate decisions needed to improve performance and being it in line with the expectations of the shareholders.
- d) **Regulatory Institutions:** also review and use financial reports to ensure that businesses adhere to relevant regulations and determine taxes payable to the government and its agencies.
- e) **Unions and Employees:** employees union review business financial reports to ensure members receive fair wages and treatments in a workplace.
- f) **Competitors:** they also review and monitor performance of businesses to use it as benchmark for their own performance.

2.2.3. Management accounting

Management accounting also known as managerial accounting is the application of professional accounting knowledge and skills in preparing accounting information to assist management in decision making and control of the operations of a business.

It supports management's decision on production, marketing and short term decisions for resource allocation to generate optimal performance.

It is primarily used for internal purposes. It involves tracking, analysing, and reporting the economic costs of business activities. For example, when a manufacturing company considers automating a production line, managerial accountants calculate not only the equipment cost but also potential savings in labour, improved quality, and increased capacity.

Roles of management accounting

The following are the **roles of management accounting** in an organisation:

a. Planning

Management accounting helps in setting short-term and long-term goals by providing relevant financial and non-financial information. It supports:

- a) Budget preparation
- b) Forecasting future trends
- c) Resource allocation

Example: A company may use sales forecasts to plan production levels and staffing needs.

b. Controlling

It involves monitoring actual performance against planned objectives. Management accountants provide variance analysis to identify deviations and suggest corrective actions.

Example: If actual expenses exceed the budget, management accounting helps pinpoint the cause and recommend cost-saving measures.

c. Decision-Making

Management accounting provides data-driven insights to support strategic and operational decisions. This includes:

- a) Make or buy decisions
- b) Pricing strategies
- c) Investment appraisals

Example: A company deciding whether to outsource production will rely on cost-benefit analysis from management accounting.

d. Performance Measurement

It helps evaluate the efficiency and effectiveness of departments, teams, and individuals using key performance indicators (KPIs) and financial ratios.

Example: Return on investment (ROI) or profit margins can be used to assess business unit performance.

e. Cost Management

Management accounting tracks, analyses, and controls costs to improve profitability. It includes:

- a) Cost allocation
- b) Activity-based costing
- c) Standard costing

Example: Identifying high-cost areas in production and finding ways to reduce waste.

f. Financial Reporting for Internal Use

Unlike financial accounting, which is for external stakeholders, management accounting focuses on internal reporting tailored to management's needs.

Example: Internal reports may include segment profitability, cash flow projections, or departmental budgets.

g. Risk Management

It helps identify financial and operational risks and suggests ways to mitigate them through scenario analysis and sensitivity analysis.

Example: Assessing the impact of currency fluctuations on international operations.

h. Strategic Management

Management accountants contribute to long-term strategic planning by analysing market trends, competitor performance, and internal capabilities.

Example: Supporting a diversification strategy by evaluating the financial viability of entering a new market.

2.2.4. Treasury management

Treasury management is the strategic oversight and administration of an organisation's financial resources to ensure liquidity, optimise cash flows, manage financial risks, and support overall financial stability. It encompasses cash management, investment strategies, funding decisions, risk mitigation (such as interest rate and currency risk), and financial planning.

Treasury management is about making sure a company has the cash it needs to keep running smoothly, while putting any extra money to good use. It covers handling day-to-day cash flows, making payments, collecting money owed, and deciding where to keep funds for safety and growth. Treasury management also involves planning ahead to avoid financial surprises, managing currency swings or interest rate changes, and making sure the company can always pay its bills.

Roles of treasury management

- i. **Cash management:** Handling a company's daily cash flows ensuring there is enough cash to cover expenses, while putting excess funds to good use. Maintaining smooth operations, avoiding cash shortages, and maximising returns on idle cash. Depending on the company's treasury strategy, maturity and technical proficiency, cash management can be either centralised or decentralised:
 - a. **Centralised:** All cash is managed from a single location, improving control, visibility, and efficiency.
 - b. **Decentralised:** Each business unit manages its own cash, offering flexibility but potentially reducing efficiency.
- ii. **Liquidity management:** Ensuring that the company has enough readily available funds to meet its obligations, while minimising idle cash. Liquidity management aims to keep the company financially stable and reduce unnecessary borrowing costs. Common strategies to liquidity management include utilising multi-currency cash pooling and in-house banking:
 - a. **Cash pooling:** Consolidating cash from different accounts or subsidiaries to improve liquidity and reduce interest costs.
 - b. **In-house banking:** Acting as an internal bank for subsidiaries, managing funding centrally and reducing reliance on external sources.
- iii. **Cash forecasting:** Predicting future cash flows to ensure that the company can meet obligations, when due, and make informed financial decisions. Cash flow forecasting aims to improve planning, avoid shortfalls, and optimise cash usage. Depending on the company's requirements cash forecasted either in short-term or long-term basis:
 - a. **Short-term:** Focuses on daily or weekly cash needs.
 - b. **Long-term:** Looks at broader financial planning and investment strategies.

- iv. **Payment management:** Ensuring secure, efficient, harmonised, and controlled payments across the organisation. Payment management aims to minimise fraud risk, optimise payment workflows, and reduce transaction costs.
 - a. **Payment controls and fraud protection:** Implementing workflows, approvals, and security measures to prevent unauthorised transactions.
 - b. **Efficient payment processing:** Using automation and standardisation to streamline transactions.
- v. **Banking management:** Overseeing relationships with banks and structuring accounts efficiently to support business needs. Aims to reduce banking costs, ensure smooth transactions, and maintain strong partnerships with financial institutions.
 - a. **Managing global bank relationships:** Selecting and maintaining the right banking partners.
 - b. **Account structures:** Setting up accounts for efficiency, cost savings, and risk control.
- vi. **Risk management and hedging strategies:** Identifying and managing financial risks, like currency fluctuations, interest rate changes, and commodity price shifts. It aims to protect the company's financial health from unpredictable market changes.
 - a. **FX risk:** Risk from foreign exchange rate fluctuations.
 - b. **Interest rate risk:** Managing the impact of changing interest rates on debt and investments.
 - c. **Commodity risk:** Managing fluctuations in raw material prices affecting costs.
 - d. **Hedging strategies:** Using financial instruments like derivatives to reduce exposure to these risks.
- vii. **Debt and investment management:** Managing a company's borrowing and investment strategies to balance costs and returns. It aims to secure financing at optimal rates, while investing surplus cash.
 - a. **Managing credit facilities and financing:** Ensuring access to loans and credit lines, when needed.
 - b. **Optimising short-term and long-term investments:** Investing idle cash wisely to generate returns without risking liquidity.

- viii. **Compliance and regulatory management:** Ensuring the company follows financial regulations, tax laws, and reporting requirements. It aims to avoid legal penalties and maintain a strong financial reputation.
- ix. **Treasury technology:** Using treasury management systems, solutions, tools, and software to automate and streamline treasury operations, improve accuracy, and enhance security. It aims to increase efficiency, reduce manual errors, and improve decision-making through real-time data.

Roles and responsibilities of treasury management

Treasury management role	Responsibilities	Key duties
Treasurer	Oversees the entire treasury function and ensures financial stability.	a. Develop treasury policies and strategies, b. Manage liquidity and cash flow, c. Oversee risk management, d. Ensure regulatory compliance, e. Communicate with senior management and stakeholders,
Assistant Treasurer	Supports the Treasurer in managing treasury operations.	a. Assist in cash management and forecasting b. Manage banking relationships c. Support investment and debt management d. Help with risk management and compliance
Cash manager	Manages daily cash flow and liquidity.	a. Monitor and optimise cash positions b. Manage short-term borrowing and investments c. Ensure timely payments and collections d. Prepare cash flow forecasts

Risk manager	Identifies, assesses, and mitigates financial risks.	a. Analyse market, credit, and operational risks b. Monitor and report risk exposures c. Develop risk management strategies d. Implement hedging and risk mitigation techniques
Investment manager	Manages the organisation's investment portfolio	a. Develop investment strategies b. Conduct market research and analysis c. Make investment decisions and manage the portfolio d. Monitor investment performance and report to stakeholders
Treasury analyst	Provides analytical support to the treasury team.	a. Analyse financial data and trends b. Prepare reports and presentations c. Support cash, risk, and investment management d. Assist with treasury technology and systems
Compliance officer	Ensures treasury function adheres to regulations	a. Monitor regulatory changes and ensure compliance b. Develop and implement compliance policies c. Conduct audits and assessments d. Report compliance issues to senior management

Key benefits of treasury management

- i. **Improved cash flow management:** Treasury management aims to ensure that funds are used efficiently, and short-term obligations are met, while emergency borrowing which increases interest rate is reduced.
- ii. **Reduced financial risk:** Treasury management prevents losses from market volatility through hedging strategies by mitigating exposure to foreign exchange, interest rate, and liquidity risks.

- iii. **Increased profitability:** Optimises cash utilisation, minimises unnecessary borrowing costs, reduces idle funds, and maximises investment returns.
- iv. **Enhanced decision-making:** Treasury management provides real-time visibility for cash positions, enables proactive financial planning and helps senior management make data-driven investment and funding decisions.
- v. **Increased efficiency and cost savings:** Treasury management aims to automate manual treasury tasks and optimises payment structures to reduce transaction fees and banking costs.
- vi. **Stronger banking and investor relationships:** Treasury management improves negotiations with banks for better loan terms and lower fees. It also enhances creditworthiness and investor confidence through strong liquidity management.
- vii. **Better forecasting and financial planning:** Treasury management enhances cash flow forecasting accuracy and reduces the risk of liquidity shortages. It also supports long-term financial strategy with reliable projections.
- viii. **Regulatory compliance and tax optimisation:** Treasury management not only ensures adherence to financial regulations but also aims to optimise tax liabilities through effective structuring of cash flows and investments.
- ix. **Fraud prevention and security:** It strengthens payment controls and transaction monitoring to prevent fraud.
- x. **Improved working capital management:** Treasury management speeds up receivables collection and optimises payables timing and also ensures efficient use of internal funds.

2.2.5. Internal checks and internal control

Internal control refers to the processes, procedures, and mechanisms put in place by an organisation to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud. It is a key component of effective governance and risk management. It is a process for assuring of an organisation's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.

Internal control is relevant to everyone in the workplace. It is intended to prevent errors and irregularities, identify problems and ensure that corrective actions are

taken. In many cases, process owners within a department perform controls and interact with the control structure on a daily basis, sometimes without even realising it because controls are built into operations.

Definition of internal control reflects the following fundamental concepts:

- a. Internal control is a process. It is a means to an end, not an end in itself
- b. Internal control is driven by people. It goes beyond policy manuals and forms, it encompasses the actions, attitudes, and responsibilities of individuals at every level of the organisation.
- c. Internal control can be expected to provide only reasonable, not absolute, assurance to an entity's management and board.

Internal controls are established to further strengthen:

- a. the reliability and integrity of information;
- b. compliance with policies, plans, procedures, laws and regulations;
- c. the safeguarding of assets;
- d. the economical and efficient use of resources; and
- e. the accomplishment of established objectives and goals for operations or programmes.

Objectives of internal control

- i. **Efficient conduct of business:** Controls should be in place to ensure that processes flow smoothly and operations are free from disruptions. This mitigates against the risk of inefficiencies and threats to the creation of value in the organisation.
- ii. **Safeguarding assets:** Controls should be in place to ensure that assets are deployed for their proper purposes, and are not vulnerable to misuse or theft. A comprehensive approach to this objective should consider all assets, including both tangible and intangible assets.
- iii. **Preventing and detecting fraud and other unlawful acts:** Even small businesses with simple organisational structures may fall victim to these violations, but as organisations increase in size and complexity, the nature of fraudulent practices becomes more diverse, and controls must be capable of addressing them.
- iv. **Completeness and accuracy of financial records:** An organisation cannot produce accurate financial statements, if its financial records are unreliable.

Financial systems should be capable of recording transactions, so that the nature of business transacted is properly reflected in the financial accounts.

- v. **Timely preparation of financial statements:** Organisations should be able to fulfil their legal obligations to submit their accounts, accurately and on time. They also have a duty to their shareholders to produce meaningful statements. Internal controls may also be applied to management accounting processes, which are necessary for effective strategic planning, decision taking and monitoring of organisational performance.

Roles of internal controls

The essential internal controls every accounting team needs to implement to ensure the accuracy, reliability, and integrity of their company's financial information are explained as follows:

- i. **Separation of duties (SoD)**

The first preventative control to use is separation of duties (SoD). This control aims to prevent fraud, errors, and conflicts of interest by dividing key tasks and responsibilities amongst different individuals within a finance team. In other words, no single person has complete control over a financial transaction from start to finish.

An example of separation of duties would be for one person to be responsible for initiating a transaction, another for authorising it, and a third for reconciling accounts. Another example is, designating separate individuals for a company's accounts payable and for accounts receivable. This ensures that the individual receiving payments is distinct from the individual disbursing funds.

By enforcing a separation of duties, finance teams can create a system of checks and balances that reduces the risk of both intentional and unintentional mismanagement or misuse of funds. It also increases both transparency and accountability within a finance team, which helps avoid the possibility of fraud or mishandling of money.

Implementing a separation of duties can present some challenges, like resistance to change or resource constraints. But these can easily be overcome through training, clear lines of communication, and by leveraging accounting automation to streamline processes and enforce performance of duties more effectively.

- ii. **Access controls**

The second measure every finance team should implement are access controls. These are the policies, procedures, and mechanisms that a finance team puts in place to control and monitor the access to financial data and systems within an organisation. Access controls play a crucial role in safeguarding sensitive financial information by restricting access to data, and preventing unauthorised individuals from tampering with or misusing critical financial information. Examples of access controls would be:

- a) **Physical controls:** The locks on office building's doors, a card security terminal for gaining entry into the IT room, and surveillance cameras that capture unauthorised access to areas where financial data may be stored.
- b) **Administrative access controls:** These include the policies around who can access what information at what times. Examples are, background checks for employees handling sensitive financial data, and guidelines on how to determine who should be granted access to important data.
- c) **Technical controls:** Implementing user accounts with unique usernames and passwords or incorporating multi-factor authentication requirements when signing into financial systems (e.g. requiring a one-time code be sent to a mobile device).

By enforcing these types of controls and adhering to best practices for password management, finance teams can lower the risk of data breaches and financial fraud and ensure more controlled access to confidential financial data and info.

iii. **Physical audits**

Simply put, these are inventory counts that verify a business' physical inventory against what is recorded in the accounting system. Running a physical audit allows one to identify discrepancies, like data entry errors, theft, damage, or inefficiencies in ordering. And by promptly addressing these issues, finance teams can minimise potential risks and improve inventory management as a whole.

It is sometimes necessary to run surprise counts to minimise any potential manipulation of data. And by implementing in-depth documentation for internal audits, including a record of the count, the personnel involved, and any variances noted, the finance team can create a clear audit trail. This documentation makes further physical audits easier and provides valuable insight into where processes can be improved.

To simplify audits even further, technology can increase the efficiency and accuracy of physical counts. For example, inventory management software minimises human error and accelerates how quickly a count can be completed, allowing the finance team to focus on more strategic analysis and decision-making.

iv. Standardised financial documents

Maintaining consistency in the design of important documents like invoices, receipts, and purchase orders not only creates efficiencies, but it also ensures that there is uniformity in financial reporting across an organisation. This uniformity eliminates confusion for internal stakeholders when tracking specific information and minimises accounting errors and discrepancies in entering data.

v. Periodic trial balances

The fifth internal control that every finance team should implement is the preparation of periodic trial balances. This gives a finance team a financial snapshot of specific moments in time (for example, a quarterly report) that allows one to effectively compare current figures against previous balances. A trial balance typically lists all general ledger accounts and their ending balances (debits or credits). If the total of debit entries does not equal the total of credits entries, one knows there is an inconsistency somewhere in the books.

Performing a trial balance is easy, and involves summarising all account balances and comparing the credit and debit totals. This should typically be done periodically, on a regular basis, like at the end of each accounting period (month, quarter, year). The difficulty in the process is in locating the exact issues causing the discrepancies.

vi. Periodic reconciliations

The next internal control to consider are periodic reconciliations. Similar to periodic trial balances, these are run on a regular basis, and compare internal accounting records with records from external sources. Common examples of accounts to reconcile are:

- a) **Bank accounts:** Where one compares internal cashbook balances with bank statements balances to identify any missing deposits, outstanding cheques, or accounting errors.

- b) **Credit card statements:** Ensuring that all charges are legitimate and no unauthorised activity has occurred.
- c) **Accounts receivable:** Comparing the total amount listed in the accounts receivable with the outstanding balances from customers.

Periodic reconciliations are extremely important because they help:

- a) **Identify errors:** Identifying typographical errors, missing transactions, or other mistakes that cause discrepancies.
- b) **Detect fraud:** Discrepancies can be red flags for potential fraudulent activity, allowing for early intervention.
- c) **Ensure compliance:** Regular reconciliations help companies adhere to accounting standards and regulations.
- d) **Maintain accuracy:** They ensure that financial statements reflect a true and accurate picture of the company's financial position.

vii. **Approval workflows**

The final control that every finance team should implement to drive efficiency and support responsible spending approval workflows. These are critical internal control measures that ensure that only authorised spending is taking place. Approval workflows increase transparency and define a clear path for business transactions to be implemented for example, a company's marketing team pitches a new social media campaign. If the team requires ₦5,000,000, an approval workflow may look like this:

- a) **Initial proposal:** The marketing team creates a detailed proposal outlining the campaign goals, budget breakdown, and expected return on investment (ROI).
- b) **Manager review:** The proposal is submitted to the Marketing Manager for initial review, any potential revisions and approval.
- c) **Finance team approval:** Once approved by the Marketing Manager, the proposal is routed to the Finance team for availability of budget provision.
- d) **Approval:** The payment is approved if it is recommended by the finance team.

This is an extremely simplified version of a workflow, but gives a sense of how adding various steps to an approval process on spending can increase accountability. It also creates a documented audit trail so one can track how

money is spent. This multi-layered approach minimises the risk of unwanted spending and ensures the budget is strictly adhered to.

Internal check

Internal check is a component of internal control that refers to the procedures and systems within an organisation designed to ensure that work is automatically checked by another person as part of the normal workflow. It helps prevent and detect errors and fraud by ensuring that no single individual has control over all aspects of a financial transaction. The essential elements of an internal check include:

- a) implementing continuous review of day-to-day transactions;
- b) ensuring that it operates as a part of the system; and
- c) ensuring that the work of each person is complementary to the work of another.

By allocating duties in this way, no one person has exclusive control over any transaction.

2.2.6. Internal audit

An internal audit is an independent review of an organisation's operations, governance, internal controls, and risk management processes to improve the organisation's effectiveness and efficiency. It helps identify weaknesses and inefficiencies, ultimately helping the company achieve its goals by bringing a disciplined approach to evaluating and improving processes. An internal audit is an unbiased review of a company's internal systems, processes, and procedures. The goal of an internal audit is to provide independent assurance over a company's operations.

Types of internal audit

- i. **Compliance audit:** This is a review of a company's operations and procedures to make sure that internal rules, procedures, and policies are being adhered to.
- ii. **Financial audit:** Several audits fall under internal financial audits, such as payroll audits, which are used to ensure that employees are paid correctly. Benefit plan audits are used to ensure that the plans offered by an employer comply with legal requirements and are sufficiently funded.

- iii. **Technology or IT audit:** These audits assess an organisation's information technology infrastructure for vulnerabilities and best practices.
- iv. **Operational audit:** An operational audit assesses an organisation's processes and procedures to identify opportunities for improving operations.
- v. **Performance audit:** This type of audit assesses whether a business meets performance metrics set by management.

Objectives of internal audit

The formal objectives of internal audit may include the following:

- a) review of accounting and internal control systems;
- b) examination of financial and operating information;
- c) review of the 'three E's (economy, efficiency and effectiveness);
- d) review of compliance with laws and regulations;
- e) review of arrangements for safeguarding of assets;
- f) review of implementation of corporate goals and objectives; and
- g) identification of significant risks to the organisation, and monitoring risk management policy and risk management strategies.

Roles of internal audit

- i. **Improve operations:** Internal audits assess the effectiveness of various aspects of the organisation, such as risk management, internal controls, and governance.
- ii. **Identify weaknesses:** By examining the organisation's processes and controls, internal audits can pinpoint areas where improvements can be made.
- iii. **Ensure compliance:** Internal audits help ensure that the organisation is adhering to relevant laws, regulations, and internal policies.
- iv. **Protect assets:** By reviewing financial and operational aspects, internal audits can help safeguard the company's assets.
- v. **Enhance decision-making:** Internal audits provide valuable insights and data that can inform strategic decisions and improve overall performance.

Benefits of internal audits

- i. **Improved efficiency and effectiveness:** By identifying and addressing weaknesses, internal audits can lead to significant improvements in operational efficiency.
- ii. **Reduced risk:** By assessing and mitigating risks, internal audits can help protect the organisation from financial and reputational damage.
- iii. **Enhanced compliance:** By ensuring adherence to laws and regulations, internal audits can help avoid legal and financial penalties.
- iv. **Improved decision-making:** Internal audits provide valuable insights that can inform strategic decisions and improve overall performance.

2.2.6. Statutory audit and assurance

Statutory audits are mandated by law, with a view to ensuring that financial statements are accurate and reliable for public disclosure. Assurance, on the other hand, is a broader term that provides confidence in financial and non-financial information, thereby benefiting stakeholders. While statutory audits are a specific type of audit, assurance encompasses various forms of auditing and verification processes.

Audit and assurance represent distinct concepts with different scopes and objectives. Understanding the differences between audit and assurance is crucial for businesses, stakeholders, and professionals in the field.

Critical differences between audit and assurance, highlighting their unique characteristics and purposes

Audit: An audit is a systematic and independent examination of an organisation's financial statements, records, and processes. It is performed by an external auditor who assesses financial information's accuracy, completeness, and reliability. The immediate purpose of an audit is to express an opinion on the fairness and compliance of the financial statements with applicable accounting standards and regulations.

Elements of an audit

An audit involves several key elements that distinguish it from other financial services:

- i. **Independence:** Auditors must maintain independence from their auditing organisation (audit client) to ensure objectivity and impartiality in their evaluations.
- ii. **Extensive testing:** Auditors perform detailed testing and analysis of financial transactions, controls, and supporting documentation to form an opinion on the financial statements.
- iii. **Compliance focus:** Audits emphasise compliance with accounting standards, legal requirements, and established internal controls.
- iv. **Historical perspective:** Audits provide an assessment of past financial performance and are backward-looking in nature.

Assurance: Assurance, on the other hand, encompasses a broader range of services beyond financial statement audits. It involves evaluating and assuring information, systems, processes, or controls to provide confidence to stakeholders. The objective of assurance engagements is to enhance the reliability, credibility, and usefulness of the information being evaluated.

Vital elements of audit and assurance

Assurance engagements share some similarities with audits, but they have distinct characteristics:

- i. **Diverse engagements:** Assurance services go beyond financial statement audits and can include reviews, examinations, and agreed-upon procedures related to non-financial aspects, such as sustainability reporting, cybersecurity, or internal controls.
- ii. **Stakeholder needs:** Assurance engagements are driven by the specific needs of stakeholders, such as investors, regulators, customers, or the general public.
- iii. **Forward-looking perspective:** Unlike audit, an assurance engagement can assure future-oriented information, forecasts, or performance measures.
- iv. **Broader scope:** Assurance engagements focus on financial information and non-financial aspects that impact the overall reliability and credibility of information or processes.

Audit versus Assurance

While both audit and assurance share the common goal of providing confidence, they differ in scope, focus, and objectives:

- i. **Scope:** Audits are primarily concerned with financial statements, while assurance engagements can cover a broader range of subjects, including non-financial information.
- ii. **Compliance vs. reliability:** Audits emphasise compliance with accounting standards, while assurance engagements focus on enhancing the reliability and usefulness of the information.
- iii. **Historical vs. future-oriented:** Audits assess past financial performance, whereas assurance engagements can assure future-oriented information or processes.

2.3. Ethics and code of corporate governance

2.3.1. Ethics

Workplace ethics refers to a specific set of moral and legal guidelines that organisations may abide with. These guidelines typically influence the way employees and customers alike interact with an organisation. In essence, workplace ethics guide how organisations serve their clients and how they treat their employees. Ethics in accounting refers to the principles and standards that guide accountants in conducting their duties. These principles include integrity, objectivity, professional competence, confidentiality, and professional behaviour.

“Ethics is a conception of right and wrong conduct. Ethics tell us when our behaviour is moral and when it is not moral. Ethics deal with fundamental human relationship – how we think and behave towards others and how we want them to think and behave towards us.” — Post, Frederick, and Lawrence

“Ethics are formalised principles derived from social values. These are moral principles which originate from social value and represent rules for moral behaviour and conduct of individuals or groups.” — Webster’s Directory

These definitions reveal the following characteristics of ethics:

- a) **Ethics is a set of moral standards and values acceptable in a society.** It is relevant in the context of a society.
- b) **Ethics guides human conduct or behaviour.** If any member of the society behaves contrary to the norms and customs, society disapproves it. Moral

principles serve as a guide for personal and professional conduct. Ethics check people from taking decisions and actions which are harmful to society.

- c) **Ethical principles are universal in nature.** These prescribe obligations and virtues for everybody in a society. Ethics is important not only in business and politics, but in every human endeavour.
- d) **Ethical standards differ from society to society.** What is considered ethical behaviour in one society might be considered unethical in another. For example, abortion and artificial birth control is a taboo in most of the Islamic countries and Catholic Christian communities, but these practices are fully ethical in China, Russia, Japan and many other countries. Similarly, euthanasia (mercy killing) is permitted in some countries but is strictly unethical in most countries.
- e) **Ethics is normative or prescriptive in nature.** It does not deal with what is, but what ought to be. It does not rest on feelings of approval or disapproval, but on principles. For example, it may be unpleasant to fire an employee, but morality may require it.
- f) **Ethical norms might not be legally binding.** Norms may be more powerful than law because these have the sanction of society. When a person's behaviour is inconsistent with the prevailing values and norms, it is called unethical. Ethics serves as a guide to law by highlighting its shortcomings.
- g) **Ethics relates to the behaviour of individuals and groups.** Ethical norms do not apply to the behaviour of animals, birds, and insects. Only human beings have the capacity to guide and regulate their behaviour.
- h) **Ethics are not hard and fast rules.** They are an expression of a society's attitudes and beliefs. There is an element of discretion, as a person has the option to adopt ethical norms. Ethics may differ from place-to-place and time-to-time.
- i) **There exist no sharp boundaries between ethical and non-ethical.** People often face ethical dilemmas wherein a clear cut choice is very difficult.
- j) **Ethics aims at perfection in human conduct.** It guides law makers in framing laws to regulate the behaviour of all citizens.
- k) **The concepts of equity and justice are implicit in ethics.** Fair and equitable treatment to all is its primary aim.

- l) **Ethics and morality are interrelated (related) but not synonymous (identical).**

Core values in ethics that are relevant to accountants

- i. **Integrity:** Accountants must be honest, transparent, and ethical. They should act with integrity at all times and maintain high ethical standards.
- ii. **Objectivity:** Accountants should remain objective and unbiased in their work. They should not allow personal interests or relationships to influence their professional judgment.
- iii. **Professional competence and due care:** Accountants should possess the necessary knowledge, skills, and expertise to perform their duties competently. They should also exercise due care and diligence when performing their work.
- iv. **Confidentiality:** Accountants should maintain the confidentiality of their client's information and not disclose it without their consent, except when required by law.
- v. **Professional behaviour:** Accountants should always behave professionally and not engage in any conduct that would damage their reputation or the profession.
- vi. **Respect for the law:** Accountants should comply with all laws and regulations governing their profession and clients' business.

These core values are the foundation of ethical behaviour in the accounting profession. They help to ensure that accountants act with integrity and maintain the trust of their clients and the general public.

2.3.2. Importance of ethics to the professional accountant

i. Ensuring accurate financial reports

One of the reasons that ethics are essential in accounting is to ensure the accuracy and conciseness of financial reports. Financial statements are the backbone of any business, and they must be correct to enable their users understand the performance of the company and enable them make their investment decisions. Ethical accountants will not manipulate data to make their clients' financial situation look better than it is. Instead, they will provide accurate financial reports reflecting the company's true financial situation.

ii. Promoting accountability and trust

Ethical accounting practices promote accountability and trust. Investors, shareholders, and the public can trust a company's financial reports, if they are transparent and accurate. This trust is essential for the success of any business because it provides a solid foundation for long-term relationships. However, if a company is known to manipulate its financial data, it will not only lose the trust of its stakeholders, but may also face legal penalties.

iii. Preventing fraud and financial crimes

Properly trained accountants can spot financial activities that are suspicious and report them to the relevant authorities. This helps protect the company from losing money and keeps the public safe from fraud. Ethical accounting practices help prevent fraudulent activities, such as theft, misappropriation of funds, and other financial crimes.

iv. Promoting integrity and professionalism

Ethical accounting practices promote a culture of integrity and professionalism. Companies that prioritise ethical behaviour in their accounting practices are more likely to attract and retain skilled and honest accountants. Such professionals are motivated to work for companies that share their values and are more likely to stay with the company for a very long time. This stability promotes efficiency, reduces employee turnover, and improves financial performance.

2.3.3. Roles of professional bodies and regulators in promoting ethical awareness and discipline

Professional bodies play a crucial role in promoting ethical practices within various fields and industries. Their influence helps maintain standards, protect public interest, and enhance the credibility of professions. **Roles of professional bodies**

Establishing codes of ethics: Professional bodies often develop and publish codes of ethics or conduct that outline the expected behaviour and moral principles for their members. These codes serve as a basis for ethical decision-making and professional conduct.

- i. Providing training and resources:** They offer training programmes, workshops, and resources to educate members about ethical issues and challenges in their fields. This helps professionals understand the importance of ethics in their work and how to handle ethical dilemmas.
- ii. Setting standards:** Professional bodies establish standards for practice that reflect ethical considerations. By defining what constitutes acceptable behaviour, they guide members in maintaining professional integrity.

- iii. **Certification and accreditation:** Many professional bodies provide certification or accreditation that signify adherence to ethical practices. This not only enhances the professional's credibility, but also assures clients and the public of the professional's commitment to ethical standards.
- iv. **Monitoring and enforcement:** Professional bodies often have mechanisms in place to monitor members' behaviour and enforce ethical standards. This may include investigating complaints, holding disciplinary hearings, and imposing sanctions for unethical conduct.
- v. **Promoting accountability:** They encourage accountability among members, by requiring transparency and reporting of unethical practices. This fosters a culture of responsibility and integrity within the profession.
- vi. **Advocating for public interest:** Professional bodies advocate for the public interest, ensuring that members prioritise the welfare of clients and society. This includes awareness campaigns about the ethical implications of professional practices.
- vii. **Continuous professional development (CPD):** By mandating CPD, professional bodies ensure that members stay updated on ethical practices and emerging issues in their fields, reinforcing the importance of ethics throughout a professional's career.
- viii. **Facilitating dialogue:** Professional bodies provide platforms for discussion on ethical issues, promoting dialogue among members about challenges and best practices. This collaborative approach fosters a community dedicated to upholding ethical standards.
- ix. **Influencing policy and legislations:** They may engage with policymakers to influence laws and regulations that uphold ethical standards in the profession, thereby extending their impact beyond their membership.

In conclusion, professional bodies play a very important role in promoting ethical awareness and discipline within various professions through education, standard-setting, enforcement, and advocacy, ultimately benefiting both the professionals and the public they serve.

2.3.4. Fundamental principles of ethics

The four fundamental principles of ethics are beneficence, non-maleficence, autonomy, and justice. These principles provide a framework for making ethical decisions, particularly in the professions. Below is a broader perspective of these principles:

- i. **Beneficence:** This principle emphasises the duty to act in ways that benefit others. It involves taking actions that promote well-being and improve quality of life.
- ii. **Non-maleficence:** This principle dictates that one should "do no harm." It involves avoiding actions that could cause harm or injury to others.
- iii. **Autonomy:** This principle recognises the right of individuals to make their own decisions about their own lives and bodies. It emphasises respecting the decisions of others and ensuring they have the freedom to choose.
- iv. **Justice:** This principle concerns the fair distribution of benefits and burdens within society. It involves ensuring that everyone has equal access to resources and opportunities, and that decisions are made in a just and equitable manner.

These four principles are often used together to guide ethical decision-making in various contexts, including clinical practice, research, and business.

Code of conduct established by ICAN and IFAC for Professional Accountants

The fundamental principles within the Code integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, establish the standards of behaviour expected of a professional accountant (PA). It also reflects the profession's recognition of its public interest responsibility.

a. Integrity

The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness. A professional accountant should not be associated with reports, returns, communications or other information, when they believe that the information:

- i. contains a materially false or misleading statement;
- ii. contains statements or information furnished recklessly; and
- iii. omits or obscures information required to be included where such omission or obscurity would be misleading.

b. Objectivity

The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or undue influence of others.

A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. Relationships that bias or unduly influence the professional judgment of the professional accountant should be avoided.

c. Professional competence and due care

The principle of professional competence and due care imposes the following obligations on professional accountants:

- i. to maintain professional knowledge and skills at the level required to ensure that clients or employers receive competent professional service; and
- ii. to act diligently in accordance with applicable technical and professional standards when providing professional services.

Competent professional service requires the exercise of sound judgment in applying professional knowledge and skills in the performance of such service. Professional competence may be divided into two separate phases:

- i. attainment of professional competence; and
- ii. maintenance of professional competence.

The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development develops and maintains the capabilities that enable a professional accountant to perform competently within the professional environments.

Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

A professional accountant should take steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.

Where appropriate, a professional accountant should make clients, employers or other users of his professional services aware of limitations inherent in the services, to avoid the misinterpretation of an expression of opinion as an assertion of fact.

d. Confidentiality

The principle of confidentiality imposes an obligation on professional accountants to refrain from:

- i. disclosing outside the firm or employing organisation confidential information acquired as a result of professional and business relationships, without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
- ii. using confidential information acquired as a result of professional or business relationships to their personal advantage or the advantage of third parties.

A professional accountant should maintain confidentiality even in social environments. The professional accountant should be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a close or immediate family member.

A professional accountant should also maintain confidentiality of information disclosed by a prospective client or employer.

A professional accountant should also consider the need to maintain confidentiality of information within the firm or employing organisation.

A professional accountant should take all reasonable steps to ensure that staff under the professional accountant's control and persons from whom advice and assistance is obtained respect the professional accountant's duty of confidentiality.

The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant and a client or employer. When a professional accountant changes employment or acquires a new client, the professional accountant is entitled to use prior experience. The professional accountant should however not, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.

The following are circumstances where professional accountants are/or may be required to disclose confidential information or when such disclosures may be appropriate:

- i. disclosure is permitted by law and is authorised by the client or the employer;
- ii. disclosure is required by law, for example:
 - a) production of documents or other provision of evidence in the course of legal proceedings; and
 - b) disclosure to the appropriate public authorities of infringements of the law that come to light.
- iii. there is a professional duty or right to disclose, when not prohibited by law:
 - a) to comply with the quality review of a member firm or professional body;
 - b) to respond to an inquiry or investigation by a professional body or regulatory authority;
 - c) to protect the professional interests of a professional accountant in legal proceedings; and
 - d) to comply with technical standards and ethics requirements.

In deciding whether to disclose confidential information, professional accountants should consider the following points:

- i. whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant;
- ii. whether all the relevant information is known and substantiated, to the extent that is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment should be exercised in determining the type of disclosure to be made, if any;
- iii. the type of communication that is expected and to whom it should be addressed; in particular, professional accountants should be satisfied that the parties to whom the communication is addressed are the appropriate recipients.

f. Professional behaviour

The principle of professional behaviour imposes an obligation on professional accountants to comply with relevant laws and regulations, and avoid any

action that may bring discredit to the profession. These include actions which a reasonable and informed third party, having knowledge of all relevant information, would conclude that they negatively affect the good reputation of the profession.

In marketing and promoting themselves and their work, professional accountants should not bring the profession into disrepute. Professional accountants should be honest and truthful and should not:

- i. make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
- ii. make disparaging references or unsubstantiated comparisons to the work of others.

2.3.5. Organisational values that promote ethical behavior

Organisational values that promote ethical behaviour include accountability, communication, leadership, building trust, open communication, respect, and transparency. These values are crucial for fostering a workplace where ethical conduct is not only encouraged but also expected. Find below these values as explained:

- i. **Accountability:** Holding individuals and the organisation responsible for their actions and decisions is essential for ethical behaviour. It fosters a culture of responsibility and trust.
- ii. **Communication:** Open and effective communication channels allow for the sharing of ideas, concerns, and ethical dilemmas, enabling a more informed and ethical decision-making process.
- iii. **Leadership:** Leaders set the tone for ethical behaviour by demonstrating ethical decision-making and accountability, serving as role models for their teams.
- iv. **Building Trust:** Trust is a cornerstone of ethical behaviour, as it fosters collaboration and open communication, leading to more ethical decision-making.
- v. **Open communication:** Encouraging open dialogue and the expression of diverse perspectives creates an environment, where ethical issues can be addressed constructively.
- vi. **Respect:** Demonstrating respect for individuals and their perspectives, rules, regulations and laws is fundamental to ethical behaviour.

- vii. **Transparency:** Being open and honest about decisions and practices, build trust and promote accountability.

2.3.6. Acting in the Public interest

Acting in public Interest (API): This term refers to acting for the common good of the community. When a professional accountant performs his professional work, functions and duties in a manner that does not protect only the interests of his clients or employing organisation, but also the interests of the public, he is said to be acting in the public interest

The public interest is an important, though abstract notion associated with the public benefit, rather than matters in which the public is interested. The accountancy profession's actions to further the public interest include:

- a. developing technical and behavioural standards;
- b. establishing an infrastructure for training, development, monitoring and enforcement to help ensure that those standards are applied; and
- c. promoting programmes to advance thinking and developing guidance to further the profession's contribution to business and society.

The profession adjusts these actions and evolves the standards that members apply, in response to changes in social and commercial norms.

The public interest is an abstract notion. The true measure of whether someone is acting in the public interest lies in the confidence of those affected, not those making the pronouncements.

Acting in the public interest, often discussed in relation to public administration and ethics, refers to decision-making and actions that prioritise the overall welfare and well-being of society, rather than personal or narrow interests. It is a concept fundamental to a representative democratic system and good governance. While the term is widely used, defining what constitutes "public interest" can be complex and context-dependent. The key aspects of acting in the public interest are:

- i. **Prioritising societal welfare:** Actions and decisions should be guided by what benefits the majority or the broader community, not just a specific group or individual.
- ii. **Transparency and accountability:** Decisions should be open to scrutiny and those making them should be held responsible for their actions.

- iii. **Objectivity and impartiality:** Public interest considerations should be free from bias or personal agendas, aiming for fairness and equity.
- iv. **Balancing competing interests:** Often, different groups or interests will have conflicting needs. Decision-makers need to carefully weigh these and find solutions that minimise harm to all involved.
- v. **Ethical considerations:** Acting in the public interest is closely linked with ethical principles, such as honesty, integrity, and fairness.

Examples of acting in the public interest

- i. **Regulations designed to protect public health:** For instance, regulations on food safety, pollution, or sanitation.
- ii. **Social programmes:** Public education, healthcare, and welfare systems all aim to address societal needs and benefit the public.
- iii. **Environmental protection:** Measures to combat climate change or preserve natural resources are examples of acting in the public interest.
- iv. **Public safety:** Laws and enforcement mechanisms designed to protect citizens from crime and harm.

Challenges in identifying and acting in the public interest

- i. **Defining "Public Interest":** The concept can be broad and subject to various interpretations, making it difficult to agree on what specific actions are truly in the public interest.
- ii. **Balancing competing interests:** Different groups may have conflicting views on what constitutes the public interest, requiring careful consideration and compromise.
- iii. **Influence of special interests:** Powerful individuals or groups may try to influence decisions in their own favour, potentially at the expense of the public interest.
- iv. **Balancing short-term and long-term benefits:** Decisions may have immediate benefits, but long-term negative consequences, requiring careful consideration of all impacts.

In conclusion, acting in the public interest is a complex and multifaceted concept that requires careful consideration of societal needs, ethical principles, and the potential consequences of decisions. It is a fundamental principle of good governance and a key element of a just and equitable society.

2.3.7. Actions that could create ethical conflicts in a business

Ethical conflicts in business arise when actions or decisions within a company clash with ethical principles or standards, creating dilemmas. These conflicts can stem from competing ethical guidelines, differing interpretations, or conflicts between personal and organisational ethics. Below is a more detailed look at ethical conflicts in business and their causes:

- i. **Lack of clear ethical guidelines:** When a company lacks a clear Code of Ethics or a well-defined process for ethical decision-making, employees may struggle to navigate difficult situations and make choices that align with their own values.
- ii. **Conflicts of interest:** Employees may face dilemmas when their personal interests or relationships conflict with the interests of the company, potentially leading to unethical decisions.
- iii. **Unrealistic goals and pressure:** Overly demanding goals or pressure to meet targets can lead employees to compromise ethical standards in order to achieve them.
- iv. **Toxic workplace culture:** A culture that tolerates or encourages unethical behaviour can create an environment where ethical conflicts are more likely to arise.
- v. **Ethical dilemmas:** Situations where there are two or more options, but none of them is entirely acceptable from an ethical perspective, can lead to conflict and uncertainty.

Examples of ethical conflicts

- i. **Discrimination:** One of the biggest ethical issues affecting the business world is discrimination. For some time now, many organisations have come under fire for lacking a diverse workforce, which is often down to discrimination. However, discrimination can occur within businesses of all sizes. It applies to any action that causes an employee to receive unfair treatment. Discrimination is not just unethical, in many cases, it is also illegal. There are statutes to protect employees from discrimination based on age, gender, race, religion, disability, and more. Nonetheless, the gender and race pay gaps show that discrimination is still rampant. Other common instances

of discrimination include firing employees when they reach a certain age or giving fewer promotions to people of ethnic minorities.

- ii. **Harassment:** The second major ethical issue businesses face is harassment, which is often related to racism or sexism. This can come in the form of verbal abuse, sexual abuse, teasing, racial slurs, or bullying. Harassment can come from anyone in the company, as well as from customers. In particular, it is an ethical issue for the business, if a supervisor is aware of harassment from a client and takes no action to prevent it. In addition to causing a toxic workplace, harassment can cause employees to leave the company prematurely, this is another reason why some businesses lack diversity. Harassment can have a long-term impact on employees: psychologically, in terms of earnings, and even impacting a person's entire career path.
- iii. **Creative accounting:** Publicly-traded companies may engage in unethical accounting to appear more profitable than they actually are. In other cases, an accountant or bookkeeper may change records to skim off the top.
- iv. **Health and safety:** Another type of ethical issue that is often protected by law is health and safety. Companies may decide to cut corners to reduce costs or perform tasks faster. As well as injuries, failing to take workers' safety into account can lead to psychosocial risks (like job insecurity or lack of autonomy), which can cause work-related stress.
- v. **Abuse of leadership authority:** Abuse of power often manifests as harassment or discrimination. However, those in leadership roles can also use their authority to pressure employees to skip over some aspects of proper procedure to save time (potentially putting the employee at risk), punish workers who are unable to meet unreasonable goals, or ask for inappropriate favours. In addition, abuse of authority can extend beyond the workforce. Managers can use their positions to change reports, give themselves credit for the work of a subordinate, misuse expenses, and accept gifts from suppliers or clients.
- vi. **Nepotism and favouritism:** Nepotism is when a company hires someone for being a family member. Favouritism occurs when a manager treats an employee better than other workers for personal reasons. Not only are nepotism and favouritism unfair, they are also disheartening to employees. Workers often find out that they have to work much harder to receive a promotion or other rewards.

- vii. **Privacy:** Employees have recently found that the distinction between work life and personal life has become less clear. This is mainly due to the advances in technology. Another ethical issue surrounds the use of devices belonging to the company. Employers can now monitor all workers' activities on laptops and cell phones. Whereas this is supposed to check that employees are sticking to work-related activities during the business day, some employers take it further, tracking keystrokes and reading emails. The question is where to draw the line between monitoring and spying.
- viii. **Corporate espionage:** The opposite to the above can also happen, as workers can misuse company data. An employee may steal intellectual property or provide a competitor with information about a client. Usually, this is for monetary purposes, but it can also help an employee secure a position in another firm.

Various ways by which ethical conflicts can be addressed

- i. **Establish clear ethical guidelines:** Develop a comprehensive code of ethics that outlines the company's values, principles, and expectations for employee behaviour.
- ii. **Provide ethical training:** Educate employees on ethical issues, potential conflicts, and how to make responsible decisions.
- iii. **Encourage open communication:** Create a culture where employees feel comfortable raising ethical concerns without fear of reprisal.
- iv. **Implement ethical decision-making processes:** Develop frameworks and tools that help employees navigate ethical dilemmas and make informed choices.
- v. **Take prompt action on ethical violations:** Enforce the code of ethics and address any violations in a fair and consistent manner.

In addressing ethical conflicts proactively, companies can foster a culture of integrity and build trust with stakeholders, ultimately leading to improved reputation and long-term success.

2.4 Chapter review

This chapter discusses financial reporting, management accounting and treasury management. It also explains internal control, internal checks, internal audit, audit and assurance and ethics.

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Worked examples

- a. Financial reporting and management accounting are two pillars of organisational financial intelligence, each serving distinct yet complementary roles. Financial reporting provides standardised, historical data to external stakeholders, while management accounting, in contrast, is internally focused. Together, they form a cohesive financial ecosystem.

Required:

- (a). Define financial reporting.
 - (b). Highlight the objectives of Financial Reporting.
 - (c). Explain the techniques in management accounting.
- b. In the dynamic and globally interconnected world of finance, ethics stands as the cornerstone of the accountancy profession.

Required:

- (a). Define ethics.
 - (b). Explain any **EIGHT** (8) characteristics of ethics.
 - (c). Explain the top core values in ethics that are relevant to accountants.
- c. The accountancy profession plays a vital role in safeguarding the public interest.

Required:

- (a). Explain the phrase, "Acting in Public Interest".
- (b). Explain the key aspects of acting in public interest.
- (c). Explain the challenges in identifying and acting in the public interest.

Suggested solutions

- 1(a). Financial reporting is the process of documenting and communicating financial activities and performance over specific time periods, typically on a quarterly or yearly basis. Companies use financial reports to organise accounting data and report on current financial status. Financial reports are

also essential in the projections of future profitability, industry position and growth, and many financial reports are available for public review.

1(b). Key objectives of financial reporting:

- i. Tracking cash flow
- ii. Evaluating assets and liabilities
- iii. Analysing shareholder equity
- iv. Measuring profitability
- v. Importance of financial reporting

1(c). **Techniques in Managerial Accounting**

In order to achieve business goals, managerial accounting uses a number of different techniques, which include:

- i. **Marginal Analysis:** This assesses profits against various types of costs. It primarily deals with the benefits of increased production. It involves calculating the break-even point, which requires knowing the contribution margin on the company's sales mix. Here, sales mix is the proportion of a product that a business has sold when compared to the total sales of that business. This is used to determine the unit volume for which the business' gross sales are equal to total expenditures. This value is used by managerial accountants to determine the price points for various products.
- ii. **Constraint Analysis:** Managerial accounting monitors the constraints on profits and cash flow with respect to a product. It analyses the principal bottlenecks and the problems they cause, and calculates their impact on revenue, profit, and cash flow.
- iii. **Capital Budgeting:** This is an analysis of information in order to make decisions related to capital expenditures. In this analysis, the managerial accountants calculate the net present value and internal rate of return to help managers with capital budgeting decisions like calculating payback period or calculating accounting rate of return.
- iv. **Inventory Valuation and Product Costing:** This deals with determining the actual cost of goods and services. The process generally involves computing the overhead charges and assessment of direct costs associated with cost of goods sold.
- v. **Trend Analysis and Forecasting:** This primarily deals with variations in product costs. The resulting data is helpful in identifying unusual

patterns and finding efficient ways to identify and resolve the underlying issues.

Management accounting helps in analysing and recording financial information which can be used by a company to increase its efficiency and productivity. It presents the financial information in regular intervals using easy-to-understand techniques such as standard costing, marginal costing, project appraisal, and control accounting. However, the information required to make managerial decisions depends completely on financial statements. Hence it becomes important to maintain error free records. Besides several disadvantages, it acts as a useful tool for better management of business.

Suggested solution

2(a). ***“Ethics is a conception of right and wrong conduct. Ethics tell us when our behaviour is moral and when it is not moral. Ethics deal with fundamental human relationship – how we think and behave towards others and how we want them to think and behave towards us.” — Post, Frederick, and Lawrence***

“Ethics are formalised principles derived from social value. These are moral principles which originate from social value and represent rules for moral behaviour and conduct of individuals or groups thereof carrying on business.” — Webster’s Directory

2(b). These definitions reveal the following characteristics of ethics:

- i. **Ethics is a set of moral standards and values acceptable in a society.** It is relevant in the context of a society only.
- ii. **Ethics guides human conduct or behaviour.** If any member of the society behaves contrary to the norms and customs, society disapproves it. Moral principles serve as a guide for personal and professional conduct. Ethics checks people from taking decisions and actions which are harmful to society.
- iii. **Ethical principles are universal in nature.** These prescribe obligations and virtues for everybody in a society. Ethics is important not only in business and politics but in every human endeavour.
- iv. **Ethical standards differ from society to society.** What is considered ethical behaviour in one society might be considered unethical in

another. For example, abortion and artificial birth control is a taboo in most of the Islamic countries and catholic Christian communities. But these practices are fully ethical in China, Russia, Japan and many other countries. Similarly, euthanasia (mercy killing) is permitted in some countries but is strictly unethical in most countries.

- v. **Ethics is normative or prescriptive in nature.** It does not deal with what is, but what ought to be. It does not rest on feelings of approval or disapproval but on principles. For example, it may be unpleasant to fire an employee but morality may require it.
- vi. **Ethical norms might not be legally binding.** But these are more powerful than law because these have the sanction of society. When a person's behaviour is inconsistent with the prevailing values and norms, it is called unethical. Ethics serves as a guide to law by highlighting its short comings.
- vii. **Ethics relates to the behaviour of individuals and groups.** The ethical norms do not apply to the behaviour of animals, birds, and insects. Only human beings have the capacity to guide and regulate their behaviour.
- viii. **Ethics are not hard and fast rules.** They are an expression of a society's attitudes and beliefs. There is an element of discretion as a person has the option to adopt ethical norms. Ethics may differ from place-to-place and time-to-time.
- ix. **There exist no sharp boundaries between ethical and non-ethical.** Therefore, people often face ethical dilemmas wherein a clear-cut choice is very difficult.
- x. **Ethics aims at perfection in human conduct.** It guides law makers in framing proper laws to regulate the behaviour of all citizens. Existing norms may contain valuable insights but ethics sets out to critics and test them in terms of ultimate norms.
- xi. **The concepts of equity and justice are implicit in ethics.** Fair and equitable treatment to all is its primary aim.
- xii. **Ethics and morality are interrelated (related) but not synonymous (identical).** In the words of Rogene A. Bucholz "Ethics deals with the formalisations of ethical principles in the abstract or the resolution of concrete ethical problems facing individuals in their daily life.

2(c). **Core values in ethics that are relevant to accountants**

Like every other professional, accountants follow moral and ethical rules and values. Below are some of the top core values in ethics that are relevant to accountants:

- i. **Integrity:** Accountants must be honest, transparent, and ethical. They should act with integrity at all times and maintain high ethical standards.
- ii. **Objectivity:** Accountants should remain objective and unbiased in their work. They should not allow personal interests or relationships to influence their professional judgment.
- iii. **Professional Competence and Due Care:** Accountants should possess the necessary knowledge, skills, and expertise to perform their duties competently. They should also exercise due care and diligence when performing their work.
- iv. **Confidentiality:** Accountants should maintain the confidentiality of their client's information and not disclose it without their consent, except when required by law.
- v. **Professional Behaviour:** Accountants should always behave professionally and not engage in any conduct that would damage their reputation or the profession.
- vi. **Respect for The Law:** Accountants should comply with all laws and regulations governing their profession and clients' business.

These core values are the foundation of ethical behaviour in the accounting profession. They help to ensure that accountants act with integrity and maintain the trust of their clients and the general public.

Suggested solution

- 3(a). 'The public interest' is used by many to justify a wide range of actions and proposals. However, it is often unclear (even to those using the term) what they mean by this, and there can be a natural suspicion that the phrase may be used as a smokescreen to garner support for something that is actually in the advocate's own interests. Acting in public Interest (API): This term refers to acting for the common good of the community. When an individual, organisation, or company performs their professional work, functions, duties, and any type of exercise which promotes the public interest from the official

work only. For instance, promote or support academics, promote cultural activities, support disabled persons, the welfare of senior citizens, support new employees in the company, and so on.

The true measure of whether someone is acting in the public interest lies in the confidence of those affected, not those making the pronouncements. Therefore, the need for those asserting that they are acting in the public interest to consider actual and perceived threats to fitness to decide, and the application of relevant safeguards, will apply throughout the process. The way a public interest action is determined, and seen to be determined, and the public interest appropriateness of the solution, will influence the acceptance of the measure. This will in due course affect the reputation of those implementing the action and that, in turn, will help with future acceptance and implementation.

Acting in the public interest, often discussed in relation to public administration and ethics, refers to decision-making and actions that prioritize the overall welfare and well-being of society rather than personal or narrow interests. It is a concept fundamental to a representative democratic system and good governance. While the term is widely used, defining what constitutes "public interest" can be complex and context-dependent.

3(b). The key aspects of acting in the public interest are:

- i. **Prioritising Societal Welfare:** Actions and decisions should be guided by what benefits the majority or the broader community, not just a specific group or individual.
- ii. **Transparency and Accountability:** Decisions should be open to scrutiny and those making them should be held responsible for their actions.
- iii. **Objectivity and Impartiality:** Public interest considerations should be free from bias or personal agendas, aiming for fairness and equity.
- iv. **Balancing Competing Interests:** Often, different groups or interests will have conflicting needs. Decision-makers need to carefully weigh these and find solutions that minimise harm to all involved.
- v. **Ethical Considerations:** Acting in the public interest is closely linked to ethical principles, such as honesty, integrity, and fairness.

3(c) Challenges in Identifying and Acting in The Public Interest

- i. **Defining "Public Interest":** The concept can be broad and subject to interpretation, making it difficult to agree on what specific actions are truly in the public interest.
- ii. **Balancing Competing Interests:** Different groups may have conflicting views on what constitutes the public interest, requiring careful consideration and compromise.
- iii. **Influence of Special Interests:** Powerful individuals or groups may try to influence decisions in their own favour, potentially at the expense of the public interest.
- iv. **Balancing Short-term and Long-term Benefits:** Decisions may have immediate benefits but long-term negative consequences, requiring careful consideration of all impacts.

Foundation Level

Business Environment

CHAPTER

3

MANAGEMENT AND ORGANISATIONAL BEHAVIOUR

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- 3.0 Learning objective
- 3.1 Learning outcome
- 3.2 Basic Management functions
- 3.3 Management, individual and organisational behaviour
- 3.4 Communications in business
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3. Management and Organisational Behaviour

3.0. Learning objective

This chapter seeks to offer background understanding of management functions, individual and organisational behaviour, relationship, between leadership and management, conflict management and various resolution mechanisms. It exposes readers to the concept of motivation and its relationship with productivity, and management theories. It explains the uses of technology business modelling, project management, emotional intelligence, social thinking, business and digital communications.

3.1. Learning outcome

At the end of this chapter, readers should be able to:

- (a) give various definitions of management;
- (b) identify and explain types of management skill;
- (c) explain the basic management functions, importance and applications in the field of accounting;
- (d) identify and explain various management roles;
- (e) explain the nature and significance of formal and informal organisation;
- (f) explain the role and importance of organisational culture;
- (g) explain the relationship between leadership and management;
- (h) roles of individual and group behaviour in organisations;
- (i) identify and explain conflict management and various resolution mechanisms
- (j) explain the nature and significance of team formation. development and management
- (k) explain the concept of employee motivation and its relationship with productivity;
- (l) state and explain the various management theories that are related to the field of accounting;
- (m) explain the uses of technology modelling, project management, emotional intelligence and social thinking;
- (n) discuss communication in business – basic element, verbal and non-verbal, principles of effective listening, organisational communication, formal and informal, internal and external;
- (o) explain methods of business communication, the barriers to effective communication and different communication patterns;

- (p) explain the process and conduct of meetings, report writing and process of electronic communication; and
- (q) explain email systems and its uses, website platforms and their uses, uses and management of social media accounts, social media pages and digital marketing.

3.2 Basic management functions

3.2.1. Definitions of management

It is very difficult to give a precise definition of the term 'management'. Different scholars from different disciplines view and interpret management from their own angles. The economists consider management as a resource like land, labour, capital and organisation. The bureaucrats look at it as a system of authority to achieve business goals. The sociologists consider management as a part of the elite class in the society.

Management in all business and organisational activities is the act of getting people together to accomplish desired goals and objectives, using available resources efficiently and effectively. Management comprises planning, organising, staffing, leading or directing, and controlling an organisation (a group of people or entities) or effort for the purpose of accomplishing a goal. Resourcing encompasses the deployment of human, financial, technological, and natural resources.

Since organisations can be viewed as systems, management can also be defined as human action, including design, to facilitate the production of useful outcomes from a system. This view provides the opportunity to 'manage' oneself, a pre-requisite to attempting to manage others.

According to Joseph Massie - "Management is defined as the process by which a co-operative group directs action towards common goals".

"Management may be defined as the process by means of which the purpose and objectives of a particular human group are determined, clarified and effectuated". - Peter Ferdinand Drucker

. "Management is the art of knowing what to do and doing it in the best and the cheapest way." - Frederick Winslow Taylor

One popular definition is by Mary Parker Follett. Management, she says, is the "art of getting things done through people."

"Management is a distinct process consisting of planning, organising, actuating and controlling; utilising in each, both science and art, and followed in order to accomplish pre-determined objectives." - George R Terry

"Management is the art of getting things done through others and with formally organised groups." - Harold Koontz

Management is the process of planning, organising, leading, and controlling people and resources to achieve organisational goals efficiently and effectively. It involves setting strategies, directing staff, and coordinating activities to ensure smooth operations and success.

Management is the coordination and administration of tasks to achieve a goal.

Management is an important business function that involves overseeing people or projects and guiding them toward a common goal or outcome.

Management is how businesses organise and direct workflow, operations, and employees to meet company goals.

Management, in general, refers to the process of planning, organising, leading, and controlling resources—whether human, financial, or material, to achieve specific goals. At its core, management is about achieving efficiency and effectiveness within an organisation.

According to many experts, it is the art and science of coordinating efforts and resources to fulfil organisational objectives. This involves decision-making, leadership, and strategy development to ensure that a company or team operates smoothly and successfully.

Management is the process of planning and organising the resources, operations and workflow of a business to achieve specific goals in the most effective and efficient manner possible.

Management is the process of planning, organising, leading, and controlling people in the organisation to effectively use resources to meet organisational goals.

Management, broadly defined, is the process of achieving organisational goals through the effective and efficient use of resources, including people and time. It involves planning, organising, leading, and controlling to guide individuals and groups towards a common objective. This encompasses a wide range of activities, from setting strategies to overseeing daily operations.

As a discipline, management comprises the interlocking functions of formulating corporate policy and organising, planning, controlling, and directing the firm's resources to achieve the policy's objectives.

3.2.2. Types of management skills

Management skills can be defined as certain attributes or abilities that an executive should possess in order to fulfil specific tasks in an organisation. They include the capacity to perform executive duties in an organisation while avoiding crisis situations and promptly solving problems when they occur.

Management skills can be developed through learning and practical experience as a manager. The skills help the manager to relate with his fellow managers and know how to deal with subordinates, which allows for easy flow of activities in the organisation.

Good management skills are vital for any organisation to succeed and achieve its goals and objectives. A manager who possesses good management skills is able to achieve the company's mission and vision or business goals without hinderances and objections from internal and external sources.

According to American social and organisational psychologist, Robert Katz, the three basic types of management skills include:

i. Technical skills

Technical skills give managers the ability and the knowledge to use a variety of techniques to achieve their objectives. These skills not only involve operating machines and software, production tools, and pieces of equipment, but also the skills needed to boost sales, design different types of products and services, and market the services and the products.

ii. Conceptual skills

These involve the skills managers present in terms of the knowledge and ability for abstract thinking and formulating ideas. The manager is able to see an entire concept, analyse and diagnose a problem, and find creative solutions. This helps the manager to effectively predict challenges his department or the business as a whole may face.

iii. Human or interpersonal skills

Human or interpersonal skills are those skills that enhance the managers' ability to interact, work or relate effectively with people. These skills enable the managers to make use of human potential in the company and motivate employees for better results.

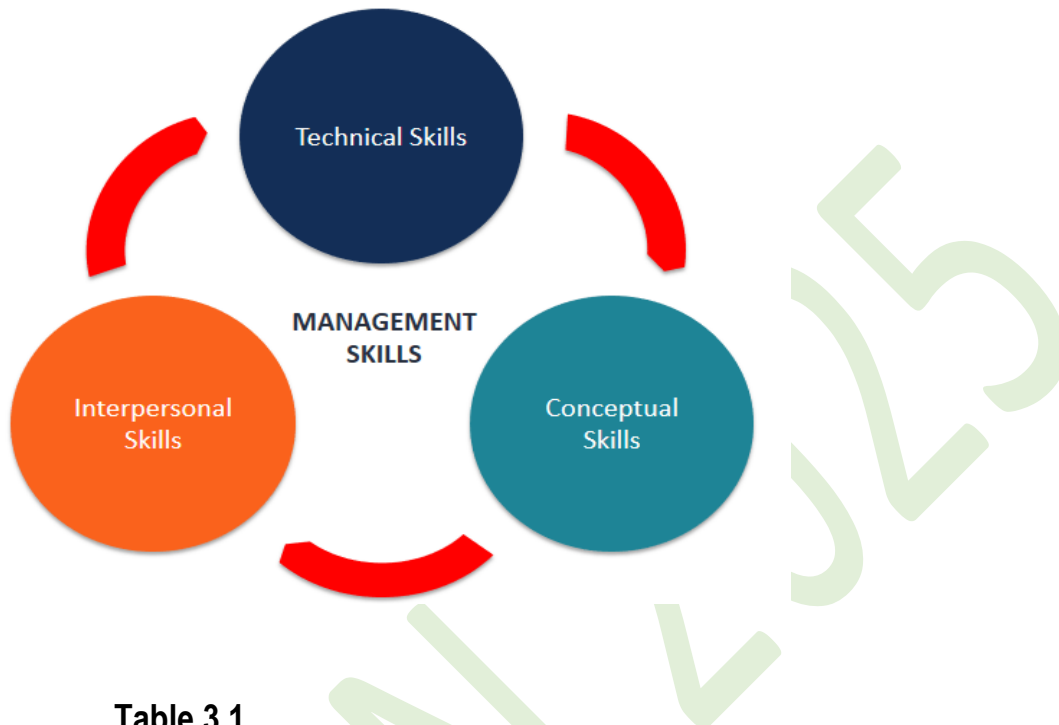


Table 3.1

Examples of management skills

There is a wide range of skills that managers should possess to run an organisation effectively and efficiently. The following are six essential management skills that any manager ought to possess for him to perform their duties:

- i. **Planning:** Planning is a vital function within an organisation. It refers to one's ability to organise activities in line with set guidelines, while still remaining within the limits of the available resources, such as time, money, and labour. It is also the process of formulating a set of actions or one or more strategies to pursue in order to achieve certain goals or objectives with available resources. The planning process includes identifying and setting achievable goals, developing necessary strategies, and outlining the tasks and schedules on how to achieve the set goals. Without a good plan, little can be achieved.
- ii. **Communication:** Possessing great communication skills is crucial for a manager. It can determine how well information is shared throughout a team, ensuring that the group acts as a united workforce. How well a manager

communicates with the rest of his/her team also determines how well outlined procedures can be followed, how well the tasks and activities can be completed, and thus, how successful an organisation will be. Communication involves the flow of information within the organisation, whether formal or informal, verbal or written, vertical or horizontal, and it facilitates the smooth functioning of the organisation. Clearly established communication channels in an organisation allow the manager to collaborate with the team, prevent conflicts, and resolve issues as they arise. A manager with good communication skills can relate well with the employees and, thus, be able to achieve the company's set goals and objectives easily.

- iii. **Decision-making:** Another vital management skill is decision-making. Managers make numerous decisions, whether knowingly or not, and making decisions is a key component of a manager's success. Making proper and right decisions results in the success of the organisation, while poor or bad decisions may lead to failure or poor performance. For an organisation to run effectively and smoothly, clear and right decisions should be made. A manager must be accountable for every decision that he/she makes and also be willing to take responsibility for the results of his/her decisions. A good manager needs to possess great decision-making skills, as it often dictates his/her success in achieving organisational objectives.
- iv. **Delegation:** Delegation is another key management skill. Delegation is the act of passing on work-related tasks and/or authorities to other employees or subordinates. It involves the process of allowing one's tasks or those of one's employees to be reassigned or reallocated to other employees, depending on current workloads. A manager with good delegation skills is able to effectively and efficiently reassign tasks and give authority to the right employees. When delegation is carried out effectively, it helps facilitate efficient task completion. Delegation helps the manager to avoid wastage of time, optimises productivity, and ensures responsibility and accountability on the part of employees. Every manager must have good delegation skills to achieve optimal results and accomplish the required results.
- v. **Problem-solving:** Problem-solving is another essential skill. A good manager must have the ability to tackle and solve problems that can arise in a typical workday. Problem-solving in management involves identifying a certain problem or situation and then finding the best way to handle the problem and get the best solution. It is the ability to sort things out even when the prevailing

conditions are not right. When it is clear that a manager has great problem-solving skills, it differentiates him/her from the rest of the team and gives subordinates confidence in his/her managerial skills.

- vi. **Motivating:** The ability to motivate is another important skill in an organisation. Motivation helps bring forth a desired behaviour or response from employees or certain stakeholders. There are numerous motivation tactics that managers can use, and choosing the right ones can depend on characteristics, such as company and team culture, personalities in the team, and more. There are two primary types of motivation that a manager can use. These are intrinsic and extrinsic motivation.

Management skills are a collection of abilities that include things such as business planning, decision-making, problem-solving, communication, delegation, and time management. While different roles and organisations require the use of various skill sets, management skills help a professional stand out and excel, no matter his/her level. In top management, these skills are essential to run an organisation well and achieve desired business objectives.

3.2.3 Basic management functions and their importance

a. Planning

Proper planning is the foundation upon which all other management functions are built. Tactical planning involves setting objectives, determining the best courses of action, and developing plans to achieve these goals. Planning means defining performance goals for the organisation and determining what actions and resources are needed to achieve the goals. Through planning, management defines what the future of the organisation should be and how to get there.

Strategic plans are long-term and may affect the entire organisation. A strategic plan bridges the gap between what an organisation is and what it plans to become. Tactical plans translate strategic plans into specific actions that need to be implemented by departments throughout the organisation. The tactical plan defines what has to be done, who will do it, and the resources needed to do it.

In the past, tactical planning was often seen as a top-down process. Decisions and plans were made by higher-level executives and were then handed down to lower-level employees.

But as organisations have become more complex and dynamic, planning has evolved to include inputs from all levels of an organisation. Today, planning is a

collaborative process that involves gathering information, analysing data, and making informed decisions that align with the organisation's mission and vision.

b. Organising

Once the planning phase is complete, the next function of management is organising. Decisions must be made about how to best implement the plans. Organising involves using resources in a way that allows for an efficient and effective execution of the organisation's tactical plans. It also involves tasks such as:

- i. creating organisational structures;
- ii. defining roles and responsibilities; and
- iii. establishing communication channels.

The organising function involves deciding how the organisation will be structured (by departments, matrix teams, job responsibilities, etc.). Organising involves assigning authority and responsibility to various departments and units, allocating resources across the organisation, and defining how the activities of groups and individuals will be coordinated.

In the early days of management, organising was often seen as a mechanistic process. There was a focus on hierarchical structures and strict rules and regulations.

As organisations have become more flexible, organising has evolved. Now, concepts such as team-based structures, cross-functional collaboration, and decentralised decision-making are embraced by many organisations.

c. Controlling

The purpose of controlling is to ensure that everything occurs in conformity with the standards. An efficient system of control helps to predict deviations before they actually occur.

According to Theo Haimann, "Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation".

According to Koontz and O'Donell "Controlling is the measurement and correction of performance activities of subordinates in order to make sure that the enterprise

objectives and plans to obtain them as being accomplished". Therefore, controlling has following steps:

- i. establishment of standard performance;
- ii. measurement of actual performance;
- iii. comparison of actual performance with the standards and finding out deviation, if any; and
- iv. taking corrective action

This work involves monitoring performance, comparing actual results with planned objectives, and taking corrective action, where necessary. In the past, controlling was often seen as a means of maintaining strict discipline and ensuring compliance with rules and regulations. Now organisations have become more focused on continuous improvement and adaptability. As a result, controlling has evolved to include feedback mechanisms, performance metrics, and a focus on learning and development.

Effective control systems enable a manager to identify areas for business improvement, make necessary adjustments, and ensure that employees are headed in the right direction to achieve their goals within a clearly defined time period. When needed, managers of different departments can also provide guidance to their subordinates and to new employees.

d. Co-ordinating

Coordinating means harmonising various activities and processes to make sure they work together seamlessly. It facilitates communication, aligns efforts, and promotes collaboration among different departments or teams.

Coordination is a process which has to be designed and implemented by the manager. When managers divide work into specialised functions, they, at the same time, create a need for the co-ordination of all activities. It is often said, the greater the division of labour, the greater the need for coordination. The technique involved may be different from group to group or organisation to organisation. The manager is responsible for effective coordination and for the implementation of the task of coordination, he has to follow a system approach. The following criteria have been suggested by Dalton for successful coordination:

- a) It is not forced by autocratic direction, but is fostered by managers who understand the value of participative management;

- b) It is timely and extends in a balanced fashion to all parts of the organisation and operates horizontally and vertically.

In addition to above suggestions Mary Parker Follett has suggested the following three considerations for successful coordination:

- a) It must be a continuing process;
- b) It must be direct between the persons immediately concerned; and
- c) It must start at the outset of the activity.

d. **Directing**

It is that part of managerial function which actuates the organisational methods to work efficiently for achievement of organisational purposes. It guides and influences individuals or teams to know organisational objectives by providing direction, motivating employees, resolving conflicts, and fostering a positive work environment. It is considered the driver of the enterprise, which sets it in motion and initiates actions of people, because planning, organising and staffing are mere preparations for doing the work.

Direction is that inter-personal aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organisational goals. Directing has the following elements:

- i. **Supervision:** implies overseeing the work of subordinates by their superiors. It is the act of watching and directing work and workers.
- ii. **Motivation:** means inspiring, stimulating or encouraging sub-ordinates with zeal to work. Positive, negative, monetary, non-monetary incentives may be used for this purpose.
- iii. **Leadership:** may be defined as a process by which a manager guides and influences the work of subordinates in a desired direction.
- iv. **Communication:** is the process of passing information, experience, opinion, etc. from one person to another. It is a bridge for understanding.

f. **Supervising**

In management, supervision involves a manager overseeing and guiding a team or group of employees, focusing on their daily work and performance to ensure goals are met and the team functions efficiently. Supervisors act as a bridge between employees and higher management, providing support, feedback, and training to improve performance and productivity. The following are some of the key aspects of supervising:

- i. **Overseeing and guiding:** Supervisors monitor the daily activities of their team, ensuring work is progressing as planned and that employees have the necessary resources and support.
- ii. **Providing feedback:** Supervisors provide regular feedback to employees on their performance, helping them identify areas for improvement and development.
- iii. **Training and development:** Supervisors play a role in training and developing their team members, ensuring they have the necessary skills and knowledge to perform their roles effectively.
- iv. **Problem-solving:** Supervisors address issues and challenges that may arise within their teams, providing guidance and support to find solutions.
- v. **Bridging the gap:** Supervisors act as a bridge between the workforce and higher management, communicating goals, directives, and feedback.

Importance of supervision:

- i. **Improved productivity:** Effective supervision can lead to increased productivity and efficiency within the team.
- ii. **Employee development:** Supervisors play a crucial role in the growth and development of their team members, providing opportunities for learning and skill development.
- iii. **Higher employee satisfaction:** Effective supervision can contribute to higher employee satisfaction and morale.
- iv. **Achievement of organisational goals:** By ensuring that the team is working effectively, supervisors help the organisation achieve its goals.

3.2.4 Management roles

Managerial roles are a way of classifying the various functions of management. Being a manager means assuming various managerial roles at the same time. A manager has to be an inspirational leader, take responsibility for people and processes, and handle multiple issues of different kinds. Each of the roles managers perform is important, and each presents its own challenges. Mintzberg's management roles help define the skills required by managers at different levels of the organisational structure.

What is a managerial role?

Managerial roles are behaviours adopted to perform various management functions, like leading and planning, organising, strategising, and solving problems. Within an organisation, managers of different levels have different responsibilities that may overlap.

Henry Mintzberg classified managerial roles based on their purposes. He developed 10 managerial roles and divided them in 3 categories, grouping the roles that share similar features. Some of these features can be applied to two or more roles at the same time.

Three categories of managerial roles

According to Mintzberg's typology, managerial roles fall into three basic categories:

Interpersonal roles: This category includes the roles which concern interactions with people working inside and outside the organisation. Basically, most of managers' time is spent on interpersonal communication through which things get done. The managerial roles in this category are **figurehead, leader, and liaison**.

Informational roles: The informational category involves creating, receiving, or sharing information with co-workers. The manager collects information from sources both inside and outside the organisation, processes it, and delivers it to those who need it. The managerial roles in this category are **monitor, disseminator, and spokesperson**.

Decisional roles: Interpersonal roles are about dealing with people, and informational ones are about dealing with knowledge. Decisional roles are about action. By communicating with people and using information, managers make decisions that lead the organisation to its goals. The managerial roles in this category are entrepreneur, disturbance-handler, resource-allocator, and negotiator.

Below is the explanation of each of the managerial roles in the three categories in detail.

Mintzberg's 10 managerial roles explained

Figurehead: This role requires performing social, ceremonial, and legal responsibilities. The Figurehead represents the organisation, as well as motivates

the team to achieve goals. For people, this managerial role is a source of power and authority. Examples:

- i. Managers in the figurehead role attend social events where they promote their company.
- ii. Greeting a potential business client and giving a tour of the company's facilities.

Leader: The leader role is the most pivotal, as it shows to which extent a manager's potential is realised. Managers are in charge of their people's performance, which may mean leading a team, a department, or an entire organisation.

The responsibilities include hiring and training (direct leadership) and encouragement of employees (indirect leadership). Leaders influence and motivate people, giving them a sense of purpose to reach organisational goals. Example:

A manager sets a goal for the team and communicates his expectations, making sure that people understand them. He monitors their progress and provides feedback and resources, if needed.

Liaison: Managers in the liaison role develop and maintain internal and external relationships. They are a connection link that bridges the gap between employees of different levels to ensure work is done smoothly. Liaisons transfer knowledge through different members of the organisation, up and down the chain of command, and can also involve their business contacts from outside the company. Examples:

- i. A manager coordinates with people inside the company, as well as coordinating work between the company's units.
- ii. A manager coordinates with people outside the organisation, such as buyers, suppliers, and strategic partners.
- iii. Manager-client-employee interaction. A manager communicates with a client to see what the client's needs are, providing this information to the employees after the fact.

Monitor: In the monitor role, managers are expected to look for information necessary for their organisation, as well as for information that can concern potential industry changes. They gather information from internal and external sources, trying to identify problems and opportunities for growth. In other words, they scan the environment to assess the current state of things in a company and see if corrective actions are needed. Examples:

- i. Seeking customer feedback to see how exactly one can improve the products or services.
- ii. Monitoring industry trends, like products made by competitors or government regulatory changes, in order to meet standards and stay on track.

Disseminator: Receiving information from various sources, a manager in the disseminator role is responsible for sharing it with those who may need it. This can be done in both verbal and written forms. A manager can pass on information directly to the appropriate person, or pass it on between subordinates, if they lack contact. The information can concern the organisation's direction or strategy, as well as specific technical issues. Examples:

- i. A one-on-one conversation between a manager and an employee where a certain issue is discussed.
- ii. Developing a proposal for a new product design, submitting it to upper management for approval, and providing it to the employees so that they can get familiar with it.

Spokesperson: Managers in a spokesperson role speak for their organisation, defending the company's interests. Their responsibility is to make the organisation look good in the eyes of potential or new clients and the general public. Examples:

- i. A manager attends the annual shareholders' meeting, informing the attendees about the results her team has achieved in a year and presenting statistics.
- ii. A manager speaks on behalf of the company at a conference.
- iii. Division leaders talk to other division leaders, informing them about strategies and resource requirements.
- iv. CEOs meet with investors or government officials to give them information about the company, which they may find useful. This way, they can persuade investors that their companies are pursuing good strategies, and thus, raise some capital.

Entrepreneur: In the entrepreneur role, a manager organises and runs business processes. This role develops and implements new ideas or strategies, which often means coming up with innovative solutions. Entrepreneurs create conditions for change, since innovation and change are needed for a company to stay competitive. Besides, they make sure a company adopts new products and processes pioneered by others or change the organisational structure. Examples:

- i. A manager decides to use social media to increase sales.
- ii. A manager reorganises a weak department, or uses mergers or acquisitions.

Disturbance handler: A manager solves issues as they arise – like sales that grow too slowly, a client breaking a contract, or valuable employees leaving. The task of the manager in the disturbance handler role is to fix the problem and maintaining productivity. Example:

- When two members of a team have conflicts, it is the manager's responsibility to help them resolve them.

Resource Allocator: The resource allocator role requires a manager to determine how and where to apply organisational resources. By resources we mean equipment, staff, funding, facilities, and time. Typically, the resources of an organisation are limited, so it takes some effort to decide how to best allocate them. Examples:

- i. A manager divides funding between the departments of his organisation, based on their current and future needs.
- ii. A marketing manager divides funding between media advertising and promotions.
- iii. A resource manager distributes project workload across people.

Negotiator: Managers participate in negotiations, trying to reach their goals. This managerial role includes negotiating with external parties, where they represent the interests of their organisations, as well as negotiating with internal parties, such as other departments, team members or staff unions.

The better the negotiation skills managers have, the higher their chances to come to an agreement with customers, better organise the work processes, and gain access to more resources. Examples:

- i. A manager negotiates pricing, delivery, and design with customers.
- ii. A manager negotiates access to capital and personnel with the management.

Management functions and their importance to accounting

One of the fundamental roles of accountants in business is to provide information to management. Information of a suitable quality (reliable/accurate, comprehensive, clear, timely) is used by management to make decisions and help them perform their functions.

For example, accountants help management to prepare budgets (planning) and produce regular budgetary control reports (control). They provide information to assist with one-off decision making, such as capital investment decisions (deciding). They report regularly to management on the current state of the business (monitoring).

Management need information to do their job. Without management, much of the purpose of accounting in business would disappear.

Definition of supervision

Supervision means 'looking over' someone else. It is management by overseeing the performance or activities of an individual or group of individuals and making sure that the work of the group or individuals is performed properly.

Supervision is also called 'front line management' and 'supervisory management'. It is the lowest level of management in an organisation structure.

The main function of supervisors is to provide administrative management. However, in addition to performing an administrative task, supervisors might also be expected to:

- a) develop staff, possibly by 'empowering' them and encouraging them to take on responsibility, and
- b) help to train them (through 'on-the-job-training').

3.3 Management, individual and organisational behaviour

3.3.1. Formal and informal organisation

An organisation is a body of individuals who come together to achieve some common goals and objectives bound by legal entities. Organisations may be companies, institutions, associations, government bodies, etc. An organisation can either be formal or informal.

A formal organisation is an arrangement which binds members with strict rules and regulations. Management in this arrangement is characterised by a list of objectives and purposes to be achieved, rules, regulations, and good practices to guide behaviour. This framework defines clear roles, responsibilities and hierarchies for employees to follow.

Formal organisations are very important for orderliness, accountability, and systematic achievement of business objectives. Every employee knows where he/she must be, what he/she is supposed to be doing, and what makes sense in

the context of his/her role in the overall scheme of things. The operation of such an organisation is dependent to a great deal upon adherence to policies, protocols, and procedures.

Characteristics of a formal organisation

There is a clearly defined chain of command. The behaviour of a member in a formal organisation is regulated by laws in the written documents and a routine style of procedure known as a protocols in writing.

- a) **Role specialisation:** Different people in a formal organisation specialise in performing various specific tasks, depending on their competences.
- b) **Accountability:** Workers report to their bosses or superiors.
- c) **Objective-oriented:** All work done in a formal organisation is tied to the accomplishment of the set organisational objectives.

Advantages of a formal organisation

- a) The employees know their jobs and their responsibilities. Organisational structure creates easy coordination between different departments.
- b) **Accountability:** Responsibility is given to employees, regarding their assigned tasks and performance.
- c) **Consistency:** Standardised procedures ensure uniformity and continuity.
- d) **Goal alignment:** Activities are aligned with organisational objectives.

Informal organisation

An informal organisation develops naturally within the formal structure. It arises from personal relationships, shared interests, and employees' social interactions. In contrast to formal organisations, these structures are not mandated by management. They function spontaneously and often influence workplace dynamics. Informal organisations are key in enhancing employee happiness, motivation, and work engagement. Informal organisation though unofficial, are significant in organisational success for their contribution to working together, work communication, and work innovation.

Characteristics of an informal organisation

- i. **Formation:** Informal organisations arise naturally without formal planning. Relationships among employees drive informal organisations.
- ii. **Flexibility:** Informal organisations are adaptable to changing situations.

- iii. **Communication:** Communication is free-flowing and does not follow a hierarchy.
- iv. **Influence:** Informal groups often influence decision-making and workplace culture.

Advantages of informal organisation

- a) **Teamwork and collaboration:** Employees tend to be more candid in an unstructured setting. Informal organisations foster teamwork and collaboration.
- b) **Employee Morale:** They also induce a sense of belonging and improve job satisfaction.
- c) **Innovation:** Informal groups encourage creativity and problem-solving.
- d) **Support System:** Employees support one another, leading to better workplace harmony.

Differences between formal and informal organisations

The relationship between the two systems is a critical element of organisational success, because bureaucratic organisations create accountability, while informal organisations encourage innovation and peace in the office.

Basis	Formal organisation	Informal organisation
Definition	Official structure established by management	The natural structure is formed through relationships
Purpose	Achieving organisational goals	Fulfilling the social and emotional needs of employees
Formation	Deliberate and planned by management	Spontaneous and unplanned
Hierarchy	Clear and well-defined hierarchy	No defined hierarchy

Communication	Follows formal channels, like emails and reports	Follows informal channels, like casual conversations
Rules and Policies	Governed by strict rules and procedures	No strict rules or regulations
Accountability	Employees are accountable to their superiors	No official accountability
Flexibility	Rigid and less adaptable	Highly flexible and adaptable
Decision-Making	Decisions are made by management	Decisions often emerge through group consensus
Focus	Emphasis on organisational goals and efficiency	Emphasis on relationships and employee satisfaction
Longevity	It exists as long as the organisation exists	It may dissolve as relationships change
Examples	Corporate hierarchies, schools, government offices	Lunch groups, informal meetings, friendships
Impact on culture	Shapes formal work culture	Shapes informal work culture
Role of employees	Defined by job descriptions	Defined by inter-personal relationships and interests
Conflict resolution	Resolved through formal mechanisms	Often resolved through personal negotiations

3.3.2. Roles and importance of organisational culture

Organisational culture is the foundation of a company's success, shaping how employees work, collaborate, and grow. It goes beyond shared values or written policies, it is the collective behaviours, attitudes, and norms that define how people interact and align with a common purpose.

A strong culture fosters collaboration, drives innovation, and builds trust, influencing everything from employee engagement to customer perception. Whether it is

solving challenges, making decisions, or creating meaningful connections, organisational culture is the force that shapes every aspect of a business.

Organisational culture is the set of values, beliefs, attitudes, systems, and rules that outline and influence employee behaviour within an organisation. The culture reflects how employees, customers, vendors, and stakeholders experience the organisation and its brand.

Organisational culture influences how people interact, how decisions are made (or avoided), the context within which cultural artefacts are created, employee attachment, the organisation's competitive advantage, and the internal alignment of its units. It is distinct from national culture or the broader cultural background of its workforce. Culture is created through consistent and authentic behaviours, not press releases or policy documents.

Ravasi and Schultz and Allaire and Firsirotu claim that organisational culture represents the collective values, beliefs and principles of organisational members. It is influenced by factors such as history, products, market, technology, strategy, employees, management style, and national culture. Culture includes the organisation's vision, values, norms, systems, symbols, language, assumptions, environment, location, beliefs and habits.

Hofstede defined organisational culture as "the collective programming of the mind, which distinguishes the members of one organisation from another."

McHale defines culture as "how the organisation functions and its deeply embedded patterns."

Examples of organisational culture elements

- i. **Dress code:** Formal or casual attire can reflect the organisation's culture.
- ii. **Office layout:** Open spaces or private offices can influence communication and collaboration.
- iii. **Meeting styles:** Formal presentations versus informal brainstorming sessions.
- iv. **Communication channels:** Email, instant messaging, or social media can shape communication norms.
- v. **Employee perks and benefits:** These can reflect the organisation's commitment to employees' well-being.

Roles of organisational culture

Organisational culture plays multiple crucial roles within an organisation, including shaping employee behaviour, influencing decision-making, promoting teamwork, and fostering adaptability. It also impacts employee engagement, retention, and overall business performance. In view of the above, organisational culture plays the following roles:

- i. **Shaping behaviour and expectations:** Organisational culture defines the expected behaviours and values, guiding how employees interact, make decisions, and approach their work.
- ii. **Influencing decision-making:** Culture can impact how decisions are made, whether they are based on consensus, top-down directives, or a more collaborative approach.
- iii. **Fostering teamwork and collaboration:** A strong culture can promote teamwork, communication, and cooperation among employees, leading to more effective collaboration on projects and tasks.
- iv. **Enhancing employee engagement and retention:** A positive and supportive culture can increase employee engagement, motivation, and job satisfaction, leading to higher retention rates.
- v. **Driving innovation and adaptability:** A culture that encourages experimentation, risk-taking, and learning can foster innovation and enable the organisation to adapt to changing market conditions and customer needs.
- vi. **Improving communication and knowledge sharing:** A culture that values open communication and knowledge sharing can facilitate the flow of information, improve decision-making, and enable employees to learn from one another's experiences.
- vii. **Influencing leadership style:** Organisational culture can impact how leaders are perceived and how they lead their teams, shaping the overall leadership style of the organisation.
- viii. **Attracting and retaining talent:** A positive organisational culture can make it easier to attract and retain top talent, as potential employees are drawn to organisations with values and practices that align with their own.
- ix. **Affecting employee performance:** A healthy and supportive culture can enhance employee performance by creating a positive work environment, reducing stress, and promoting a sense of belonging.

- x. **Building a sense of identity and purpose:** Organisational culture can help employees feel a sense of belonging and purpose within the organisation, fostering a stronger connection to the company's mission and values.

Importance of organisational culture

- i. Organisational culture defines how employees interact, work, and grow. A positive culture promotes teamwork, boosts morale, and attracts top talent. It creates an environment where employees feel valued and supported, leading to higher engagement and productivity
- ii. Culture shapes the company's identity, reflecting its values and priorities. Employees align better with the company's goals when they experience a strong sense of belonging. This alignment fosters loyalty and reduces turnover.
- iii. Culture also influences how customers and stakeholders perceive the organisation. A healthy workplace culture drives innovation and collaboration, leading to better problem-solving and business outcomes.
- iv. Investing in culture strengthens employee relationships, improves retention, and builds a foundation for long-term success. Prioritising a positive culture creates ripple effects, benefiting both the workforce and the business.

3.3.3 Relationship between leadership and management

Leadership and management are the terms that are often considered synonymous. It is essential to understand that leadership is an essential part of effective management. As a crucial component of management, remarkable leadership behaviour stresses upon building an environment in which each and every employee develops and excels.

Leadership is defined as the potential to influence and drive group efforts towards the accomplishment of goals. This influence may originate from formal sources, such as that provided by acquisition of managerial position in an organisation.

A manager must have traits of a leader, that is, he/she must possess leadership qualities. Leaders initiate and develop strategies that build and sustain competitive

advantage. Organisations require robust leadership and robust management for optimal organisational efficiency.

Management and leadership are both very important elements of business. Managers are in control of a group of people, whereas leaders inspire others within an organisation, but are not necessarily in a position of power. While there are several similarities between managers and leaders, there are also several differences that make them unique aspects of an organisation. The differences and similarities between management and leadership offer some tips on how to become better managers or leaders.

They are crucial to a business as they help to accomplish the company's vision and goals by setting examples for others that work with them.

Management

Managers within a business are typically individuals who officially lead a team of people. They are responsible for delegating work and projects to employees and ensuring that their teams work effectively. They usually work under more senior managers, making sure that their areas of the business is in line with the company's goals and values.

Leadership

Leaders can guide and influence their colleagues within an organisation. There are individuals within groups who often naturally evolve into informal leaders, or the company may promote someone to a leadership position within the business. They are responsible for motivating their colleagues, behaving in line with the company's values to set an example for their teams and thinking ahead to motivate people to be creative and innovative.

The differences between leadership and management

Below are some of the key differences between leaders and managers in a tabular format:

The similarities between leadership and management

Aspect	Leadership	Management
Focus	Vision, inspiration, and direction	Planning, organising, and controlling
Goal	Motivating people toward a shared vision	Achieving organisational objectives efficiently
Approach	People-oriented	Task-oriented
Decision-making	Often intuitive and based on values	Analytical and based on data and procedures
Power Source	Influence and charisma	Formal authority and position
Style	Transformational, participative	Transactional, directive
Risk Orientation	Willing to take risks	Risk-averse and focused on stability
Change Management	Drives change and innovation	Maintains order and consistency
Communication	Inspires and engages	Informs and instructs
Primary Role	Leading people	Managing work and processes

Aspect	Leadership and management similarities
Goal achievement	Both aim to achieve organisational goals and improve performance
Influence	Both involve influencing others to accomplish tasks and objectives
Decision-making	Both require making decisions that affect the team or organisation
Communication	Effective communication is essential in both roles to convey vision, goals, and expectations
Problem-solving	Both involve identifying problems and finding solutions to ensure smooth operations
Team building	Both focus on building and maintaining effective teams
Motivation	Both seek to motivate employees to perform at their best
Strategic thinking	Both require strategic thinking to align actions with organisational objectives
Responsibility	Both carry responsibility for the success or failure of their teams or departments
Adaptability	Both must adapt to changing environments, challenges, and organisational needs

3.3.4 Roles of individual and group behaviour in organisations

Individual behaviour

Individual behaviour can be understood as how a person acts, what they think, and how they react to internal and outside forces, while working in a company. It covers individuals' personality traits, values, beliefs, feelings, and motivations. The way someone behaves can affect how people get along, how teams work together, and the overall culture of the organisation. Managers and leaders must understand these behaviours, to build workplaces where people do their best, enjoy their jobs, and the company does well. By looking closely at individual behaviour, companies can make plans to help workers feel supported and make the workplace better at getting things done.

Factors affecting individual behaviour

Individual conduct within an organisational setting is influenced by numerous components that form how workers see their duties and communicate with others. Understanding these elements is fundamental for administrators to develop viable procedures that enhance worker productivity and fulfilment.

Personality

Identity is a central part of individual conduct, comprising of the distinctive attributes and qualities that inform how somebody thinks, feels, and acts. Distinctive identity standards, like the broad Five (availability, conscientiousness, extroversion, agreeableness, neuroticism), give insight into how identity characteristics affect work environment collaborations and execution. Understanding workers' identities can assist administrators with changing their methodologies to better motivate people.

Values

Values are principles that one holds dear. They guide an individual's behaviour in various situations. In organisations, they influence how individuals interact with other people and their environment. They are critical in decision-making by these individuals, as they align their decisions with their values.

Attitudes

Attitudes allude to an individual's feelings and assessments with respect to specific people, articles, or occasions. Positive mind-sets towards work, colleagues, and the organisation can prompt higher occupational fulfilment and better work execution. However, negative dispositions can hamper productivity and create toxic work environments. Administrators can impact mind-sets through proficient correspondence and acknowledgment.

Motivation

Inspiration is a pivotal driver of individual conduct, influencing how hard people work and their resilience in addressing challenges. Various hypotheses, like Maslow's Need Hierarchy and Herzberg's Two-Factor Theory, clarify diverse parts of inspiration and its effect on conduct. By understanding what inspires workers, organisations can develop procedures to build responsibility and morale.

Perception

Perception is the methodology by which people decipher and make sense of their conditions and encounters. It affects how workers appreciate their roles in the organisation. Administrators ought to perceive that individual observations can change essentially, driving to contrasting interpretations of a similar circumstance, and work to make clear correspondence channels to lessen confusions.

Emotions

Feelings play a critical part in shaping individual conduct and decision-making. They can influence work environment connections, productivity, and general prosperity. Organisations that promote passionate insight and enable workers to master their feelings, can build group work and make optimistic work environments.

Social Influences

Social impacts, including family, companions, and organisational culture, fundamentally affect individual conduct. The standards and desires within a work environment can shape how people act and communicate with one another. Understanding these societal elements can assist organisations with cultivating joint efforts and sense of belonging among employees.

Individual behaviour greatly impacts how an organisation functions and its culture evolves. By comprehending diverse factors that influence conduct, organisations can craft approaches to boost worker inspiration, participation, and output. Insights obtained from analysing individual behaviour permit administrators to customise their techniques to fulfil the needs of their workforce. As organisations manage the unpredictability of the cutting-edge work environment, concentrating on individual behaviour will be basic for accomplishing maintainable achievements. Putting resources into understanding and supporting individual behaviour is a key driver of organisational success.

Group behaviour

Group behaviour encompasses the coordinated actions and decision-making processes that allow collectives to achieve shared objectives. The behaviours, interactions, and internal workings that emerge within an assembly of individuals convened around mutual purposes, define group behaviour. Understanding this phenomenon is pivotal for organisations, as it impacts teamwork proficiency, interpersonal communication, fluency, and general productivity levels. Factors including established norms, roles each player adopts, feelings of unity, and leadership styles wield significant influence over how groups function and interact with one another. Furthermore, how individuals conduct themselves as members of a group can differ from when they are solitary, owing to social influences and the longing for acceptance. Through dissecting group dynamics, managers can facilitate collaboration more astutely and enhance productivity. Ultimately, fostering

a constructive group atmosphere can lead to improved organisational outcomes and a more cohesive work environment imbued with communal spirit.

What is group behaviour?

Group dynamics can occur in many intricate forms when people, interact and affect one another within a social environment. The combination of various characteristics, backgrounds, and viewpoints that develop from people gathering together creates multiple phenomena which include, but are not limited to consensus, conflicts, and productivity. The compliance with common norms, search for recognition, and positive motivations that are initiated by the presence of peers can in fact cause the manner people act, communicate, and solve problems in group settings to change compared with when alone. Through the deep understanding of the subtleties of social behaviour, it is possible for companies that aim for efficient teamwork, efficient communication, and other aspects of performance to achieve their goals. The boosting and management of relationships that exist within teams, corporates, and firms can help in bringing up healthy work environments for people to communicate to enhance synergy within the groups.

Types of groups in organisational behaviour

In organisational behaviour, groups are essential for fostering collaboration, communication, and achieving common goals. Understanding the different types of groups can help organisations effectively utilise their strengths, while addressing potential issues. There are two primary classifications of groups in organisations - formal groups and informal groups, each serving distinct purposes and roles.

Formal groups

Formal groups are established by organisations to accomplish specific aims and typically have defined duties and responsibilities assigned. These groups include teams, departments, or committees developed to complete projects, solve problems, or attain objectives. Members of formal groups are usually appointed or designated depending on their skills and expertise, ensuring the group functions productively in realising organisational goals.

Informal (spontaneous) groups

Informal groups are developed naturally among staff based on their mutual interests, connections, or friendships, instead of the organisation formally forming them. These groups are the workplace's small units, which, apart from facilitating

communication, it is also a platform for assistance and fellowship of its members. These groups are responsible for the occasional unstructured ideas and goals of the groups **Task groups**

Task groups are assembled to undertake a particular task or job, usually with a defined timeline and objective. Members of these groups unite according to their skills and expertise, relevant to the task at hand. Once the task is completed, the group may disband, making task groups temporary and goal oriented.

Interest groups

Interest groups are formed by people who share common interests or aims related to a specific aspect of their work or workplace. These groups can advocate for particular issues, such as employee rights, safety standards, or professional progress. Interest groups can influence organisational policies and practices by representing the collective voice of their members.

Virtual groups

Virtual groups consist of members who collaborate and interact primarily through digital platforms, rather than face-to-face interactions. With the rise of remote work and technology, virtual groups have become increasingly prevalent, allowing individuals from diverse locations to work together on projects. While they offer flexibility and accessibility, virtual groups may face challenges relating to communication, trust, and team cohesion.

Multi-disciplinary groups

Multi-disciplinary groups are composed of members from different departments or areas of expertise within an organisation. These groups are created to leverage diverse perspectives and skills in addressing complex challenges or developing innovative solutions. By fostering collaboration across functions, multi-disciplinary groups can enhance creativity and improve overall organisational effectiveness.

Factors affecting group behaviour

Group behaviour gets moulded by various components which determine the connection, communication and cooperation of individuals in a team. These factors, if well understood, it will enhance the success of group work and the efficiency of the organisation.

Group norms

Group norms are the unwritten regulations and guidelines that dictate members' behaviour. These customs help people in deciding on proper codes of behaviour, thus affecting the means by which people communicate and relate with one another. When norms are known by all and have been agreed upon, they can help to make the group more unified and collaborative, and when norms are diverse, they can cause people not to understand each other and bring disunity in the group.

Roles and accountabilities

The roles of each group member are their main duties as specified by management, and these are functions of their tasks. Clear role definitions further help workers to be sure of their parts, become more responsible and have better teamwork. On the downside, ambiguous roles imply lack of proper communication, thus, roles overlapping, and consequently, general inefficiency may occur.

Leadership approach

The leadership style that a group leader follows is the main catalyst that drives the behaviour and dynamics of the group. Various models, namely the controlling or up-to-the-minute, the democratic, or the free one can significantly affect team cohesion, motivation, and decision-making processes. The best leaders are those that bring changes in their behaviours to adapt to the demands of the group, creating an environment that encourages discussions and collaboration of the members.

Communication patterns

The communication patterns in a group are the core of the whole process of decision-making, information sharing, and even management of conflicts. Good and open communication can cultivate collaboration and trust, while bad communication may lead to dissonance, misunderstandings, and decrease in morale. Promotion of open communication and creating feedback loops can have a positive impact on the very dynamics of the group.

Cohesion and group identity

Group cohesion is the bonding factor that holds the group members together, thus improving the loyalty to the group goals and to one another. A strong group identity of the members can stimulate the motivation level and increase the people's satisfaction and performance, because they are recognised and integrated.

However, the over-cohesion could be the root of the groupthink of which is the problem of appraising the ideas of a group member over team consensus causing the team not to innovate and solve problems.

The way in which the individual behaves, and the group behaviour have two perspectives - internal and external.

Roles

In relation to organisational effectiveness, group behaviour tends to differ from individual behaviour. While groups are composed of individuals, their interactions and dynamics within the groups can significantly impact overall organisational effectiveness.

Groups can generate synergy, where the combined efforts of individuals lead to outcomes that are greater than what could be achieved by individuals working alone. When individuals collaborate and pool their diverse skills, knowledge, and perspectives, they can generate innovative ideas, solve complex problems, and achieve outcomes that surpass individual capabilities.

Social dynamics, such as conformity, social norms, and groupthink, also influence group behaviour. Individuals within a group often conform to the group's expectations and adopt its standards, which can either positively or negatively affect organisational effectiveness. Groupthink, for example, can lead to flawed decision-making, if critical thinking and diverse viewpoints are suppressed.

Moreover, groups typically have interdependencies, where individuals rely on one another's contributions to accomplish tasks or achieve goals. This interdependence necessitates coordination, communication, and cooperation among group members. Some strategies can be employed to stimulate and increase organisational effectiveness:

- i. **Foster a collaborative culture:** Encourage teamwork, open communication, and knowledge-sharing within the organisation. Create an environment that values and rewards collaboration, allowing individuals to contribute ideas.
- ii. **Establish clear goals and roles:** Clearly define the organisation's objectives, as well as individual and group roles and responsibilities. When everyone understands his/her purpose and how their contributions align with organisational goals, it promotes coordinated efforts and reduces ambiguity.

- iii. **Promote diversity and inclusion:** Embrace diversity in terms of skills, backgrounds, and perspectives within teams. Research suggests that diverse groups tend to be more innovative and effective in problem-solving. Encourage an inclusive environment where everyone feels respected and valued, enhancing collaboration and creativity.

While achieving satisfactory results in performance, satisfaction, and development is generally essential, there can be situations where satisfaction and/or development take precedence over performance.

For example, a team that has been working diligently on a project for an extended period, despite their best efforts, has found that external factors beyond their control have made it impossible to achieve the desired performance goals within the given timeframe. In such a scenario, focusing solely on performance could lead to frustration, demotivation, and burnout among team members. Prioritising satisfaction and development becomes important for the following reasons:

- i. **Boost morale and maintain motivation:** Acknowledging and appreciating the team's efforts, even if the performance targets were not fully met. Recognising their commitment and providing support, can help team members feel valued, which contributes to job satisfaction and encourages future growth.
- ii. **Learning and development:** Rather than solely focusing on the outcome, emphasise the lessons learned throughout the project. Encourage reflection on challenges faced, identify areas for improvement, and provide opportunities for skill development. This approach emphasises the importance of individual and team growth.
- iii. **Long-term perspective:** Prioritising satisfaction and development over immediate performance allows for a more holistic view of success by nurturing a positive work environment and fostering individual growth.

Individual and group behaviour in organisations

Individual and group behaviour are crucial in organisations, shaping everything from individual performance and team dynamics to overall organisational effectiveness and culture. Understanding these behaviours is essential for managers and leaders to create a positive and productive work environment.

Individual behaviour

- i. **Motivation and performance:** Individual behaviour, influenced by factors like personality, values, and motivation, directly impacts an employee's performance, efforts, and commitment to organisational goals.
- ii. **Learning and adaptation:** Understanding individual learning styles and adaptability helps organisations tailor training and development programmes to enhance employee skills and knowledge, leading to better performance.
- iii. **Creativity and innovation:** Individual behaviours relating to creativity, problem-solving, and innovation are vital for developing new products, services, and processes that drive organisational growth and competitive advantage.
- iv. **Conflict Resolution:** Individual behaviours, including conflict resolution skills, communication styles, and empathy, are crucial for building positive relationships, fostering collaboration, and managing conflicts effectively within teams and across departments.

Group behaviour:

- i. **Team dynamics and collaboration:** Group dynamics, including roles, norms, communication patterns, and decision-making processes, significantly influence how teams function, collaborate, and achieve their goals.
- ii. **Leadership and influence:** Group behaviour is shaped by leadership styles, which can influence team morale, motivation, and productivity. Effective leadership fosters a positive and collaborative work environment, while ineffective leadership can lead to conflict and decreased performance.
- iii. **Communication and information sharing:** Effective communication within and between groups is essential for information flow, collaboration, and coordination. Group behaviours relating to communication, such as active listening facilitate group cohesion.
- iv. **Listening, constructive feedback, and information sharing**, contribute to a more cohesive and productive work environment.
- v. **Conflict and cooperation:** Group behaviours can lead to conflict or cooperation. Understanding the dynamics of group conflict, such as power

struggles and differing perspectives, can help organisations develop strategies for managing conflict and fostering cooperation.

- vi. **Organisational culture:** Group behaviours, norms, and values contribute to the overall organisational culture, which in turn influences employee behaviour and attitudes. Understanding the impact of group behaviour on organisational culture is crucial for shaping a positive and productive work environment.

3.3.5 Conflict management

Conflict management is about navigating conflicts as they arise, not necessarily resolving them. It is an ongoing process, an attempt to maintain harmony, despite differing viewpoints. Organisations often integrate conflict management and resolution practices to handle disputes comprehensively. Each leader's conflict management style significantly influences organisational culture. Exploring different styles of conflict management can provide tailored solutions to unique organisational challenges.

Conflict management is a general term for the way conflicts are identified and handled fairly and efficiently. The goal is to minimise the potential negative impacts that can arise from disagreements and increase the odds of a positive outcome. At home or work, disagreements can be unpleasant, and not every dispute calls for the same response.

The nature of conflict at work

Conflict begins when one person starts to believe that someone else is preventing something that the person considers important and valuable. Two groups may be in conflict when one group believes that the other group is trying to prevent it from achieving its goals or aims. People in conflict see one another as opponents.

Causes of conflict

Conflict can occur between individuals in the same work team or work unit. More often, conflict arises between different workgroups or departments, and between people in different workgroups.

Causes of conflict may be any of the following:

- a) Conflict can arise when individuals are unclear about their respective areas of responsibility, so that one person believes that another is trying to take away his authority and responsibility.
- b) Conflict occurs because each individual believes that he has the responsibility for doing something, and it is not the responsibility of the other person.
- c) In the same way, conflict can arise when workgroups are unclear about their respective areas of responsibility. Each workgroup believes that it has the decision-making responsibility, and not the other group.
- d) Conflict may occur when one person or group thinks that another person or group is deliberately trying to spoil what he/it is trying to do, by being deliberately unhelpful or critical. For example, there may be conflict between the operations division and finance department of a company if the operations division management want to invest in new equipment and the finance department management will not allow them to have the money to invest.
- e) In some situations, conflict may occur when two workgroups are pursuing incompatible objectives. Similarly, conflict may occur between management and trade union representatives, because management act in the best interests of the organisation and its owners, and the trade union representatives try to get the best terms of employment for their members.
- f) On a personal level, conflict can arise when one individual thinks he can tell another person what to do, but the other person refuses to follow his instructions or recognise his authority.
- g) Conflict may even occur when operational managers are advised by 'specialist' advisers. The operational managers may feel that the specialists are being deliberately unhelpful in the advice they give. The specialists might feel that their advice is being wasted when it is ignored.
- h) Conflict may occur due to the nature of the work involved, so that for one person or group to 'succeed', another group has to 'fail'. Operational departments may have conflicts with regulators and checkers (including auditors) for this reason.
- i) Conflict may be 'political'. Political conflict may occur at the most senior level of the organisation, for example among the directors and senior managers of a company. One group of managers and directors may form a 'clique' that sees itself in conflict with another group, with disputes over

matters such as company strategy and senior management promotions and appointments.

- j) Conflict might arise due to personality differences and natural ways of approaching a task. For example, there may be conflict between a conservative employee who favours a measured and structured approach to implementing a new piece of technology (such as reading the instruction manual in full before trying the new system) versus a more adventurous and care-free employee who favours a 'try it, see what happens and worry later' approach.
- k) Non-compliance with rules, regulations and policies can be a common cause for conflict between those breaching the rules and those advocating compliance.
- l) Simple misunderstanding through ineffective communication can be another common cause of conflict in the workplace. For example, written communication may not easily convey body language or elicit constructive dialogue and hence may misrepresent the tone with which it was sent. The message received by the reader may also be biased by the mood of the receiver. Hence a light-hearted joke or reference may be interpreted seriously and cause offence leading to conflict.
- m) Conflict may arise where quotas and incentives generate competition for a scarce resource. Whilst on the one hand healthy competition can be a good motivator it can also lead to destructive and divisive behaviour such as sabotage and deliberate misinformation.

Characteristics of Conflict

- a) Conflict usually has a negative impact on the effectiveness of an organisation.
- b) There may be unfriendly rivalries between workgroups, departments or individuals.
- c) The individuals or groups in conflict are unlikely to communicate openly with each other.
- d) There may be inter-departmental disputes and arguments.
- e) Individuals or groups will be unwilling to listen to ideas from others with whom they are in conflict. There will be a refusal to co-operate.
- f) The opponents or rivals will constantly make accusations of wrongful treatment or improper behaviour.

- g) Individuals are likely to feel frustrated in their work and put the blame on the 'enemy'.
- h) There may be disputes over rights and responsibilities.

Managing Conflict

There is not an easy solution to the management of conflict. The most appropriate measures for dealing with the problem will vary according to circumstances.

A manager whose subordinates are in conflict may choose to ignore it and pretend that it does not exist. This may be appropriate when the conflict is about a trivial matter and could be expected to end fairly soon.

- a) A manager might deal with a conflict between two subordinates or groups of subordinates by trying to impose a solution. He might ask the conflicting groups what the dispute is about, and having heard both sides of the argument, impose his own solution.
- b) When the main problem in a dispute appears to be one particular person, the manager may decide that a suitable solution would be to move the individual to a different position in the organisation.
- c) Another approach to resolving conflict amongst subordinates is to encourage them to talk through their differences and try to change their attitudes to each other. By exchanging their views and opinions, it may be possible for two groups to forget their differences – eventually – and to work in a more co-operative way.
- d) Similarly, a manager may try to act as a 'peacemaker', by listening to the views of each side, and trying to encourage each side to take a more rational and constructive approach to the problem that has caused the dispute. A peacemaker can listen sympathetically, but at the same time suggest some ways in which the 'other side' in the conflict may have a justifiable point of view.

Unfortunately, serious conflict is not easy to resolve quickly, and the eventual solution is found when existing personnel move on to other jobs or other management positions, or there is an organisational re-structuring.

Strategies for conflict management

Conflicts inevitably come up when people interact, whether at work or home. However, when conflicts are not resolved, they can lead to various negative consequences. These include:

- a) Hurt feelings;
- b) Resentment and frustration;
- c) Loneliness and depression;
- d) Passive aggression and communication issues;
- e) Increased stress and stress-related health problems;
- f) Low morale;
- g) Reduced productivity; and
- h) High staff turnover.

Conflict is a part of life. Knowing strategies for managing conflicts can help keep one's home or workplace healthy. The following are a few tips to keep in mind when conflicts arise:

- i. **Acknowledge the problem:** If someone presents a dispute that seems trivial, remember it may not be trivial to him/her. Actively listen to help the other person feel heard, then decide what to do about the situation.
- ii. **Gather the necessary information:** Conflicts cannot be resolved unless, all sides of the problem have been investigated. Take time to understand all the necessary information. This way, you will choose the best conflict management style and find an optimal resolution.
- iii. **Set guidelines:** Whether discussing a conflict with someone or intervening in a conflict between employees, setting guidelines before beginning is very important. Participants should agree to speak calmly, listen, and try to understand the other person's point of view. Agree upfront that if the guidelines are not followed, the discussion will end and resume later.
- iv. **Keep emotion out of the discussion:** An angry outburst may end a conflict, but it is only temporary. Talk things over calmly to avoid having the dispute come up again.
- v. **Be decisive:** Once a dispute is discussed and evaluated, the best approach is to take action on the solution that has been identified. Letting others in on the decision will let them know that you care and are moving forward.

Conflict resolution

Conflict resolution is the process that two or more parties use to find a cordial solution to a problem. Conflicts can occur between friends and family members, and also between co-workers, clients, and customers. In the workplace, having poor conflict resolution skills can reflect very negatively on an organisation.

Conflicts are natural in both personal and professional relationships, and one should not try to find a way to avoid conflicts. Instead, one should work on one's conflict resolution skills. Having good conflict resolution skills means one can resolve a problem or dispute in a positive way and still maintain a healthy and happy relationship with the other party involved.

Conflict resolution is crucial for both the workplace and client relationships. Conflict resolution brings people together to figure out a solution to a problem, rather than pulling them apart. The goal of a workplace is to create an inclusive environment of people that know how to manage and limit conflicts. You cannot expect to have a conflict-free workplace, so instead, one should aim to ensure everyone has the skills to handle conflicts in a professional manner.

Conflict resolution also means that issues will get resolved much faster, which can lead to greater efficiency in the workplace. Rather than dwelling on an issue for hours or even days, one can resolve the issue quickly and effectively, so everyone can get back to work.

Knowing how to resolve conflicts with clients can also help improve talent retention and maintain strong brand identity and trustworthiness. Conflict resolution also builds teamwork, as it brings people together to resolve an issue. When people are able to put aside their differences and come together to reach a conclusion that works for everyone, it shows a lot of strength. It indicates that they care more about resolving issue than being right in the situation. Conflict resolution is essential in order to build strong working relationships that are based on mutual respect and trust.

Overall, conflict resolution creates a positive and inviting company culture, so that employees feel respected. No one wants to go into his/her office every day worrying about what kind of argument he/she are going to get into that day and how it might escalate. Conflict resolution creates a positive work environment, that is based on communication and trust, so one can quickly resolve conflicts and move on.

Below is how to improve conflict resolution skills for a more positive and productive environment:

i. Active listening

The first step in resolving a problem is taking time to listen to what the other party has to say. It is easy to assume that one is right in the situation and dismiss the other person's thoughts, but that mind-set does not help to resolve the issue. Instead, it is imperative to engage in active listening.

Active listening entails focusing on what the other person has to say, staying quiet as they speak, and listening to how they phrase things. Genuinely listening to their questions and concerns shows that you care about what they are saying, establishing a sense of respect. You should always go into conflict resolution with an open mind, so that you can truly see the perspective of other person.

If the other person phrases things in a certain way, one should respond in the same manner. If one is confused about something said, he/she should ask questions. This indicates that one actually listened, and cares about resolving the issue at hand. Actively listening to the other party during a conflict is arguably one of the most important skills to have when it comes to conflict resolution.

ii. Communication

Communication is key in every relationship, whether it is professional or personal. Communicating one's thoughts and feelings to people around helps them to understand ones feelings.

Communication is key to ensuring that relationships stay healthy in the long term. Open communication can prevent an issue from escalating and create a workplace environment that encourages inclusion, so no one feels alienated, judged or afraid to speak in a conflict situation.

iii. Do not apportion blames

One should not point accusing fingers, because this can escalate the conflict and make matters worse. Instead, create a safe environment that does not place blame on any of the parties.

Avoid going on the offensive, as this can make it more difficult to find a solution. Instead, everyone should have an equal chance to speak, without being shut down. It is crucial to let everyone express their feelings and thoughts.

When faced with a conflict at work or in personal life, all the parties involved should work together to resolve it. No one specific person should be held responsible for finding the solution. Working together to find a solution will not only resolve the issue faster, but it will also bring everyone together and encourage teamwork.

iv. **Remaining calm**

Sometimes, our natural responses during arguments are to let emotions like anger and frustration take control, but that seldom results in resolutions. The tone of voice goes a long way in a conversation, which is why it is important to remain calm when resolving a conflict. Although it might be hard to stay level-headed during a disagreement, it is necessary so that one does not exacerbate the issue.

It is a good idea to wait after the initial arguments before having another round of conversations. Emotions should be allowed to pass by taking time to reflect on and critically think about the issue at hand with a view to finding a lasting solution to the conflict.

v. **Collaboration**

In a conflict, all parties often believe they are right, which is why it is important to collaborate and find common ground and compromise. Conflict resolution is a joint effort, thus, no party can provide a solution all by itself. Instead, all parties need to work together to reach a resolution that works for everyone. Having the willingness to collaborate will also show the other party that one is able to put the differences aside to come to a conclusion as a team.

Approaches to conflict resolution

- a) **Negotiation:** Negotiating can be hard, but it is key when it comes to conflict resolution. Negotiating means putting differences aside and working together to come to a conclusion. Negotiation helps build better relationships in the workplace, because it shows the willingness to let go of one's ideals to find a

solution that works for everyone involved. When one can successfully negotiate a solution with someone, that puts you ahead in the workplace and will lead to greater efficiency.

- b) **Mediation:** Mediation strategy involves enlisting a neutral, unbiased third party who can help come to a resolution of the issues in dispute. Sometimes, having another person involved in a discussion is all that is needed to find a solution. With a mediator, one is able to get a completely unbiased opinion on the situation. For example, if one is having an argument over a project with a co-worker, one can ask another co-worker who is unrelated to the project to be a mediator. This way, the mediator can give an opinion that is simply based on facts and is not influenced by personal feelings.
- c) **Arbitration:** Arbitration involves having a third party that acts as a “judge” who will make final decision to end the dispute. This person will listen to all sides of the argument and then come to a decision based on the evidence that is presented. This decision will be final, and the parties involved in the dispute cannot appeal the decision. However, they can try to negotiate certain aspects of the decision. The goal of this strategy is to have a completely unbiased third party who makes a decision that is based fully on the evidence that was presented.
- d) **Litigation:** In litigation, the parties involved in the dispute will go before a judge or a judge and jury who will hear all sides of the argument, weigh the evidence, and then make a decision. The judge and jury can be any group of people who are not directly involved in the conflict.

In conclusion, having good conflict resolution skills is necessary both within and outside the workplace. Conflicts are inevitable; hence one will be faced with conflicts from time to time. So instead of trying to avoid conflicts altogether, one should work on acquiring conflict resolution skills.

3.3.6 Team formation, development and management

This process of learning to work together effectively as a group is known as team development. Research has shown that teams go through definitive stages during development. Bruce Tuckman, an educational psychologist, identified a five-stage development process that most teams follow to become high performing. He called

the stages: forming, storming, norming, performing, and adjourning. Teams progress through the stages as shown in the following diagram.

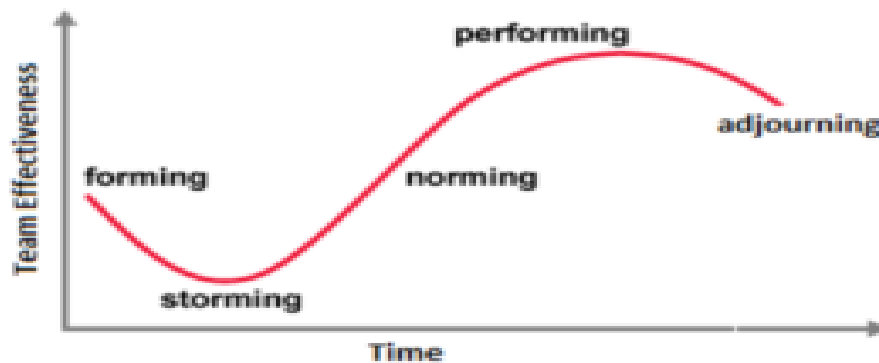


Figure 3.2

These stages could be summarised as follows:

- a. When teams are forming, they are just getting to know one another.
- b. When they are storming, they are working together to come up with different ideas.
- c. They are norming when they have learned how to work together, creating a sense of normalcy.
- d. They are then performing at peak efficiency.
- e. Finally, they are adjourning to reflect on their strengths and weaknesses as a team.

i. Forming stage – Getting everyone on board

The forming stage involves a period of orientation and getting acquainted. Uncertainty is high during this stage, and people are looking for leadership and authority. A member who asserts authority or is knowledgeable may be looked up to, to take control. Team members are asking such questions as “What does the team offer me?” “What is expected of me?” “Will I fit in?” Most interactions are social, as members get to know one another.

ii. Storming stage – Share and collaborate

The storming stage is the most difficult and critical stage to pass through. It is a period marked by conflicts and competitions as individual personalities emerge. Team performance may decrease in this stage, because energy is

put into unproductive activities. Members may disagree on team goals, and subgroups and cliques may form around strong personalities or areas of agreement. To get through this stage, members must work to overcome obstacles, to accept individual differences, and to work through conflicting ideas on team tasks and goals. Teams can get bogged down in this stage. Failure to address conflicts may result in long-term problems.

iii. Norming stage – Finding the best way

If teams get through the storming stage, conflicts are resolved, and some degree of unity emerges. In the norming stage, consensus develops around who the leader is or leaders are, and clarification of each individual member's roles. Interpersonal differences begin to be resolved, and a sense of cohesion and unity emerges. Team performance increases during this stage as members learn to cooperate and begin to focus on team goals. However, the harmony is precarious, and if disagreements re-emerge the team can slide back into storming.

iv. Performing stage – Focus and deliver

In the performing stage, consensus and cooperation have been well-established and the team is mature, organised, and well-functioning. There is a clear and stable structure, and members are committed to the team's mission. Problems and conflicts still emerge, but they are dealt with constructively. The team is focused on problem-solving and meeting team goals.

v. Adjourning stage – Review and celebrate successes

In the adjourning stage, most of the team's goals have been accomplished. The emphasis is on wrapping up final tasks and documenting the effort and results. As the workload is diminished, individual members may be reassigned to other teams, and the team disbands. There may be regret as the team ends, so a ceremonial acknowledgement of the work and success of the team can be helpful. If the team is a standing committee with ongoing responsibility, members may be replaced by new people and the team can go back to a forming or storming stage and repeat the development process.

3.3.7 Motivation

Motivation is the process that initiates, guides, and maintains goal-oriented behaviours. For instance, motivation is what helps to choose career paths or

pushes one to get that promotion at work. In short, motivation causes one to act in a way that gets one closer to goals.

Motivation in management refers to the strategies and tactics managers use to inspire and encourage their teams to achieve organisational goals, increase productivity, and enhance overall workplace experience. It is a crucial aspect of effective leadership, as motivated employees are more engaged, perform better, and contribute to a more positive and productive work environment. The following are the key aspects of motivation from management's perspective:

- a) **Understanding employee needs:** Effective managers understand the individual needs, desires, and aspirations of their team members. This allows them to tailor motivational strategies to resonate with each person.
- b) **Setting clear goals and expectations:** Providing employees with a clear understanding of their roles, responsibilities, and the objectives is fundamental to motivation.
- c) **Creating a positive work environment:** A supportive, inclusive, and respectful workplace culture can significantly boost employee morale and motivation.
- d) **Providing recognition and rewards:** Recognising and rewarding employee achievements, whether through verbal praise, bonuses, or other forms of recognition, reinforces desired behaviours and encourages continued effort.
- e) **Encouraging open communication:** Maintaining open and transparent communication channels allows employees to feel heard, valued, and informed, which can enhance their sense of ownership and motivation.
- f) **Promoting employee development:** Offering opportunities for professional growth, training, and skill development can boost employee engagement and motivation by showing that the organisation values their career advancement.
- g) **Leading by example:** Managers who demonstrate the desired behaviours and attitudes themselves can inspire and motivate their teams.

Benefits of effective motivation in management

- i. **Increased productivity:** Motivated employees are more likely to put in extra effort and produce higher quality work.

- ii. **Improved morale and engagement:** A motivated workforce is generally more satisfied with their work and is more engaged with the organisation's goals.
- iii. **Reduced turnover:** Happy and motivated employees are less likely to leave the organisation, saving on recruitment and training costs.
- iv. **Enhanced team performance:** A motivated team is more likely to collaborate effectively, solve problems creatively, and achieve organisational objectives.
- v. **Better organisational culture:** Effective motivation helps to create a positive and supportive work environment that fosters a sense of community and shared purpose.

Types of motivation

Motivation, the driving force behind human behaviour, is a complex concept that has been studied by psychologists for decades. While there are many different theories of motivation, three primary types are widely recognised: intrinsic, extrinsic, and identified regulation.

- i. **Intrinsic motivation:** Intrinsic motivation is often considered the most effective and sustainable form of motivation. It is associated with a higher level of engagement, creativity, and performance. People who are intrinsically motivated, are more likely to persevere in the face of challenges, experience flow, and derive deep satisfaction from their accomplishments.
- ii. **Extrinsic motivation:** Extrinsic motivation (the carrot and the stick) is the drive to engage in an activity for an external reward or to avoid an unpleasant consequence. It is often characterised by feelings of pressure, obligation, or coercion. People who are extrinsically motivated may be more likely to complete tasks, but they may also be more likely to experience burnout and disengagement.
- iii. **Identified regulation:** Identified regulation, also known as integrated regulation, is a type of motivation that lies between intrinsic and extrinsic motivation. It occurs when a person initially starts an activity for external reasons but over time comes to see the value of the activity for its own sake. For example, an employee who initially starts working because of pressure, may eventually come to enjoy the work and find it personally fulfilling.

In a business context, theories of motivation are concerned with identifying the factors that affect the attitudes of employees (including managers) to their work

and the amount of effort that they put in to doing their work. For example, a demotivated employee may refuse to work in excess of contracted hours even if this might mean the loss of revenue or a client. However, a motivated employee might do whatever it takes to secure the revenue or client.

If managers understand the factors that motivate their employees, they might be able to take measures to improve motivation and effort.

Theories of motivation also help us to improve our understanding of our personal motivation to work and what we hope to get from our job.

Definition: Motivation

Motivation describes the reason or reasons one has for acting or behaving in a particular way. This in turn impacts the general desire or willingness of someone to do something.

Content theories and process theories of motivation

There are many different theories of motivation. It might help to make a distinction between:

- a) content theories of motivation, and
- b) process theories of motivation.

Content theories

Content theories concentrate on what motivates individuals in their work.

There is often an assumption that the same things motivate everyone. Rewards will satisfy a need and individuals will be motivated to obtain those rewards.

Examples of content theory are:

Maslow's hierarchy of needs

Herzberg's hygiene and motivator factors

McClelland's motivational needs theory (although there are also elements of process theory in motivational needs theory).

Process theories

Process theories of motivation concentrate on the process by which individuals are motivated, and the strength of that motivation. In other words, the key question is: 'how are people motivated?'

It is argued that individuals are motivated differently, and the strength of their motivation depends on a variety of factors, such as:

- a) needs
- b) personality
- c) perceptions about whether more effort will result in achieving goals
- d) the rewards
- e) expectations about whether the rewards for achieving the goals will actually meet the individual's needs.

Rewards and perceptions of rewards are usually a key factor in process theory. Examples of process theory include:

- a. Vroom's expectancy model
- b. Handy's motivational calculus.

Maslow: the hierarchy of needs

In the 1950s, US psychologist Abraham Maslow developed a theory of the motivation of individuals at work. He argued that individuals have seven in-built needs, and his theory is concerned with the motivating power of each of these needs.

Two needs are needs of a 'higher order' that must be met before the other five needs can be satisfied. These higher order needs are:

- a. a need for freedom of inquiry and expression: social conditions must allow free speech and encourage justice, honesty and fairness
- b. a need for knowledge and understanding: a need to explore and experiment.

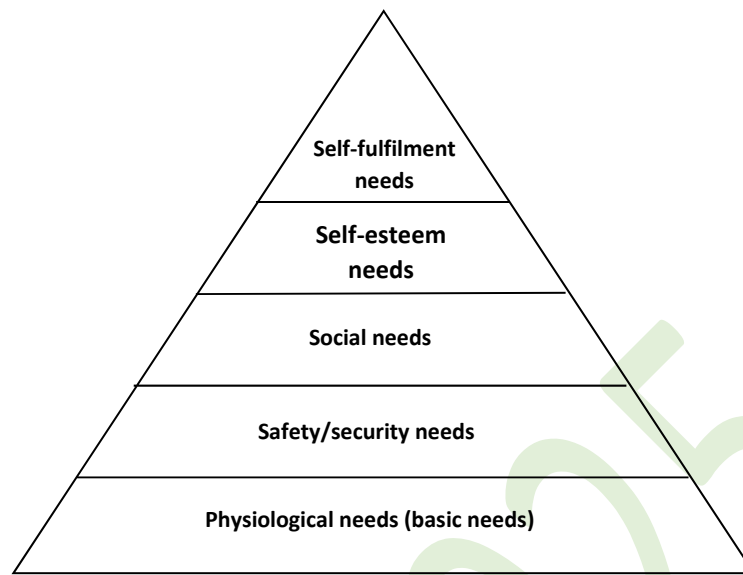
The other five needs can be arranged in a hierarchy of five levels. The need at a lower level is dominant until it has been satisfied. When the need at one level has been satisfied – and only then – the need at the next level becomes dominant.

- a. A need that has been satisfied no longer motivates the individual.

- b. An individual is motivated by the need at a level in the hierarchy that has not yet been satisfied.
- c. The highest level of need – self-actualisation – can never be fully satisfied.

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The hierarchy of needs (the five levels of need) is usually drawn as a pyramid.



Physiological needs (basic needs)

These are the needs for food, shelter, clothing and everything else that we need to stay alive. These needs can be satisfied by money.

Safety needs or security needs

Safety needs are the needs for security in work. Individuals want to feel safe against the risks of unemployment, and they want protection against the consequences of illness or having to retire. People also want fair treatment at work. These needs can be satisfied by:

- a. employment legislation and
- b. the employer's arrangements for a pension scheme for its employees and for the treatment of its employees who are affected by illness or injury.

Social needs

Social needs are the needs to interact with other people, and to be part of a group. At work, social needs can be met by working with other people.

However, the way in which work is organised has an important effect on whether the social needs of employees are fully met.

Esteem needs (or ego needs)

Esteem needs are the needs for the esteem of other people, and to feel good about one's own value or importance. Esteem needs can be met by promotion and by the status of the job. However, promotion only offers short-term esteem. In the longer term, individuals get esteem from their work by having some say in how their work is organised.

Self-fulfilment needs (self-actualisation needs)

These are the needs to achieve something worthwhile in life. This need is never fully satisfied. An individual at this level in the hierarchy needs continuing success and achievements.

The significance of Maslow's ideas

- a. The significance of Maslow's ideas is that it suggests an approach that management should take to improving the motivation of employees.
- b. Management must make sure that lower-level needs are satisfied before they try to motivate employees with initiatives aimed at the satisfaction of higher-level needs.

For example:

- i. Pay is extremely important, because it satisfies basic needs. Employees must be paid enough to satisfy their basic physiological needs (whatever these are perceived to be).
- ii. Unless employees feel secure in their job, there is no point in trying to increase motivation through job design that improves social interaction.
- iii. Making individuals feel part of a group must come before satisfying needs for esteem and status.

Limitations of the hierarchy of needs

The hierarchy of needs is a simple and logical idea about human motivation, but it has significant weaknesses and limitations. The main problem is its

assumption that needs are the same for all people and can be satisfied for everyone in the same way.

- i. Individuals have different needs, and they are not necessarily in the hierarchical order suggested by Maslow.
- ii. Many individuals may seek to satisfy several different needs at the same time.
- iii. The same need may cause different reactions and responses from different individuals.
- iv. There is an underlying assumption that the objectives of the organisation will be achieved if individuals receive rewards of higher status (promotion) or self-fulfilment. Maslow does not show any link between self-fulfilment and improved organisational performance.
- v. Maslow's model is vague about the nature of self-actualisation or self-fulfilment needs. More modern theories of motivation go into much more detail about the nature of high-level needs and their satisfaction.
- vi. It is a 'content theory' of motivation. It does not explain the strength of motivation, nor the effect on motivation of people's perceptions.
- vii. The theory also fails to recognise that self-actualisation is not always possible. The environment in which the organisation operates may not be suitable for self-fulfilment – for example the nature of the product or service of the organisation, its technology or environment might mean that organisations should not (and cannot) offer their employees the satisfaction of self-actualisation needs. An example might be working on the factory floor. It is difficult to achieve self-actualisation working in a low-level job in a factory environment

Herzberg and motivation-hygiene theory (two-factor theory)

In the 1950s, Frederick Herzberg carried out some research into the factors that motivate individuals in their work, by interviewing 200 engineers and accountants. He developed a two-factor theory of motivation, which he set out in his book *The Motivation to Work* (1959).

Herzberg identified two groups or categories of factors: those causing dissatisfaction with work and those causing satisfaction. He called these:

- a) **hygiene factors** (= the factors causing dissatisfaction) and
- b) **motivator factors** (= the factors causing satisfaction).

The most significant hygiene and motivator factors were as follows:

Factors causing dissatisfaction	Factors causing satisfaction
Hygiene factors	Motivator factors
Company policy	Achievement
Supervision	Recognition
Relationship with the boss	The work itself
Working conditions	Responsibility
Salary	Advancement
Relationship with colleagues	Growth

It might be supposed that factors causing dissatisfaction and factors causing satisfaction are opposites. However, Herzberg argued that this is not the case.

- a) The opposite of dissatisfaction is not satisfaction: it is not being dissatisfied.
- b) The opposite of satisfaction is not dissatisfaction: it is not being satisfied.

The conclusion from Herzberg's analysis is that management need to deal with two different categories of factors affecting the concerns of employees in their work.

- a) Management need to make sure that hygiene factors are given proper attention. If employees are content with their hygiene factors, they will not be dissatisfied. For example, employees need to feel that they are being paid well enough in order to prevent them from being dissatisfied. However, satisfying the hygiene factors only prevents dissatisfaction, it does not create satisfaction.

- b) In order to motivate individuals, the motivator factors need to be satisfied. Creating motivation therefore means providing conditions at work that will make individuals feel a sense of achievement and recognition. According to Herzberg, a key factor in creating motivation is **job enrichment** – making the work itself more interesting and fulfilling.

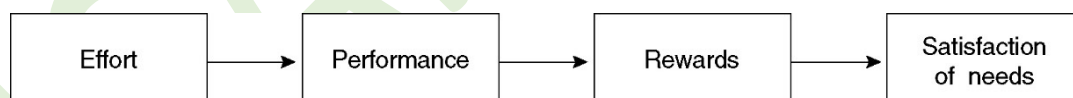
Vroom: expectancy theory

Victor Vroom published his ideas on expectancy theory in 1964. Expectancy theory is a theory for predicting the strength of an individual's motivation to put in effort at work.

Vroom argued that our behaviour is the result of conscious choices that we make between different alternatives. We each have our own personal goals and needs for satisfying those goals. Some of these needs may be satisfied through work.

We can be motivated to work if we believe that:

- a) there is a positive correlation between the efforts we make and the performance that is the result of our efforts – in other words, the more effort we put in, the better the performance will be, and
- b) good performance will result in a desirable reward, and
- c) the reward will satisfy an important need.



Rewards may be a mixture of:

- a) **extrinsic rewards** – pay, bonuses, and so on
- b) **intrinsic rewards** – promotion, sense of achievement, sense of recognition, and so on.

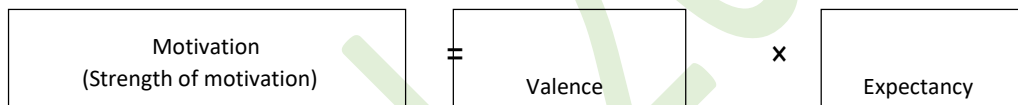
The motivation to obtain rewards is an important aspect of the theories of writers such as Vroom, Handy and McClelland, and it is important to understand that 'rewards' can consist of both extrinsic and intrinsic rewards.

Vroom also argued that there are two or three specific factors that determine the strength of an individual's motivation:

- a) **Valence.** Valence is the strength of the individual's need for rewards.
- b) **Expectancy.** Expectancy is the strength of the individual's belief that by putting in more effort, he will improve his performance.
- c) **Instrumentality.** Instrumentality is the belief of an individual that by achieving a certain performance target, rewards will be obtained.

In a simplified version of the expectancy model, expectancy is defined as the belief of the individual that by putting in more effort, he or she will get the desired rewards. In this simplified model, expectancy is therefore a combination of expectancy and instrumentality.

Vroom's expectancy model for measuring the strength of an individual's motivation is:



Implications of expectancy theory

Expectancy theory has several implications for management.

- i. Motivation depends partly on **valence**, which is the strength of an individual's desire for particular rewards. Managers should therefore try to find out what their employees do want.
- ii. Motivation also depends on **expectancy**. Some individuals do not believe that they are able to achieve better performance by trying harder. They may lack self-confidence or lack training. (Alternatively, they may not be in a position to affect performance, in which case motivation will be very low, and possibly nil.) Management must consider ways of trying to increase the expectancy of their employees, for example by providing training and development, giving them the resources they need to do the job, or by providing supervision and guidance.
- iii. Instrumentality may also affect motivation. Managers must keep the promises that they have given of rewards for performance – and try

to make sure that employees believe that the managers will keep their promises.

McClelland: motivational needs theory

David McClelland (1917 – 1998) put forward a motivational needs theory, which he developed into a needs-based motivational model.

He argued that there are three needs that are found in all employees. Everyone displays all three needs, but one of the three needs is often dominant in affecting the individual's attitudes and behaviour. The three needs are:

- a) a need for achievement ('n-ach')
- b) a need for authority and power ('n-pow')
- c) a need for affiliation ('n-affil').

He identified the characteristics of individuals who are motivated mainly by the needs for achievement, power and affiliation, as follows:

- a. **N-ach person.** This person seeks achievement. Targets for achievement should be **realistic** but **challenging** goals. The person also seeks advancement in the job, and has a need for:
 - i. feedback: this is information about his achievements and progress towards the goals – the individual needs to know whether or not the goals are being met
 - ii. a sense of accomplishment from achieving the goals.
- b. **N-pow person.** This person needs to be influential and effective, and to make an impact. He has a strong need to lead, and for his ideas to be accepted rather than the ideas of others. He needs status and prestige.
- c. **N-affil person.** This person needs friendly relationships and is motivated by interaction with other people. He needs to be liked and held in high regard. He makes a good 'team player'.

McClelland argued that n-ach people make the best leaders. However, they can demand too much from their employees, because they often assume that everyone else is motivated by the same need for achievement that they have.

- d. N-affil individuals are usually poor leaders. This is because their need to be liked will often affect their objectivity and prevent them at times from making unpopular but necessary decisions.
- e. N-pow individuals are also poor leaders. They are often determined individuals, with a strong work ethic and a commitment to their organisation and its goals. However, they often lack 'people skills' (skills at dealing with other people) and also lack flexibility.

Achievement-motivated individuals are usually the ones who make things happen and get results.

- f. They set goals that they can influence (so the goals are achievable): this is a characteristic of successful businessmen and entrepreneurs.
- g. They consider achievement more important than financial rewards.
- h. Achieving a goal or successfully completing a task gives them more satisfaction than praise or thanks from others.
- i. Security and status are not prime motivators for them in their work.
- j. They are constantly looking for ways to do things better.
- k. Crucially, however, they need feedback about their performance. They must be told about their actual performance and what they have achieved.
- l. For achievers, pay is a form of feedback about their performance. High pay and bonuses are a measurement of their success in achieving goals.

The link between motivation and productivity

It has been argued that if an individual is motivated by his or her work, enjoys doing it, and gets a feeling of satisfaction or self-actualisation from doing the work, then the individual is likely to be more productive.

Research appears to support this argument, and it is therefore reasonable to suppose that a motivated individual will want to perform better and is likely to do so.

It is worth remembering, however, that productivity is a measure of the speed or quantity of work produced. A motivated individual may not work faster, although arguably he or she might do so. It is perhaps more likely that

motivated individuals will be more effective in what they do, because their satisfaction comes from enjoyment in doing their job well.

3.3.8 Management theories

a. Scientific management theory

Scientific and classical theories of management

Early theories of management were concerned with:

- i. the roles of the manager and
- ii. how managers might perform their roles better and more effectively.

These theories focused mainly on the management of work (rather than the management of people at work). 'Classical' theories of organisation and management are associated with theorists such as:

- a) Taylor and the scientific school of management
- b) Fayol, and
- c) Weber.

b. F W Taylor (1856 – 1915) and scientific management

Frederick Taylor was a US engineer who is considered the founder of 'scientific management'. Scientific management is concerned with applying scientific techniques of analysis and experimentation to improve the efficiency of work.

Taylor studied the relationship between people and the tasks that they perform. His approach was to analyse the tasks that individuals perform at work, and break them down into smaller units of work. Each small unit of work was then analysed to find ways in which they could be performed with the greatest efficiency (in the shortest time). Experimentation was used to find ways of improving efficiency for each small unit of work, and Taylor measured the time that it took to carry out each small task.

Taylor is considered the originator of 'time and motion study'.

Scientific management resulted in:

- i. dividing larger tasks into much smaller units,
- ii. employing individuals to specialise in each small unit of work, and therefore
- iii. increasing efficiency through the division of work and specialisation.

Taylor is probably best known for the experiments he carried out into shovelling coal at the Bethlehem Steel Works in the US. Taylor succeeded in improving productivity through:

- a) analysing the tasks involved in shovelling coal
- b) experimenting with different types of shovel (for example, different sizes of shovel and shovels with different lengths of handle) and the amount of coal that should be shovelled in a single action, and
- c) introducing work specialisation within shovelling operations.

The four underlying principles of scientific management

Taylor suggested that there should be four underlying principles in scientific management.

- (a) There should be a science of work, based on the analysis of work methods and work times, with a view to finding the most efficient way of carrying out tasks. A fair level of performance or efficiency can be identified. Workers should be rewarded through higher pay if they succeed in performing more efficiently than the expected or standard level.
- (b) Workers should be selected carefully. They should have the skills and abilities that are well-suited to the work. They should also be trained in how to do the work efficiently.
- (c) The scientifically-selected and trained workers and the science of work should be brought together for the best results and greatest efficiency.
- (d) There should be an equal division of work between the workers and management, and workers and managers should operate closely together. (This was not the normal practice at the time, in the US in the late 1800s.) The management should take over all the work from the workers for which they are more capable.

Criticism of scientific management theory

- (a) Considered as pro capitalist, that is, only favouring the rich and ruling class society and not the workers.
- (b) Trade unions criticised it as a theory to destroy collective bargaining with the ruling class by the workers for their benefits.

- (c) Very mechanical and thought of workers as nothing more than mere tools. Not humanistic, as it only concerned itself with efficiency and production, and managerial problems not the psychological and emotional problems of workers, like the routine and monotony of their work and uncertainty of employment, etc. Humanistic approach scholars advocated that workers also need justice and status, as well as opportunities and not just a rise in wages.
- (d) Managers also opposed Taylor as they felt he was putting unnecessary burden on them and equating them with workers through his principles of equal division of work and responsibility and training for managers.
- (e) Those who opposed Taylor stated that he made the workers nothing more than robots who were dependent only on the orders of management. Workers were not required to use their own initiatives gained from their experience and skills.
- (f) They opposed his idea of functional foremanship by saying that the worker would fail as he would not be able to please so many supervisors every time.
- (g) Psychologists state that simply following rules makes workers depersonalised and they would develop a dislike for their work and this would lead to robotising of workers with no ideas of their own.

Relevance of scientific management

- (a) Despite its criticisms, the significance of this theory can not be overestimated, as it gave rise to the growth of management science and the theories that followed.
- (b) Taylor was not totally against human relations as one can see he mentioned in one of his basic principles that there should be a 'mutual collaboration of workers and management'.
- (c) It helped management in many organisations to overcome worker issues successfully and for the long term. That is why his ideas spread to all parts of the world and also to socialist countries, like Russia.
- (d) Taylor's theory brought a practical solution to the enormous problems of complex and growing organisations at the peak of the Industrial revolution and also led to alleviation of many problems of workers, as well as management, and also the issues between both.

Henri Fayol (1841 – 1925) and Principles of Management

The ideas of Henri Fayol are probably close to the ideas that many individuals hold about management and the functions of management. Fayol argued that managers are given formal authority within an organisation structure and they are responsible (to their superiors) for the effective use of their authority.

Fayol suggested that there are five main tasks of management:

- (a) to plan (and look ahead)
- (b) to organise
- (c) to command: today, the word 'command' should probably be replaced by 'provide leadership'
- (d) to co-ordinate, and
- (e) to control (by monitoring performance and inspecting output).

He believed that there are principles of good management that apply to all types of organisation, and that these principles should therefore be applied consistently. The principles are:

- (a) **Division of Work** – When employees are specialized, output can increase because they become increasingly skilled and efficient.
- (b) **Authority** – Managers must have the authority to give orders, but they must also keep in mind that with authority comes responsibility.
- (c) **Discipline** – Discipline must be upheld in organizations, but methods for doing so can vary.
- (d) **Unity of Command** – Employees should have only one direct supervisor.
- (e) **Unity of Direction** – Teams with the same objective should be working under the direction of one manager, using one plan. This will ensure that action is properly coordinated.
- (f) **Subordination of Individual Interests to the General Interest** – The interests of one employee should not be allowed to become more important than those of the group. This includes managers.
- (g) **Remuneration** – Employee satisfaction depends on fair remuneration for everyone. This includes financial and non-financial compensation.

- (h) **Centralisation** – This principle refers to how close employees are to the decision-making process. It is important to aim for an appropriate balance.
- (i) **Scalar Chain** – Employees should be aware of where they stand in the organization's hierarchy, or chain of command.
- (j) **Order** – The workplace facilities must be clean, tidy and safe for employees. Everything should have its place.
- (k) **Equity** – Managers should be fair to staff at all times, both maintaining discipline as necessary and acting with kindness where appropriate.
- (l) **Stability of Tenure of Personnel** – Managers should strive to minimize employee turnover. Personnel planning should be a priority.
- (m) **Initiative** – Employees should be given the necessary level of freedom to create and carry out plans.
- (n) **Esprit de Corps** – Organizations should strive to promote team spirit and unity

Principles of Organisations – Lyndall Urwick

According to Urwick an organisation is built on ten principles:

- (a) **Objective** - Every organisation and every part of the organisation must be an expression of the purpose of the undertaking concerned, or it is meaningless and therefore redundant.
- (b) **Specialisation** - The activities of every member of any organised group should be confined, as far as possible, to the performance of a single function.
- (c) **Co-ordination** - The purpose of organising per se, as distinguished from the purpose of the undertaking, is to facilitate co-ordination and thus unity of effort.
- (d) **Authority** - In every organised group the supreme authority must rest somewhere. There should be a clear line of authority to every individual in the group
- (e) **Responsibility** - The responsibility of the superior for the acts of the subordinate is absolute.

- (f) **Definition** - The content of each position, both the duties involved, the authority and responsibility contemplated and the relationships with other positions should be clearly defined in writing and published to all concerned.
- (g) **Correspondence** - In every position, the responsibility and the authority should correspond.
- (h) **Span of control** - No person should supervise more than five, or at most, six direct subordinates whose work interlock.
- (i) **Balance** - It is essential that the various units of an organisation should be kept in balance.
- (j) **Continuity** - Re-organisation is a continuous process: in every undertaking specific provision should be made for it

Weber (1864 – 1920) and Bureaucracy

Max Weber was a German sociologist, who studied the growth in the number, size and power of large bureaucratic organisations. He suggested that bureaucracy provides an organisation structure in which human activity is 'rationalised' and co-ordinated.

He argued that an 'ideal' bureaucracy has the following characteristics.

- a) There should be a hierarchy of authority, from top management down to workers at the bottom. Offices (management positions) should be ranked in hierarchical order, with information flowing up the chain of command and instructions and directions passing down the chain.
- b) An ideal bureaucracy should operate in an impersonal and impartial way. There should be a clear statement of duties, responsibilities, standardised procedures and expected behaviour.
- c) There should be written rules of conduct.
- d) There should be promotion of individuals within the organisation, based on their achievement.
- e) There should be division of labour and specialisation of work.
- f) The ideal bureaucracy will achieve efficiency in operations.

Weber was also interested in authority, and how men and women claim authority over others, so that others will do what they ask. He defined authority as 'getting things done by giving orders, and having those orders accepted as justified and legitimate.' (He made a distinction between authority and power.

Power is getting things done by using force or the threat of force or punishments.)

He identified three types of legitimate authority.

- (a) **Traditional.** Weber suggested that authority based on tradition pre-dates modern society. Traditional authority is associated with the hereditary power of royal families and chieftains and the 'head of the household', with leadership passing from father to son when the father dies.
- (b) **Rational-legal.** This form of authority is associated with bureaucracies. Authority is rational, because it is used to achieve clear goals with maximum efficiency. It is legal, because it is based on an impartial system of rules and procedures, and is exercised through the management position that the individual in authority occupies.
- (c) **Charismatic.** Authority is based on charisma when the individual has special personal qualities that inspire others to do what the individual asks. Weber argued that authority based on charisma depends on the individual for its existence, and so is inherently unstable and short-lived.

Weber believed that bureaucracies would continue to grow in number and size, because they provide a rational organisation for co-ordinating human activities, based on a hierarchy of authority. He recognised, however, that large bureaucracies lead to the 'depersonalisation' of work.

Bureaucracy is often condemned because of 'red tape', 'pen-pushing' and 'soul-destroying work'. However, in spite of the criticisms, many large organisations today are bureaucracies. Government organisations in particular are usually bureaucratic, because bureaucracy operates with clear and impartial rules and procedures. Weber's comments on the 'ideal' bureaucracy may therefore remain valid, even today.

Rosemary Stewart on Bureaucracy

Rosemary Stewart is a modern (UK) writer on management theory. She has summarised the four main features of bureaucracy as follows:

- a) **Specialisation.** There is specialisation of work, but this applies to the job, not the individual who does the job. This means that there is continuity. When one person leaves the job, the job continues, and another person fills the same position.

- b) **Hierarchy of authority.** There is a distinction between 'management' and 'workers'. Within management, there is a hierarchy with clearly-defined levels of authority and 'ranks' of managers.
- c) **A system of rules.** The rules of a bureaucracy provide impersonal and efficient rules and procedures. Individuals within a bureaucracy must know what the rules are to do their job successfully.
- d) **Impersonal.** In a bureaucracy, the exercise of authority and the system of privileges and rewards are based on a clear set of rules.

Stewart also suggested reasons for the growth of bureaucracy.

- a) The **growing size of organisations.** Large organisations need some bureaucratic structure to function efficiently.
- b) **Greater complexity of work.** Complexity makes it necessary to have specialisation of tasks within an organisation. Job-holders often need to be 'experts' in their work to deal with the complex issues involved.
- c) **Scientific management.** A scientific approach to management is widely used. This approach supports a rational way of organising work and having formal procedures for getting work done.
- d) The **demand for equality of treatment.** Citizens expect to be treated equally by organisations. Bureaucracies provide impartiality and should ensure equal treatment for all.

Elton Mayo (1880 – 1949) and The Human Relations School

Elton Mayo is regarded as the founder of the human relations movement of management theory. Between 1927 and 1932, he was involved in a set of experiments on productivity at the Hawthorne Works in Illinois (USA). The Hawthorne works were a production site of Western Electric, a manufacturer of telephone equipment.

The original aim of the experiments was a scientific management study into the effect on productivity of changes in working conditions, such as lighting, rest periods during the day, the length of the working day and pay incentives. Six individual workers were selected to take part in the experiments, and their conditions of working were varied in various ways, to see how the changes would affect their productivity. The results of the experiments were unexpected. Even when the working conditions for the six workers were changed back to

‘normal’ (for example, when they were given shorter rest breaks and longer working hours), their productivity continued to rise. Mayo tried to explain why productivity continued to rise when working conditions were made worse.

Mayo suggested that the reason for improving productivity among the workers could be explained by:

- a) the motivation and commitment of the individuals in the experiment, and
- b) the relationship between the employees and management.

Productivity had improved, he argued, because the six workers had become a team, who developed social relationships with each other as well as a work relationship. The team responded positively, because the workers felt that they were contributing freely to the experiments, without any coercion from management.

Mayo developed several arguments, all related to the effect of positive motivation on productivity.

Work has a social value for workers. Mayo disagreed with the view of F W Taylor, that workers are motivated only by self-interest. The ‘informal organisation’ is important in affecting workers’ attitudes.

The productivity of workers is affected by their self-esteem. In the Hawthorne experiments, the self-esteem of the six individuals increased because they had been selected to do the experiments.

Work satisfaction lies in recognition, security and a sense of belonging, rather than money rewards.

- i. Motivation (and productivity) is affected by the relationship between management and workers. Managers need to communicate with workers. When there is no communication, conflicts are inevitable, and workers resent the focus of management on cutting costs and improving efficiency. Management must therefore develop and apply ‘people skills’ in order to motivate their workers.
- ii. Mayo concluded that a lack of attention to human relationships was a major weakness in earlier theories of management. Managers should become more involved with their workers and earn the respect of the workers. The result would be improved motivation amongst workers and higher productivity.

- iii. It is worth considering that although the ideas of Mayo might seem 'obvious' today, he was the first management theorist to draw attention to the social aspects of working and the effects of motivation on performance.

Classical and Human Relations Theories of Management: A Summary

The early writers on management theory suggested that there is a set of concepts and rules that apply universally to all managers and management tasks. Scientific management was based on the belief that certain principles should be applied to the study of work and work methods, in order to improve efficiency. Fayol argued that all managers have a similar role in organisations, no matter what the type or size of organisation, and there are principles of good management that should be applied in every organisation. Weber identified the characteristics of an ideal bureaucracy. Mayo identified the significance of human relations and argued that it applies to all individuals at work.

Modern writers on management theory have questioned whether 'universal rules' of good management do exist. Various ideas have been put forward that challenge 'classical theories'.

Other theories of management

There are many writers on management theory, and there is no single 'modern theory' of management. The ideas of some well-known writers are described here.

Peter Drucker (1909 – 2005)

Peter Drucker was a leading writer on management theory for many years until his death in 2005, and he wrote on a wide range of subjects.

He suggested that there are five areas or categories of management responsibility:

- (a) **Setting objectives.** Managers set objectives for the organisation, and decide on targets for the achievement of those objectives, which they then communicate to other people in the organisation.
- (b) **Organising work.** Managers organise the work that is done, by dividing it into activities and jobs. They integrate the jobs into a formal organisation structure and select and appoint people to do the jobs.

- (c) **Motivating and communicating.** Managers need to motivate their employees. They must also communicate with their employees so that they can do their work.
- (d) **Measuring.** Managers measure performance, perhaps by comparing it against a target or yardstick (benchmark). They analyse and assess performance, and communicate their findings, both to their superiors and their subordinates.
- (e) **Developing people.** Managers need to develop their employees and also themselves. Drucker wrote that the manager 'brings out what is in their employees or he stifles them. He strengthens their integrity or he corrupts them.'

Drucker disagreed with the views of Fayol that general principles of management apply to managers in all types of organisation. He argued that managing a commercial business is different from managing other types of organisation, because the business manager has a key responsibility for the economic performance of the business. Managers perform well and justify their existence and their authority only if they produce the economic results (for example, profits) that are expected.

Drucker therefore suggested that there are three aspects to the responsibilities of managers in business:

- a) **Managing the business.** Business managers are responsible for matters such as innovation and marketing. Drucker was one of the first management theorists to argue for 'putting the customer first' – a basic concept on which modern ideas of marketing are based.
- b) **Managing managers.** Managers need to be managed. One way of doing this is to give them targets for achievement and monitoring their performance. Drucker was the first theorist to use the term 'management by objectives'.
- c) **Managing workers and their work.** Managers need to set objectives for their team and divide their work into manageable activities. Managers also need to motivate staff and communicate with their team as well as measure and review their performance. Managers are also responsible for developing their people.

Rosabeth Moss Kanter

Kanter has written widely on management topics but is probably best known for her work on the inefficiencies of modern bureaucracy, and what organisations need to do to succeed in the modern business environment.

She argued that over time, traditional bureaucratic organisations had become unacceptably slow. A long hierarchical chain of command meant that information passed slowly through the organisation, and decisions took a long time to make.

The world of business had changed, economic circumstances were different, competition had increased, the pace of change was much faster and new technology (particularly developments in computerisation and communications technology) had made the 'old ways of doing things' within a bureaucratic organisation very inefficient.

In her book *Teaching Elephants to Dance* (1989) she argued that today's 'corporate elephants' need to learn to dance as nimbly and speedily as mice if they are to survive in an increasingly competitive and rapidly changing world:

'If the main game of business is indeed like Alice in Wonderland croquet, then running it requires faster action, more creative manoeuvring, more flexibility and closer partnerships with employees and customers than was typical in the corporate bureaucracy. It requires more agile, livelier management that pursues opportunity without being bogged down by cumbersome structures or weighty procedures that impede action. Corporate giants, in short, must learn to dance.'

Kanter argued that the re-birth and success of business organisations will depend on:

- a) innovation (developing new products, services and operating methods)
- b) entrepreneurship (taking business risks)
- c) participative management (encouraging all employees to participate in making decisions about work).

Kanter has argued in favour of 'empowerment', which means giving more authority and power to the individual worker, instead of relying on managers to tell their workers what to do. Empowerment is needed to get the best out of individuals at work.

She has also argued in favour of 'flatter' organisation structures, and getting rid of the hierarchies of management and long chains of command that characterise large bureaucracies. (When workers are empowered and given more authority to make decisions for themselves, the need for supervision by management is reduced. Empowerment and flatter organisation structures are therefore consistent with each other.)

Henry Mintzberg

Henry Mintzberg is another modern management theorist who has written on a wide range of topics. He is particularly well-known for research that he carried out into what managers actually do. According to classical theorists such as Fayol, the role of managers is to plan, organise, command, co-ordinate and control.

Mintzberg suggested that reality is different. His research into the activities of managers made the following discoveries:

- (a) A lot of management work is disjointed. Planning, for example, is done on a day-to-day basis, when time permits between more urgent or immediate tasks.
- (b) Managers spend some of their time on routine duties of a ceremonial nature, such as meeting with important visitors.
- (c) Managers prefer informal verbal communication to formal written communications, such as reports and briefing notes. Communicating informally by word of mouth is much faster and more effective than communication through the formal information system.
- (d) Management activities and decisions are based largely on judgement and intuition. General principles of management are not relevant to management practice. In practice, managers do many of their tasks quickly and superficially.

Mintzberg suggested that managers perform three main roles, which can be further analysed into 10 different functions. Together, these ten roles provide an integrated picture of what managers do.

Mintzberg: Managerial roles

Interpersonal	Informational	Decision-making
Figurehead	Monitor	Initiator or improver, and changer
Liaison	Disseminator	Disturbance handler
Leader	Spokesman	Resource allocator
		Negotiator

Interpersonal Role. Managers spend much of their time performing interpersonal roles:

- (a) As a **figurehead**. Managers often perform a ceremonial role, representing the organisation at events and as a 'public face' of the organisation. Managers also represent their organisation in its dealings with other organisations. Other people might refuse to deal with anyone except the manager, because of the manager's formal position and status.
- (b) As a **leader**. Managers also deal with relations between individuals inside the organisation, providing leadership (hiring, firing, training, motivating and so on).
- (c) **Liaison**. Managers of groups within an organisation act as a link or bridge with other groups. For example, different departments often communicate with each other through their managers. Managers therefore fulfil a role of obtaining information from other sources and other groups.
- (d) **Information role**. Managers also have an information role.
- (e) **Monitor**. Managers build and use 'intelligence-gathering' systems and monitor the information they receive. They gather information from formal and informal sources and develop an extensive knowledge of the organisation as a result.
- (f) **Disseminator**. Managers disseminate information, acting as a channel of information within the group and with others.
- (g) **Spokesman**. Managers act as a spokesperson for the group, in a 'public relations' capacity.

- (h) **Decision-making role.** Managers make decisions.
- (i) **Initiator of change or improvements.** They have an entrepreneurial role, and take initiatives.
- (j) **Disturbance handler.** They have a role in resolving conflicts and disputes and dealing with other similar unexpected problems.
- (k) **Resource allocator.** They decide how resources should be used, for example what the available money should be spent on and how employees should use their time (what work they should do).
- (l) **Negotiator.** They negotiate with others, and reach decisions through joint agreement.

Mintzberg and organisation structure

Mintzberg also challenged the view that the bureaucratic organisation structure is the ideal form of organisation in all circumstances. He suggested that there are five elements or 'building blocks' in an organisation, and the way that the organisation operates depends on which of these elements is dominant.

- a) **Strategic apex.** This is the top management in the organisation.
- b) **Operating core.** This represents the basic work (basic operations) of the organisation, and the individuals who carry out this work.
- c) **Middle line.** These are the managers and the management structure between the strategic apex and the operating core.
- d) **Support staff.** These are the staff who provide support for the operating core, such as secretarial staff, cleaning staff, repair and maintenance staff, and so on.
- e) **Technostructure.** These are staff without direct line management responsibilities, but who provide technical support to the organisation. They include accountants and IT specialists.

Mintzberg argued that the way in which an organisation functions depends on which of these five groups has the greatest influence.

- a) When the strategic apex is powerful, the organisation is entrepreneurial. The leaders give the organisation its sense of direction and take most of the decisions.
- b) When the technostructure is dominant, the organisation often has the characteristics of a bureaucracy, with organising, planning and controlling prominent activities. The technical experts have a strong influence over

the way the organisation is managed. The organisation continually seeks greater efficiency.

- c) When the organisation is divisionalised and local managers are given extensive authority to run their own division in the way that they consider best, the middle line is dominant.
- d) Some organisations are dominated by their operating core, where the basic 'workers' are highly-skilled and seek to achieve proficiency in the work that they do. Examples might be schools, universities and hospitals, where the teachers and doctors can have an exceptionally strong influence.
- e) Mintzberg identified a type of organisation that he called an 'adhocracy'. This is an organisation with a complex and disordered structure, making extensive use of teamwork and project-based work. This type of organisation will be found in a complex and dynamic business environment, where innovation is essential for success. These organisations might establish working relationships with external consultancies and experts. The 'support staff' element can therefore be very important.

MCGREGOR: THEORY X AND THEORY Y

Douglas McGregor (in *The Human Side of Enterprise*, 1960) suggested that there are two different approaches to managing people. Each approach is based on a different view of whether individuals can be motivated at work. McGregor called the two management approaches Theory X and Theory Y.

Theory X

The Theory X approach to management is an authoritarian style. The manager instructs his employees and tells them what to do. The Theory X approach is based on the following views about people at work:

- i. The average person dislikes work and will avoid having to do any if at all possible.
- ii. Individuals must therefore be forced to work towards the organisation's objectives, with the threat of punishment for not working properly.

- iii. The average person prefers to be directed, wants to avoid responsibility, has no ambition and wants security more than anything else.

Theory Y

The Theory Y approach to management is a participative management style, in which the manager encourages his employees to participate in decision-making. The Theory Y approach is based on the following views about people at work:

- i. Putting effort into work is as natural as play.
- ii. Individuals will apply self-direction and self-control to work towards the objectives of the organisation, without the need for constant supervision or the threat of punishments.
- iii. The strength of an individual's commitment to the organisation's objectives is related to the rewards associated with achieving those objectives.
- iv. Individuals usually accept and then seek responsibility.
- v. At work, the intellectual potential of the average person is only partly utilised. Individuals have much more potential that could be utilised.

The implications of McGregor's theory

The Theory Y approach to management is consistent with a participative approach to decision-making, where the manager gives all the relevant information to his employees and encourages them to contribute to solving problems and deciding what should be done.

McGregor suggested that a Theory Y approach is not always possible, or advisable.

- i. Theory Y is difficult to put into practice in a factory environment.
- ii. There will be some situations when the manager must exercise his authority, because this is the only way of getting results. (For example, a manager must decide what to do when his subordinates cannot agree and are arguing amongst themselves.)

However, McGregor argued that Theory Y can often be used to manage managers and professionals. When it is possible to get the commitment of employees to the objectives of the organisation, it is better to explain problems fully to them. The employees will exert self-direction and self-control to do

better work and achieve better results than if they are told what to do by an authoritarian manager.

For a Theory Y approach to management to work, employees must be positively motivated to work and emotionally mature, and the work must be sufficiently responsible to allow them some flexibility (some choice in how they set about the work). In these circumstances, a Theory Y approach will lead to much better results for the organisation than a Theory X management style.]

3.3.9. Hertzberg's hygiene theory of motivation

Frederick Herzberg theorised that employee satisfaction has two dimensions: "hygiene" and motivation. Hygiene issues, such as salary and supervision, decrease employees' dissatisfaction with the work environment. Motivators, such as recognition and achievement, make workers more productive, creative and committed.

Herzberg's Hygiene Theory, also known as the Two-Factor Theory, proposes that employee satisfaction and dissatisfaction are influenced by different factors. Hygiene factors, such as salary and working conditions, prevent dissatisfaction but don't motivate. Motivators, like recognition and achievement, drive satisfaction and increase motivation.

Herzberg's two-factor theory outlines that humans are motivated by two things: *motivators* and *hygiene factors*. These two factors are both critical to motivation: motivators encourage job satisfaction and hygiene factors prevent job dissatisfaction.

- a. **Motivation factors:** Factors that are related to workplace satisfaction. They cover intrinsic needs such as achievement, recognition, and advancement. Motivation factors allow employees to be content in their jobs and promote growth.
- b. **Hygiene factors:** Factors that are not related to workplace satisfaction but must be present in the workplace in order to prevent dissatisfaction. Hygiene factors cover extrinsic needs such as pay grade, workplace policy and relationships with their peers.

There is one key idea that one must keep in mind when using Herzberg's theory: ***intrinsic needs*** and ***extrinsic needs*** are distinct things. An individual will not suddenly become satisfied with his/her job if one suddenly change the

environment or removes what is bothering him/her. Similarly, an individual will not be suddenly satisfied with his/her job if one makes the work more enriching.

In order to apply Herzberg's theory in the workplace, one must examine the hygiene factors. As stated above, hygiene factors do not contribute to workplace satisfaction but must be present in order to prevent workplace dissatisfaction.

Hygiene factors consists of a set of 10 factors – *company policies and administration, quality of technical supervision, quality of interpersonal relations among peers, subordinates, and superiors, salary, job security, personal life, working conditions, and status.*

If any of these factors are lacking or missing, a worker is much more likely to be dissatisfied with his/her job. Workers who consistently file complaints often have one or more of these extrinsic needs that are not being met. Similarly, examples of dissatisfiers would be poor workplace policy, aggressive management, or a negative workplace environment.

Managers can often increase workplace satisfaction by simply having a conversation with their colleagues to find out what they are unhappy with. Such problems have easy solutions, such as keeping supplies organised or having more materials in stock. An employee's pay is often a more challenging issue to rectify, but supervisors should still evaluate their business plans and compensation strategy. Supervisors should also reach out to employees to discover if there are any factors in their personal lives that may affect their job satisfaction. Overwhelmed and stressed employees are rarely productive or happy. It is vital that workplaces offer emotional support and maintain positive relationships with their employees.

Medically speaking, hygiene means maintaining good personal environment in order to prevent disease. Having good hygiene does not mean that you will never die; it means that you can hold off discomfort or disease in ones lifetime. In an organisation, maintaining good "hygiene" ensures that employees are not dissatisfied, but are not motivated for optimal performance. Hygiene factors allow corporations to maintain their employees. This leads us to the second part of the two-factor theory: motivation. Just because employees are satisfied does not mean that they are motivated to brainstorm new ideas or take on new projects.

The dating of the two-factor theory is believed to be particularly important. Like Maslow, Herzberg established his theory in the 1960s, a time where the culture believed that people were mostly motivated by money. Herzberg rebuked this traditional idea, believing that it was actually the content, not the context, of a job that caused satisfaction. If a corporation is looking to develop new products and

expand into new areas, it needs to understand what motivates people to be more productive. It can begin by looking at the **intrinsic needs** of workers:

The six motivators that fulfil employee intrinsic needs – *achievement, recognition, growth, advancement, responsibility, and the work itself.*

Essentially, managers will need to re-evaluate the 'human' aspect of their employees, including their goals, values and hobbies. They will need to invest emotionally into the relationship by taking time to talk with them, thank them for their loyalty, or send a card acknowledging their hard work. Managers can also celebrate an employee's creativity or an important milestone in his/her career. Above all, managers need to be good leaders by helping their subordinates develop to their full potential.

Like the hygiene factors, the motivation factors do not lower the level of dissatisfaction. Even if employees are motivated to work on new projects, they are still affected by extrinsic needs. Potential problems, such as pay rate or low amounts of office supplies, still need to be addressed. This is why both factors are necessary in the two-factor theory.

Herzberg's Hygiene Theory, also known as the Two-Factor Theory, proposes that employee satisfaction and dissatisfaction are influenced by different factors. Hygiene factors, such as salary and working conditions, prevent dissatisfaction but don't motivate. Motivators, like recognition and achievement, drive satisfaction and increase motivation.

The following are the key indicators of this theory:

Hygiene factors: These factors, also called maintenance factors, are related to the work environment and if they are absent or inadequate, they lead to dissatisfaction. Examples include:

- i. **Salary and benefits:** Adequate compensation and benefits are necessary to prevent dissatisfaction but don't necessarily lead to high levels of motivation.
- ii. **Working conditions:** A safe and comfortable workspace contributes to job satisfaction and prevents dissatisfaction.
- iii. **Company policies and administration:** Clear, fair, and consistent policies are important to prevent dissatisfaction.
- iv. **Interpersonal relationships:** Positive relationships with supervisors and colleagues are crucial for job satisfaction and can prevent dissatisfaction.
- v. **Job security:** Feeling secure in one's job is essential for employee morale and can prevent dissatisfaction.

Below are the motivators of the two-factor theory

These factors are intrinsic to the work itself and drive job satisfaction and motivation. Examples include:

- i. **Achievement:** The feeling of accomplishing something significant at work motivates employees.
- ii. **Recognition:** Being acknowledged for their accomplishments and contributions can be a powerful motivator.
- iii. **Responsibility:** Having a sense of ownership and autonomy in their work increases motivation and satisfaction.
- iv. **Advancement:** Opportunities for growth and promotion can be a strong motivator.
- v. **The Work Itself:** Interesting and challenging work can be a source of intrinsic motivation.

According to Herzberg, the opposite of satisfaction is not dissatisfaction; it is lack of satisfaction. Similarly, the opposite of dissatisfaction is not satisfaction, it is lack of dissatisfaction.

Managers can use the two-factor theory to improve employee motivation by focusing on creating a positive work environment (hygiene factors) and providing opportunities for achievement, recognition, and growth (motivators).

Frank and Lilian Gilbreth's Motion Theory of Motivation

Frank and Lillian Gilbreth's "motion theory of motivation" focused on improving efficiency and worker well-being by analysing and optimising work motions. They believed that reducing unnecessary motions and fatigue, which could be achieved through motion studies, could lead to increased worker productivity and satisfaction. Their work, building upon Frederick Taylor's scientific management, emphasised standardisation and efficiency.

The main objective of motion study is to determine and eliminate the unproductive or unnecessary movements, so that it takes less time to complete the job efficiently. Motion studies conducted by Frank B. Gilbreth were undertaken to analyse the efficiency and productive capacity of industrial workers.

The key Aspects of Gilbreth's Motion Theory

Motion Studies: Gilbreth meticulously observed and filmed workers to identify and eliminate unnecessary motions in tasks. They also used techniques like filming worker movements to break down tasks into their component motions, which they called "Therbligs".

- i. **Reducing fatigue:** By optimising motions and reducing wasted effort, Gilbreth aimed to decrease worker fatigue, ultimately boosting productivity and improving worker well-being.
- ii. **Efficiency focus:** The Gilbreths believed that by finding the most efficient way to perform tasks, both employers and employees would benefit - employers would gain more productivity, and workers would experience less stress and fatigue.
- iii. **Standardisation:** They advocated for standardised work methods to ensure consistency and efficiency across tasks and workers.
- iv. **Human factor:** While rooted in scientific management, the Gilbreths also recognised the importance of the human element and worker satisfaction. They believed that happy workers were more productive workers.

The impacts of their work to organisations are as follows:

- i. **Increased Productivity:** By streamlining work processes, the Gilbreths helped businesses increase productivity and reduce costs.
- ii. **Improved worker conditions:** Their work contributed to safer and less demanding workplaces, reducing the physical strain on workers.
- iii. **Ergonomics and industrial engineering:** Their motion studies laid the foundation for ergonomics and industrial engineering, fields that continue to study human-machine interactions to optimise work environments and processes.

3.3.9 Technology business modelling

Technology Business Modelling is a discipline that improves business outcomes by giving organisations a consistent way to translate technology investments to business value. A technology business defines how a company leverages a technology to create and deliver value, generate revenue, and achieve its business objectives.

Characteristically, digital business models emphasise flexibility, innovation, and agility. They leverage technology in a way that fundamentally changes how an organisation operates, making it more efficient and better positioned to create new revenue streams, reach new customers, and gain competitive edge.

It outlines the specific processes, tools, data, and people needed to manage the business of technology. Essentially, it is a framework for how technology can be used to solve problems, create new products or services and ultimately, drive business success. Below is more detailed insights and key components of technology business modelling:

- i. **Technology:** This includes the specific technologies used by an organisation, such as software, hardware and data analytics.
- ii. **Business objectives:** The over-arching goals the organisations aim to achieve, such as market share, profitability, or customer satisfaction.
- iii. **Value proposition:** This entails how technology-driven solution provides value to customers, such as improved efficiency, reduced costs or new capabilities.
- iv. **Revenue model:** Revenue model means the way the company generates income from its technology-based offerings, such as subscription fees, licensing, or advertising.
- v. **Customer relationships:** This is how the company interacts with and engages its customer service.

The following are the examples of technology business models:

- i. **Product model:** This entails selling a standardised product or service, such as software or hardware.
- ii. **Solutions model:** This works by providing customised solutions to address customers' specific needs.
- iii. **Intermediation model:** Another business model to consider is intermediation, in which the business acts as the bridge between its product and end user. For example, travel sites such as Booking.com and Expedia act as intermediaries between customers and airlines, hotels, and vehicle rental agencies. There is the option to purchase tickets and book accommodations directly from each provider, but doing so through a site provides the ease of doing everything in one place. It also grants access to potentially greater deals and the convenience of comparing options.
- iv. **Disintermediation model:** The opposite of intermediation can also make a strong business model. Disintermediation removes a step in the supply chain process to streamline product delivery. A well-known example of

disintermediation is e-commerce giant Amazon, which removes retailers' transaction and delivery processes, simplifying the experience for the seller and end user. A disintermediation model is a good fit for scenarios that seem cumbersome or complex.

- v. **Multi-sided model:** This is a kind of model which engages multiple groups of users (for example, customers and advertisers) and generating revenue from each side.
- vi. **Freemium model:** This offers a basic version of a product or service for free and charging for premium features. A freemium model can be effective because it gives users a taste of the product experience before purchase. If users love the free version, they may be inclined to upgrade to the premium one.
- vii. **Subscription model:** This model charges customers a recurring fee for access to a product or service. DSTV is a typical example of this model.
- viii. **Advertising-supported model:** This generates revenue by displaying advertisements to users, such as online platforms. This model is effective when the product creates enough value for users that engage with it, despite the presence of ads. Social media apps, such as Facebook and Instagram, are common examples. One can sign up and access all their features, knowing that one will receive ads. Another option is to combine the freemium and advertisement-based models—like some streaming platforms do, by offering product's free version with ads and the premium version without them.
- ix. **E-commerce model:** Sells goods and services online through an electronic network.

3.3.10 Project management

A project can be simply defined as an endeavour that involves completing tasks to achieve an objective with a limited set of resources and a finite timeline. Based on this definition, it is clear that most businesses, non-profit organisations, governments and other types of organisations execute projects of some sort and therefore, need to implement a project management process.

Project management is a process that allows project managers to plan, execute, track and complete projects with the help of a project team. To do so, they must use project management principles, skills, methodologies and tools to lead team

members through each of the project management steps which are known as the project lifecycle.

Project management is made up of five key components: initiation, planning, execution, monitoring and controlling, and project closure. Initiation defines the project objectives and its feasibility. Planning outlines tasks, timelines, resources and budgets. Execution implements that plan, while monitoring and controlling track the project progress against the plan. Finally, project closure delivers the final output and obtains stakeholder approval, among other things.

Key benefits of project management

In a nutshell, project management is important because it helps organisations control all the moving parts of projects to bring them to a successful completion. These moving parts are known as project management areas, which are key project aspects that must be overseen as projects progress.

Another important aspect of project management is that it is flexible. The benefits of project management are almost too many to list. The following list some of project management benefits to get a more specific idea of the value of using project management to deliver outputs:

- i. **Improved planning and organisation:** A structured approach defines objectives, scope, timelines and resource allocation, while efficient use of resources reduces waste and optimises productivity.
- ii. **Enhanced communication:** Helps with stakeholder engagement by having regular updates and reports to keep them informed, and defined roles and responsibilities foster better teamwork and accountability.
- iii. **Increased efficiency:** Project management streamlines processes for better decision-making and execution, and it identifies risks early to allow for proactive mitigation, reducing delays and costs.
- iv. **Higher quality deliverables:** By focusing on goals and continuous monitoring and control, deliverables are more likely to meet quality standards and stakeholder expectations. Regular reviews and adaptations also improve the quality of work.
- v. **Better time management:** Accurate estimation of timelines creates more realistic and effective schedules.

- vi. **Cost control:** Detailed budget and financial tracking keep project within financial constraints.

Areas of project management

- i. **Scope management:** Managing the scope of a project, which refers to the tasks, deliverables and milestones that should be delivered.
- ii. **Schedule management:** Creating a project schedule and setting guidelines for how it will be tracked and maintained.
- iii. **Cost management:** Estimating project costs to create a budget which is then tracked throughout the project.
- iv. **Quality management:** Ensuring project deliverables meet quality standards.
- v. **Resource management:** Acquiring, allocating and tracking project resources like labour, materials and equipment.
- vi. **Communication management:** Defining communication guidelines for project teams and stakeholders.
- vii. **Risk management:** Identifying, evaluating and preventing or mitigating risks in the project.
- viii. **Procurement management:** Acquiring project resources and maintaining relationships with vendors and suppliers.
- ix. **Stakeholder management:** Identifying project stakeholders and managing them based on their expectations and influence over projects.
- x. **Integrations management:** Creating a framework that helps project teams work better together.

These project management knowledge areas need to be managed during each step of the project management process.

Steps in the project management process

The project management process consists of five steps or phases that all projects must go through: initiation, planning, execution, monitoring and control, and closure. These project management steps are also known as process groups, the project management cycle or the project lifecycle. The steps are reviewed as follows:

I. Project initiation

This is the starting phase where the project manager must prove that the project has value and is feasible through a series of project management documents. Here are the most important ones:

- a. **Business case:** A business case justifies the need for the project, project objectives and return on investment.
- b. **Feasibility study:** A feasibility study proves that the project can be executed within a reasonable time and cost.
- c. **Project charter:** A project charter conveys what the project is going to deliver.

Once the project gets approved, the project manager must assemble a project team and set up a project management office. The project initiation phase ends with a kick-off meeting, which is when project goals and scope are defined.

II. Project planning

The goal of the project planning phase is the creation of the project plan, a comprehensive project document that explains in great detail how the project will be executed. Find below a quick overview of the most important sections of a project plan.

- a. **Project schedule:** The project schedule defines a timeline for the execution of tasks and resource allocation.
- b. **Project budget:** A project budget is the sum of all the estimated project costs.
- c. **Scope management plan:** Explains how the project scope will be tracked throughout the project cycle.
- d. **Risk management plan:** Explains the risks that might affect the project, along with strategies to mitigate them.
- e. **Resource management plan:** Describes how resources will be obtained, allocated and managed during the project.
- f. **Stakeholder management plan:** Identifies all project stakeholders and the guidelines to manage them.

III. Project execution

The third project management phase is project execution, which is when the project plan is executed to meet the project goals and objectives. The project execution phase is when project managers need to oversee the project

management knowledge areas as their project progresses toward the monitoring and control phase.

Along the way, the project manager makes changes to the project execution plan, such as reallocating resources or adjusting the time and scope as needed to keep the team working. In addition, they will identify and mitigate risks, deal with problems and incorporate any changes.

IV. Project monitoring and control

The fourth project management phase, project monitoring and control, takes place concurrently with the execution phase of the project. It involves monitoring the progress of the project execution activities to ensure the project team stays on schedule and within budget. Quality control procedures are applied to guarantee quality assurance.

Reporting is also a critical part of this project management phase. First, it allows project managers to track progress, and second, it provides data for stakeholders during presentations to keep them in the loop. There are many project management reports, such as project status, timesheets, workload, allocation and expense reports.

V. Project closure

The fifth project management phase is project closure, in which the final project deliverables are presented to the stakeholders. Once approved, resources are released, documentation is completed and the project is signed off.

3.3.11 Emotional intelligence

The term emotional intelligence which is also known as emotional quotient or EQ for short, was first coined in 1990 by researchers John Mayer and Peter Salovey, but was later popularised by psychologist Daniel Goleman (1995).

According to Goleman (1995), emotional intelligence which is also known as emotional quotient or EQ for short, is individual's ability to understand, apply, and handle his/her emotions in positive ways in order to ease stress, commune effectively, empathize with others, overcome challenges and resolve conflict.

It is a person's meta-level capability to handle emotions and use them to our benefit. The knowledge of an individual's emotional intelligence would always be a leading step taken to fully comprehend one's potential seeing that it has the capacity to

predict the performance of an individual. It is also a skill that can be improved upon with training and practice.

Key Elements of Emotional Intelligence

Emotional intelligence can be typically broken down into four core competencies namely:

- a. Self-awareness
- b. Self-management or Self-regulation
- c. Social awareness/ Social skills
- d. Relationship management

Self-Awareness

Self-awareness describes an individual's ability to understand his/her strengths and weaknesses. It helps to recognize one's emotions and the effect they have on one and team's performance. Self-awareness evaluates one's performance and compares the outcome with the opinions of the boss, peers, and direct reports. In the course of this process, one will gain insights into one's behaviour and discover how one is perceived in the organization.

Self-Management/ Self-Regulation

Self-management refers to the ability to manage one's emotions, mostly in traumatic circumstances and retain an optimistic viewpoint regardless of setbacks.

Social Awareness/ Social Skills

Social awareness describes the ability to recognize others people's emotions and the dynamics in play within your organization. social awareness practice empathy. They strive to understand their colleagues' feelings and perspectives, which enables them to communicate and collaborate more effectively with their peers. By communicating with compassion, you can better support your team, all while improving your individual performance.

Relationship Management

Relationship management refers to your ability to influence, coach, and mentor others, and resolve conflict effectively. Some prefer to avoid conflict, but it's important to properly address issues as they arise.

4 Core Competencies of Emotional Intelligence

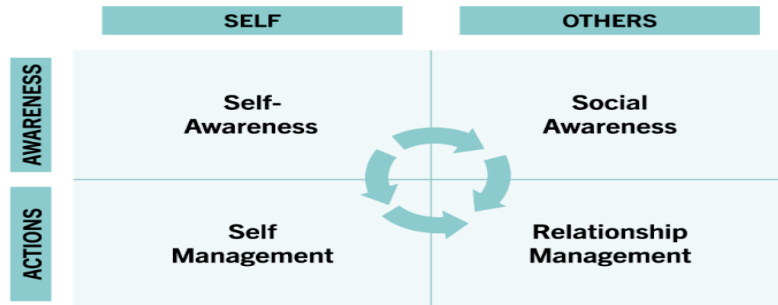


Table 3.4

Import of Emotional Intelligence

The importance of emotional intelligence could be clearly appreciated when viewed from the perspective of its capacity to:

- i. Coach teams, manage stress, deliver feedback, and work in partnership with others.
- ii. Self-motivate and create positive social interactions
- iii. Understand and handle your own emotions
- iv. Identify and manipulate the emotions of those around you
- v. Prevent leaders from making decisions based on emotional biases
- vi. Drive behavior and impact people positively
- vii. resolve conflicts and improve relationships
- viii. empathize with others
- ix. Effectively overcome life's challenges
- x. promote a positive work environment for the whole team
- xi. effectively motivate, inspire and earn the trust of their teams
- xii. Perceive any potential friction or issues before they become problematic.
- xiii. Improve communication and relationships within the workplace.
- xiv. increase team productivity and staff retention

Ways to strengthen emotional intelligence

As a leader, strengthening emotional intelligence requires strong self-awareness. There are several ways one can develop self-awareness, including:

- i. **Journaling:** Record and reflect daily on how your emotions influenced your decision-making, interactions, and meetings, whether positive or negative, so one know what to repeat or avoid in the future.
- ii. **Undergo a 360-degree assessment:** Actively seek feedback from superiors, colleagues, and peers, while also undergoing an individual self-assessment. Comparing the results will reveal any blind spots or leadership gaps.
- iii. **Practice active listening:** Put away distractions, focus on what the speaker is saying, and show engagement by paraphrasing and using non-verbal cues like nodding.
- iv. **Pay attention to your emotions:** If you start feeling a particularly strong emotion, reflect on why you are feeling that way and what prompted the strong emotional response. This will help one to become more aware of one's emotions and better understand colleagues' feelings and perspectives.
- v. **Take an online course or training:** Dive deeper into emotional intelligence through a flexible online programme, which provides a 360-degree assessment to help with better understanding of ones strengths and weaknesses.

These foundational steps in self-awareness and empathy are essential for building a robust emotional intelligence framework. They set the stage for a deeper exploration of the four core competencies crucial for effective leadership.

How emotional intelligence can make leaders more effective

- a. **Leaders set the tone for their organisations.** If leaders lack emotional intelligence, it could have more far-reaching consequences, resulting in lower employee engagement and a higher turnover rate.
- b. While a leader might excel at his/her job technically, if he/she cannot effectively communicate with team members or collaborate with others, those technical skills will get overlooked.
- c. Emotional intelligence can enhance ability to manage interpersonal relationships, which is crucial for fostering positive team dynamics, empathy, and effective collaboration. By mastering emotional intelligence, one can continue to advance ones career and organisation.

3.3.12 Social thinking

Social thinking is a process we all go through in our mind as we try to make sense of our own and others' thoughts, feelings, and intentions in context, whether we are co-existing, actively interacting, or figuring out what is happening from a distance like we have in the media and literature (Winner & Crooke, 2009)

Social thinking can also be described as the ability to consider your own and others thoughts, emotions, beliefs, intentions, knowledge, etc to help interpret and respond to the information in your mind and possibly through your social behavioural interactions (Winner & Crooke, 2009).

Social Thinking is a language-based teaching approach that focuses on social problem solving, cognitive flexibility and the emotions and points of view of others. Michelle Garcia Winner, a speech and language pathologist who learned about social cognition in her early career, created the term Social Thinking.

Our ability to think socially is part of social emotional learning that begins at birth and evolves across our lifetime. Social thinking is a supple teaching structure that can assist individuals become stronger social thinkers. Having good social skills simply means one is able to adapt effectively based on the situation and the people in the situation. Our social skills are part of our social problem solving

Social thinking relies of the Theory of mind for its theoretical concept. While, the Theory of mind refers to one's ability to perceive how others think, feel and how that relates to oneself.

Social Thinking shares ideals with:

Self-Regulation Theory: The self-regulation theory is a system of conscious personal management that involves the process of guiding one's own thoughts, behaviours and feelings to reach goals. He theory can be applied to impulse control, the management of short-term desires and illusion of control. Self-regulation involves a certain amount of knowledge to exert self-control (Baumeister, Vohs and Tice 2007).

Executive Functioning: Executive functions are a set of intuitive procedure that is necessary for the innate control of behaviour: selecting and successfully moderating behaviors that aids the attainment of chosen goals (Barkley, 2012).

Central Coherence Issues: The weak central coherence theory attempts to explain how some people diagnosed with autism can show remarkable ability in subjects like mathematics and engineering, yet have trouble with language skills and tend to live in an isolated social world. The theory is among the more prominent conceptual models that try to explain the abnormalities of autistic individuals on tasks involving local and global cognitive processes (Frith, 2008).

Perspective-Taking: Perspective-taking is the act of perceiving a situation or understanding a concept from an alternative point of view, such as that of another individual. Perspective-taking is related to other theories and concepts including theory of mind and empathy (Gerace ,Day,Casey , & Mohr, 2013).

Every one benefit from exploring our own and other's social expectations however, social abilities develop and evolve over time.

Social thinking as a methodology

The term “Social Thinking” also refers to a specific methodology developed by Michelle Garcia Winner to help individuals, particularly those with Autism Spectrum Disorder (ASD) to develop competencies. This methodology focuses on strategies for navigating social situations.

The following are the key aspects of social thinking:

- i. **Understanding others:** this involves recognising facial expressions, body language, and verbal cues to infer someone's emotions, intentions and beliefs.
- ii. **Contextual understanding:** Social situations and cultural norms play a significant role in how individuals behave and interact. Social thinking involves understanding these contexts to interpret actions.
- iii. **Perspective taking:** The ability to step into someone else's shoes and understand their points of view is crucial for effective social interaction.
- iv. **Social problem-solving:** Social thinking helps individuals navigate social conflicts, find common ground, and resolve disagreements effectively.

The following are some typical examples of social thinking in action:

- a. recognising when someone might be feeling sad or upset, based on their facial expressions or voice tones;

- b. understanding why someone might be behaving in a particular way, based on the social context and their past experiences;
- c. using appropriate verbal and non-verbal communication to express one's thoughts and feelings in a way that is respectful and considerate of others; and
- d. collaborating with others to solve problems, taking into account each person's perspectives and contributions.

3.4 Communications in business

3.4.1. Basic elements of communication

The communication process is a complex interaction that involves several key elements. Having a deep knowledge of these elements can enhance communication in various contexts, whether personal, professional, or social. Here are the primary elements of the communication process:

- i. **Sender:** Within human interaction, the sender plays a crucial role as the individual or group who initiates the communication. This person or group must carefully craft the message, considering how it will be received by the audience. This crafting process, known as encoding, involves converting thoughts and ideas into a communicable form, be it spoken words, written texts, or non-verbal communication. For example, during a public speaking event, the speaker must consider his/her audience and tailor his/her message to communicate his/her ideas effectively. The model of communication can be seen as a transactional process, where both the sender and receiver are actively involved, dynamically exchanging information.
- ii. **Message:** The message is the information, idea, or feeling that the sender wants to pass across, and it is conveyed through various forms, such as spoken or written words, gestures, and body language. Effective communication is always a two-way process, where the sender and the receiver must play active roles. Active listening is crucial, as it allows the receiver to engage with the message and understand it fully.
- iii. **Encoding:** Encoding refers to the process by which the sender transforms his/her internal feelings into a communicable format. This involves selecting the right words, tone, and non-verbal cues to ensure clarity. For instance, in a public speaking situation, the speaker must give a speech that resonates with the audience.

- iv. **Channel:** The channel refers to the medium through which the message is transmitted. This can include face-to-face conversation, telephone calls, emails, text messages, social media, and more. The choice of channel can significantly impact the reception of the message.
- v. **Receiver:** The receiver plays a crucial role in the communication process, as he/she is the individual or group for whom the message is intended. When a message is received, decoding occurs, which is heavily influenced by the receiver's experiences and perceptions. This communication process involves various interconnected elements, where the encoding and decoding of the message must align for the message to be understood properly.
- vi. **Decoding:** Decoding the message is a critical aspect of human interaction that plays a vital role in the communication process. This involves the receiver interpreting the sender's message accurately, which is essential for communicating effectively. The receiver must possess a sound understanding of the language used, the context in which the message is delivered, and the subtle nuances that may alter its meaning.
- vii. **Feedback:** Feedback is the response from the receiver to the sender. It can be verbal or non-verbal and it indicates whether the message was understood as intended. Feedback is crucial as it helps the sender gauge the effectiveness of his/her communication.
- viii. **Context:** The context covers the environment in which the communication takes place, including the physical location, cultural background, and situational factors. Context can influence how messages are interpreted and understood.
- ix. **Noise:** Noise refers to any external or internal interference that can distort or disrupt the communication process. This can include physical noise (like background sounds), psychological noise (like preconceived notions or stress), or semantic noise (misunderstandings due to ambiguous language). Additionally, technological noise can also play a significant role in communication, particularly in an increasingly digital world. This includes issues like poor internet connections, software glitches, or technical jargon that may confuse rather than clarify.

3.4.2. Verbal and non-verbal communication

There are two primary forms of communication: verbal and nonverbal. With verbal communication, people express their thoughts, ideas, and feelings through spoken or written language. Non-verbal communication uses other methods, such as body

language including facial expressions, gestures, and other body movements. Verbal communication is using speech or spoken word to exchange information, emotions, and thoughts. Conversely, non-verbal communication is conveying and exchanging messages without the use of spoken words.

Though silent, non-verbal cues can convey feelings, attitudes, and actions to other people more effectively than speaking. Research has shown that about 80% of how people converse involves non-verbal communication, while only 20% involves verbal communication.

Verbal communication is the words and sounds that come out of our mouths when speaking, including voice tone and things like sighs and groans. Non-verbal communication, on the other hand, is the signs and messages that we communicate using things like body language, gestures, and facial movements.

Verbal communication

Verbal communication is perhaps the most obvious and understood mode of communication, and it is certainly a powerful tool in one's communication toolbox. Put simply, verbal communication is the sharing of information between two or more individuals using words. Verbal communication refers to the sharing of ideas through the spoken and written word, and humans use it to interact with one another.

The term verbal communication is sometimes mistaken to mean only oral communication, but it also includes the written word. Examples of verbal communication include emails, text messages, letters, contracts, etc.

Verbal communication plays a vital role in how society functions. Human beings use language to communicate, convey information, and build relationships with others. Whether virtually, like through phone calls, emails, or video chats, or in-person contact, verbal communication proves valuable in both short and long-distance relationships for purposeful and meaningful interactions. Relationships, job interviews, public speaking, and interacting with others depend on effective verbal communication.

Types of verbal communication

The four types of verbal communication include interpersonal, intrapersonal, small group, and public communication, and they are explained as follows:

- i. **Interpersonal communication:** Interpersonal communication involves the exchange of information between two or more people. Whether face-to-face or virtual, this type of communication includes gestures, body language, and words. It involves a sender and receiver of information, with roles swapping back and forth, depending on the conversation. Verbal interpersonal communication can be formal or informal. For example, formal interpersonal communication occurs when a teacher presents a lesson to a group of students, and informal interpersonal communication occurs when three friends discuss movie plans. In addition to in-person interactions, interpersonal communication may include digital interactions, like phone conversations, emails, and instant messages.
- ii. **Intrapersonal communication:** Intrapersonal communication involves communicating with oneself, which can be internal, out loud, or written. This form of communication may include self-talk, reading, day-dreaming, visualising, or listening. One practises intrapersonal communication when one is thinking about what to wear for a job interview, when one is wondering what to say next in a conversation, or when one is deciding how to respond to a question in a meeting. It also occurs when one is preparing for an upcoming speech by practising in front of a mirror.
- iii. **Small group communication:** Small group communication involves interacting with three or more people formally or informally. The group must remain small enough for the members to make productive connections and for the group to achieve its goal. On the job, one uses small group communication when one works in a team to solve a problem or collaborate on a project with the goal of completion or accomplishment. Small group communication involves more than friends or co-workers getting together to socialise. Where interpersonal communication focuses on relationship building, small group communication has a specific purpose, such as focusing on a task or goal.
- iv. **Public communication:** Public communication refers to the act of one person addressing a public gathering. Examples include the president of a country delivering an address, a marketing executive pitching an advertising idea to company heads, and a keynote speaker addressing a graduating class. Normally, the goal of public communication involves passing information from one person to a group of people. This means one person sends the information, and the group receives the message.

Non-verbal communication

When one interacts with another person, one is constantly giving and receiving non-verbal cues. The kinds of verbal and non-verbal signals given or received present themselves in many forms, and these are:

- i. **Facial expressions:** Facial expressions can intensify, diminish, or can cover up the emotions that one is feeling. Many facial expressions, such as curving the lips in a smile or furrowing your brows in frustration, are seen as universal forms of non-verbal communication. These facial expressions are perceived in the same way by many different cultures. For example, when one smiles, the people around tend to interpret the expression as happiness.
- ii. **Gestures:** Every gesture adds to how effectively one shares his/her emotions and adds emphasis to spoken words. For example, large hand and arm movements create greater emphasis while smaller gestures can communicate something more specific, like holding up two fingers to indicate the number two. Another example of a gesture is head movements. Simply nodding or shaking one's head indicates 'yes' or 'no' without ever saying a word.
- iii. **Body language:** This is another main form of non-verbal communication, body language can reveal one's inner thoughts and messages to others. Body language consists of body movement and posture. How one moves or carry oneself can substitute a verbal message. However, the same body language can be interpreted differently by listeners. For instance, when one crosses his/her arms, one can seem defensive or disinterested. Similarly, playing with one's fingers may indicate anxiety or boredom.
- iv. **Paralinguistic:** The tone of voice, rate, volume of speech, and stress placed on words (collectively known as paralinguistic) are a few more examples of non-verbal cues. Paralinguistic can complement and add to the verbal message, as well as accentuate a verbal message by emphasising parts of the message. However, these cues are not universal, as it depends on the urgency of the message, the emotions of the speaker, which language is spoken, and cultural and regional influences.
- v. **Eye contact:** How one makes eye contact is an essential form of non-verbal communication. For instance, looking at someone's face and making strong eye contact demonstrates respect and interest. Additionally, eye contact is used for initiating and regulating conversations. Lastly, an important point to

note is that eye contact is particularly important for people who have hearing loss, as it aids in lip reading.

3.4.3 Principles of effective listening

When one is listening effectively, one is concentrating and using other senses apart from hearing. Earlier, we said that hearing is not the same as listening. A good listener will listen not only to what is being said but also to what is left unsaid or only partially said. Effective listening involves observing body language and noticing inconsistencies between verbal and non-verbal messages. Below are the principles of effective listening in communication:

- i. **Prepare yourself to listen**
 - a. Focus on the speaker
 - b. The human mind is easily distracted by other thoughts. Try not to get derailed by these distracting thoughts
 - c. If one have something on his/her mind that one is having trouble putting aside, make a note for future reference.
- ii. **Stop talking**
 - a. Do not talk, just listen
 - b. Do not interrupt, talk over them or finish their sentences for them
- iii. **Put the speaker at ease**
 - a. Help the speaker feel free to speak
 - b. Remember their needs and concerns
 - c. Nod or use other gestures or words to encourage them to continue
 - d. Maintain eye contact but do not stare. This shows you are listening and understanding what is being said
- iv. **Limit distractions**
 - a. Do not scribble, shuffle papers, look out of the window, look at your phone when that text comes in, flick your pen, or pick your fingernails
 - b. Avoid unnecessary interruptions
- v. **Empathise**
 - a. Try to understand the other person's point of view.
 - b. Do away with preconceived ideas.

- c. If one has an open mind, one can empathise more with the speaker.
 - d. If the speaker says something that one disagrees with, wait till he/she has finished to construct and convey your different perception or opinion.
- vi. **Be patient**
 - a. A pause, even a long pause, does not necessarily mean that the speaker has finished.
 - b. Be patient and let the speaker continue in his/her own time. Sometimes it takes time to formulate what to say and how to say it.
 - c. Never interrupt or finish a sentence for someone.
- vii. **Be aware of personal prejudice**
 - a. Be Neutral
 - b. Sometimes a speaker's habits or mannerisms can be very irritating. Do not allow that to serve as distraction from what he/she is really saying
 - c. Everyone has a different way of speaking
 - d. Some people are more nervous or shy than others
 - e. Some have accents or gesticulate excessively
 - f. Some people like to pace while talking
 - g. Focus on what is being said and try to ignore the style of delivery.
- viii. **Listen to the tone**
 - a. Both volume and tone add to what someone is saying
 - b. An effective speaker will use both to their advantage to keep an audience attentive
 - c. Everyone will use pitch, tone and volume of voice in certain situations
 - d. Let all these help to understand the weight of what is being said.
- ix. **Listen for ideas – not just words**
 - a. You need to get the whole picture, not just isolated bits and pieces.
 - b. Maybe one of the most difficult aspects of listening is the ability to link together pieces of information to reveal the ideas of others.
 - c. Listening for ideas becomes easier with full concentration, letting go of distractions and focus.
- x. **Wait and watch for nonverbal communication**
 - a. Gestures, facial expressions, and eye-movements can all be important.
 - b. We do not just listen with our ears but also with our eyes.

- c. Watch and pick up the additional information being transmitted via non-verbal communication.

3.4.4. Organisational communication

Formal and informal communication

Formal and informal communication represents two distinct approaches to conveying information, each with its own characteristics and purpose. Formal communication is structured, official, and follows established channels, while informal communication is casual, spontaneous, and often relies on personal relationships. Whether individuals convey information verbally or in a written format, one can typically find both formal and informal communication in the workplace. Formal communication, also called official communication, refers to the flow of information through pre-defined channels. Comparatively, there is no established structure for informal communication. Informal communication includes anything from a quick chat at the coffee machine to gossiping at an after-hours social event. While both types of communication are necessary for the workplace, choosing the right type for the message one wants to convey is important.

In work, as in all aspects of living, people must communicate. They have to give instructions, provide information, obtain information, communicate ideas, listen to the ideas of other people, announce decisions (tell other people what they intend to do), and so on. The effectiveness of an organisation depends to a large extent on the effectiveness of communication by its managers and employees. Information is exchanged in two ways, formally and informally.

- a. Formal communication is communication that is passed through official 'channels' established by the organisation. Examples of formal communication are reports and instructions by a manager to a subordinate. Formal communication passes through the formal management structure and 'chain of command'. Individuals receive and give information because of their position in the organisation.
- b. Informal communication is communication between individuals in an organisation that does not pass through an official channel. Instead, the information is passed by individuals in general conversation, sometimes as gossip or as rumour. Often informal communication passes as unofficial e-mails between colleagues.

Example: Mega

Mega Company dismisses its finance director on Monday. It makes a formal announcement to staff about the dismissal on Friday of the same week. However, most people had already heard about the dismissal, because the news had been 'leaked' and passed from person to person within the organisation.

In this example, the informal communication system has operated more quickly than the formal communication. If it is accurate, it is therefore more efficient. Unfortunately, informal communication may be inaccurate. All organisations rely on a mixture of formal and informal communication to operate effectively.

Comparison of formal and informal communication

Formal information is often slow in coming. Organisations therefore often rely on informal communication for the transmission of information, when the formal system is slow and bureaucratic, or where senior managers are autocratic and do not believe in sharing information with subordinates.

Informal information usually passes between individuals very quickly. A problem with informal information is that management has no control over it. They control formal communication channels, but not informal communication. With informal information, it is sometimes a matter of chance who gets the information and who does not: some individuals might be totally ignorant of what most of their colleagues already know.

In an effective organisation, there should usually be an efficient formal communication system, so that accurate information is passed in good time to everyone who needs it. When formal communication is reliable, relevant and timely, employees will trust it.

However, even with the most efficient formal communication system, informal communication systems always exist. People talk to each other unofficially and socially: they exchange stories, rumours, gossip and so on, and they don't always communicate with each other in their 'official capacity'. Even in their work, individuals often prefer to communicate informally, in face-to-face

conversations, or by telephone or e-mail, rather than by more formal methods such as memos and reports.

Differences between formal and informal communication

While it is easy to acknowledge that a boardroom meeting differs vastly from a casual conversation during break time, understanding the differences between these two modes of communication can help to determine the best way to relay certain messages. Consider the following differences between the two types of communication:

- i. **Flow of information:** With formal communication methods, information flows through pre-determined channels, such as emails or scheduled meetings. Alternatively, informal communication can flow freely and in any direction, as there is no way of controlling who people share information with.
- ii. **Reliability:** Formal communication is more reliable than informal communication, as there is typically a paper trail, such as email invites to a meeting and minutes of meeting. Informal communication usually relies on word of mouth, so information and messages can become lost or altered as it is passed on.
- iii. **Speed:** Informal communication spreads much more quickly than formal communication. For example, individuals can share information instantly by having a quick chat, but to share formal communication in a meeting, you may consider scheduling this a week in advance.
- iv. **Confidentiality:** Formal communication maintains confidentiality, and when information is sensitive, management can make it clear whether it is appropriate to share it. With informal communication, there's no control over who might hear the message, which is how gossip and rumours arise.
- v. **Time consumption:** Informal communication typically requires no preparation, whereas formal communication may require someone to prepare a presentation or speech. The process of preparing for meetings or drafting email announcements is more time-consuming than informal communication methods.

Key differences:

Feature	Formal communication	Informal communication
Structure	Formal, structured, official	Informal, spontaneous, unofficial
Channels	Predefined, structured, often written	Free-flowing, no specific channels
Language	Professional, precise	Casual, every day, may include use of slangs
Purpose	Conveying official information, policies	Building relationships, sharing personal experiences
Flow	Typically controlled, hierarchical	Rapid, can spread in all directions

Benefits of formal and informal communications

While each method of communication offers different advantages, to reap these benefits, it is important to choose the right way to relay messages. Choosing to communicate important announcements through informal communication channels may damage one's career, so one has to always reflect on the best way to share information and whether it is appropriate to be sharing it at all. The main benefits of these types of communication are:

Formal communication

Formal communication methods allow information to flow through pre-determined channels. Companies typically provide guidance to inform managers' decisions surrounding the best way to communicate information to their teams, departments and the company in general. Additional benefits include:

- i. information typically only reaches the desired audience;
- ii. allows adequate preparation to refine the message;
- iii. information is clearer and more reliable, as there is a paper trail, such as an email thread or meeting minutes;

- iv. information is readily available for future reference, which can reduce the requirement to rely on memory;
- v. information can reach a wider audience, such as a company-wide conference; and
- vi. sharing negative or upsetting information can feel less personal or hurtful.

Informal communication

Communicating via informal channels also offers benefits. Scheduling meetings to provide information that might be better to share in an email can be time-consuming for all parties, so leverage the benefits of informal communication at work too. Benefits include:

- i. information spreads more quickly;
- ii. allows relationship building with colleagues;
- iii. allows quick resolution of workplace issues through group discussion;
- iv. information can be more honest, as there may not be management presence;
- v. allows relationship improvement between colleagues and management;
- vi. audiences can request instant clarification or explanation; and
- vii. allows instant feedback.

Internal and external communication

Internal and external communication are two types of communication that professionals frequently use in private and public sector workplaces. Internal communication is communication that takes place within an organisation, while external communication is communication addressed to audiences outside of an organisation.

Both types of communication are key to organisational success. Internal communication focuses on exchanging information within an organisation, like between employees and departments, while external communication involves interactions with parties outside the organisation, such as customers, suppliers, or the public. Internal communication aims to keep employees informed and aligned with company goals, while external communication builds relationships and manages the company's public image.

Most organisations use both kinds of communication, though some use external communication more than others. Internal communication is all communication that takes place solely within an organisation. For example, internal communication includes communication between team members, departments, senior management and staff. External communication is communication addressed to

audiences at least partially outside of an organisation. For example, external communication includes communication with sponsors, third-party consultants, contractors, press and media. Based on the illustrations above, the following are the key differences between internal and external communication:

- i. **Audience:** Internal communication targets employees and internal stakeholders, while external communication focuses on external parties like customers, investors, and the general public.

Goal: Internal communication aims to facilitate daily operations, improve employee engagement, and align employees with company goals. External communication focuses on building relationships, promoting the company's brand, and attracting new customers.

- ii. **Tone and Language:** Internal communication can be more informal and conversational, using jargon and terminology specific to the organisation. External communication is often more formal and professional, tailored to the target audience.
- iii. **Frequency:** Internal communication is typically more frequent, happening daily as part of the organisation's operations. External communication may be less frequent, depending on specific needs.
- iv. **Examples:** Internal communication includes company newsletters, internal memos, and team meetings. External communication includes marketing emails, press releases, social media updates, and customer support interactions.

Benefits of internal communication

Internal communication has many benefits, mainly affecting operational efficiency and effectiveness. In addition, internal communication is valuable because it drives innovation and collaboration within an organisation and allows staff members to benefit from one another's skills and knowledge. Key benefits include:

- i. **Internal communication aligns departments**

Internal communication is how people in different departments exchange ideas, share knowledge and align objectives. Internal communication enables departments to collaborate effectively and efficiently, ensuring they are all working towards the same goal, schedule and budget. This is beneficial in all organisations, especially in scenarios where multiple departments work on a single project.

- ii. **Internal communication improves operations within an organisation**

Effective internal communication aligns employees with the organisation that they work for. Human Resources (HR) departments are usually responsible for daily internal communication with management and staff. However, effective communication is key to streamlining HR operations. The work of HR teams includes listening to staff concerns, communicating company goals and rules to staff members and looking after employee well-being. Good internal communication skills can help one to carry out these responsibilities successfully.

iii. Internal communication aids problem-solving

Internal communication can help organisations to solve problems more efficiently and effectively. By improving how different departments and specialists within a company communicate with one another, one can empower staff members to share problems and benefit from one another's skills and knowledge. This can improve problem-solving within an organisation and simultaneously boost innovation and creativity.

The benefits of external communication

External communication is important because it is the only way that new information enters a company from the outside. External communication can function in two directions: it can involve the transfer of information from outside an organisation to inside, such as when external consultants and auditors offer advice and expertise to a company. It can also involve the transfer of information from inside a company to the outside world, such as when an organisation publishes a press release or makes a media announcement. The most important benefits include:

i. External communication increases brand visibility

External communication is the only way to get customers to notice a company's products and services. Marketing and advertising are forms of external communication that companies use to spread brand visibility and promote their services to customers. Effective external communication helps marketing departments to market their brands to customers, increasing sales and conversions, and boosting positive associations with the brand.

ii. External communication allows organisations to reach new customers

External communication also helps companies to reach new customers. The internet has created an opportunity for companies willing to invest in external communication to reach new audiences and gain visibility on a potentially global scale. External communication is a key aspect of expanding a business and increasing its reach.

- iii. **External communication brings new information into an organisation**
Alongside information flowing out of an organisation, external communication enables organisations to gain new information. When organisations consult external experts, such as specialists and consultants, they can bring new skills and ideas into the organisation (which staff can then share among themselves using internal communication skills). In this way, external communication is useful because it helps an organisation to increase the knowledge it holds.

3.4.5 Methods of business communication

There are five types of communication: verbal, non-verbal, written, listening, and visual.

- i. **Verbal communication:** Verbal communication occurs when one engages in speaking with others. It can be face-to-face, over the telephone, via Skype or Zoom, etc. Some verbal engagements are informal, such as chatting with a friend over coffee or in the office kitchen, while others are more formal, such as a scheduled meeting. Regardless of the type, it is not just about the words, it is also about the nature and complexity of those words, how we string those words together to create an overarching message, as well as the intonation (pitch, tone, cadence, etc.) used while speaking. And when occurring face-to-face, while the words are important, they cannot be separated from non-verbal communication.
- ii. **Non-verbal communication:** What one does while speaking often says more than the actual words. Non-verbal communication includes facial expressions, posture, eye contact, hand movements, and touch. For example, if one is engaged in a conversation with his/her boss about cost-saving idea, it is important to pay attention to both his words and non-verbal communication. One's boss might be in agreement with one's idea verbally, but their nonverbal cues: avoiding eye contact, sighing, scrunched up face, etc. indicate something different.
- iii. **Written communication:** Whether it is an email, a memo, a report, a Facebook post, a Tweet, a contract, etc. all forms of written communication have the same goal: to disseminate information in a clear and concise manner, though that objective is often not achieved. In fact, poor writing skills often lead to confusion and embarrassment, and even potential legal jeopardy. One important thing to remember about written communication,

especially in the digital age, is that the message lives on, perhaps in perpetuity. Thus, there are two things to remember: first, write well, as poorly constructed sentences and careless errors make one look bad; and second, ensure the content of the message is something to promote or be associated with for a long time.

- iv. **Listening:** The act of listening does not often make its way onto the list of types of communication. Active listening, however, is perhaps one of the most important types of communication, because if one cannot listen to the person sitting across, one cannot effectively engage with him/her. Think about a negotiation, part of the process is to assess what the other party wants and needs. Without listening, it is impossible to assess that, which makes it difficult to achieve a win/win outcome.
- v. **Visual communication:** We are in a visual society. Think about it, televisions are running 24/7, Facebook is visual with memes, videos, images, etc., Instagram is an image-only platform, and advertisers use imagery to sell products and ideas. From a personal perspective, the images we post on social media are meant to convey meaning, that is to communicate a message.

3.4.6. Barriers to effective communication

Barriers lead to various breakdowns in the process of communication. Some of the barriers to effective communication in a business organisation are:

- i. semantic barriers;
- ii. psychological barriers;
- iii. organisational barriers; and
- iv. personal barriers.

Such barriers filter a part of the message or distort its meaning due to which misunderstandings can be created.

i. **Semantic barriers:** Semantic barriers are related to the problem in the process of encoding and decoding of messages. Such barriers usually arise on account of wrong words, faulty translation, etc. The following are some semantic barriers:

- a. **Badly expressed message:** The use of wrong words, omission of needed words, inadequate vocabulary, etc. leads to badly expressed

messages. Consequently, the messages reaching the recipients get distorted and may be quite different from the intended messages.

- b. **Symbols with different meanings:** A word may have many meanings. The receiver is required to understand the meaning of the word used by the sender in the same sense for which latter has used it. In the absence of this, the intended message does not get interpreted by the receiver correctly.
 - c. **Faulty translations:** Sometimes, the message is in another language, which is not understandable to the receiver and needs translation. For example, if a message is in French language and there is a need to translate it to English language, which is easily understood by the recipients. If the translator is not efficient in both the languages, there is a chance of giving different meaning to the message. **Unclear assumptions:** At times, there are certain assumptions attached to the communication that need to be understood. Failure to do so makes the communication process ineffective.
 - d. **Technical jargon:** Generally, the specialists such as scientists, engineers use technical words, while explaining something to the unspecialised people in the concerned field. Hence, the latter fail to understand the meaning of such words.
 - e. **Body language and gesture decoding:** The body movement and gestures of communication play a significant role in the communication process. The information can be misinterpreted, if there is no harmony between spoken words and body language. For example, a sender may shake his head sideways while saying “Yes” and vice versa that is, he may nod his head while uttering “No”
- ii. **Psychological barriers:** Psychological barriers have great influence on the communication process. The communication process indicates the state of mind of both the receiver and the sender, for example anger, worry, sadness etc. The following are the main types of psychological barriers:
- a. **Premature evaluation:** It refers to evaluating the message before the sender even completes it. This may lead to misunderstanding and thus acts as a barrier to effective communication.

- b. **Lack of attention:** Non-listening of message by the receiver because of latter's preoccupied mind acts as a great psychological barrier. For example, a boss was preoccupied by some paperwork before him due to which he failed to even listen to the problem of a worker not to speak of solving it etc.
 - c. **Loss by transmission and poor retention:** The information contained in a message is lost partially or completely when the message has to pass through various levels. This is the most common case in oral communication. Poor retention is also an important barrier in communication process. If the people are not attentive or interested, they cannot retain the information for a long time.
 - d. **Distrust:** If the receiver and the sender do not trust each other, they cannot understand the message in its original form.
- iii. **Organisational barriers:** The organisational barriers are related to organisation structure, authority, relationships, rules and regulations, etc. The following are the main organisational barriers:
- a. **Organisational policy:** If the organisational policy does not provide for free flow of communication, the effectiveness of communication is affected. For example, people do not have free communication in a completely centralised organisation.
 - b. **Rules and regulations:** Rigid rules and regulations may place many difficulties in the way of clear communication.
 - c. **Status:** Communication among people belonging to different status and position is rather difficult. They do not feel free to communicate with one another.
 - d. **Complexity in organisation structure:** The communication in an organisation with a number of managerial levels gets delayed and distorted due to many filtering points.
 - e. **Organisational facilities:** Proper organisational facilities like complaint box, suggestion box, social and cultural gatherings, frequent meetings, etc. are very essential for free flow of communication. Various problems can get created in the absence of these facilities.
- iv. **Personal barriers:** The personal factors of both sender and receiver also have a great impact on the flow of communication. Some of the personal barriers are as follows:

- a. **Fear of challenge to authority:** A superior may suppress such communication which according to him may affect his authority.
- b. **Lack of confidence by superior in his subordinates:** If a superior does not possess confidence in his subordinates' abilities, he may not seek their advice or opinions.
- c. **Unwilling to communicate:** Best of communicators cannot communicate with those who are just not open to same. Some by nature are simply not keen to communicate much anyway. Fear of rejection or any other likely adverse fall out may be other reasons for which people are unwilling to communicate, for example, sometimes the subordinates are not willing to communicate with their superiors, as they think it may affect their interest.
- d. **Lack of proper incentives:** In the absence of any motivation or incentive, workers may not initiate communication, for example, absence of reward or appreciation may hinder employees from making good suggestions.

3.4.7. Communication patterns

Communication patterns refer to the consistent ways people interact and exchange information, which can be verbal or non-verbal. These patterns reveal underlying social dynamics and can be crucial for effective collaboration, conflict resolution, and building of relationships. A pattern of communication is the direction and frequency of information. Who sends out information and how frequently? And who receives the information?

In a teaching group of six students, the pattern of communication may be described as:

- a. a lecturer providing information to students for 70% of the time
- b. students asking questions for 30% of the time
- c. of the six students, one asking twice as many questions as two other students, and the other three students saying nothing at all.

Within a work team, one of the tasks of the leader should be to make sure that everyone in the team communicates as they should, and that

communications are not dominated by a relatively small number of individuals in the group.

Vertical communication and lateral communication

In hierarchical business organisations, information flows:

- a. vertically and
- b. laterally (horizontally).

Vertical communication is communication down the scalar chain or chain of command. A boss communicates with subordinates.

- a. Downward communication is information, or a command given by the boss to one or more subordinates.
- b. Upward communication is information moving from subordinates to the boss.

When the leader is autocratic, most communication is downward.

Lateral or horizontal communication is communication between people at a similar level in the organisation's management hierarchy. It is communication between individuals in the same work group, and also between individuals in different work groups.

Communication patterns in different contexts

- i. **Workplace:** Understanding communication patterns in the workplace is essential for team dynamics and project success.
- ii. **Family:** Family communication patterns can be classified based on conversation and conformity levels (for example, consensual, protective, pluralistic, laissez-faire).
- iii. **Relationships:** Effective communication patterns are crucial for building and maintaining healthy relationships.
- iv. **Cross-Cultural:** Understanding different cultural norms regarding communication can help avoid misunderstandings and build stronger relationships.

Importance of communication patterns

- i. **Collaboration and teamwork:** Effective communication patterns enable smooth collaboration and teamwork.

- ii. **Conflict resolution:** Understanding communication patterns can help navigate conflict more effectively.
- iii. **Relationship building:** Positive communication patterns are essential for building strong relationships and trust.
- iv. **Work efficiency:** Communication patterns within organisations can impact work efficiency and satisfaction.
- v. **Decision-making:** Communication patterns can influence how decisions are made within groups.

Examples of communication patterns

- i. **One-to-one, one-to-many, many-to-one:** These are different ways information can flow within a group or organisation.
- ii. **Formal vs. Informal:** Formal communication uses official channels, while informal communication may be more casual.
- iii. **Circle, Chain, Wheel, Network, Y:** These are different patterns of information flow within a group, each with its own advantages and disadvantages.

Ways of improving communication patterns

- i. **Self-awareness:** Understanding one's own communication style is the first step towards improving it.
- ii. **Active listening:** Practising active listening and empathy can enhance communication.
- iii. **Feedback:** Seeking and providing constructive feedback can help improve communication.
- iv. **Assertiveness:** Learning to express one's needs and opinions clearly and respectfully can be beneficial.

Communication patterns in business

Communication within a business can involve different types of employees and different functional parts of an organisation. These patterns of communication are called **flows**, and they are commonly classified according to the direction of interaction: downward, upward, horizontal, diagonal, and external.

Downward communication

When leaders and managers share information with lower-level employees, it is called **downward**, or **top-down communication**. In other words, communication from superiors to subordinates in a chain of command is a downward communication. This communication flow is used by managers to transmit work-

related information to employees at lower levels. Ensuring effective downward communication is not always easy. Differences in experience, knowledge, levels of authority, and status make it possible that the sender and recipient do not share the same assumptions or understanding of context, which can result in messages being misunderstood or misinterpreted. Creating clearly worded, unambiguous communications and maintaining a respectful tone can facilitate effective downward communication.

Upward communication is the transmission of information from lower levels of an organisation to higher ones; the most common situation is employees communicating with managers. Managers who encourage upward communication foster cooperation, gain support, and reduce frustration among their employees. The content of such communication can include requests, estimations, proposals, complaints, appeals, reports, and any other information directed from subordinates to superiors. Upward communication is often made in response to downward communication; for instance, when employees answer a question from their manager. In this respect, upward communication is a good measure of whether a company's downward communication is effective.

The availability of communication channels affects employees' overall satisfaction with upward communication. For example, an open-door policy sends signal to employees that the manager welcomes impromptu conversations and other communication. This is likely to make employees feel satisfied with their level of access to channels of upward communication and less apprehensive about communicating with their superiors. For management, upward communication is an important source of information that can inform business decisions. It helps to alert management of new developments, levels of performance, and other issues that may require their attention.

Horizontal communication, also called lateral communication, involves the flow of messages among individuals and groups on the same level of an organisation, as opposed to up or down. Sharing information, solving problems, and collaborating horizontally is often more timely, direct, and efficient than up or down communication, since it occurs directly between people working in the same environment. Communication within a team is an example of horizontal communication; members coordinate tasks, work together, and resolve conflicts. Horizontal communication occurs formally in meetings, presentations, and formal electronic communication, and informally in other, more casual exchanges within the office.

When there are differences in style, personality, or roles among co-workers, horizontal communication may not run smoothly. According to Professor Michael Papa, horizontal communication problems can occur because of territoriality, rivalry, specialisation, and simple lack of motivation. Territoriality occurs when members of an organisation regard other people's involvement in their area as inappropriate or unwelcome. Rivalry among individuals or teams can make people reluctant to cooperate and share information. Specialisation is a problem that occurs when there is a lack of uniform knowledge or vocabulary within or among departments. Finally, horizontal communication often fails simply because organisation members are unwilling to expend the additional effort needed to reach out beyond their immediate team.

Diagonal communication is the sharing of information among different structural levels within a business. This kind of communication flow is increasingly the norm in organisations (in the same way that cross-functional teams are becoming more common), since it can maximise the efficiency of information exchange. The shortest distance between two points is a straight line. Diagonal communication routes are the straight lines that speed communications directly to their recipients, at the moment communication is necessary. Communications that zigzag along horizontal and vertical routes, on the other hand, are vulnerable to the schedules and availability of the individuals who are at each level.

External communication

Another type of communication flow is **external**, when an organisation communicates with people or organisations outside the business. Recipients of external communication include customers, lawmakers, suppliers, and other community stakeholders. External communication is often handled by marketing and sales departments. Annual reports, press releases, product promotions, financial reports are all examples of external communication.

3.4.8 Process and conduct of meetings

For effective meetings, it is essential to have a plan in place to make the most of everyone's time. The more one prepares, the more effective the meeting. Use these steps to plan a meeting:

- i. **Determine the purpose of the meeting:** Before you set a meeting time, identify the purpose of the meeting. Consider whether one wants to solve a problem, come to a decision, share information or motivate employees. If one

does not have enough time to prepare or if one thinks another form of communication would work better or just as well, do not plan a meeting.

- ii. **Create an agenda:** Develop an agenda that lays out key topics to cover and the order in which to cover them. Make sure to plan a short introduction that explains the reason for the meeting, followed by key discussion points to address. Allot a certain amount of time for each discussion point
- iii. **Choose the participants and attendees:** Consider the key employees you need to attend the meeting. For example, there is need to include people who can help accomplish the goals, who the meeting affects, key decision makers and those who have knowledge of the topic to be addressed. It is also important to consider the size of the meeting. To solve a problem, keep the meeting small. To brainstorm ideas, increase the size of the meeting to foster a greater discussion. Make sure to invite only the people that are absolutely needed.
- iv. **Assign roles to participants:** Once the participants and attendees are identified, assign each participant a role. For example, one can have someone keep the time and have a facilitator guide the discussions.
- v. **Set a time and place to meet:** Determine the time of the meeting and its location. Consider convening an informal gathering or something more formal. One can hold an informal meeting in a small room, whereas a conference room better suits a larger or more formal meeting. In terms of the time, make sure the meeting time works for the majority of attendees to improve participation.
- vi. **Send an invitation and agenda:** Send out meeting invitations and the agenda, so everyone knows the purpose of the meeting. Consider sending an email, invitation or speaking with each invitee in person.
- vii. **Decide on a decision-making process:** To make decisions during the meeting, decide on the best decision-making process, for example, one can have majority vote, have people share their expertise to come to a group consensus, or have a leader decide on a particular decision. Having a process, helps things move along smoothly.
- viii. **Select the tools and equipment to use:** Consider using productivity or collaboration tools during the meeting, for example, one can use an audio recording device or a screen-sharing platform. Deciding on this ahead of time

helps to avoid technology issues during the meeting. Take into consideration any accessibility issues for your attendees.

- ix. **Finalise the agenda and distribute it:** Make any final changes to the agenda and distribute it to the participants. This lets them review the agenda prior to the meeting, giving them an idea of what to expect.
- x. **Follow up with prospective attendees:** If responses have not been received from some participants regarding their attendance, get in touch with them before the meeting. It is especially important to verify the attendance of everyone assigned to a role.

Steps needed to conduct a meeting

To organise a meeting, there is need to take certain actions to ensure its success. Below are the actions necessary to conduct a meeting:

- i. **Set a clear objective:** Prior to the start of the meeting, make sure to have a clearly defined purpose and objective for holding the meeting. Consider what the meeting is set to accomplish, for example, one may seek input from other employees or aim to arrive at a decision on a company matter.
- ii. **Consider the attendees:** Take time to determine who should attend the meeting. To discuss an issue or topic that involves a specific employee, make sure he/she is in attendance. It is also important to invite people who can provide valuable inputs regarding a particular agenda item.
- iii. **Start and end the meeting on time:** Distribute the agenda to the appropriate parties ahead of time to ensure everyone knows the meeting's start time. Set ground rules and make sure everyone knows the different time allotments. This helps everyone stay focused and ensures the meeting ends promptly.
- iv. **Follow the schedule:** Create a clear agenda and also stick to it throughout the meeting. Ensure to cover all planned agenda and follow the time allotments for each item on the agenda. Consider displaying the agenda for everyone to see and follow along during the meeting.
- v. **Follow up:** After the conclusion of the meeting, send everyone an email highlighting what the meeting accomplished, the tasks that were delegated and the upcoming deadlines or newly established goals. This ensures all attendees know what is expected of them.

3.4.8 Elements of report writing

- i. **Title page:** This page should include:
 - a. the report title, which states the report's purpose;
 - b. writer's name and the name of the person to whom the report is addressed ;
and
 - c. the submission date.
- ii. **Executive summary/abstract:** An executive summary is a few paragraphs that provide the reader with a quick overview of the entire report, including its purpose, context, methods, major findings, conclusions and recommendations. It is often easier to write the executive summary once the report has been completed. This is placed on a separate page immediately after the table of contents. This may often be the only part of the report that is actually read.
- iii. **Table of contents:** The table of contents lists the main sections (headings) of the report, and the page on which each begins. If the report includes tables, diagrams or illustrations, these are listed separately on the page after the table of contents.
- iv. **Introduction:** The introduction should:
 - a. discuss the importance or significance of the research or problem to be reported;
 - b. define the purpose of the report;
 - c. outline the issues to be discussed (scope); and
 - d. inform the reader of any limitations to the report, or any assumptions made.
- v. **Discussion or body:** This contains the main substance of the report, organised into sections with headings and subheadings rather than paragraphs. The body of a report can include:
 - a. a description of the issue or situation which is being reported on. this may include a literature review of the research on that issue;
 - b. the method of data collection, if applicable, This should include work done and why, such as a survey or interview, and the size and selection criteria of the study sample;
 - c. a discussion and analysis of the data collected. This should comment on the reliability and accuracy of the data and relate the findings to the report's purpose and current literature.
- vi. **Conclusion:** This summarises the key findings from the discussion section and may be numbered for clarity. Relate the conclusion to the objectives of the report and arrange the points logically so that major conclusions are presented first. Some reports may require a discussion of findings, rather than a conclusion.

- vii. **Recommendations:** These are subjective opinions about what actions to be taken. They must be realistic, achievable and clearly relate to the conclusions of the report.
- viii. **Reference list:** This must contain all the material cited in the report. It must be accurate and consistent with a standard referencing style.
- ix. **Appendices:** These contain extra supporting information that is put at the end of the report, so as not to distract the reader from the main issues. They contain detailed information, such as questionnaires, etc. Appendices should be clearly set out and numbered in the order they are mentioned in the report.

3.4.9 Process of Electronic Communication

Electronic communication (E-communication) is the transmission of information using advanced facilities, such as computer modems, facsimile machines, voice mail, electronic mail, teleconferencing, video-cassettes, and private television network. E-communication is a communication system where information is conveyed by use of information technology devices.

The communication is mandatory in different fields for processing, controlling, making decisions and planning. The fields include finance, accounting, human relation, personal, marketing, sales, purchases and production. This type of communication can be developed by sharing data, like images, graphics, sound, pictures, maps and software.

Types of electronic communication

With the revolutionary development of information technology, the world is becoming smaller and people staying at any corner are well-capable of communicating with others, whatever the distance is, people and organisations use different modern devices of communication technology.

Below is a list of types of electronic communication:

- i. Auto responders
- ii. Blogs
- iii. Bookmarking
- iv. Calendars
- v. Collaborative software in the workspace
- vi. Computer screen messages
- vii. Data conferencing
- viii. Ebooks

- ix. Electronic and web chat shows
- x. Electronic bookmarking
- xi. Electronic brochures
- xii. Electronic content on cds and dvds
- xiii. Electronic flash teaser
- xiv. Electronic games
- xv. Electronic meeting system
- xvi. Electronic newsletter
- xvii. Electronic questionnaires and surveys
- xviii. Electronic voteline
- xix. Email
- xx. Email campaigns with links to intranet
- xxi. Emailable audiovisuals
- xxii. Enterprise bookmarking
- xxiii. Extranet
- xxiv. Eye witness news electronic broadcasts
- xxv. Faxing
- xxvi. Flash mailer
- xxvii. Forums
- xxviii. Instant messaging
- xxix. Intranet
- xxx. Online chat
- xxxi. Online consultation
- xxxii. Personalized urls (Purls)
- xxxiii. Pop up electronic teasers
- xxxiv. Radio or voice clips sent or broadcast electronically
- xxxv. Screensavers
- xxxvi. Skype
- xxxvii. Short message service (SMS) campaign
- xxxviii. Social networks like Friendster, myspace, Twitter and Facebook
- xxxix. Sound clips
 - xl. Special code to web page as part of bigger campaign
 - xli. Synchronous conferencing
 - xl. Telephone campaign with electronic aspects
 - xl. Telephony
 - xl. Text chat
 - xl. Video

- xlvi. Video conferencing
- xlvi. Viral email competitions
- xlvi. Voice mail
- xlix. Wall of fame on intranet
 - I. Web conferencing
 - li. Web publishing
 - lii. Webcam
 - liii. Website

Few of these methods of electronic communication are discussed below:

Instant messaging

Instant messaging refers to short messages that are sent in real time over mobile telephones or the internet. The messages can include multimedia items, such as pictures, videos and voice recordings.

Advantages of instant messaging

- a. Messages are cheap and sometimes free to send
- b. Messages are received directly after being sent
- c. You can see if the message has been delivered
- d. You can see when your message has been read
- e. You can send a variety of messages; including text messages, pictures, videos, music and web links
- f. You can create group conversations in order to discuss a specific topic or plan events

Disadvantages of instant messaging

- a. Messages are not always saved
- b. It is an informal method of communication and might not be suited for business-related communications
- c. There is a pressure to respond immediately, as people can see when you read their messages
- d. Can be distracting, as one message can lead to a whole conversation
- e. Low security, as instant messaging services use a public network

When communicating by instant messaging, take note of the following:

- a. You may not get an immediate reply. The person you are messaging might be busy and will reply once he or she is available.

- b. Keep your messages short and to the point.
- c. Do not type your messages using uppercase as it can be interpreted as shouting.
- d. Be polite.
- e. Do not use slang words and abbreviations. This might save you time, but it can also confuse others, if they are not aware of the meaning.

Electronic messaging (email)

Email is one of the first and most popular forms of electronic communication. It allows the user to send and receive files and messages over the internet, and can be used on a wide variety of devices. Popular email applications include:

- a. Yahoo;
- b. Google mail (gmail); and
- c. Hotmail.

Additional features of email

Email is not limited to only sending messages over the internet; it provides users with many features. Below are some of these features:

Calendar

Google Calendar is a time-management and scheduling calendar service developed by Google. It became available in beta release April 13, 2006, and in general release in July 2009, on the web and as mobile apps for the Android and iOS platforms.

Google Calendar allows users to create and edit events. Reminders can be enabled for events, with options available for type and time. Event locations can also be added, and other users can be invited to events. Users can enable or disable the visibility of special calendars, including Birthdays, where the app retrieves dates of birth from Google contacts and displays birthday cards on a yearly basis, holidays and a country-specific calendar that displays dates of special occasions.

Contact list

Users can now get to the contact pages by clicking the application's (app's) icon in the upper right corner of the Gmail inbox. When you click the apps icon, which is a square made up of nine smaller squares, it unfolds to reveal a panel of icons for other Google programs and services, including, Google Photos, Google News and YouTube.

Tasks

Gmail integrates a simple to-do list into users' accounts. Google Tasks allows you to create lists of items, set due dates, and add notes. You can also create tasks directly from Gmail messages.

Archives

Rather than deleting an email and losing it for good, you can choose to archive it instead. As soon as a message is placed in the Gmail archive, it is removed from your inbox and tagged with the label All Mail. These messages remain in your Gmail account and can be retrieved easily at a later time, but in the meantime, they are not visible.

When someone replies to an archived message, it automatically returns to your inbox.

Key elements of electronic communication systems:

- a. **Transmitter:** Converts the information into an electronic signal for transmission.
- b. **Communication channel:** The medium through which the signal travels.
- c. **Receiver:** Receives the signal and converts it back into the original information.
- d. **Noise:** Interference that can disrupt the signal's integrity.

3.5 Digital communication

3.5.1. E-mail systems and its utilisation

E-mail communication involves sending electronic messages between individuals or groups via a computer network, primarily the internet. It is a widely used method for both personal and professional interactions, offering a fast, accessible, and inexpensive way to share information. The following are key aspects of e-mail communication:

- i. **Mechanism:** E-mail uses protocols like SMTP (for sending) and POP3 or IMAP (for receiving) to transmit and access messages
- ii. **Delivery:** Messages can be sent individually or to lists (mailing lists).
- iii. **Content:** Emails can include text, images, and attached files.
- iv. **Versatility:** Email is used for various purposes, including personal correspondence, business interactions, and information dissemination.

- v. **Efficiency:** Email allows for quick and convenient communication, especially for tasks that require written documentation.

Importance of effective email communication:

- a. **Clarity:** Using clear and concise language helps avoid misinterpretation and ensures the message is easily understood.
- b. **Professionalism:** Well-written emails can demonstrate professionalism and competence, thus enhancing your credibility.
- c. **Time-saving:** Clear and organised emails allow recipients to quickly understand the message and respond, thus saving time.
- d. **Professional tone:** Maintaining a professional tone, especially in business emails, is crucial for building relationships and conveying credibility.
- e. **Actionability:** Clear calls to action in emails ensure the recipients understand what is expected of them.

Examples of email communication:

- i. **Formal emails:** Used for business, academic, or official communications, often using formal language and greetings.
- ii. **Informal emails:** Used for personal correspondence, with more casual language and tone.
- iii. **Job applications:** Emails used to apply for jobs or internships, often including a cover letter and a resume.
- iv. **Customer service:** Emails used to address customer inquiries and provide support.

Email communication is an essential tool for modern digital interaction, and mastering its principles is crucial for effective and efficient communication in both personal and professional contexts.

3.5.2. Website platforms and their utilisation

Website platforms are software and services that provide the tools and infrastructure needed to create and manage websites. They range from simple drag-and-drop builders to powerful content management systems, catering for various users' needs and technical skill levels. These platforms are used by individuals, businesses, and organisations to create websites for personal use, online stores, blogs and a host of other uses. The following are the uses of website platforms:

- i. **Content management:** Platforms like WordPress, Wix, and Squarespace allow users to easily create, edit and manage website contents, including texts, images and videos.
- ii. **E-commerce:** Platforms like Shopify and BigCommerce provide tools for building and managing online stores, including product catalogues, shopping carts and payment processing.
- iii. **Website building:** Platforms like Webflow and Duda offer various features for building websites, including templates, design tools and customisation options.
- iv. **Marketing and Search Engine Optimisation (SEO):** Many platforms offer built-in marketing and SEO tools to help users promote their websites and improve their search engine rankings.
- v. **Social media integration:** Some platforms allow users to easily integrate their websites with social media platforms, making it easier to share contents and engage with their audience.

The following are some common website platforms:

- a. **WordPress:** A popular content management system known for its flexibility and scalability, making it suitable for various website types.
- b. **Wix:** A user-friendly drag-and-drop platform that allows users to create websites without coding.
- c. **Squarespace:** A design-focused platform known for its elegant templates and ease of use.
- d. **Shopify:** A specialised platform designed for e-commerce, with tools for building and managing online stores.
- e. **Webflow:** A platform that allows users to design and build websites, using a visual interface, with the option to generate code for advanced customisation.
- f. **HubSpot:** A platform that combines website building with marketing and sales tools, offering a comprehensive solution for businesses.
- g. **GoDaddy:** A popular web hosting platform that also offers website builders and others, tools for website development.
- h. **Big commerce:** A platform focused on e-commerce, offering features for managing products, orders and payments.
- i. **Google sites:** A simple platform for creating basic websites, ideal for individuals and small organisations.
- j. **Joomla:** An open-source content management system, similar to WordPress, with a range of customisation options.

- k. **Jimdo:** A user-friendly platform that offers AI-assisted design options and templates.
- l. **Duda:** A platform that allows users to create websites with a drag-and-drop interface and a variety of templates.
- m. **Webnode:** A platform that offers AI features to streamline website design and development.
- n. **Strikingly:** A platform that offers attractive templates and drag-and-drop features for creating various types of websites.

3.5.3. Uses and management of social media accounts

Social media accounts are used for various purposes, from personal communication to business marketing, and their effective management involves creating, scheduling, and engaging with contents, as well as monitoring and analysing data. This can help build brand awareness, improve customer engagement, and drive traffic to websites.

Uses of social media accounts:

- a. **Personal communication:** Connecting with friends and family, sharing updates, and engaging in discussions.
- b. **Information sharing:** Accessing news, articles, and other information from various sources.
- c. **Community building:** Joining groups and communities, based on shared interests.
- d. **Entertainment:** Enjoying videos, photos, and other content created by users and creators.
- e. **Business marketing:** Reaching target audiences, promoting products or services, and building brand awareness.
- f. **Customer service:** Addressing inquiries, resolving issues, and building relationships with customers.
- g. **Research:** Gathering information, following industry trends, and learning from experts.

Management of social media accounts:

- a. **Content creation:** Developing engaging and relevant content tailored to the target audience.
- b. **Scheduling:** Planning and automating posts to maintain consistency and maximising reach.

- c. **Engagement:** Interacting with followers, responding to comments and messages, and fostering a sense of community.
- d. **Monitoring:** Tracking mentions, comments, and other interactions to assess performance and identify trends.
- e. **Analysis:** Analysing data to optimise strategies, improve content, and measure the effectiveness of social media efforts.
- f. **Reputation management:** Addressing negative feedback and maintaining a positive brand image.
- g. **Advert campaigns:** Running targeted advertising to reach specific audiences and drive conversions.

3.5.4. Uses and management of social media pages

Social media management involves strategically creating, distributing, and engaging with contents across various platforms to achieve specific goals, whether it is building a brand, increasing awareness, or driving sales. This process includes everything from crafting engaging content and scheduling posts to monitoring analytics, interacting with followers, and managing online reputation.

Uses of social media pages

- a. **Building brand awareness:** Consistent posting and engaging with followers help a brand establish itself and increase visibility.
- b. **Connecting with customers:** social media provides a direct line of communication for businesses to interact with customers, address concerns, and build relationships.
- c. **Generating leads and driving sales:** Targeted social media campaigns can attract potential customers and drive traffic to a business's website or other landing pages.
- d. **Creating a community:** social media allows businesses to foster a sense of community around their brand, encouraging loyalty and advocacy.
- e. **Marketing and advertising:** Social media platforms offer various advertising options, allowing businesses to reach specific demographics and target their campaigns effectively.
- f. **Monitoring and analysing performance:** Social media analytics provide valuable insights into content performance, audience engagement, and overall campaign effectiveness.
- g. **Staying updated with trends:** social media allows businesses to monitor industry trends and competitor activity, thus staying ahead of the curve.

- h. **Crisis management:** social media can be used to quickly respond to negative feedback or incidents, mitigating potential damage to a brand's reputation.
- i. **customer service:** Social media platforms allow businesses to provide customer support and address inquiries in a timely manner.

Management of social media pages

- i. **Content creation and strategy:** Developing a content calendar, creating engaging visuals, and writing compelling copies are essential for attracting and retaining followers.
- ii. **Scheduling and publishing:** Using social media management tools to schedule posts and automate tasks can save time and ensure consistency.
- iii. **Engagement and community building:** Responding to comments, messages, and mentions, and fostering conversations with followers are crucial for building a strong online community.
- iv. **Analytics and insights:** Regularly monitoring social media analytics and using the insights to optimise content and strategies is vital for measuring success and making improvements.
- v. **Brand reputation and crisis management:** Monitoring online conversations, addressing negative feedback, and managing crises effectively are essential for protecting a brand's reputation.
- vi. **Advertising and paid promotions:** Utilising social media advertising platforms to reach a wider audience and drive specific outcomes, such as website traffic or sales.
- vii. **Influencer marketing:** Collaborating with influencers to promote a brand and reach new audiences.

3.5.5. Digital marketing

Digital marketing is the use of websites, apps, mobile devices social media search engines, and other digital means to promote and sell products and services.

Digital marketing involves the use of many of the same principles as traditional marketing and it is often considered an additional way for companies to reach consumers and understand their behaviour. Companies often combine traditional and digital marketing techniques in their strategies. But digital marketing also

comes with its own set of challenges. Digital marketing started to become popular with the widespread adoption of the internet in the 1990s.

How digital marketing works

Marketing encompasses a wide range of techniques and media that companies can use to promote their products and services to potential consumers and improve their market share. To be successful, it requires a combination of advertising and salespromotion. Professional marketers use these tasks either internally at individual companies or externally at marketing firms that may serve many different clients.

In the past, companies focused on marketing through print, television, and radio because that was all they had. Although those options still exist, the internet gave companies another way to reach consumers and gave rise to digital marketing.

The new technologies and trends forced companies to change their marketing strategies and revise their budgets. Email became a popular marketing tool in the early days of digital marketing. Then, the focus shifted to search engines, like Netscape, which allowed businesses to tag keyword items to get themselves noticed. The development of social platforms, like Facebook made it possible for companies to track user data and deliver their messages to very specific audiences.

Smartphones and other portable devices now make it easier for companies to market their products and services to consumers, wherever those consumers happen to be.

Types of digital marketing channels

Digital marketing channels have evolved since the 1990s and continue to do so. Here are some of the most common channels in use today.

- i. **Website marketing:** Companies often use their own websites as the centrepiece of their digital marketing activities. The most effective websites represent the brand and its products and services in a clear and memorable way. today a website must be fast-loading, mobile-friendly, and easy to navigate.
- ii. **Pay-per-click advertising:** Pay-per-click (PPC) advertising enables marketers to reach audiences on news and other websites and digital platforms through paid ads. Marketers can set up PPC campaigns on Google,

Bing, LinkedIn, X (formerly Twitter), Pinterest, and Facebook, and show their ads to people searching terms related to their products or services. These campaigns can segment users based on their demographic characteristics (such as age or gender), or their particular interests or location. The most widely used services for PPC are Google Ads and Facebook Ads.

- iii. **Content marketing:** The goal of content marketing is to reach potential customers through the use of written, visual, or video contents that interest them. Those contents are usually published on websites and then promoted through social media, email marketing, search engine optimisation, or even pay-per-click campaigns. Content marketing attempts to be more subtle than advertising, and the product or service the sponsor is attempting to market may or may not be conspicuously highlighted.
- iv. **Email marketing:** Email marketing is still one of the most effective digital marketing channels, though many people associate it with spam and treat such messages accordingly. Many digital marketers use other digital marketing channels to collect names for their email lists. Then, through email marketing, they try to turn those leads into customers.
- v. **Social media marketing:** The primary goals of a social media marketing campaign are to build brand awareness and establish trust. Social media marketing can be used to obtain leads and as a direct marketing or sales channel. Promoted posts and tweets are two examples of social media marketing.
- vi. **Affiliate marketing:** Affiliate marketing is one of the oldest forms of marketing, and the digital world has given it new life. In affiliate marketing, companies and individual "influencers" promote another company's products and get a commission every time a sale is made or a fresh lead is added to their list. Many well-known companies, including Amazon, have affiliate programs that pay out millions of dollars to affiliates that help sell their products.
- vii. **Video marketing:** A lot of internet users turn to sites like YouTube before making a buying decision, to learn how to do something, to read a review, or just to relax. Marketers can use any of several video marketing platforms, including Facebook videos, Instagram, and TikTok, to run a video marketing campaigns. Companies find the most success with videos by integrating them

with SEO, content marketing, and broader social media marketing campaigns.

- viii. **Text messaging:** Companies also use text messages (formally known as SMS, or short message service) to send information about their latest products and promotions. Non-profit organisations and political party candidates also use texting to promote themselves and solicit for donations. Today, many marketing campaigns make it possible for consumers to make payments or donations via a simple text message.

Key performance indicators (KPIs) in digital marketing

Digital marketers use key performance indicators (KPIs) just like traditional marketers. KPIs let them measure the long-term performance of their marketing initiatives and compare those to their competitors' efforts. The following are some of the most common KPIs that marketers use to gauge how well they are doing:

- i. **Click-through rate:** This KPI is commonly used to measure the effectiveness of online advertising, by counting the number of people who clicked on a particular ad as a percentage of all the people who might have seen it.
- ii. **Conversion rate:** The conversion rate goes even further than the click-through rate to compare the percentage of people who took some desired action, such as making a purchase, to the total audience that a particular ad or promotion reached.
- iii. **Social media traffic:** This tracks how many people interact with a company's social media profiles. It includes likes, follows, views, shares, and/or other measurable actions.
- iv. **Website traffic:** This metric tracks how many people visit a company's website during a given time period. Among other uses, it can help companies judge how effective their marketing efforts are at driving consumers to their sites.

Importance of digital marketing

- i. **Wider reach:** Digital marketing allows businesses to reach a larger and more diverse audience than traditional methods.
- ii. **Targeted marketing:** It enables businesses to target specific demographics and interests, ensuring that their messages reach the right people.

- iii. **Measurable results:** Digital marketing campaigns can be easily tracked and measured, allowing businesses to identify what is working and what is not.
- iv. **Increased engagement:** Digital channels offer opportunities to engage with customers in real-time and build strong relationships.
- v. **Cost-Effective:** Digital marketing can be more affordable than traditional advertising, especially when using strategies like content marketing and SEO

In conclusion, the ways in which people access media in the 21st century have caused marketers to put increased, and sometimes exclusive emphasis, on digital platforms for their campaigns. While digital marketing uses many of the same techniques as traditional marketing through print, television, and radio, it also has its own set of tools that marketers need to master in order to succeed.

3.6 Chapter review

This chapter discusses management functions and their importance and application to accountancy, individual and organisational behaviour, communication in business, and digital communication.

Worked examples

Questions

There are several skills required by managers for them to operate effectively within an organisation to achieve its goals and objectives.

1(a). Explain the **THREE (3)** basic types of management skills.

1(b). Explain **SIX (6)** essential management skills that any manager ought to possess for them to perform their duties.

Leadership and management function within organisations to influence behaviour towards attaining organisational objectives. However, each has different focus and orientation. While leadership has a more strategic orientation and focus, management is more involved in tactical decision-making and has a shorter-term orientation.

2(a). Highlight the similarities between leadership and management.

2(b). Explain key differences between leadership and management.

2(c). Explain the factors that affect an individual's behaviour in an organisation.

Motivation is key to enhancing organisational productivity. There are several factors that motivate employees within an organisation, therefore, management must adopt strategies to enhance motivation of workers to improve performance of their units.

3(a). Explain motivation.

3(b). Explain the key aspects of motivation from management's perspective.

3(c). Explain the benefits of effective motivation in management.

Suggested solutions

1(a). According to American social and organisational psychologist Robert Katz, the three basic types of management skills include:

i. **Technical skills**

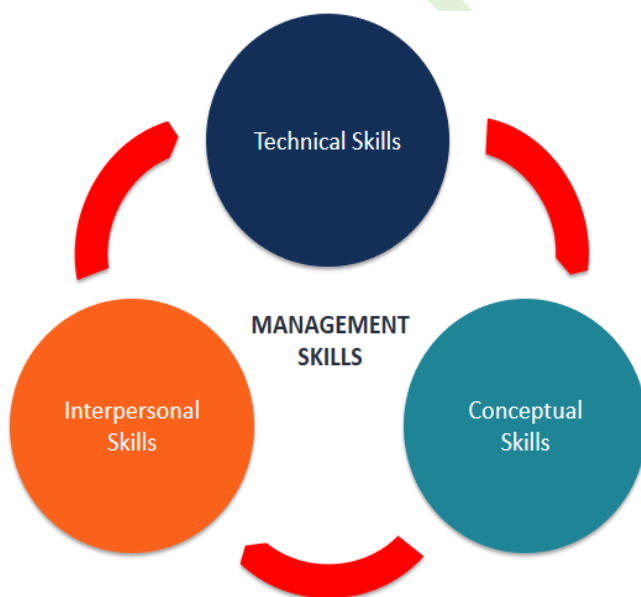
Technical skills involve skills that give the managers the ability and the knowledge to use a variety of techniques to achieve their objectives. These skills not only involve operating machines and software, production tools, and pieces of equipment but also the skills needed to boost sales, design different types of products and services, and market the services and the products.

ii. Conceptual skills

These involve the skills managers present in terms of the knowledge and ability for abstract thinking and formulating ideas. The manager is able to see an entire concept, analyse and diagnose a problem, and find creative solutions. This helps the manager to effectively predict hurdles their department or the business as a whole may face.

iii. Human or interpersonal skills

The human or the interpersonal skills are the skills that present the managers' ability to interact, work or relate effectively with people. These skills enable the managers to make use of human potential in the company and motivate the employees for better results.



1(b). The following are six essential management skills that any manager ought to possess for them to perform their duties:

- i. **Planning:** Planning is a vital aspect within an organisation. It refers to one's ability to organise activities in line with set guidelines while still remaining within the limits of the available resources such as time, money, and labour. It is also the process of formulating a set of actions or one or more strategies to pursue and achieve certain goals or objectives with the available resources. The planning process includes identifying and setting achievable goals, developing necessary strategies, and outlining the tasks and schedules on how to achieve the set goals. Without a good plan, little can be achieved.
- ii. **Communication:** Possessing great communication skills is crucial for a manager. It can determine how well information is shared throughout a team, ensuring that the group acts as a unified workforce. How well a manager communicates with the rest of his/her team also determines how well outlined procedures can be followed, how well the tasks and activities can be completed, and thus, how successful an organisation will be. Communication involves the flow of information within the organisation, whether formal or informal, verbal or written, vertical or horizontal, and it facilitates the smooth functioning of the organisation. Clearly established communication channels in an organisation allow the manager to collaborate with the team, prevent conflicts, and resolve issues as they arise. A manager with good communication skills can relate well with the employees and, thus, be able to achieve the company's set goals and objectives easily.
- iii. **Decision-making:** Another vital management skill is decision-making. Managers make numerous decisions, whether knowingly or not, and making decisions is a key component in a manager's success. Making proper and right decisions results in the success of the organisation, while poor or bad decisions may lead to failure or poor performance. For the organisation to run effectively and smoothly, clear and right decisions should be made. A manager must be accountable for every decision that they make and also be willing to take responsibility for the results of their decisions. A good manager needs to possess great decision-making skills, as it often dictates his/her success in achieving organisational objectives.
- iv. **Delegation:** Delegation is another key management skill. Delegation is the act of passing on work-related tasks and/or authorities to other employees or subordinates. It involves the process of allowing your tasks or those of your employees to be reassigned or reallocated to other employees depending on

current workloads. A manager with good delegation skills is able to effectively and efficiently reassign tasks and give authority to the right employees. When delegation is carried out effectively, it helps facilitate efficient task completion. Delegation helps the manager to avoid wastage of time, optimises productivity, and ensures responsibility and accountability on the part of employees. Every manager must have good delegation abilities to achieve optimal results and accomplish the required productivity results.

- v. **Problem-solving:** Problem-solving is another essential skill. A good manager must have the ability to tackle and solve the frequent problems that can arise in a typical workday. Problem-solving in management involves identifying a certain problem or situation and then finding the best way to handle the problem and get the best solution. It is the ability to sort things out even when the prevailing conditions are not right. When it is clear that a manager has great problem-solving skills, it differentiates him/her from the rest of the team and gives subordinates confidence in his/her managerial skills.
- vi. **Motivating:** The ability to motivate is another important skill in an organisation. Motivation helps bring forth a desired behaviour or response from the employees or certain stakeholders. There are numerous motivation tactics that managers can use, and choosing the right ones can depend on characteristics such as company and team culture, team personalities, and more. There are two primary types of motivation that a manager can use. These are intrinsic and extrinsic motivation.

2(a). The Similarities between leadership and management

Despite the differences in the specific roles of leaders and managers, they also possess many similarities.

- i. Both hold positions of authority over their employees and classify themselves as being responsible for a group of people.
- ii. Employees may look up to both leaders and managers as sources of inspiration.
- iii. They are also both necessary and important positions within a company.
- iv. Leaders and managers often work closely together and collaborate to ensure the smooth running of the business and its operations.
- v. Both leaders and managers require self-assurance in their roles.

- vi. They both may frequently implement new strategies and changes around the office, displaying confidence to know when they are taking the right actions.
- vii. They may both have also shown a resilient work ethics and a hard-working attitude to earn these authoritative roles.
- viii. Typically, they have a friendly attitude towards others and a positive approach towards work and challenges. Senior managers might often consider this when promoting them, as they want the rest of the organisation to follow their example.

2(b). Leadership differs from management in the following ways:

- i. While managers lay down the structure and delegates authority and responsibility, leaders provides direction by developing the organisational vision and communicating it to the employees and inspiring them to achieve it.
- ii. While management includes focus on planning, organizing, staffing, directing and controlling; leadership is mainly a part of directing function of management. Leaders focus on listening, building relationships, teamwork, inspiring, motivating and persuading the followers.
- iii. While a leader gets his authority from his followers, a manager gets his authority by virtue of his position in the organisation.
- iv. While managers follow the organisation's policies and procedure, the leaders follow their own instinct.
- v. Management is more of science as the managers are exact, planned, standard, logical and more of mind.
- vi. Leadership, on the other hand, is an art. In an organisation, if the managers are required, then leaders are a must/essential.
- vii. While management deals with the technical dimension in an organisation or the job content; leadership deals with the people aspect in an organisation.
- viii. While management measures/evaluates people by their name, past records, present performance;
- ix. Leadership sees and evaluates individuals as having potential for things that cannot be measured, i.e., it deals with future and the performance of people if their potential is fully extracted.
- x. If management is reactive, leadership is proactive.

- xi. Management is based more on written communication, while leadership is based more on verbal communication.

2(c). **Factors affecting individual behaviour**

Factors Affecting Individual Behaviour at Work Individual conduct within an organisational setting is influenced by numerous components that form how labourers see their duties and communicate with others. Understanding these elements is fundamental for administrators to make viable procedures that enhance worker execution and fulfilment.

Personality

Identity is a centre part of individual conduct, comprising of the distinctive attributes and qualities that persuade how somebody thinks, feels, and acts. Distinctive identity standards, like the broad Five (availability, conscientiousness, extroversion, agreeableness, neuroticism), give experiences into how identity characteristics affect work environment collaborations and execution. Understanding labourers' identities can assist administrators with changing their methodologies to better rouse and include people.

Values

Principles are profoundly held theories that direct people's conduct and choices. They shape how people see their jobs inside an association and can impact their responsibility, virtuous benchmarks, and general labourer fulfilment. Associations that synchronise their qualities with those of their labourers can cultivate a more concordant and productive work condition.

Attitudes

Attitudes allude to an individual's feelings and assessments with respect to specific people, articles, or occasions. Positive mind-sets towards work, colleagues, and the association can prompt higher occupation fulfilment and better execution. Then again, negative dispositions can hamper profitability and make a harmful work condition. Administrators can impact mind-sets through proficient correspondence and acknowledgment.

Motivation

Inspiration is a pivotal driver of individual conduct, swaying how hard people work and their resilience in defeating difficulties. Various hypotheses, like Maslow's Levels of Requirement and Herzberg's Two-Factor Theory, clarify diverse parts of inspiration and its effect on conduct. By understanding what inspires labourers, associations can make procedures to build responsibility and execution.

Perception

Perception is the methodology by which people decipher and make sense of their condition and encounters. It affects how labourers see their parts, associates, and the association overall. Administrators ought to perceive that individual observations can change essentially, driving to contrasting interpretations of a similar circumstance, and work to make clear correspondence channels to lessen confusions.

Emotions

Feelings play a critical part in shaping individual conduct and choice making forms. They can influence work environment connections, execution, and general prosperity. Associations that advance passionate insight and assist labourers with overseeing their feelings can build group work and make an optimistic work climate.

Social influences

Social impacts, including family, companions, and organisational culture, fundamentally affect individual conduct. The standards and desires inside a work environment can shape how people act and communicate with one another. Understanding these societal elements can assist associations with cultivating joint effort and a feeling of having a place among employees.

3(a). Motivation is the process that initiates, guides, and maintains goal-oriented behaviours. For instance, motivation is what helps you choose your career path, or pushes you to get that promotion at work. In short, motivation causes you to act in a way that gets you closer to your goals.

Motivation in management refers to the strategies and tactics managers use to inspire and encourage their teams to achieve organisational goals, increase productivity, and enhance overall workplace experience. It is a crucial aspect of effective leadership, as motivated employees are more engaged, perform better, and contribute to a more positive and productive work environment.

3(b). The following are the key aspects of motivation from the management's perspective:

- i. **Understanding employee needs:** Effective managers understand the individual needs, desires, and aspirations of their team members. This allows them to tailor motivational strategies to resonate with each person.
- ii. **Setting clear goals and expectations:** Providing employees with a clear understanding of their roles, responsibilities, and the objectives they are working towards is fundamental to motivation.
- iii. **Creating a positive work environment:** A supportive, inclusive, and respectful workplace culture can significantly boost employee morale and motivation.
- iv. **Providing recognition and rewards:** Recognizing and rewarding employee achievements, whether through verbal praise, bonuses, or other forms of recognition, reinforces desired behaviours and encourages continued effort.
- v. **Encouraging open communication:** Maintaining open and transparent communication channels allows employees to feel heard, valued, and informed, which can enhance their sense of ownership and motivation.
- vi. **Promoting employee development:** Offering opportunities for professional growth, training, and skill development can boost employee engagement and motivation by showing that the organisation values their career advancement.
- vii. **Leading by example:** Managers who demonstrate the desired behaviours and attitudes themselves can inspire and motivate their teams.

3(c). **Benefits of effective motivation in management**

- i. **Increased productivity:** Motivated employees are more likely to put in extra effort and produce higher quality work.
- ii. **Improved morale and engagement:** A motivated workforce is generally more satisfied with their work and more engaged in the organisation's goals.
- iii. **Reduced turnover:** Happy and motivated employees are less likely to leave the organisation, saving on recruitment and training costs.
- iv. **Enhanced team performance:** A motivated team is more likely to collaborate effectively, solve problems creatively, and achieve organisational objectives.

- v. **Stronger organisational culture:** Effective motivation helps to create a positive and supportive work environment that fosters a sense of community and shared purpose.

ICAN 2025

ELEMENTS OF MICROECONOMICS AND MACROECONOMICS

Contents

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4. Elements of Microeconomics and Macroeconomics

4.0 Learning objectives

This chapter seeks to offer understanding of economics through the introduction of key concepts in microeconomics and macroeconomics. . It gives insight into the nature, scope, and methodology of economics, markets and market mechanisms.

4.1 Learning outcomes

At the end of this chapter, readers should be able to:

- (a) define economics and markets;
- (b) explain the concepts of demand and supply;
- (c) understand the concepts of costs, revenue and profit;
- (d) identify and explain types of markets;
- (e) explain the causes of market failure, externalities and intervention;
- (f) explain the basic concept of national income, methods of computing national income, measures of measuring national income; and uses of national income;
- (g) identify and explain types of financial institutions;
- (h) identify and explain the issues of monetary and fiscal policies;
- (i) identify and explain the issues of inflation and unemployment; and
- (j) identify and explain the issues of growth and development.

4.2 Introduction to economics and markets

The most widely accepted definition of economics was given by the British Economist, Lionel Charles Robbins (1898 – 1984). According to his definition, Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.". "Ends" refers to human desires that are typically categorised as goods and services. Factors of production, another name for productive resources, are referred to as "means." Every community produces a variety of commodities and services by combining productive resources in different ways.

4.2.1 Basic concepts of economics

Definition of terms

- a. **Economy:** This term refers to a particular system of organising economic activities, such as the production, distribution, trade, and consumption of everything needed to meet human needs. They are frequently referred to as

the Nigerian and Ghanaian economies, as capitalist, socialist, mixed, developed, or developing economies, in this context.

- b. **Goods and services:** The term "goods" in economics refers to tangible, material objects that are used to fulfil human desires. Food products, automobiles, footwear, watches, industrial machinery, etc. are a few examples. There are various classifications for goods, economic and non-economic goods are two categories.

Economic goods are goods that are scarce and therefore have an opportunity cost. In other words, they are goods that people want but are limited in supply, so choices must be made about how they are used. Conversely, items that are freely available and may be acquired without paying a fee are referred to as non-economic goods. Stream water, gutter sand, sunshine, air, bush trees, etc. are examples of non-economic products.

- c. **Resources:** These items can be combined in a variety of ways to provide the goods and services needed to meet human needs. Another name for these items is "factors of production" and can be classified as:
 - i. **Natural resources:** Include forests, fishing grounds, water, minerals (such as limestone, etc.), arable land, solar energy potential, hydroelectricity, and other gifts of nature. In economics, the term "land" refers to all natural resources.
 - ii. **Capital:** Roads, dams, buildings, machinery, and other man-made resources that aid in the creation of other things that meet human needs.
 - iii. **Human Resources:** Human effort, (which includes a range of cognitive and motor capabilities) is used in the production process. Human resources are referred to as labour.
 - iv. **Entrepreneur:** This is the individual (in a one-man operation) or company owners/managers who coordinate(s) the other production factors to manufacture and sell goods and services, as well as potentially invent and innovate.
- d. **Utility:** This is a term used by economists to describe how people feel satisfied and their needs met when they utilise and consume material goods and services.
- e. **Stock and flow:** Stock is a term used to describe a variable that has no time dimension, such as 1,000 bags of cement kept in a warehouse awaiting sale, which could happen at any time. Conversely, a variable is referred to as a flow if it has a temporal dimension. Stated differently, the quantity of an economic variable measured during a specific time is referred to as flow. Therefore, a

cement company's daily production or supply of 1,000 bags of cement is a flow.

- f. **Ceteris paribus:** "All other things being equal" is the meaning of this Latin expression. In economic theory, the ceteris paribus assumption is more frequently employed to separate the impact of altering a single variable or influencing factor. "All other variables or determining factors are held constant," according to this statement. Using ceteris paribus, either explicitly or implicitly, simplifies economic theories and increases their validity.
- g. **Rational behaviour:** Refers to the behaviour in which economic agents, that is, people, businesses, and the government, do their best under specific conditions. The assumption of consumer rationality, for instance, suggests that the average consumer will always choose more over less when making purchases, or the basket of items that will provide him with the most value, given his income and the unit costs of the goods. We can understand and forecast human behaviour under particular circumstances by assuming rationality.

4.2.2 Microeconomics and macroeconomics

Traditionally, economics is divided into two main branches: microeconomics and macroeconomics.

- a. **Microeconomics**

Microeconomics focuses on distinct economic sectors, especially how businesses, consumers, and groups of businesses behave within an industry. Microeconomics explains how and why these units make economic decisions. It is a field of economics that studies how resources are allocated, managed, and rewarded in different economic endeavours. It also studies how relative prices of products and services are established. The theory of pricing and wage determination, the theory of consumer behaviour, the theory of production, and welfare economics are the primary subjects that underline microeconomics. Microeconomics relies profoundly on the use of theories, which help to explain the behaviour of economic units and predict what behaviour will occur in the future.

- b. **Macroeconomics:** The study of the economy as a whole is known as macroeconomics. Macroeconomics deals with aggregate economic quantities. aggregate economic variables, including the economy's employment rate, total production and income, total money supply, total government expenditure, taxation, investment, savings levels, and so forth, are the focus of macroeconomics. The issues of unemployment, inflation,

external imbalance, slow economic development, overall poverty, and inequality in the macroeconomy are thus examined in macroeconomics.

4.2.3 Basic economic problems

Fundamental economic problems facing every society are discussed below:

a. Scarcity

Economic scarcity is a situation whereby people do not have as much as they would like. Human needs are limitless, but the productive resources available in any community at any one time are limited, which leads to the dilemma of scarcity. As a result, the quantity of goods and services that can be produced is constrained and insufficient to satisfy human needs.

i. Therefore, the following are the four fundamental economic questions. **What to produce?**

This question addresses which goods and services should be produced and in what quantities. Since resources are limited, societies must decide:

- a. Should more food be produced or more technology?
- b. Should resources go to healthcare or education?

Factors influencing this decision include consumer demand, resource availability, and government priorities.

ii. **How to produce?**

This concerns the methods of production:

- a. Should production be labour-intensive or capital-intensive?
- b. Should it use sustainable or conventional techniques?

Efficiency and cost-effectiveness are key considerations, along with environmental impact and technological capabilities.

iii. **For whom to produce?**

This question deals with distribution:

- a. Who gets the goods and services?
- b. How are they shared among different groups in society?

This depends on income levels, social policies, and market mechanisms. It reflects issues of equity and fairness.

iv. **How much to produce?**

This relates to the scale of production:

- a. How much of each good or service should be produced to meet demand without causing waste or shortages?

It involves forecasting demand, managing inventory, and balancing supply with consumption.

b. **Choice**

The concept of choice is related to all three of the primary economic agents in the economy. Scarcity forces people to make decisions, which entails giving up something in order to obtain something else.

- a. Due to his limited financial resources, a single consumer must decide among different kinds of products and services, as well as between consumption now and in the future.
- b. The company's limited resources force it to make decisions about what to produce and how to generate it.
- c. Given its limited money as shown in the budget documents, the government must choose which public goods and services to offer the populace.

c. **Scale of preference**

It is defined as a list of all desires that must be met, ranked by significance or priority. The idea of the Scale of Preference emphasises the fundamental tenet of economics, which holds that all economic agents behave rationally when making decisions.

d. **Opportunity cost**

Opportunity cost is a term used by economists to describe the next best option that is lost when making a decision. The next most desirable item that a consumer could have purchased in its place is known as the opportunity cost of that purchase. For instance, a housewife wants a ₦200 tin of rice and another ₦200 tin of beans. However, she chose to purchase a tin of rice because she only had ₦200. A tin of rice purchased results in the opportunity cost of a can of beans lost. Because it helps people, businesses, and the government to make logical decisions about how to use limited resources. The idea of opportunity cost is essential to the study of economics. Other names for opportunity cost are actual cost, alternative forgone and economic cost.

e. **Production possibility curve**

The different combinations of two items that can be produced in a nation when all available resources are fully and effectively exploited are displayed by a production possibilities curve (PPC).

Product Combination	Rice (Bags)	Butter (Tins)	Opportunity cost of an additional bags of rice
A	0	80	-
B	1	76	- 4
C	2	70	- 6
D	3	60	- 10

E	4	40	- 20
F	5	0	- 40

The production possibilities curve in Figure 4.1 graphically depicts the production possibilities schedule that is presented in Table 4.1. Assuming that civilisation is utilising all of its resources to generate just two goods—rice and butter—the PPC in Figure 1.1 is created. The following explains the points in Fig. 4.1.

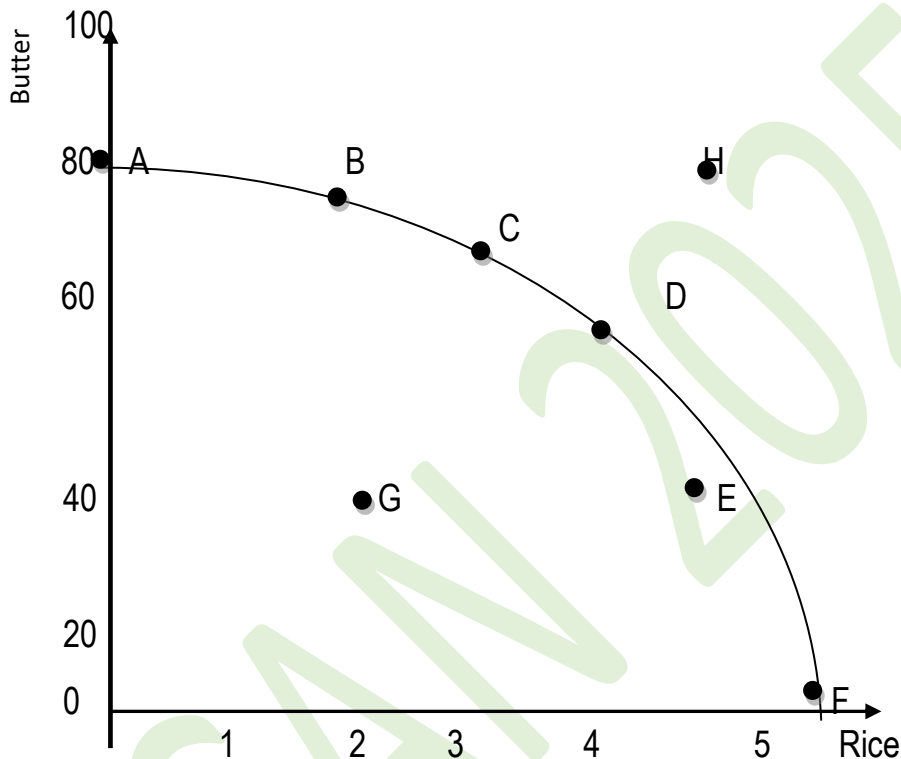


Figure 4.1 Production Possibilities Curve (PPC)

- Scarcity:** There is a limit to how much rice and butter the nation can produce at any given time, as shown by the boundary created by the curve connecting points A and F.
- Full-employment:** The combinations of the two items that the economy can create, if all available resources are fully and effectively employed are displayed at any point on the PPC (such as A to F).
- Unemployment or underemployment:** Any point inside the PPC, like G, indicates that certain resources are either underutilised (un-utilised) or left entirely idle (unemployed).
- Unattainable output level:** Any point outside the curve, like H, indicates the output level that the nation is unable to reach.

- e. **Opportunity cost:** The opportunity cost of a unit of a commodity is measured by the slope of the PPC, which is also known as the marginal rate of transformation (MRT).
- f. **Economic growth:** A steady rise in an economy's production capacity that results in a higher output of products and services is one definition of it. Figure 4.3 illustrates this by showing an outward shift in the production possibilities curve from PPC 1 to PPC 2.

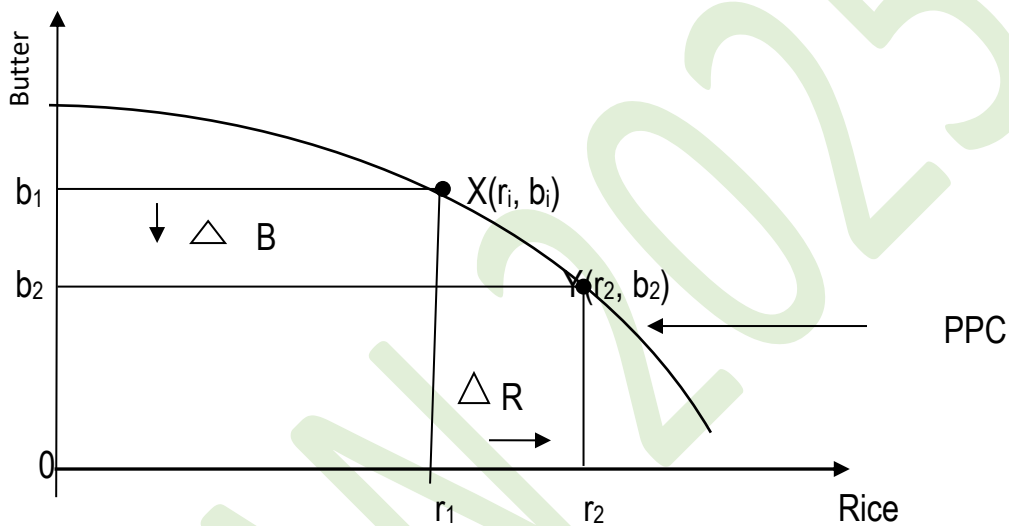


Figure 4.2 The PPC'S Illustration of Opportunity Cost

Figure 4.2, the opportunity cost of moving from output X (r_1, b_1) to output Y (r_2, b_2) is obtained as

$$\begin{aligned} \text{MRT}_{br} &= \frac{\Delta B}{\Delta R} < 0 \\ &= \frac{b_2 - b_1}{r_2 - r_1} < 0 \end{aligned}$$

Moving from X to Y has an opportunity cost of $b_2 - b_1$ tins of butter lost, if $r_2 - r_1 = 1$.

The potential cost of generating the third unit of rice, using this method in Table 4.1, is 10 tins of butter lost.

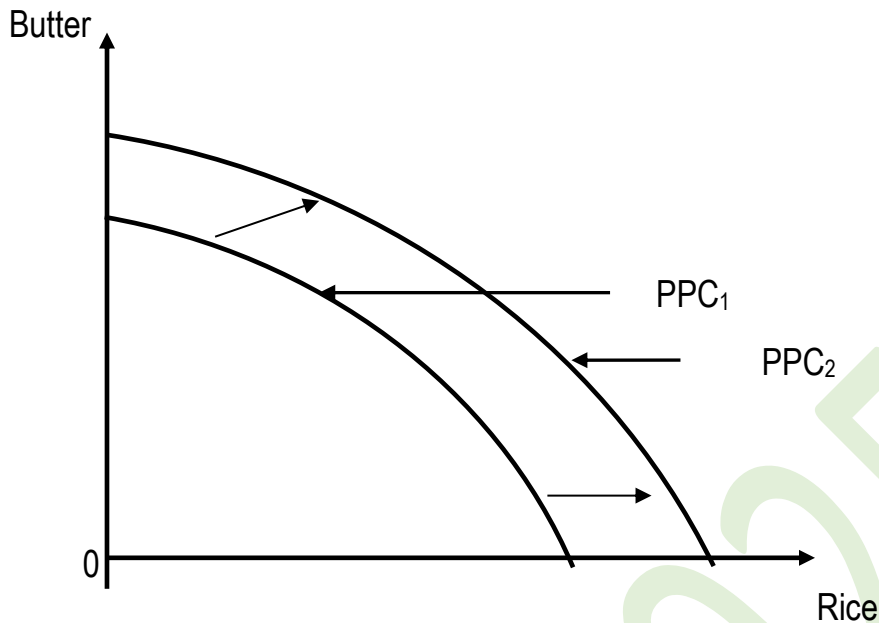


Figure 4.3 *The PPC's Illustration of Economic Growth*

4.2.4 Positive and normative economics

Economic analysis can be divided into two – positive economics and normative.

Positive economics: The study of positive economics focuses on characterising and evaluating how things are or will be, under specific circumstances. In positive economics, for example, it is said that if demand for a commodity rises and other factors affecting supply and demand stay the same, so will the commodity's price. The objective science of positive economics, in other words, explains how the economic system functions.

Normative economics: This focuses on what should be, or ought to be, especially how economic issues should be resolved. Those aspects of human economic behaviour where individual value judgments are formed, are the focus of this subjective science. Statements like "money supply should be reduced to lower inflation rate in the economy" are the result of normative economics.

4.3 Demand, supply and price mechanism

4.3.1 Concept of demand and supply

a. Concept of demand

As humans, we buy and consume products and services to fulfil our desires. In ordinary terms, demand is just a want, a wish, or a desire. Demand in economics is more than just expressing a wish, want, or desire. It is the wish or desire

supported by the financial means. Effective demand is when your wishes, desires, or wants are supported by your financial capacity.

i. **Definition of demand**

Demand is the amount of goods or services that consumers are willing and able to purchase at a specific price within a given period of time, when all other factors of demand remain unchanged.

ii. **Law of demand**

Economists say that consumers' responses to changes in commodity prices are so common that they constitute a rule or law. According to this law, when other factors that affect consumers' demand for a good or service are held constant, the amount demanded of that good or service is inversely related to its price. This implies that quantity demanded and price have an inverse relationship, quantity demanded will rise when prices decrease and fall when prices rise, all other things being equal.

iii. **Determinants of demand**

The factors that influence the amounts of a good or service that are wanted are referred to as the determinants of demand in economics. As previously mentioned, these factors include, in addition to the price of the commodity itself, consumer income, the cost of associated goods and services, customer expectations and tastes, population, marketing methods, weather, credit availability, borrowing costs, and so on.

a. **Consumer Income**

The demand for a good or service may shift in response to changes in consumer income. However, the kind of commodity in question will determine which way demand changes.

b. **Normal goods:** Ceteris paribus, demand for a typical good may rise in response to rising consumer income and fall in response to falling consumer income.

c. Ceteris paribus, an increase in consumer income may result in a decline in demand for an **inferior good**. Thus, inferior goods such as "second hand" goods are those that we purchase more of when we are financially worse off and less of when it is better.

d. For a **necessity**, a change in consumer income may not affect demand.

Prices of related goods

Goods relate to one another in two ways. Goods are either *complements* or *substitutes*.

- e. **Complementary goods** are goods with *joint demand*. For example, a printer and toner, pen and ink, etc., are necessary together before a need can be met. When two complementary goods are priced similarly, a decrease in the demand for one will result in a decrease in the demand for the other, and vice versa.
- f. **Substitute goods:** Products that fulfil the same need or desire of the customer are known as substitutes. Examples of substitute items include butter and margarine, tea and coffee etc; if the price of butter stays the same, a significant increase in the price of margarine will enable individuals to eat more butter. When it comes to substitutions, if the price of one drops, the demand for the other falls, and if the price of one rises, the demand for the other rises, *ceteris paribus*.
- g. **Consumer taste/preference**
Demand is impacted by advertising, fashion, and sales promotions. Any shift in consumer taste or preference results in a change in demand; for example, a rise in demand for a particular good is caused by an increase in taste or preference, while a fall in demand is caused by a decline in taste or preference, *ceteris paribus*.
- h. **Consumer expectations**
Consumer expectation refers to the beliefs or anticipations that consumers have about the future availability, price, quality, or performance of goods and services. These expectations influence their buying decisions and overall behavior in the market today.
- i. **Population of consumers**
Population and population changes may affect demand for a commodity. Certain goods may be more in demand in densely populated areas than in less populated ones. For instance, because Nigeria has a larger population than Ghana, it can have a greater demand for some commodities and services. Additionally, a nation's demand for goods and services will rise in tandem with its population. Also, if the makeup or structure of the population changes the demand for commodities and services may alter.
- j. **Marketing strategies**
Marketing techniques like publicity, advertising, and sales promotions (like raffles) are ways to encourage customers to buy more goods. They are meant to educate and convince both current and prospective customers to purchase more of the product. All other things being equal, a successful marketing strategy will raise demand for the product.

k. **Natural factors**

The demand for a commodity at particular periods of the year may be impacted by seasonal fluctuations. For instance, the demand for items like fans and air conditioners will rise during the dry season, while the demand for jackets, raincoats, and umbrellas will increase during the rainy season.

l. **Availability of credit**

Customers are encouraged to purchase more things when they are provided with credit facilities, such as hire purchases, credit purchases, and the usage of credit cards and cheques. If all else is equal, granting credit facilities will raise demand for the products they cover.

m. **Cost of borrowing (Interest rate)**

People can borrow and purchase more common products and services if borrowing costs are low (interest rates are low). People will borrow less money and make less investment if borrowing costs are high.

iv. **Types of demand**

a) **Joint/complementary demand**

When two goods increase customer satisfaction simultaneously when consumed together rather than separately, they are said to be in joint or complementary demand. Bread and butter, a car and petrol, and a printer and toner are a few examples.

b) **Competitive demand**

When products compete for the same consumer's money, they are said to be in competitive demand. These products are replacements, meaning they can be consumed in place of one another. Peak milk and cowbell milk, beef and chicken, goat meat and cow meat, and so forth are a few examples.

c) **Derived demand**

When a product is needed to manufacture another product that is in demand rather than for its own sake, this is the situation where demand for one product leads to demand for another product, that is utilised to generate the final product. For instance, the demand for wood comes from the desire for furniture, and the demand for kerosene comes from the demand for crude oil. Demand for any aspect of a product is often derived.

d) **Composite Demand**

When a commodity is sought for multiple purposes that is, has alternative uses, it is said to have a composite demand. Wood, for instance, has a composite demand since it can be used to make a variety of items, including tables, chairs, windows, doors, car bodies, , briefcases, and more.

v. Distinction between movement along the demand curve and shift of the demand curve.

Demand is not constant; it fluctuates. The change may indicate a shift in the demand curve or a movement along it. Figure 4. 4 below shows a movement along the commodity/service's demand curve in a scenario where the change in demand is caused by an increase or decrease in the price of the good or service.

Figure 4. 4(a) shows that demand decreases from OQ_1 to OQ_2 as the price increases from OP_1 to OP_2 . From A to B, there is a leftward shift on the demand curve DD. However, in Fig. 4. 4(b), a decrease in price from OP_1 to OP_2 results in an extension increase in demand from OQ_1 to OQ_2 . From point A to point B, the demand curve DD moves to the right.

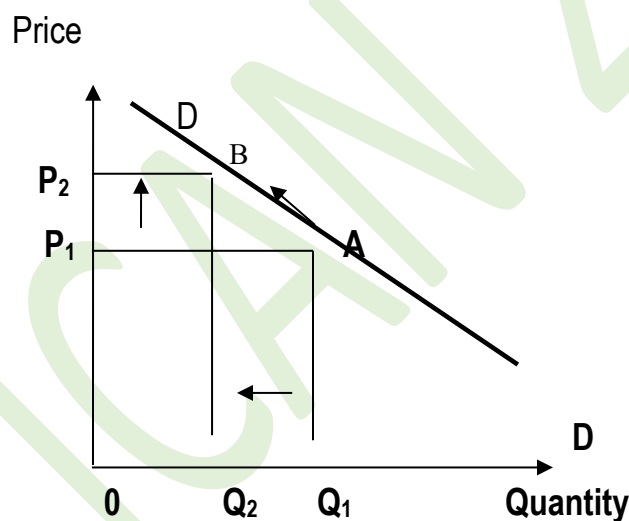
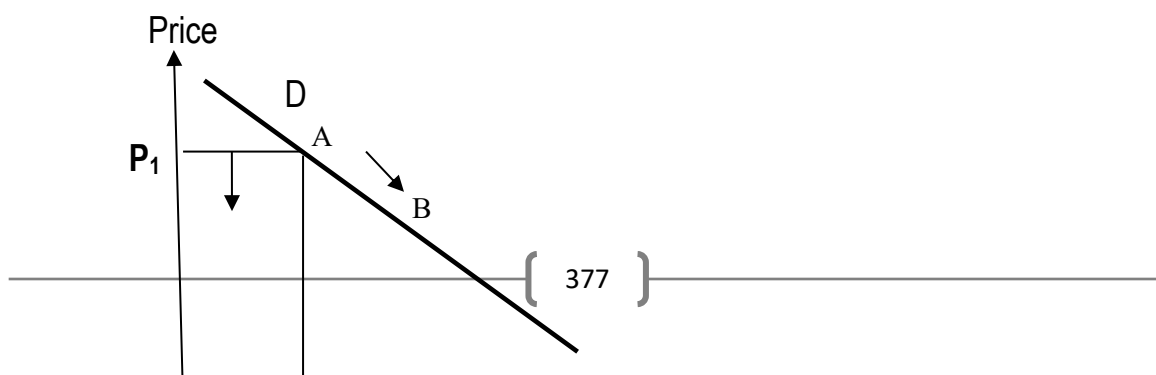


Fig 4. 4(a): Movement induced by an increase in commodity's own price



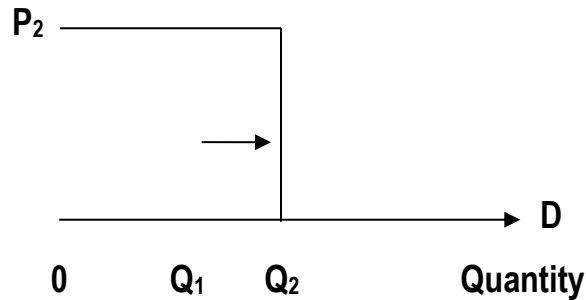


Fig 4. 4(b): Movement due to a decrease in commodity own price

A shift in the demand curve, on the other hand, occurs when variations in any demand factor other than the price of the commodity or service itself causes a change in demand. Drawing a demand curve to the left (D_1D_1) or right (D_2D_2) of the initial demand curve (DD) illustrates these shifts in demand, as seen in Fig. 4. 4c below:

When any of the other demand determinants improve, the demand curve will move from DD to D_2D_2 , and when any of these other factors deteriorate, it will move from DD to D_1D_1 .

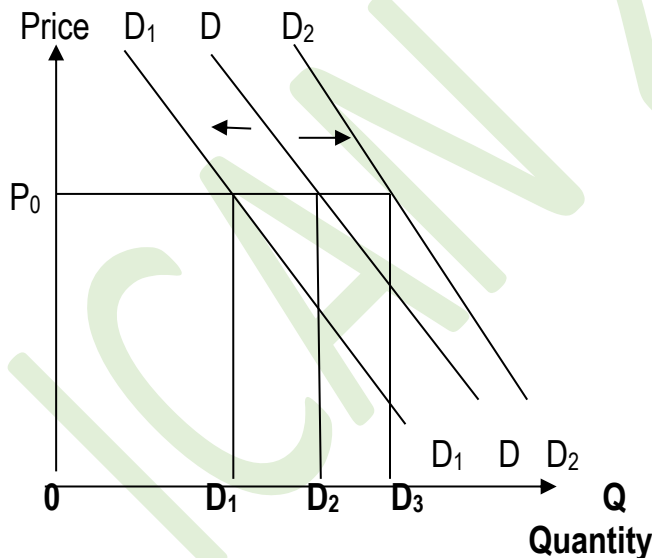


Fig 4. 4c: Shift of demand curve

vi. Exceptions to the Law of Demand

A demand curve that deviates from the law of demand is known as an exceptional demand curve. Normally, as was previously mentioned, a demand curve slopes downward from the left to the right. However, in certain

cases, as illustrated in Figure 4.5 a demand curve will slope upward from the left.

An exceptional demand curve would occur in each of the following cases:

- a. **Giffen Goods:** These are goods whose demand falls with only a fall in their prices.

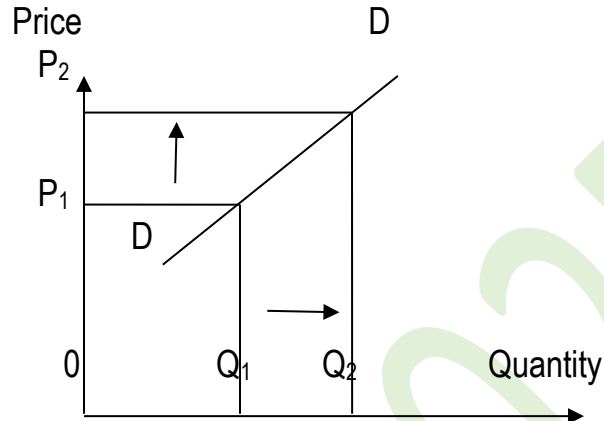


Fig 4.5: Exceptional Demand Curve

- b. **Goods of ostentations:** These products are typically seen as representations of wealth. Typical examples include luxury items that are more in demand at high prices than at low ones, such as the price of jewellery, cars, and fabrics.
- c. **Fear of Future rise in price:** If a shortage is anticipated soon, rising expectations for future prices will boost demand for a commodity. For instance, even when the prices of necessities are growing, consumers may still purchase more of them if the country's rising inflation conditions worsen.
- d. **Consumer ignorance:** Due to ignorance, consumers may purchase more of a good as its price increases. In this sense, branding, advertising, and other sales promotion techniques might mislead a customer.

vii. Consumer surplus

As seen in fig. 4.6 below, consumer surplus is the discrepancy between what customers are willing to pay and what they pay for a good or service. The quantity of the commodity that consumers want to purchase at each price as

well as the consumer surplus on each unit of the commodity are displayed by the demand curve. Consumers are willing to pay more than P_1 for each unit of the goods. However, the shaded portion of the triangle (P_1RP_2) shows consumer surplus because the consumers pay OP_1 for each of the OQ_1 units. Using this example, the overall consumer surplus can be calculated as follows:

$$\begin{aligned} \text{a. Consumer surplus} &= \text{Area of } P_1RP_2 \\ &= \frac{1}{2}(\text{base} \times \text{height}) \\ &= \frac{1}{2}(OQ_1)(OP_2 - OP_1) \end{aligned}$$

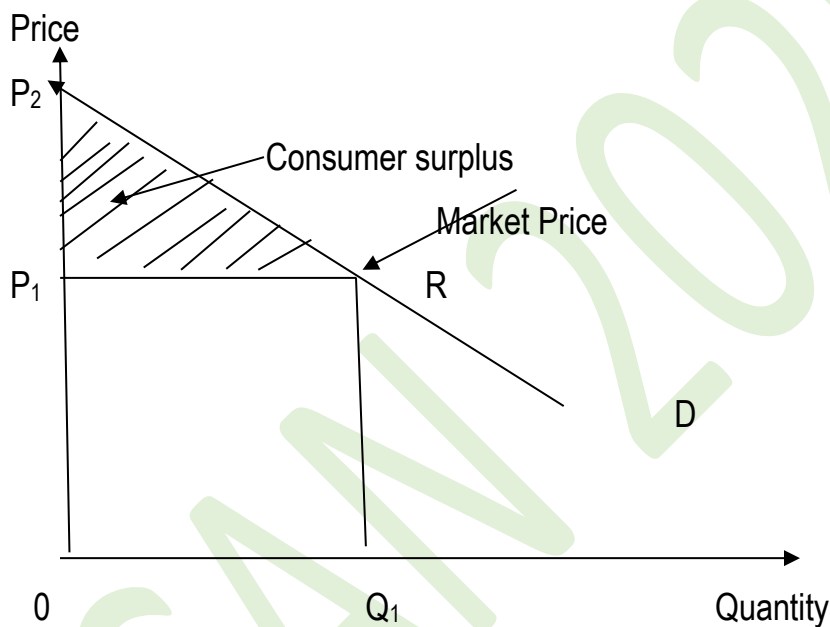


Figure 4.6 illustrates consumer surplus.

Note that the height is obtained as the difference between the highest price possible (OP_2) and the market price (OP_1).

b. Concept of supply

Businesses, producers, and sellers, decide how much inventory to put into the market. They base their choices on several predetermined aims or objectives, the most important of which is maximising profits.

c. Definition of supply

When all other supply criteria, excluding the commodity's price, are the same, supply is the greatest amount of a commodity that businesses will offer for sale at a specific market price during a particular time frame. To put it simply, it is a set of prices and quantities that a company would offer for sale at a

specific moment in time, assuming that all other supply parameters stay the same.

d. Law of supply

According to this law, if the price of a good or service increases, suppliers will voluntarily increase the quantity supplied; if the price decreases, they will voluntarily decrease the quantity supplied, all other things being equal. Producers are encouraged to boost output when prices are higher, and vice versa.

Determinants of supply

The main determinants of the market supply of a commodity or service are:

a. Commodity's own price

A commodity's supply will increase in proportion to its price, since, *ceteris paribus*, it is more lucrative to produce it at higher prices.

i. Prices of other products/outputs

ii. **Competitive supply products:** Businesses are not always dedicated to producing a certain product. The goal of businesses is to maximise profits, thus if the prices of other products rise, they may decide to produce these instead. For instance, breweries would transition from producing beer to bottling soft drinks, if the price of these beverages increased significantly. It is argued that there is a competitive supply of such products. They might be made using the same resources.

iii. **Joint-supply products:** These are items that are consistently produced together. One is thought of as the result of the other. Beef and hide are two examples. When the price of beef, for example, rises, more beef is sold to the market, which in turn increases the supply of hides, which are used to make leather goods.

b. Prices of inputs: These are the costs that businesses incur to acquire inputs or elements of production. Businesses pay interest for borrowing capital, rent for using land, and wages and salaries for employing workers. Supply declines as a result of rising manufacturing costs brought about by rising input

prices. Production expenses are reduced, and supply is increased as input prices decline.

- c. **Technology:** The type and amount of inputs required to generate a specific quantity of a product depend on the technology a company utilises to make its goods. A company may produce a unit of a good at the lowest cost when it uses the most efficient technology available (economic efficiency). Technological progress or improvement is the creation of new methods for producing a good with less input than was previously feasible (technical efficiency). Additionally, new items that are less expensive to produce than the ones they replace are created as a result of technological innovation. As a result, technological advancements reduce production costs, which raises profits and, consequently, supply.
- d. **Government fiscal policy (taxes and subsidies):** Subsidies lower the cost of delivering a product, which leads to an increase in supply, whereas taxes raise the cost of supplying a product and anything that raises the cost of supplying a product ultimately results in a drop in supply.
- e. **Weather and other natural phenomena:**
Weather variations have an impact on the availability of several commodities, particularly agricultural goods. While unfavourable weather conditions like drought will result in a decrease in the supply of agricultural products, favourable weather conditions like adequate rainfall will increase the supply of agricultural products. The supply of agricultural products is also impacted by other natural occurrences, like pests, bushfires, floods, and so forth. Other natural phenomena, such as floods, bush fires, pests and so on, also affect the supply of agricultural products.
- f. **Population of suppliers or firms**
If an industry is not a monopoly, firms that are making supernormal profits may attract new businesses into the market, thereby increasing the supply of the product.
Conversely, a decline in supply may result from more businesses leaving an industry.

- a. **Types of supply**
Joint supply

When the supply of one product is linked to the supply of other products, this is known as joint supply. The primary product is considered to be the source of the other items. Examples include, palm kernel and oil, beef and hide (leather) etc.

Competitive Supply

This includes the provision of goods and services that are most easily created with the resources available to the company.

b. Exception to the Law of Supply

Typically, this is discussed in relation to the labour market, where any increase in the wage rate above a certain level would result in a decrease in the supply of man/hour of labour services, creating a backward-bending supply curve as illustrated in Figure 4.7.

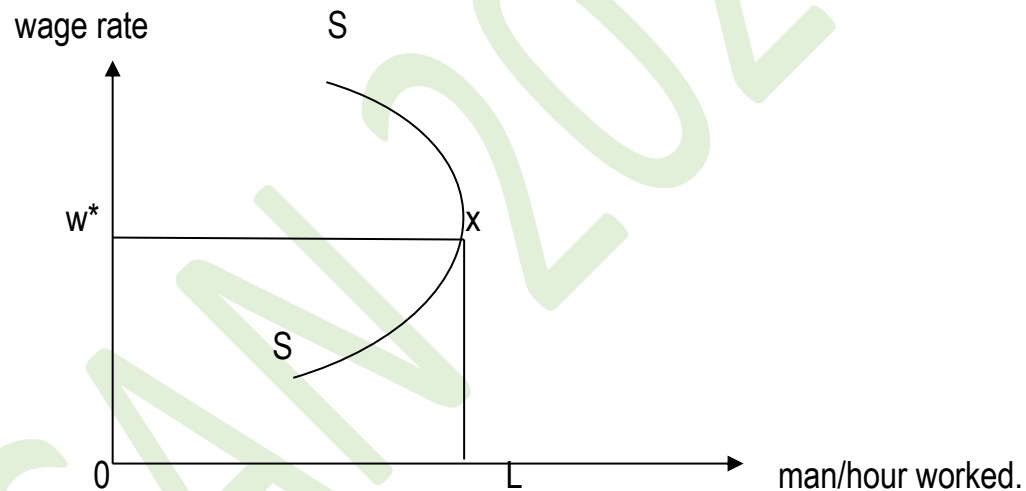


Figure 4.7: Backward-bending supply curve

Any additional salary rise above W^* will result in the worker reducing his man/hour of labour in favor of more leisure hours, as shown in Figure 4.9 above. As a result, the rule of supply is broken by the top portion of the supply curve, designated S,X, which shows a negative correlation between the number of labour services supplied (man/hour) and the pay rate (the price of labour).

c. Distinction between movement along the supply curve and shift of the supply curve

As shown in Figure 4.8 below, a change in a commodity's supply price will result in a change in the amount of that commodity supplied, causing a shift along the supply curve, all other things being equal.

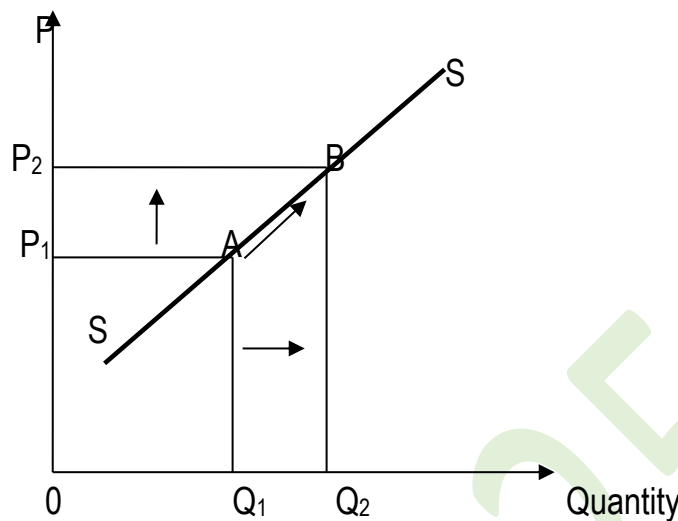


Figure 4.8(a): Upward movement along the supply curve

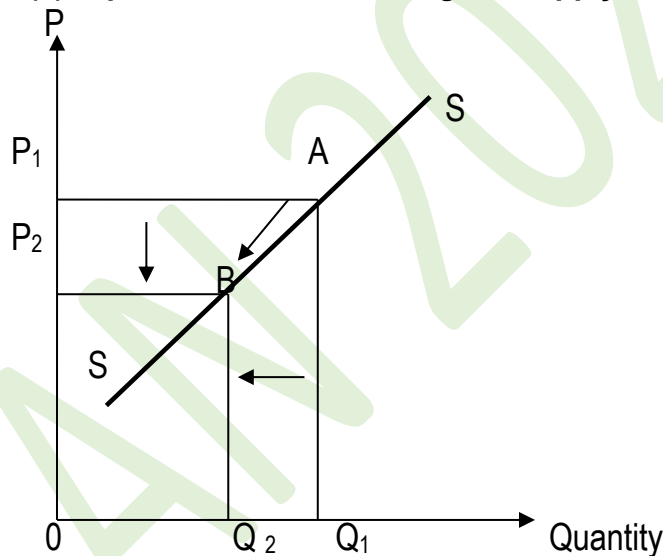


Figure 4.8(b): Downward movement along the supply curve

In Figure 4.8(a), an increase in the commodity's own price from OP_1 to OP_2 causes the supply of the commodity to increase from OQ_1 to OQ_2 , moving the supply curve from point A to point B. Similarly, if the commodity price drops from OP_1 to OP_2 , the supply will drop from OQ_1 to OQ_2 , and the supply curve will shift downward from point A to point B, as shown in Fig. 4.8(b). In summary, a shift in the price of the commodity will result in a shift in the amount supplied, indicating a shift along the associated commodity's supply curve.

However, when the factors influencing supply other than the price of the item itself change, the supply curve changes. These factors include government subsidies, technological advancements, and a decline in the price of materials or factors,

which cause the supply curve to move to the right and down (S_1S_1). Conversely, these factors will cause the supply curve to move to the left (S_2S_2) in Fig. 4.9.

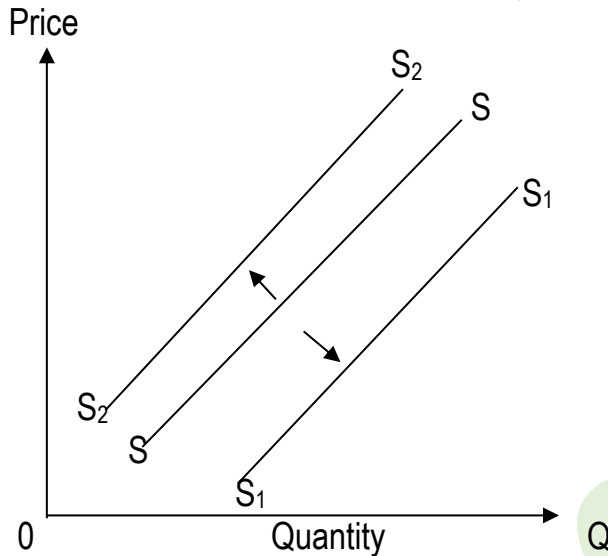


Fig 4.9: shifts in the supply curve

4.3.2 Application of demand and supply

i. Demand schedule

It is a table presenting a list of possible prices of an item and the associated quantities that would be purchased at a certain time period, when all other demand parameters remain constant. In other words, the demand schedule for an individual indicates the units of an item or service that the individual is willing and able to purchase at alternative prices throughout a specific period of time. The quantity of an item or service that every consumer in the market is willing and able to buy is specified by a market demand schedule. The market demand schedule is the total of the quantities that people in a market area want at different prices, reflecting their collective desires.

For example, Table 4.2 shows the Demand Schedule for a commodity called Yam flour which is sold in bags. Column 2 Table 4.2 shows a set of prices for Yam flour and column 2 shows the quantities of Yam flour that consumers are willing and able to buy at each price.

Note: As the price of Yam flourishes from ₦1,000 through to ₦6,000, quantity demand declines from 100 units to 0 units depicting the law of demand.

Table 4.2: Demand schedule for Yam flour

Price (₦'000)	Quantity Demanded (bags)
1	100

2	80
3	60
4	40
5	20
6	0

ii. The demand curve/graph

A demand curve is produced by graphing the demand schedule. The demand curve is a graph (or locus of points) that illustrates the different amounts of a commodity that will be purchased at specific prices over a particular period of time, assuming that all other demand determinants stay the same. For a typical commodity, the slope of the demand curve is negative. In other words, it slopes downhill from left to right, representing the law of demand, which asserts that, as seen in Fig. 2, the quantity of a commodity requested decreases as its price increases.



Fig 4.10: The demand curve for a normal good.

Plotting the demand curve (DD) in Figure 4.10 shows the quantity demanded on the horizontal axis and the price on the vertical axis. The demand schedule in Table 4.2 is used to generate and plot the demand curve (DD).

iii. The demand function/equation

When all other demand parameters are the same, we define demand as the amount of goods or services that customers are willing and able to purchase at a specific price within a given time frame. It is anticipated that other demand-influencing elements including consumer income (Y), associated product and service prices (PR), consumer preference and taste (T), and advertising (A) will not alter. As a result, the demand function, also known as the demand equation, is a mathematical

statement that links the quantity of goods and services that are demanded to all demand criteria, including the product's price.

Mathematically, the demand function for a commodity/service is generally stated as follows:

$$Q_x = f(P_x, P_r, Y, T, A)$$

where Q_x = quantity demanded of X;

P_x = the own price of X;

P_r = Prices of related commodities or services;

T = consumers' taste;

Y = consumers' income;

A = advertisement expenditure on goods and services

"Quantity demanded is a function of (or depends on) the commodity's own price, consumer income, prices of other related commodities, consumer taste, and advertising expenditure," is how this function or equation is expressed. The mathematical notation " $f(\dots)$ " can be interpreted as "function of" and indicates the elements that influence the quantity of an item that is demanded. The general demand function decreases to the following when the commodity's price and all other demand parameters are held constant:

$$Q_x = f(P_x)$$

Illustration

The demand function for Yam flour is given as:

$$Q_d = 140 - 0.02P,$$

where P is the price and Q_d is the quantity demanded of the product.

Find the quantity that will be consumed when the price is:

(a) ₦1,000

(b) ₦1,500

Suggested solution

Given the demand function:

$$Q_d = 140 - 0.02P$$

(a) If the price is ₦1,000, the quantity demanded will be:

$$Q_d = 140 - 0.02(1,000) = 140 - 20 = 120$$

that is, consumers will buy 120 bags of Yam flour if the price is fixed at ₦1,000.

- (b) If the price is ₦1,500, the quantity demanded will be:

$$Q_d = 140 - 0.02 (1,500) = 140 - 30 = 110$$

that is, consumers will buy 110 bags of Yam flour if the price is fixed at ₦1,500

iv. Individual Demand and Market Demand

The "market demand" for a commodity is what we mean when we talk about its demand. We can also discuss individual demands because people use the item.

- a. **Individual demand** is the amount that an individual consumer would buy of a good at a specific range of prices, assuming that all other demand-influencing factors stay the same, which is known as individual demand. When people purchase a commodity at a specific set of prices, the prices and quantities that each customer purchases reflect their demand.
- b. **Market demand:** On the other hand, the total amounts that each consumer would buy of a commodity at a specific set of prices, assuming all other variables stay the same, is known as market demand. The desire for the commodity as a whole from all consumers is reflected in market demand. The horizontal total of each individual demand for an item is known as the market demand.

Illustration:

Let us assume that there are only two consumers, John and Rose, for Yam flour with demand schedules as follows:

Price (₦)	Jane's Quantity Demanded (QJ)	Ruth's Quantity Demanded (QR)	Market Quantity Demanded $Q = (QJ) + (QR)$
300	90	50	140
400	80	40	120
500	40	30	70
600	30	25	55

700	20	22	42
800	15	17	32
900	0	0	0

Table 4.3: Individual and Market Demands for Yam flour

Table 4.3 shows Jane's demand for Yam flour when we take into account the pricing (N300 to N900) and how much she will consume at each price (60 to 0 bags of Yam flour) if everything else stays the same. In a similar vein, Ruth's desire for Yam flour is determined by the same set of pricing and the matching set of purchases (which range from 50 to 0 bags). As shown in the final column of Table 4.3, the market demand for Yam flour is calculated by adding together all of the individual purchases made at the specified price in a horizontal fashion. The set of prices and quantities that the market will require will be known as the market demand schedule.

v. Individual supply and market supply

The amount of a product that an individual/company is willing to sell at a specific price and time, assuming all other supply factors stay the same, is known as the individual supply. The entire amount of a product that all businesses in an industry are willing to sell at a specific market price and over a specific time period, when all other supply elements stay the same, is known as the market supply. This might be demonstrated using the supply schedule assuming that there are just two companies that create the Yam flour. Both FINE Ltd. and NICE Ltd. Individual and market supplies are displayed in Table 4.4. The individual supply of NICE Ltd. is represented by the set of prices (column 1) and the set of quantities that NICE Ltd. will supply (column 2). Likewise, FINE Ltd's individual supply is made up of the set of prices (column 1) and the set of quantities supplied (column 3). The horizontal total of NICE Ltd.'s and FINE Ltd.'s separate supplies is Yam flour's market supply. That is, it is the set of quantities given by both producers (column 4) and the set of market prices (column 1).

Table 4.4: Individual supplies and market supply schedules of yam flour

Price ₦ (1)	Quantities Supplied (in bags)		
	NICE Ltd (2)	FINE Ltd (3)	Market (4)
300	0	0	0
400	5	5	10
500	10	8	18
600	12	10	22
700	15	12	27
800	17	15	32
900	20	35	55

vi. Supply curve

When all other variables are held constant, the relationship between the amount provided of a commodity and the market price is depicted by a graph, or more precisely, a locus of points. Businesses are more ready to supply at higher prices than at lower ones, as indicated by the normal supply curve's positive slope or upward slope from left to right. The information in the supply schedule is represented graphically by the supply curve, which is created by charting prices against corresponding quantities delivered. The Yam flour supply schedule in Table 4.4 is the source of the supply curve, or SS, in Figure

4.11.

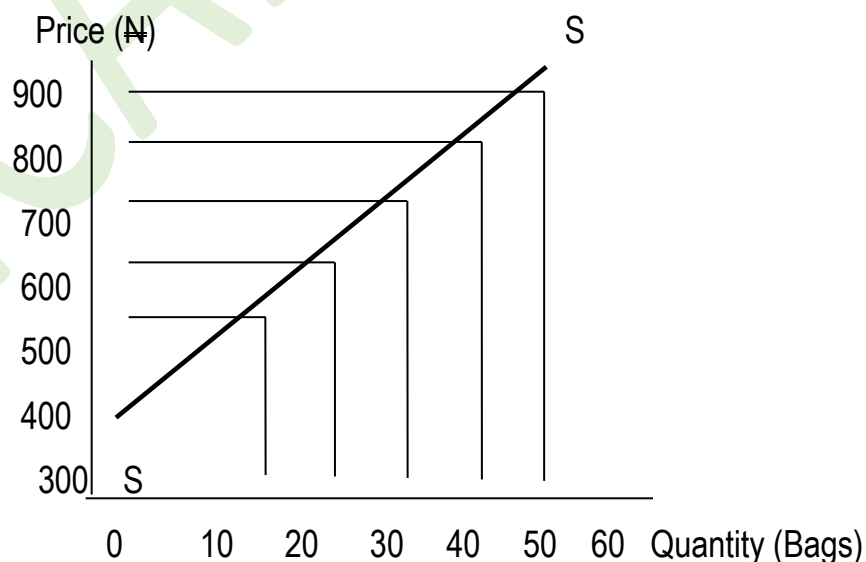


Figure 4.11: The supply curve for yam flour

4.3.3 Market determination of equilibrium price and quantity

The market mechanism determines the market price and quantity in a competitive market. The method by which supply and demand interact to set a market price and decide how much of a product is traded in a market is known as the market mechanism.

Table 4.5: The demand and supply schedules of yam flour

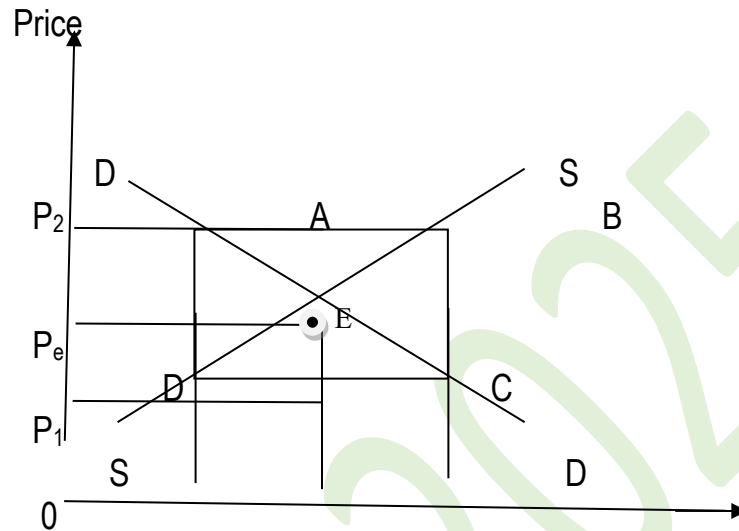
Price (₦)	Quantity Demanded (Bags)	Quantity Supplied (Bags)	Excess (Bags)	Type of Excess
300	140	0	+140	Excess Demand
400	120	10	+110	Excess Demand
500	70	18	+52	Excess Demand
600	55	22	+33	Excess Demand
700	42	27	+15	Excess Demand
800	32	32	0	Equilibrium
900	0	55	-55	Excess Supply

The Yam flour supply and demand schedules are displayed in Table 4.5. At prices between ₦300 and ₦700, the quantity sought is greater than the quantity supplied. Customers wish to consume 140 bags at a price of ₦300, but manufacturers are unwilling to offer the product, thus there is either an excess of demand or a shortfall of 140 bags. Customers want to buy 55 bags for ₦600, but producers are only willing to offer 22 bags, so there is either too much demand for 33 bags or not enough. None of them can last, since the market price of Yam flour would rise because of the excessive demand.

At prices above ₦700, the quantity given surpasses the quantity required. For example, when Yam flour costs ₦600, buyers want to purchase only 55 bags, but producers are willing to sell 22 bags, so there is a surplus of 33 bags. The market price of ₦900 cannot hold since there will be too much supply, which will drive down the price.

The amount of Yam flour that customers are willing to buy for ₦800 is the same as the amount that producers are willing to sell in 32 bags. The 32 bags of Yam flour are the equilibrium quantity, and this price is known as the market-clearing or equilibrium price in economics. The price of a good at which the quantity provided and the amount demanded are equal is known as the equilibrium price. The market is cleared and free of unhappy buyers or sellers (excesses) when the price is set.

Equilibrium is represented graphically as the point where the supply and demand curves intersect. Any price that is higher than the equilibrium price will lead to surplus or excess supply, which will lower the market price. However, any price below the price at which the market is in equilibrium will lead to either scarcity or excess demand, which will raise the market price (see Fig 4.12).



a. Shifts in demand and supply

Partial equilibrium analysis is the process by which, under all other circumstances, a shift to the right or left in the demand curve with the supply being the same will impact the equilibrium price and quantity.

b. Shifts of the demand curve and effects on equilibrium price and quantity

What is known as partial equilibrium analysis occurs when, under normal circumstances, the demand curve shifts to the right or left but the supply stays the same, influencing the equilibrium price and quantity.

c. Rightward shift of the demand curve

As shown in Fig. 4.13, when supply conditions (SS) stay the same, a shift of the demand curve (DD) to the right (D_1D_1) will result in an increase in the equilibrium price and quantity.

Q_1 Q_e Q_2 Quantity

Figure 4.12: Equilibrium price and quantity

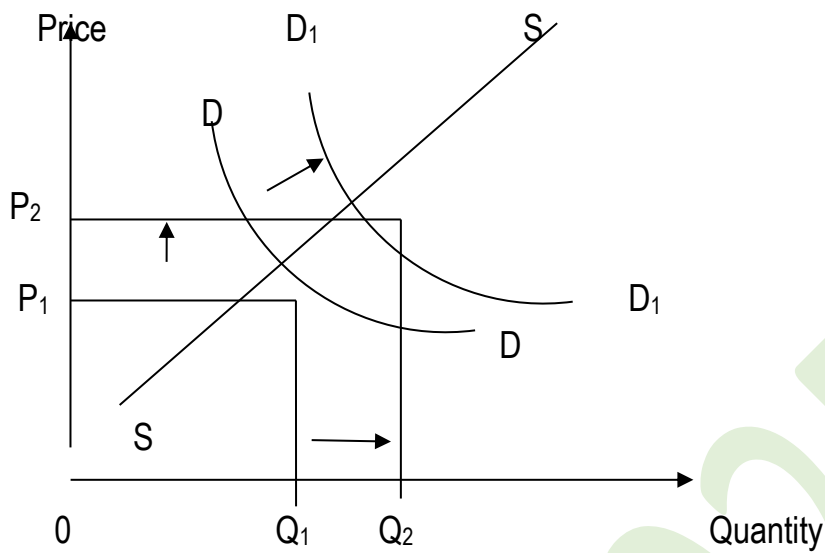


Fig 4.13: Rightward shift of the demand curve

d. Left shift of demand curve

As shown in Figure 4.14 below, a leftward shift of the demand curve (DD) to the left (D_2D_2), together with unchanged supply conditions (SS), will result in a decline in price and the equilibrium quantity

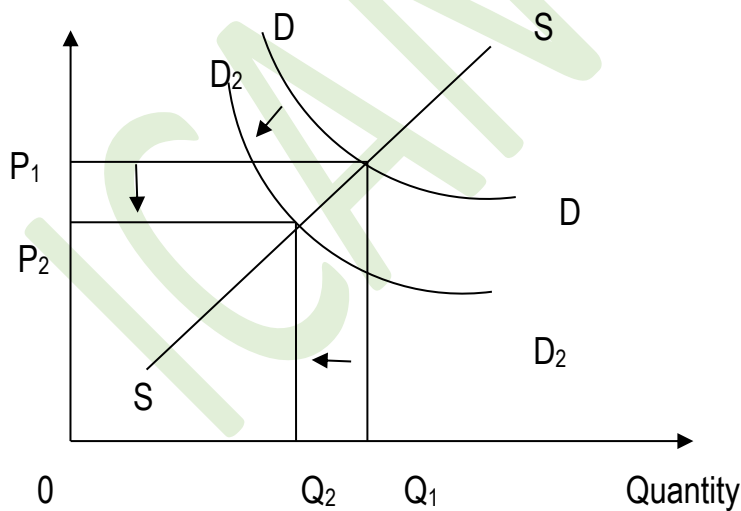


Figure 4.14: Leftward shift of the demand curve

Shift of the supply curve and effects on equilibrium price and quantity

As seen below, if everything stays the same, a shift to the left or right in the supply curve with no change in demand will have an impact on the equilibrium price and quantity.

Rightward shift of the supply curve

Figure 4.15 illustrates that if the demand curve remains constant (DD), a shift to the right of the supply curve (S1S1) will cause the equilibrium quantity (OQ2 from OQ1) to grow and the equilibrium market price to decrease from OP1 to OP2.

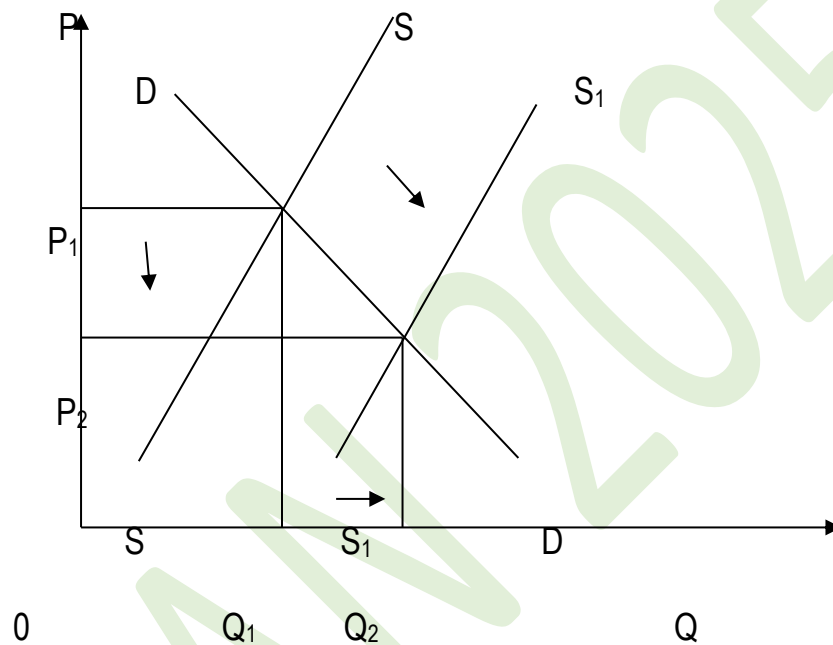


Figure 4.15: Rightward shift of the supply curve

e. Leftward shift of the supply curve

However, as shown in Figure 4.16, if demand stays constant (DD) and the supply curve moves to the left (from SS to S2S2), the equilibrium quantity will fall (from OQ₁ to OQ₂) and the equilibrium price will rise (from OP₁ to OP₂).

f. Producer surplus

It is the difference between what the producers are willing to receive and what they receive on every unit of the commodity sold.

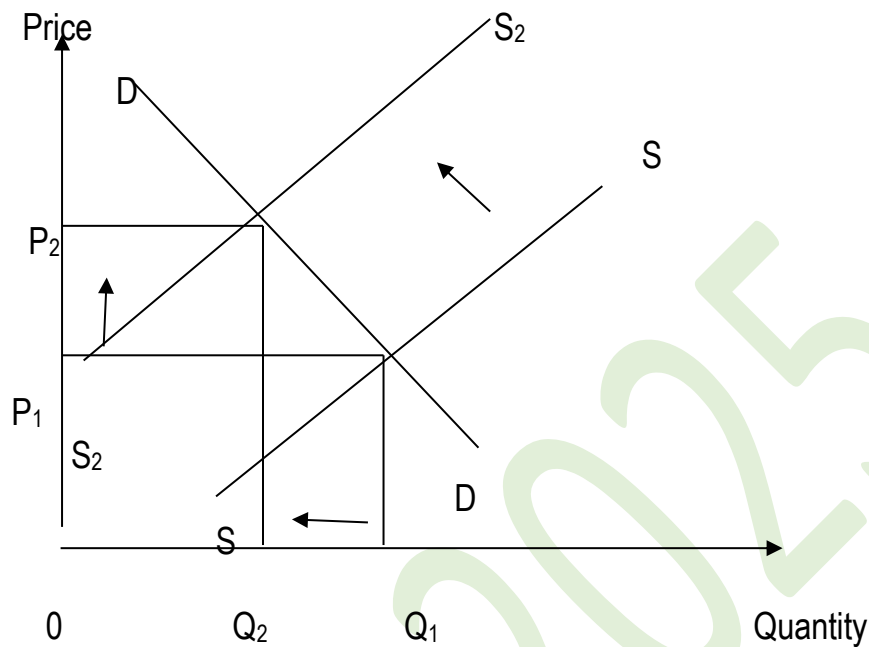


Figure 4.16: Leftward shift of the supply curve

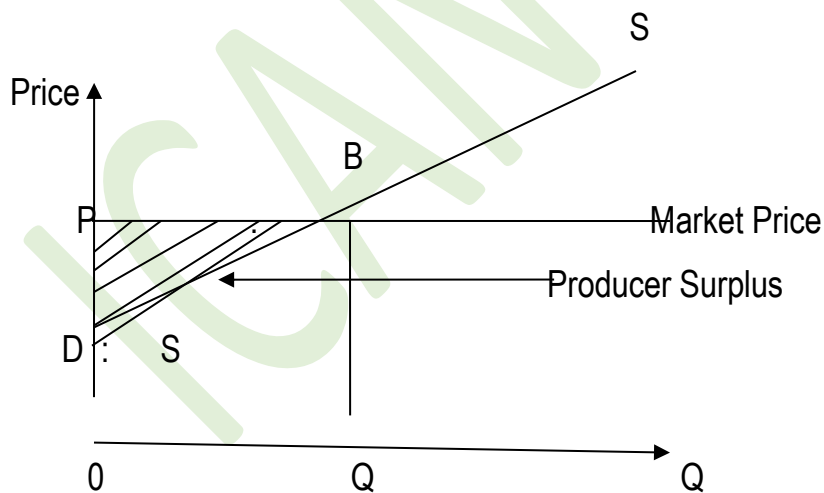


Fig 4.17 Producer surplus

The surplus of producers is seen in Figure 4.17. In reality, the producer pays the market price of OP for each unit of the commodity. On the other hand, the supply curve indicates that suppliers are willing to accept lower prices than

OP* for each unit below OQ. Therefore, the area of the shaded triangle DBP* represents the producer surplus.

g. **Applications of demand-supply**

h. **Price control**

In a competitive market, some commodity prices may be unfairly high for buyers or unfairly cheap for sellers, when supply and demand are permitted to determine market pricing. In certain situations, the government may try to use legislation to control or restrict prices. Markets cannot reach equilibrium when price regulations, such as a minimum price (price floor) or a maximum price (price ceiling), are in place.

i. **Maximum price control (price ceiling)**

A maximum price, sometimes known as a price ceiling, is the legal amount beyond which a seller is not allowed to charge for a product above the equilibrium market price. When a commodity's equilibrium market price is determined to be unreasonably high, it is designed to protect consumers. Typically, maximum pricing is imposed for necessities like prescription medications or services like renting a home. Setting a maximum price for a good causes the amount supplied to fall while the quantity desired rises, creating a permanent scarcity or excess demand for the good.

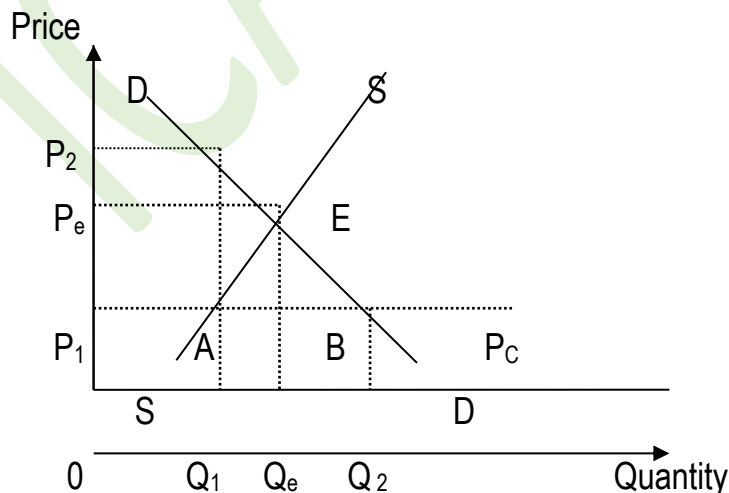


Figure 4.18: Leftward shift of the supply curve

From Figure 4.18, the equilibrium market price is OP_e , while the maximum price is fixed at OP_1 , below the equilibrium price. Because this price ceiling is not a market clearing price, the quantity demanded will increase from OQ_e to OQ_2 , while the quantity supplied will decrease from OQ_e to OQ_1 . The resulting shortage is $OQ_2 - OQ_1$ or AB . This reaffirms the assertion that whenever a price ceiling is set for a good, it results in a persistent shortage of the good.

The persistent shortage created by the price ceiling will in turn pose the following problems:

- j. **Rationing**
It might be necessary for the government to divide the amount of OQ_1 among consumers who wish to consume more OQ_2 . This could be accomplished by issuing coupons that need to be turned in with cash in order to receive the item.
 - k. **Queuing**
Whenever the good is available; people will form long queues for it. The queues may be physical lines of people outside suppliers' shops, typically in the case of essential commodities like drugs, bread, milk, etc., or long waiting lists in the case of consumer durables, such as cars, television sets, government flats/houses, etc.
 - l. **Black (parallel) markets**
There will be the emergence of black or parallel markets where the product would be sold illegally. The price at which a good is sold in an illegal market is typically higher than the equilibrium price.
 - m. **Selling at sellers' preferences**
First-come, first-served, selling to friends and family first, and other strategies are some of the options available to sellers.
 - n. **Random allocation**
This is a chance or luck sale. The goal of fixing the maximum price to guarantee that both the rich and the poor receive the good may be defeated by this. Both the rich and the needy may benefit from the sale.
- a. **Minimum price control (price floor)**
- A legal price that is established above the market price at equilibrium is known as a minimum price or price floor. The goods can be purchased at the minimum price or above it, but not below it. When the equilibrium market price

for a product is determined to be unjustly low, it is designed to safeguard producers' earnings. Typically, minimum prices are established for agricultural goods in order to safeguard farmers' profits. There is an excess supply or surplus of the good when a minimal price is set, since it decreases the quantity requested while increasing the quantity supplied.

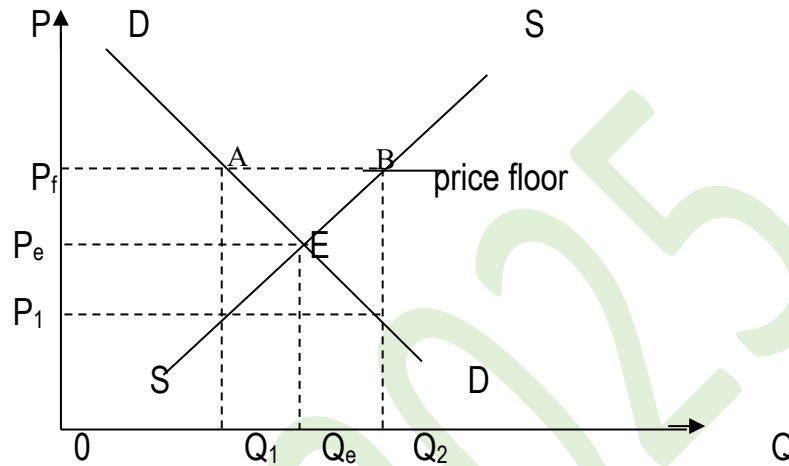


Fig 4.19: Price floor effect

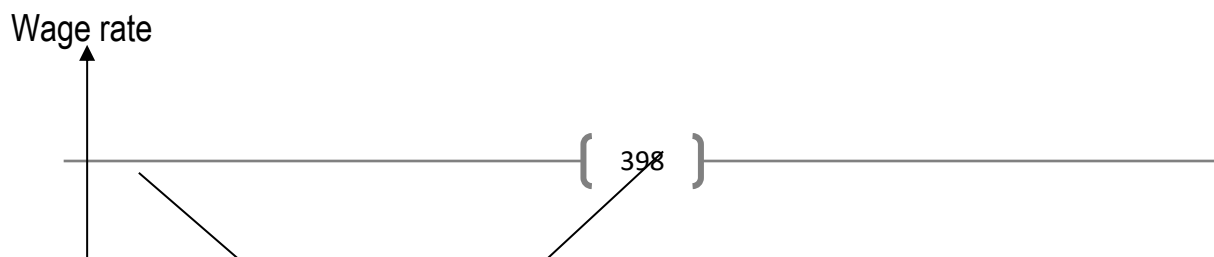
From Figure 4.19 the equilibrium market price is OP_e which may be unfairly low; necessitating the setting of a price floor of OP_f by the government. Because the price floor is higher than the equilibrium price, the quantity provided will grow from OQ_e to OQ_2 , while the amount sought will fall from OQ_e to OQ_1 . This will create a surplus of $OQ_2 - OQ_1$ or AB of the good. Therefore, whenever a price floor is set, it creates a continuous surplus of the good.

b. Minimum wage legislation

The government sets the minimum pay rate for the lowest-paid worker in society as part of the minimum wage legislation. The government uses such laws in every modern culture to guarantee that the lowest-paid workers have access to the essentials of life.

The common procedure in the implementation of the legislation is for the government to

fix the minimum wage above the equilibrium pay rate as explained in Figure 4.20



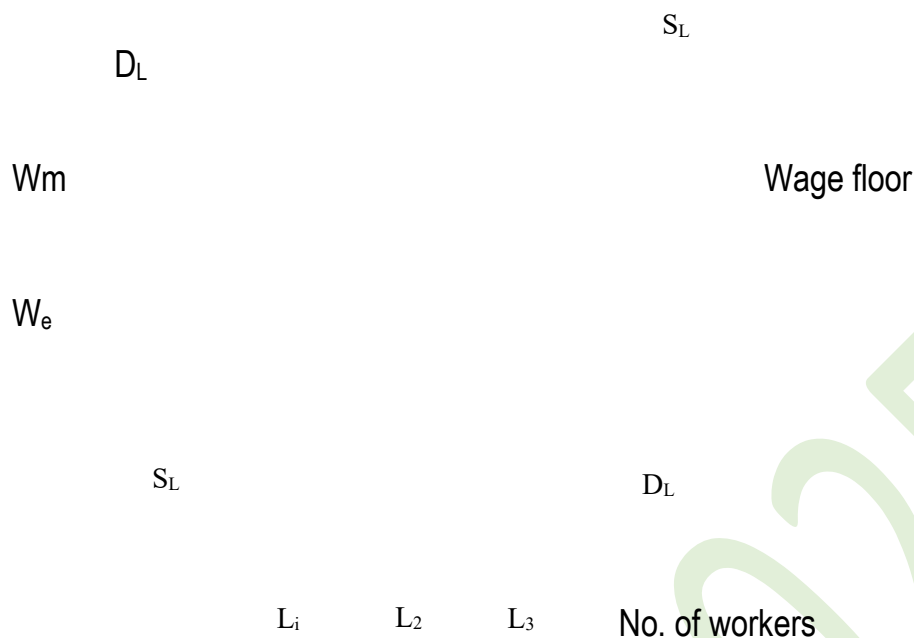


Figure 4.20: Minimum wage legislation

The supply and demand for labour services are represented by S_L and D_L , respectively. Without government intervention, the wage rate will settle at W_e while L_e number of workers will be employed.

However, if the government fixes the minimum wage at W_m above the equilibrium, the likely consequences are listed below:

- there is an excess supply of labour because there are more persons willing to work at the legally mandated wage rate W_m , than the labour market can and will absorb ($L_3 - L_1$);
- the problem of unemployment will worsen, precisely; $L_e - L_2$ amount of individuals will lose their job;
- in order to avoid laying off some employees, there is a chance that a labour union will make a covert agreement with their employers to earn pay that is lower than the legally required minimum wage; and
- as long as the cost of products and services stays constant in the economy, employees who are kept on by their employers will earn more money and have better living standards.

The explanations above make it clear that sufficient employment possibilities, particularly, in the public sector of the economy, are necessary for the minimum wage legislation to accomplish its goals.

4.4 Costs, revenue and productivity

4.4.1 Costs

Economists usually classify the costs involved in the production process into two: explicit and implicit costs.

Explicit costs: Are the costs incurred by a company when it hires or buys factors of production for a production process. These include interest on loans, labour pay and salaries, and land or company space rent.

Implicit costs: These are expenses that the company does not have to pay out of pocket. The estimated monetary value of the owner's resources utilised during the production process is known as the implicit cost. Implicit costs include the wages an entrepreneur forgoes for his labour services, the rent he forgoes for using his home for company purposes, and the hire fee he forgoes for using his automobile for business-related commuting. Economists believe that the total cost of production is the sum of the explicit and implicit costs. However, the explicit costs merely represent the overall cost of manufacturing to accountants, who are interested in the outflow and inflow of funds.

From the foregoing discussions, the economic cost and the accounting cost can be expressed as:

Economic Cost = Explicit Costs + Implicit Costs

Accounting Cost = Explicit Costs

a. Short-run cost concepts

It has been explained that the short-run period in manufacturing occurs when certain inputs are changeable and others are fixed. The company will pay variable costs for the variable inputs and fixed costs for the fixed variables.

i. **Total fixed cost (TFC)**

The cost of fixed factor inputs is known as the total fixed cost. In the short term, total fixed costs tend to remain constant, because the amount of fixed factors used does not alter with output. Even if there is no output, the company still has to pay for fixed costs. As a result, fixed costs are frequently called overhead or inescapable costs. Rent for the space, loan interest, hire purchase instalments, etc. are a few examples of fixed costs.

ii. **Average fixed cost (AFC)**

Average fixed cost (AFC) is calculated by dividing Total Fixed Cost (TFC) by the quantity of product produced (Q).

$$AFC = \frac{TFC}{Q}$$

iii. Total variable cost (TVC)

TVC is the total amount spent on short-term variable factors employed in production. The total explicit and hidden costs of variable inputs can alternatively be regarded as this. The overall variable cost varies whenever output is changed since the amount of output is determined by the degree of variable factors employed in the short term. Variable costs are not incurred when the company produces nothing. As a result, they are occasionally called unnecessary costs. They may include pay of operating staff, cost of fuel, cost of raw materials, etc.

iv. Average variable cost

Average variable cost (AVC) is the variable cost per unit of output produced. It is expressed as TVC divided by the quantity of output produced (Q).

$$AVC = \frac{TVC}{Q}$$

v. Total cost (TC)

The sum of all fixed and variable costs is the total cost. Therefore, $TVC = 0$ and $TC = TFC$ if output is zero in the short term. This is due to TFC's continual short-term behavior.

$$TC = TFC + TVC$$

vi. Average total cost (ATC): This is the total cost per unit of output produced. It is TC divided by the quantity of output produced (Q). Thus:

$$ATC = \frac{TC}{Q}$$

ATC may also be expressed as the sum of AFC and AVC. Thus,

$$TC = TFC + TVC$$

$$ATC = \frac{TC}{Q} = \frac{TFC}{Q} + \frac{TVC}{Q} = AFC + AVC$$

Please, note that if $AVC = 0$, ATC will be AFC only.

vii. Marginal cost (MC)

A unit change in production results in a change in total cost (TC), which is known as marginal cost (MC). It is commonly understood to be the increase in TC brought about by the production of one more unit of output. It is quantified as:

$$MC = \frac{\Delta TC}{\Delta Q}$$

Where ΔQ denotes a change in output quantity (New Q minus Old Q) and ΔTC denotes a change in total cost (New TC minus Old TC). The TC of a specific output level is determined by adding the MCs up to that output level. Consequently,

$$TC = \sum MC$$

A hypothetical short-run cost schedule is shown in Table 4.6. The amounts of output produced (Q) are shown in Column 1. TFC, which is constant, is in Column 2. At every output level, it is ₦600. The TVC in Column 3 rises from ₦0 to ₦3,000. As output rises from 0 to 10 units, Column 4 shows that TC (TFC + TVC) likewise rises from ₦600 to ₦3,600, but AFC falls from ₦600 to ₦60. AVC, ATC, and MC are displayed in columns 6, 7, and 8, respectively. Before rising once more, each of these three curves first falls to a minimum. MC, for example, first increased from ₦200 (when output is one unit) to ₦600 (when output is 3 units), reduced to ₦200 before increasing once more to ₦600 at an output level of ten units.

Schedule of Short-run Costs

Table 4.6: Short-run Costs Schedule

1	2	3	4	5	6	7	8

Output (Q)	TFC (₦)	TVC (₦)	TC (₦)	AFC (₦)	AVC (₦)	ATC (₦)	MC (₦)
0	600	0	600	-	-	-	-
1	600	400	1,000	600.00	400.00	1000.00	200
2	600	800	1,200	300.00	400.00	600.00	200
3	600	1200	1800	200.00	400.00	600.00	600
4	600	1400	2,000	150.00	350.00	500.00	200
5.	600	1,600	2,200	120.00	320.00	440.00	200
6.	600	1,800	2,400	100.00	300.00	400.00	200
7.	600	2000	2,600	85.71	285.71	371.42	200
8.	600	2,200	2,800	75.00	275.00	350.00	200
9	600	2,400	3,000	66.67	266.67	266.67	200
10	600	3,000	3,600	60.00	300.00	300.00	600

viii. Graphical depiction of costs

short- run costs: *TFC, TVC and TC Curves*

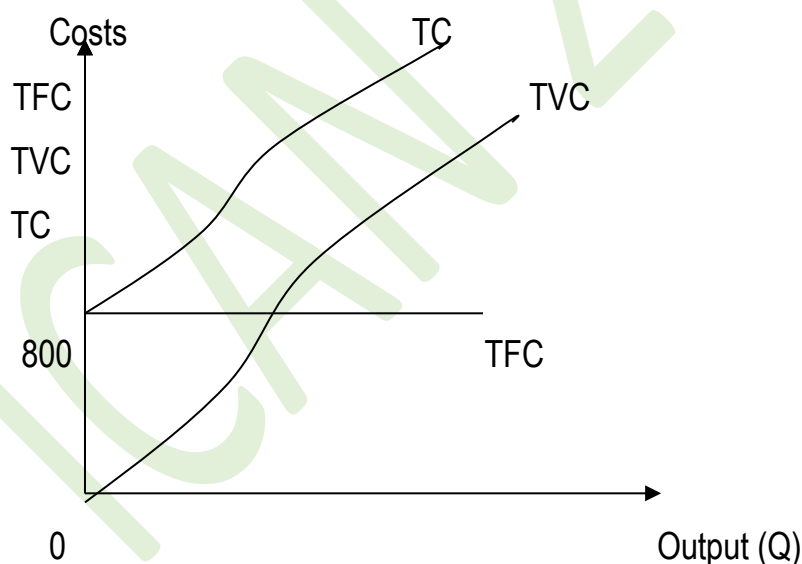


Figure 4.21: TFC, TVC and TC Curves

Total product or output (Q) is plotted on the horizontal axis in Figure 4.21 next to total fixed cost (TFC), total variable cost (TVC), and total cost (TC) on the vertical axis. The output axis and the total fixed cost (TFC) curve are parallel and horizontal, respectively. This suggests that TFC is not affected by short-

term variations in output levels. When no production occurs, the total variable cost (TVC) is zero.

As output increases, TVC increases as well. This is because, in the short term, more variable factors must be used for every rise in output. Since total variable costs have an impact on output, total cost (TC) rises with output and is equal to TFC when output is at zero. It should be emphasised that since $TC = TFC + TVC$, TVC is a component of TC and, as such, its behavior with respect to output fluctuations affects TC's behavior.

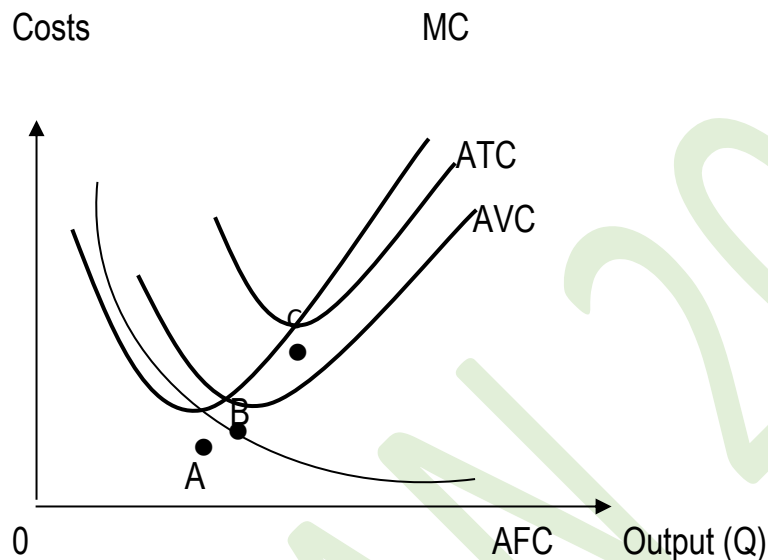


Fig 4.22: AFC, AVC, ATC & MC curves

Figure 4.22 displays the curves of AFC, AVC, ATC and MC.. The AFC curve is a rectangular hyperbola asymptotic to both axes. As seen in Figure 4.22, the AVC, ATC, and MC curves are all "U" shaped. This shape arises from the fact that, initially, increases in Q cause AVC, ATC, and MC to decrease; yet, at a certain point, they rise in tandem with output increases. Due to the law of decreasing returns to variable proportion, the AVC and MC have a "U" shape. AFC can be added to AVC to obtain ATC. ATC must drop for output levels where both AVC and AFC are declining. However, because the AFC declines temporarily more, AVC increases, ATC reaches its minimum after AVC. At their minimum positions (point B for AVC and point C for ATC), the MC curve crosses the AVC and ATC curves from below. Prior to the AVC and ATC curves, the MC curve reaches its minimum. Compared to the ATC curve, the AVC curve reaches its minimum at a lower output level. This is also significant because while the AVC and ATC curves are falling,

the MC curve is below them, and when the MC curve is rising, it is above the AVC and ATC curves.

b. Long-run cost concepts

All production factors are variable in the long run. All costs are therefore variable. Since it serves as guidance for the entrepreneur when he plans to expand his output in the future, the long-run average cost curve is a planning curve. During this time, businesses may decide to alter their scale or capacity in response to the need to lower production costs. Several potential capacities define this era.

i. Derivation of the long-run average cost curve (LAC)

The traditional "U" shaped LAC curve can be derived from the relationship between the Long-run Average Cost Curve (LAC) and the Short-run Average Cost Curve (SAC). Assume that a particular industry's plants can only take on three different sizes due to technological limitations. In other words, the plant's fixed capital equipment is only offered in three sizes: small, medium, and large. Assume once more that, as shown in Figure 4.23, the tiny plant produces SAC1, the medium one produces SAC2, and the giant plant produces SAC3.

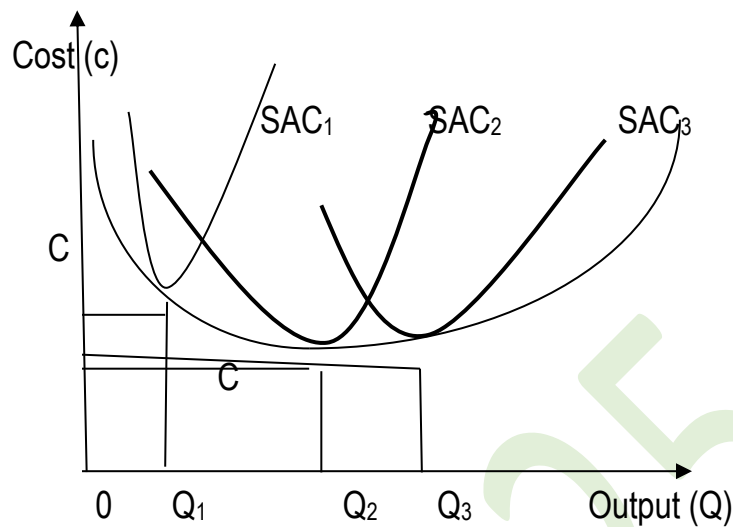


Figure 4.23: Long-Run Average Cost Curve

In the long run, an entrepreneur must choose among the three different plant sizes. The entrepreneur will choose the small size plant (SAC1), if he anticipates that Q_1 will yield the highest profits; if he believes that Q_2 will yield the highest profits, he will choose the medium size plant (SAC2). These decisions are based on the entrepreneur's goal of achieving the intended output level at the lowest cost per unit. It will be more challenging for the entrepreneur to decide if he anticipates that his production will be at either Q_1 or Q_2 . Two plants with distinct SACs might be engaged at each of these locations.

Assume he eventually decides it would be preferable to boost his output from Q_1 to Q_2 . At an average cost of OC_1 per unit, he can accomplish this with his plant (SAC1). In the short-run this is all that he can accomplish but he may plan for the future. He has the option to replace his old plant with a new one when it wears out; in our hypothetical scenario, he will select the medium-sized SAC2 plant. The reason for this is that the cost per unit of manufacturing Q_2 on SAC1 (OC_1) is significantly higher than the cost per unit of producing Q_2 on SAC2 (OC_2), which is significantly lower.

Depending on the expansion of his business or output, an entrepreneur may use SAC1, SAC2, or SAC3 in the near term. However, the producer must eventually construct a plant whose size determines the least average cost for all output levels. The producer uses the highly darkened areas of the SAC curves in figure 6.4 as his long-run average cost curve for planning purposes. The lowest unit cost of creating output levels is shown in this part of the SACs

curve. Figure 4.24 below shows a graph of this curve as a smooth U-shaped curve.

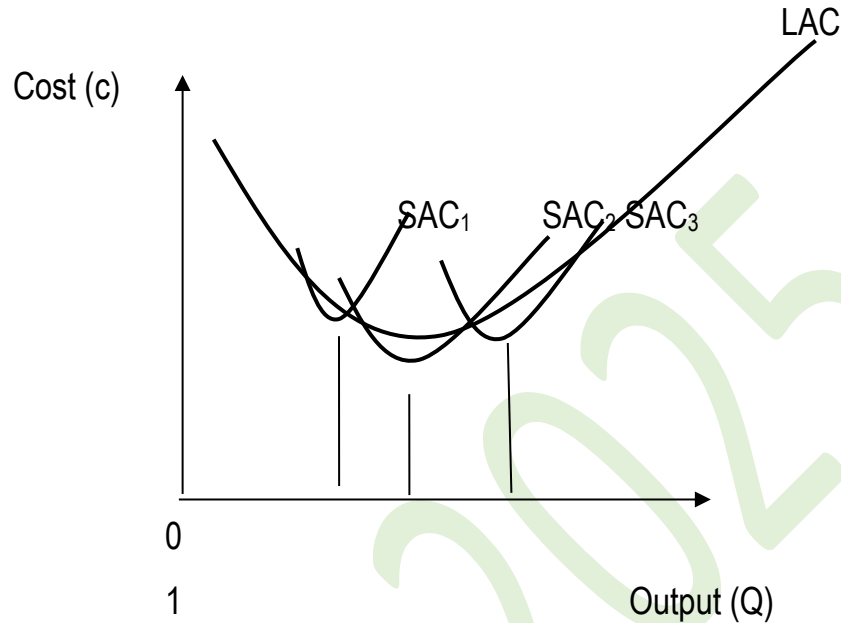


Figure 4.24: The Long-Run Average Cost Curve

The traditional "U" shaped long-run average cost (LAC) curve shown in Figure 4. 24 above is the result of drawing the LAC curve for a firm with an infinite number of plant sizes. Because it is created from the least cost points of the various SAC curves, the LAC curve is commonly referred to as an envelope curve of the SAC curves. Each SAC reflects a different short-term phase of the company, which is why the LAC is so highly appreciated.

ii. Economies and diseconomies of scale

The "advantages" and "disadvantages" of large-scale production are economies of scale and diseconomies of scale, respectively. Benefits that enable the company to produce at a lower cost per unit are referred to as "advantages." This is also referred to as economies of scale. Conversely, "disadvantages" refers to those factors that raise the cost per unit of generating greater output. We call these "diseconomies of scale."

Both internal and external economies and diseconomies of scale can be used to categorise the benefits and drawbacks. Scale economies and diseconomies are long-term occurrences.

iii. **Internal economies of scale**

The advantages or benefits that a business has as it grows in size or scale of operations are known as internal economies of scale. These are regarded as firm-specific, since they may arise from the firm's technical, financial, managerial, marketing, and welfare advantages.

- a) **Technical economies:** These are economies that come from using big machinery, with a focus on production efficiency and full utilisation. First, some equipment are only accessible in specific minimum sizes, and it will not be cost-effective unless the purchase and use of the plant allow for the production of at least these minimum output levels. Secondly, the specialisation of various equipment sets for various functions is made possible by large-scale manufacture. Thirdly, the company can have a backup machine to protect against any kind of equipment failure. Additionally, the advancement of the division of labour is facilitated by the specialisation of machines. The company's gains from this production strategy result in significant economies of scale, which lower the cost of output per unit.
- b) **Marketing economies:** These come from distributing outputs in large quantities and buying inputs in bulk. Larger companies can purchase their raw materials in greater volumes. The company can get discounts because of these large purchases. Additionally, it costs a little more to sell lesser amounts of output because the cost of production per unit sold tends to decrease as sales volume rises. Subsidiary companies may potentially take over distribution. The cost of advertising per unit sold decreases as sales rise. The big company's production costs per unit decrease as a result of these benefits.
- c) **Financial economies:** These are advantages that big businesses get from taking out loans from banks at cheaper interest rates than smaller businesses. In actuality, big businesses can offer collateral assets for these loans, and their size alone lends them creditworthiness in comparison with smaller businesses. Big businesses can readily float shares in the stock market, in addition to borrowing from financial institutions. Large companies' material suppliers occasionally offer them credit. In a way, this pre-finance the business's operations. Because of all these benefits, the cost of output produced is reduced per unit.
- d) **Managerial economies:** There are many managerial economies associated with large-scale production. A larger firm is in the position to employ more highly qualified and specialist managers (such as

production managers, marketing managers, financial managers, etc) to manage the various departments of the firm. Large firms can also mechanise managerial activities by introducing the use of improved devices, such as computers, telephones, fax, e-mail, etc. Opportunities are also made available for the training of young potential career managers for the firm. These economies lead to increased output and lower per unit cost of production.

- e) **Economies of Research and Development:** All things being equal, larger businesses are able to set aside a portion of their income for product development and research.

iv. External economies of scale

These are the advantages or benefits that a company receives when its industry expands. These are financial benefits that a business receives from its location in an area with a high concentration of other businesses or industries. These advantages manifest in:

- a. **Economies of skilled labour:** This means providing educational and training resources in a well-managed industry to enhance workers' skills. This ensures that labour education and training are managed by specialist organisations, rather than being incorporated into industry operations. This is often easier with well-structured ones. These forms of education and training result in labour development economies and generally lower the production costs of the industry.
- b. **Economies of Research and Development:** Initiatives for research and development might be advantageous to companies in well-organised industries. The industry or other groups may carry out this research, and all companies involved in that area may have access to the results. This lowers the cost of the industry's output per unit.
- c. **Economies of common services:** Businesses may benefit from certain shared services as a result of their focus on a particular area. These services include water, power, good roads, special transportation and telecommunications facilities, and preferential treatment from bankers. Additionally, a well-run business may benefit from superior marketing plans that enable it to purchase raw materials and sell finished goods. All of these contribute to the industry's decreased output cost per unit.

v. Internal diseconomies of scale

These are drawbacks that a business must deal with as it expands or scales up its operations. For example, both economies of scale and diseconomies of scale are caused by managerial skill. There may be duplication of some indivisible factors if the firm's size keeps growing. In addition to making it more difficult to coordinate and manage the activities of other producing elements, this raises the average cost of production. One common illustration is the bureaucratic red tape that permeates most industrial operations and delays implementation and decision-making. Additionally, there is the issue of employees being disenchanted with the management and product, which lowers employee morale. The average total cost (ATC) of manufacturing ultimately rises as a result of all these unfavourable outcomes of large-scale activities.

vi. External diseconomies of scale

These are the drawbacks that businesses in an industry face when it expands above its ideal size. These drawbacks are caused by outside forces in the sector rather than by the way the businesses are set up. These external diseconomies include, for example:

- a. **Increasing raw material cost:** The demand for the raw materials that are mostly used in an industry will rise as it expands. The price of raw materials will rise if supply conditions stay the same, which will raise the industry's firms' cost of production per unit.
- b. **Increasing cost of skilled labour:** Businesses battle with one another for the few available skilled labourers in the industry, as demand for such labour rises. Raising the salary rate is necessary to persuade such workers to switch from one company to another. This inevitably raises the manufacturing expenses of the industry's companies, which raises the cost of production per unit.
- c. **Excess marketing cost:** Due to the industry's expansion, there are now more businesses in the sector, and each one must fight for customers or market shares. As a result, marketing tactics like sales promotions and advertising take centre stage. These have the effect of raising the industry's firms' manufacturing costs per unit.

4.4.2 Revenue concepts

Revenue is the money received from the selling of a company's products. It is earned as soon as a company sells a specific amount of its product.

a. **Total Revenue (TR)**

The total amount of money received from the sale of a specific amount of a company's output is known as total revenue. It is calculated by multiplying the firm's selling quantity (Q) by the price (P).

that is, $TR = PQ$

b. **Average Revenue (AR)**

The revenue per unit of output sold is known as the average revenue. It is found by dividing total revenue (TR) by quantity sold (Q). i.e.

$$AR = \frac{TR}{Q}$$

But, $TR = PQ$

$$\text{Therefore, } AR = \frac{PQ}{Q} = P$$

Therefore, Average Revenue is the same as price (P).

c. **Marginal Revenue (MR)**

It is the difference in overall revenue that arises from selling one additional unit of the item. It is found by dividing the change in total revenue (TR) by the change in quantity sold (ΔQ).

$$MR = \frac{\Delta TR}{\Delta Q}$$

where ΔTR = change in TR = New TR – Old TR

ΔQ = change in Q = New Q – Old Q

d. **Price-taking firm**

When a firm has little influence over the price of its goods, it is said to be a price-taker. This implies that the company cannot change its supply to affect the price of its goods. Demand and supply in the market or industry typically work together to determine the product's price, which is then distributed to all businesses in the sector. The company may sell any amount at the price set by the market or the industry. Price-taking is the hallmark of a perfectly competitive market.

i. ***Demand and revenue schedules for a price-taking firm***

Table 4.4: Demand and revenue schedule

Price (P) ₹	Quantity (Q)	Total Revenue (TR) ₹	Average Revenue (AR) ₹	Marginal Revenue (MR) ₹
500	0	0	-	-
500	1	500	500	500
500	2	1000	500	500
500	3	1500	500	500
500	4	2000	500	500
500	5	2500	500	500
500	6	3000	500	500
500	7	3500	500	500
500	8	4,000	500	500
500	9	4500	500	500
500	10	5,000	500	500

From the above schedule, it is observed that for a price-taking firm, price, average revenue and marginal revenue are the same.

$$P = AR = MR.$$

ii. **Demand and revenue curves for a price-taking firm**

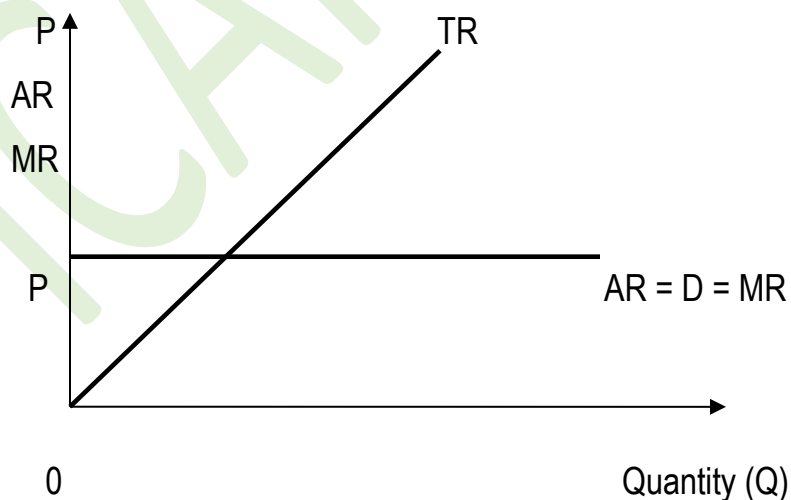


Figure 4.25: Demand and Revenue Curve for a Price-taking Firm

According to Figure 4.25, a price-taking firm's total revenue (TR) curve is a straight line that slopes upward and passes through the origin

e. **Price-making firm**

If a firm has substantial control over the price of its product, it is referred to as a price-making enterprise. Such a company, however, is only able to affect the price; it has no control over how much it sells. This is true for businesses that function in monopolistic and monopolistic competitive environments.

i. **Demand and revenue schedules for a price-making firm**

Table 4.5: Demand and Revenue Schedule (Price-making Firm)

Price (P)	Quantity (Q)	Total Revenue (TR)	Average Revenue	Marginal Revenue (MR)
1000	0	0	-	-
900	2	1800	900	1000
800	3	2400	800	600
700	4	2800	700	400
600	5	3000	600	200
500	6	3000	500	0
400	7	2800	400	-200
300	8	2400	300	-400
200	9	1800	200	-600
200	8	1600	200	-200
100	9	900	100	-700
50	10	500	50	-400

The fact that price (P) and average revenue (AR) are equal is still supported by table 4.5 above; so, AR and demand are equal. A price-making firm's TR first rises, reaches a maximum, and then falls, as can be seen from column 3 of Table 4.5. It rises from the beginning, reaches a peak of ₦3000, and then falls to ₦500. A price-making firm's MR decreases over time. It begins at ₦1,000, which is a positive number, then drops to ₦0 and even goes negative. MR is positive when TR is rising, zero when TR reaches its maximum, and negative when TR falls.

ii. **Demand and revenue curves for a price-making firm**

As seen in Figure 4.26, a price-taking firm's TR curve has a "n" form. The MR and AR (D) curves are both straight lines that slope downward. Although the MR and AR curves begin at the same location, the MR curve falls below the AR or demand curve as the quantity sold rises. In locations where demand is

elastic (MR is positive), TR revenue rises; in regions where demand is unit elastic (MR is zero); and in regions where demand is inelastic (MR is negative), TR revenue falls.

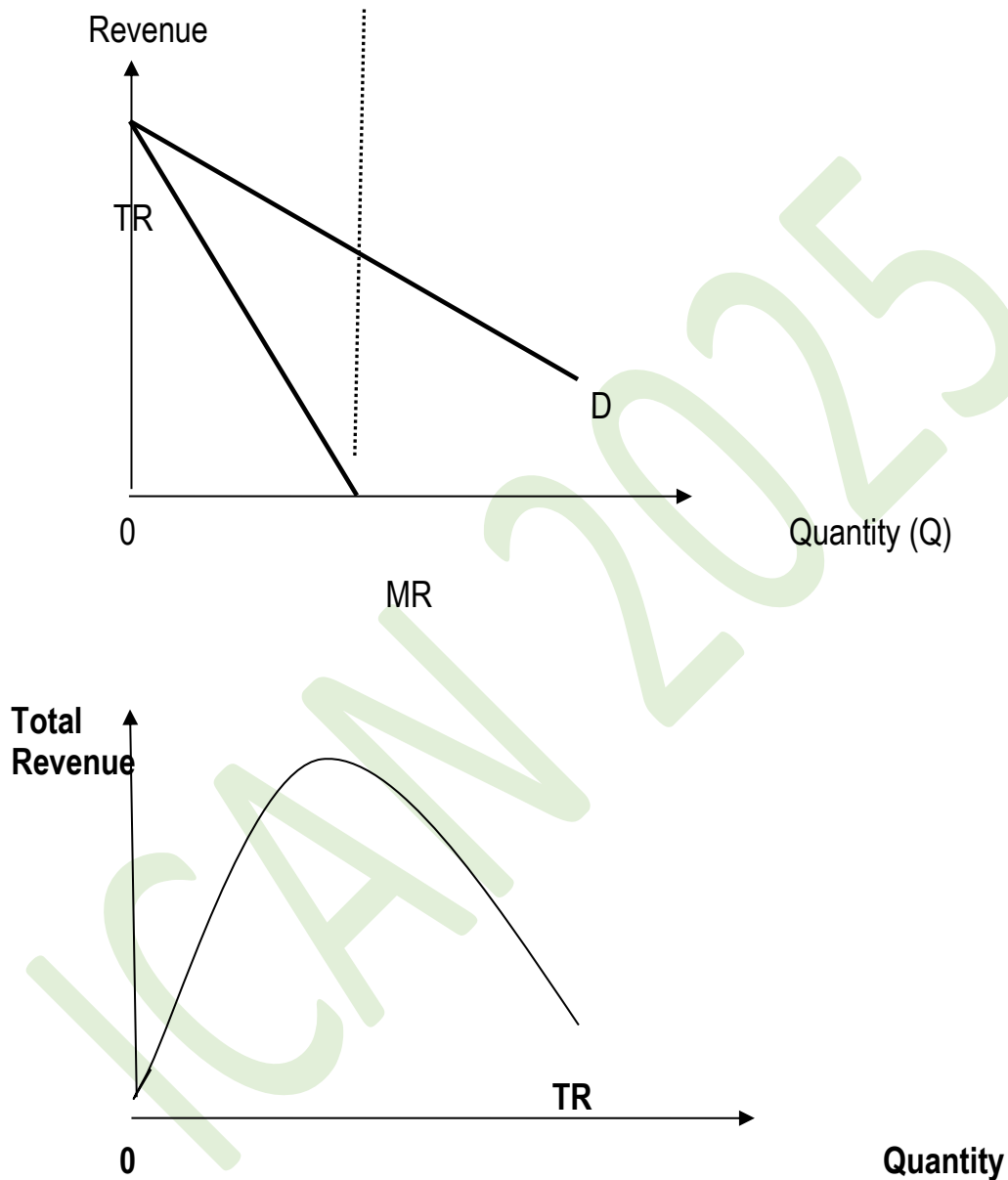


Figure 4.26: Demand and Revenue curves for a price-making firm

4.4.3 Production

The process of turning inputs (land, labour, capital, and entrepreneurship) into outputs of commodities and services is called production. Goods are actual objects, like rice, clothing, and television sets, that we can touch and see with our eyes. Contrarily, services, like medical care, education, transportation, and concerts, are

intangible and beyond our reach. Until the final customer receives the product or service, the production process is not finished.

a. Production analysis in the short-run

In economics, the output or product of the manufacturing process can be characterised in three ways: marginal product (MP), average product (AP), or total product (TP).

i. Total Product (TP)

The maximum output that a company may generate with a specific set of inputs during a given time is known as the total product.

ii. Average Product (AP)

The output per unit of the variable factor used is called the average product. Stated differently, it refers to the variable factor's productivity. It is calculated by dividing the total product (TP) by the number of variable factors used, that is,

$$AP = \frac{TP}{\text{Variable Factor}}$$

The average product is measured with respect to a variable factor. For instance, where the variable factor is labour (L), then it is the average product of labour (AP_L) or the productivity of labour that we can measure as:

$$AP_L = \frac{TP}{L}$$

iii. Marginal Product (MP)

Marginal product can also be defined as the rate of change in total product with regard to a variable factor, that is, the change in total product that results from using one more (or less) unit of a variable factor.

$$MP = \frac{\Delta TP}{\Delta \text{ in Variable Factor}}$$

where Δ = change

For example, the MP of labour (MP_L) is measured as:

$$MP_L = \frac{\Delta TP}{\Delta L}$$

Production Graphs

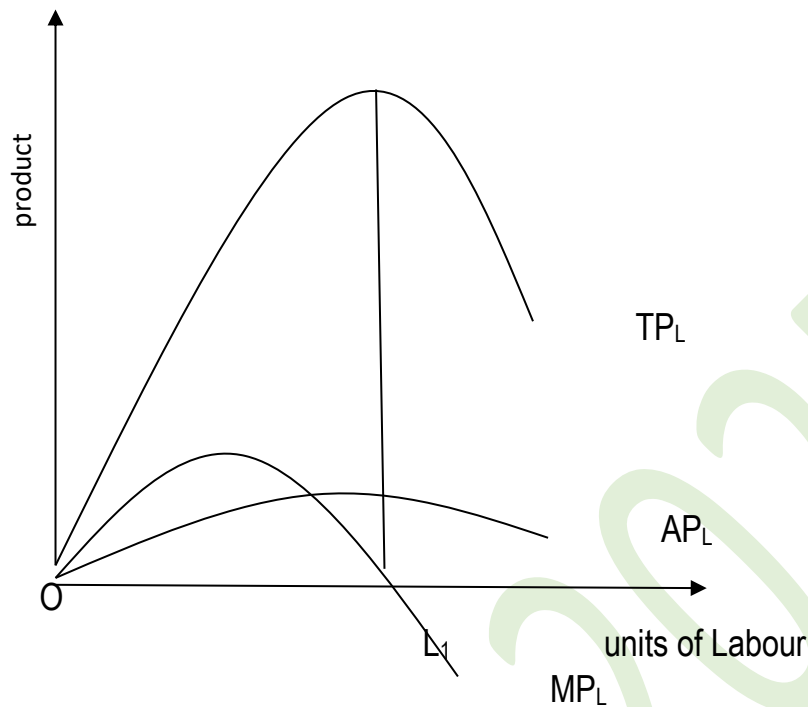


Fig. 4.27: Total Product, Average Product and Marginal Product Curves

Table 4.27, the Short-run Production Schedule, is used to create Figure 4.27. The link between MP_L , AP_L , and TP_L is depicted in the figure. At the AP_L curve's maximum, the MP_L curve intersects the AP_L curve. As long as the MP_L curve is above the AP_L curve, the latter rises. The TP_L curve begins to exhibit declining returns to changing proportions at the peak of the MP_L curve. When the TP_L reaches its maximum, the MP_L curve touches the horizontal axis, meaning that MP_L equals zero. The MP_L curve is below the AP_L curve when the AP_L starts to drop. AP_L fluctuates but never hits zero (0).

b. Stages of production

The production stages are depicted in Figure 4.28 below. In stage 1, TPP is increasing at an increasing rate, and MPP is greater than APP . MPP increases and reaches its maximum in stage 1 while APP keeps increasing. Since MPP is greater than APP , more variable input can be added to the fixed input to increase production and lower cost per unit; therefore, stage 1 is not a rational stage to produce. Stage 1 ends at the curve's inflexion point, where MPP equals APP and MPP reaches its maximum.

Stage II begins at the moment of maximum MPP and ends at the point of technical efficiency, or MPP is zero. At this point, MPP is lower than APP ,

while TPP is still rising, albeit more slowly. APP and MPP are both declining. Adjustments between the two margins (that is, $MPP = APP$ and $MPP = 0$) are achievable since the ratio of variable input to fixed inputs is larger. The tendency is to go toward $MPP = 0$, if the fixed inputs are costly, and the opposite (that is, move toward $MPP = APP$), if the fixed inputs are inexpensive. For fixed inputs, the maximum APP is at $MPP = 0$, whereas for variable inputs, it is at $MPP = APP$. Consequently, the logical stage to produce is Stage II. However, physical quantities alone cannot determine the precise moment of optimal output.

$MPP = 0$ is where Stage III begins. At this point, the ratio of variable inputs to constant inputs is high, the MPP is negative, the TPP is declining, and the APP is tending towards zero. It is not logical to produce at this point.

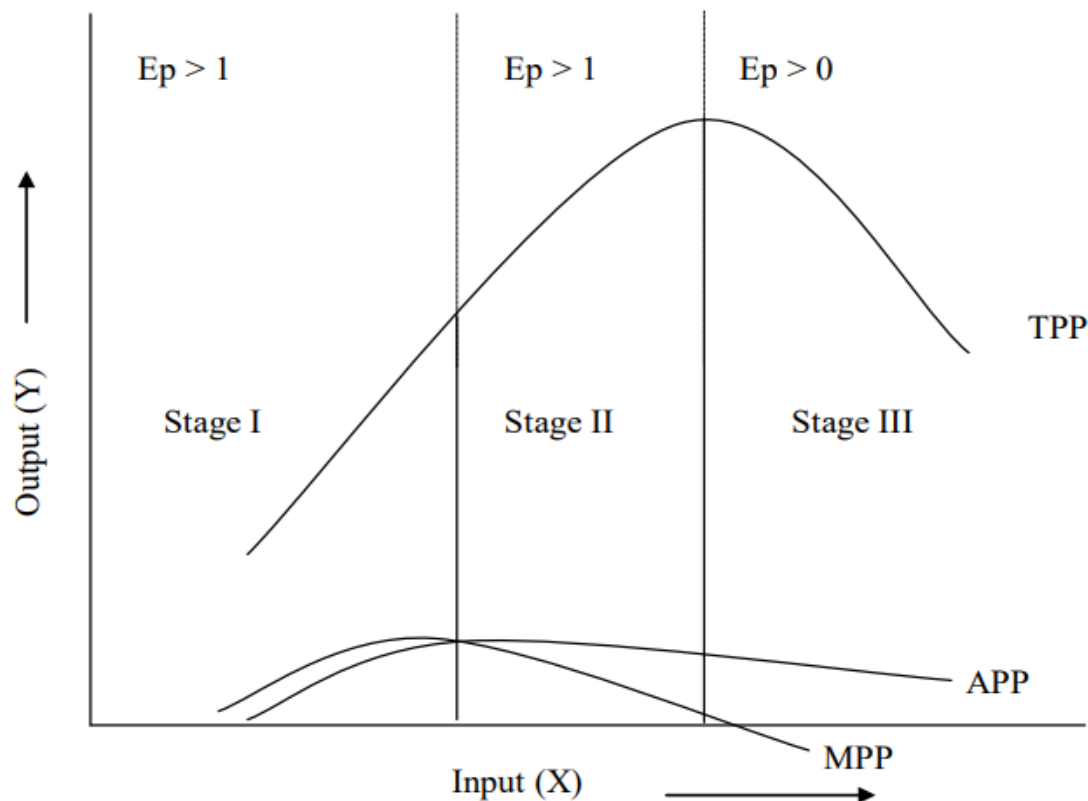


Figure 4.28: Stages of Production

- c. Point of maximum profit, efficiency and point of technical efficiency

The point of maximum profit, efficiency, and technical efficiency are displayed in Figure 4.28 below. The price of the variable input is superimposed on the production stages to determine the optimal production point in stage two. The point of maximum profit, also known as the point of least cost, is where the price intersects the MPP.

Then, $MPP = MFC = PX_1$, where PX_1 is the variable input's price. Therefore, at that moment, the adequate requirement for maximum profit and the point of economic efficiency is $(MVP)/MFC = 1$.

MVP is the introduction of one additional unit of a variable input to the total value product.

MFC is the addition of one unit of the variable input to the total expenses.

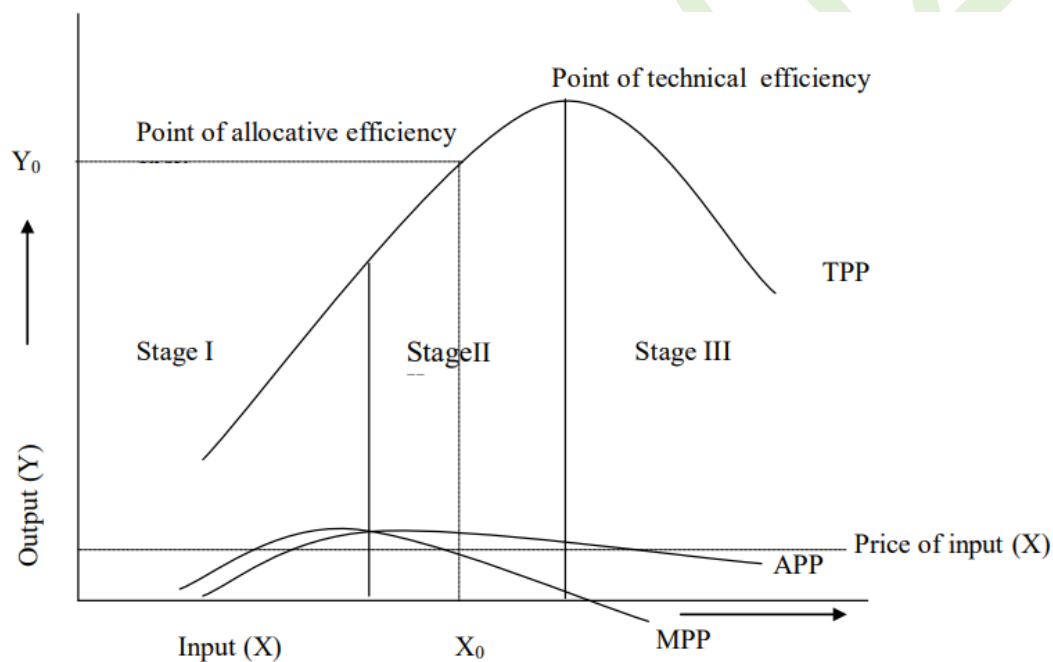


Figure 4.29: Point of Maximum Profit, Efficiency and Point of Technical Efficiency

Illustration:

With the aid of a diagram, explain the stage at which the producer is rational.

No	Stage 1	Stage 2	Stage 3

1	Begins from the origin and finishes at $MPP = APP$	Begins where APP is and finishes where MPP is zero	Begins with MPP at zero or TPP at maximum
2	TPP rises steadily until it reaches the point of reflection	TPP grows at a decreasing rate	TPP decreases at an increasing rate
3	$MPP > APP$	$MPP < APP$	

The distinguishing characteristics of these three production stages demonstrated that a logical producer should focus on stage 2. To the extent that it is feasible to adapt between the two extremes, stage 2 has a higher ratio of variable resources to fixed resources. Production is restricted to stage 2 due to physical constraints. However, further data on input and output pricing was needed to pinpoint the precise location of maximum net revenue.

d. Reasons for increasing, decreasing and negative returns

The following explanations for the observations of rising, falling, and negative returns in the production process: Because there is not enough variable input available in stage 1, the excess fixed inputs are not used effectively. When higher amounts of variable input are applied in this scenario, the excess fixed input in relation to variable input is used more effectively. Returns increase as a result of this circumstance. We will eventually attain the maximum marginal physical product as we keep adding more variable input to fixed input. Any additional variable inputs added to fixed inputs after this point will result in a smaller output increase. This is where returns start to decline. When the variable resource grows too big for fixed resources, more and more variable input is added to the fixed factors. At this point, the underutilised variable resource will hinder, rather than improve the production process. Negative returns are the result of this.

The input-output price ratio line can also be used to identify the point of optimal production. At different input and output usage levels, the price ratio line is displayed. The point of optimal production is the point of tangency between the ratio line and TPP .

4.4.4 Profit concepts

Profit is the benefit that business owners or entrepreneurs receive. It is calculated by deducting total revenue (TR) from total cost (TC).

$$\text{Profit} = \text{TR} - \text{TC}$$

When total expenses are deducted from total income, the outcome is negative; this is known as negative profit or loss.

a. Accounting Profit versus Economic Profit

Economic and accounting profits differ in that economists include both implicit and explicit costs in the overall cost of production, whereas accountants only consider explicit costs.

i. Accounting Profit

Total revenue less total cost (being solely of explicit costs) is accounting profit. An accounting profit is produced if this result is positive; a loss is made if it is negative; and a zero result is known as breakeven.

ii. Economics Profit

Total revenue less total costs, which include both explicit and implicit costs, is the economic profit. An economic, pure, or supernormal profit is indicated by a positive result; an economic loss is indicated by a negative result; and a normal profit is indicated by a zero result.

b. Economic profit, normal profit and economic loss

i. Economic profit

The difference between total income and total costs, including both explicit and implicit costs, is known as economic profit. When there are no obstacles to entry, this kind of profit generated by businesses in a sector encourages new businesses to enter the market while allowing established businesses to increase their output. Another name for it is supernormal or pure profit.

ii. Normal profit

When entire revenue and total cost, which includes both explicit and implicit costs, are exactly equal, a normal profit is made. It is the kind of profit that businesses in a sector make that, even in the absence of entry barriers, do not attract new businesses, and current businesses also stay in the industry. The implicit expenses are then equivalent to the firm's profit.

iii. Economic loss

The difference between total costs (implicit and explicit) and total revenue is known as economic loss. Businesses that are unable to pay their variable costs will be deterred from leaving an industry by this kind of loss, while businesses that can pay their variable costs will remain in the short term.

iv. Profit maximisation

When a firm maximises profit or minimises loss at the output level, it is considered to be in equilibrium. That is:

- a. the firm's marginal revenue (MR) equals its marginal cost (MC). (Necessary Condition); and
- b. as long as the marginal cost is increasing at that output level. (Sufficient Condition).

4.5 Market structure

Essential aspects or characteristics of the market, such as the number of participating firms, the degree of diversity or homogeneity in the products of various firms, and the ease of entry and exit from the market, determine the type of market structure in which a firm operates.

4.5.1 Perfect competition

In essence, perfect competition describes a market structure where a large number of relatively small businesses have the freedom to enter and leave the industry. Every firm produces a homogenous product, and every buyer and seller in the market is full knowledge of the state of the market, particularly with regard to the product's current price and location.

a. Characteristics of perfect competition

The following are the primary features or crucial elements of perfect competition that can be determined from the concept of perfect competition given in the section above:

- i. **A large number of buyers and sellers:** Since there are so many buyers and sellers in the market, neither party can significantly affect the price of a product. All buyers and sellers are therefore referred to as price-takers.
- ii. **Homogeneous product:** Customers must see all businesses' items as being the same. Therefore, it doesn't matter which company they buy from, especially because pricing is the only thing that will affect their choice.

- iii. **Perfect mobility of resources:** For businesses to enter or exit the market freely, there must be perfect mobility of the factors of production (that is, free entry and exist).
- iv. **Perfect knowledge of all relevant information:** Every buyer and seller need to be fully informed on the state of the market. In other words, although all buyers need to know where and how much the product is, businesses need to know the technological conditions of production, input costs, and the price at which the product may be sold.

b. A firm's demand curve in perfect competition

The demand curve facing each firm in perfect competition is horizontal, or perfectly price elastic, as seen in Figure 4.29, which is based on the supposition that all firms are price-takers.

Because selling more units does not necessitate lowering the price, Figure 4.30 illustrates that the company can sell as many units as it wants at the going rate and that the price or average revenue (AR) remains constant and equals the marginal revenue (MR).



Figure 4.30. The Demand Curve for a Perfectly Competitive Firm

i. An industry's demand curve in perfect competition

In a perfectly competitive business, the combined activities of all the enterprises can affect the market price. Thus, as seen in Figure 4.31, the industry's demand curve slopes downward.

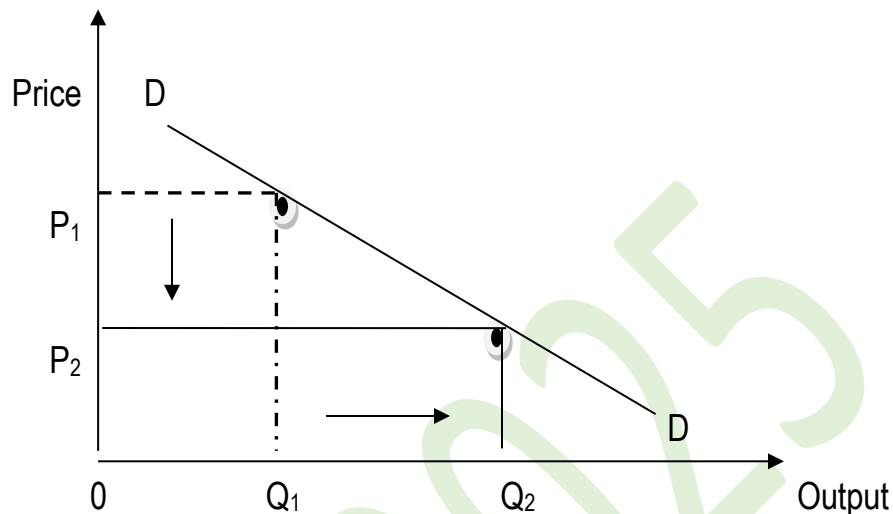
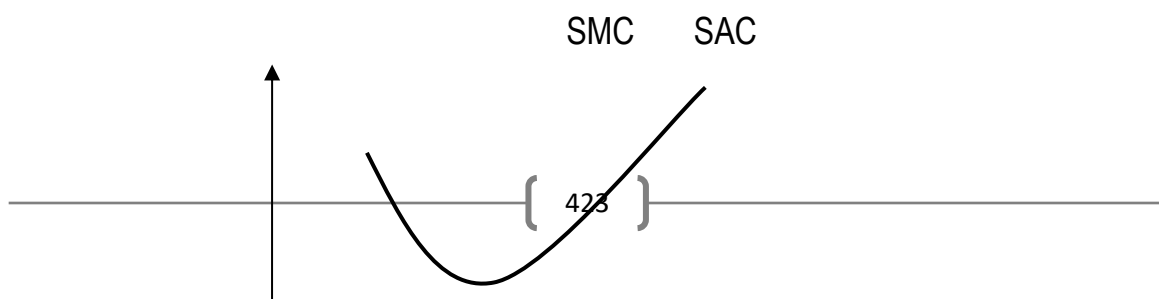


Figure 4.31: Industry Demand Curve in Perfect Competition

c. Short-run equilibrium of the perfectly competitive firm

When there is no incentive to change the output or supply choice, such as when the output level is profit-maximising, a firm is said to be in equilibrium.

The point (that is, output level) where $MC = MR = P$ can be used to rephrase the profit-maximising rule because the price and marginal revenue are equal in a perfectly competitive firm. The firm will make the most money at the output level where marginal cost (MC) equals marginal revenue (MR), according to the general formula for profit maximisation. Additionally, MC must be rising at that output level while the firm's short-run average total cost (SAC) of output, or cost per unit, must be at its lowest.



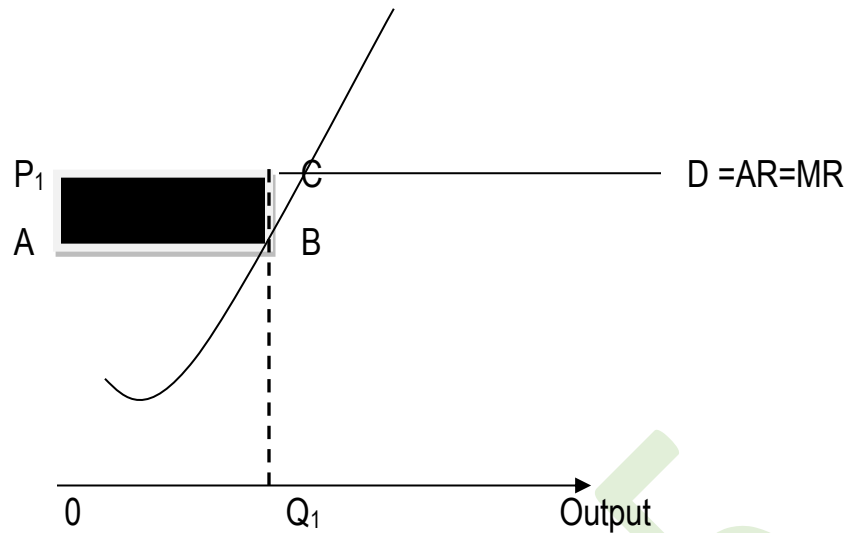
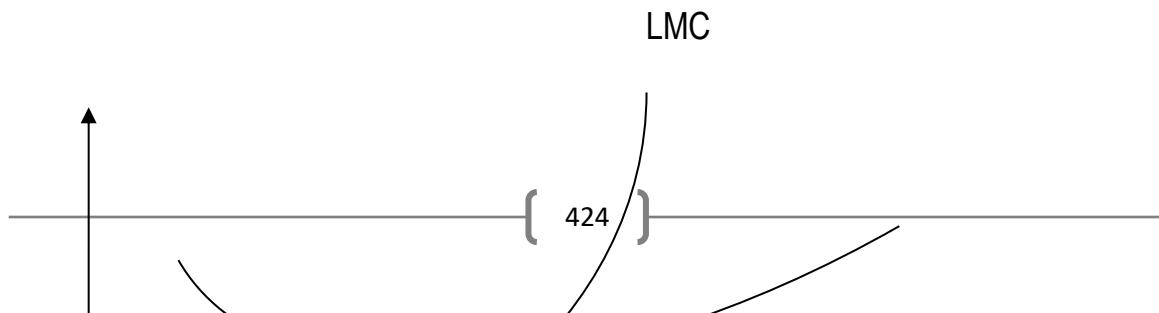


Figure 4.32: The short –run profit- maximising position for a perfectly competitive firm

The corporation produces output Q_1 where $MC = MR = P$ in order to maximise its profit, as seen in Figure 4.32. Total revenue (rectangle P_1OQ_1C) less total cost (rectangle AOQ_1B) equals the firm's total profit, which is shown by the shaded rectangle P_1ABC . Therefore, in the near term, the perfectly competitive firm is producing positive economic profit, often known as abnormal profit or supernormal profit.

d. **Long-run equilibrium of the perfectly competitive firm**

Positive economic profit in the short-run will attract new firms to enter the market, particularly in the absence of entry barriers. This process will continue until all firms in the industry have zero profit due to excess supply and a constant downward price review until price (P) equals average total cost (LAC).



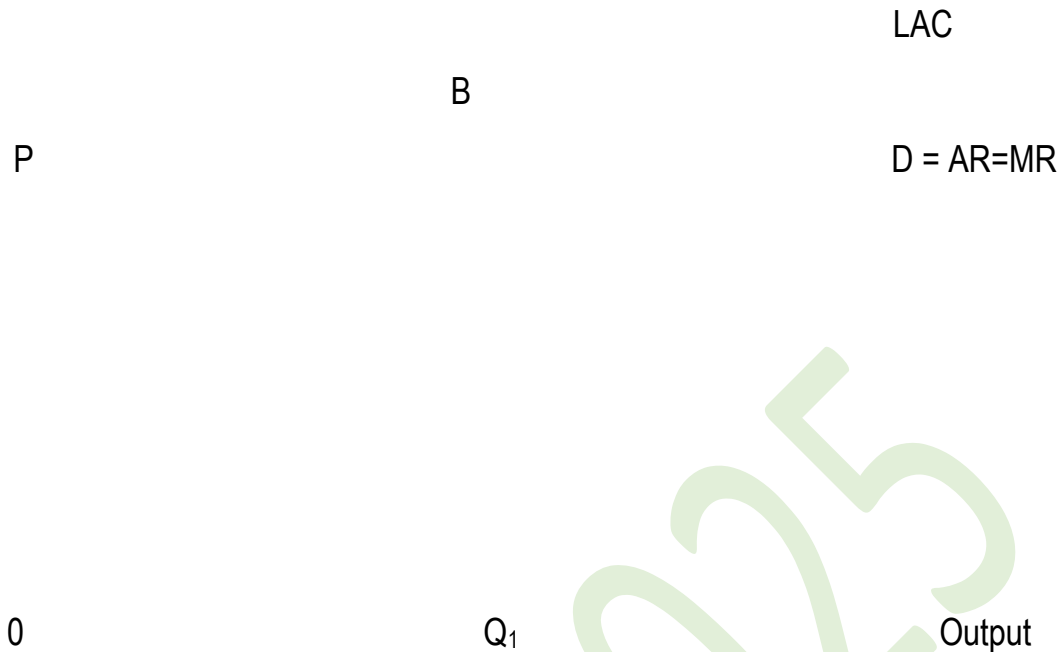


Figure 4.33: The Long –run Equilibrium position of the Perfectly Competitive Firm

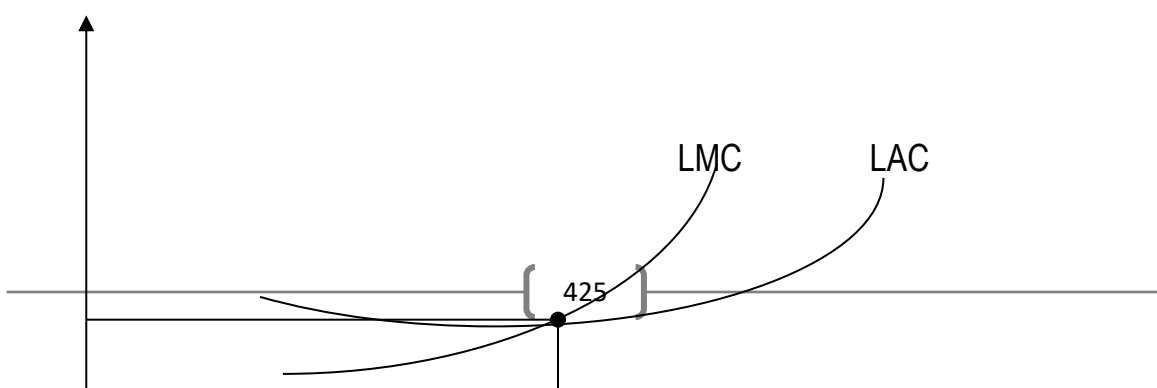
In Figure 4.33, it is evident that the perfectly competitive firm makes *zero economic profit* or what is alternatively referred to as *normal profit* in the long run because total revenue (TR) equals total cost (TC).

e. The shut down point for a perfectly competitive firm

This section provides an analysis of the short-run supply decisions of the perfectly competitive firm.

i. The short-run supply decision of the perfectly competitive firm

Since there will be no variable costs incurred in the short-run, a firm that temporarily shuts down will lose the equivalent of its total fixed cost (TFC). As a result, at any price below which the firm's loss exceeds its total variable cost (TVC), including all or a portion of the TFC, the perfectly competitive firm will cease operations and produce nothing.



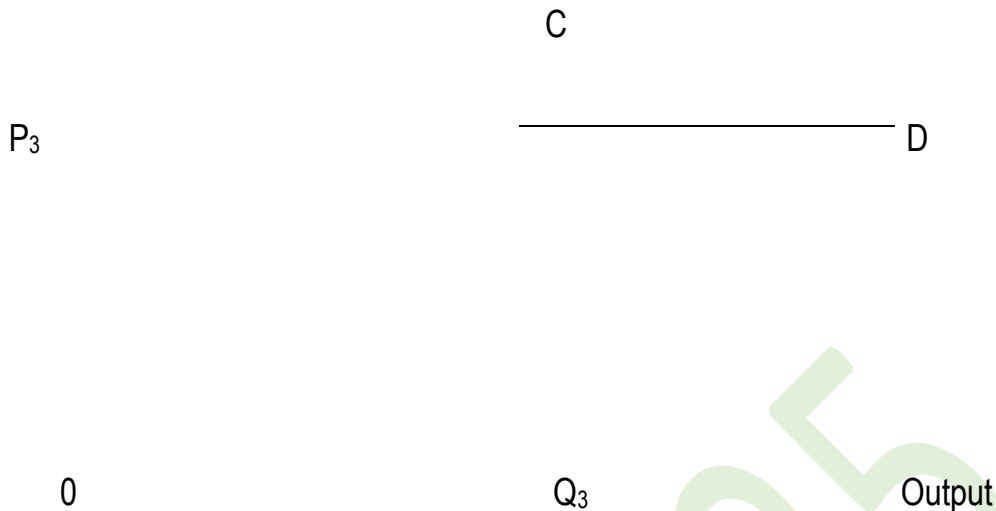


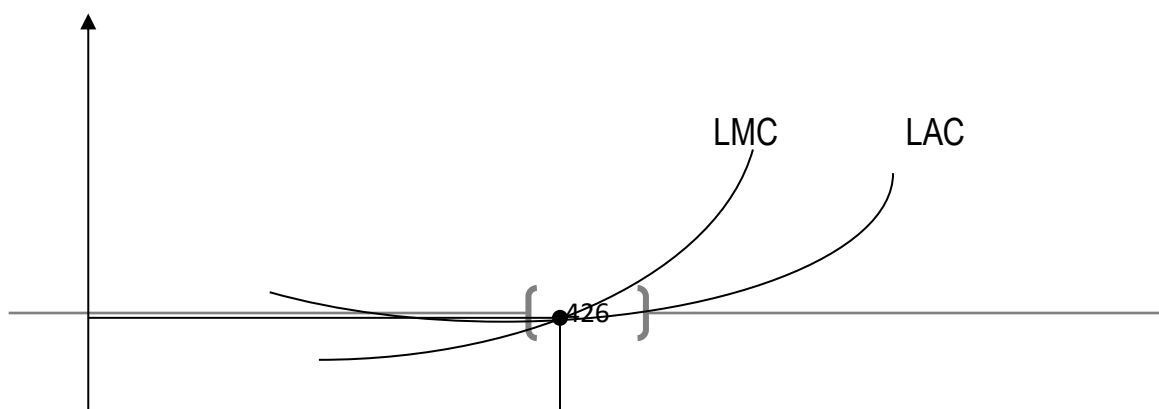
Figure 4.34: The Short-run Shutdown Point for the Firm in Perfect Competition

The short-run marginal cost (SMC) curve above point A, the shutdown point that corresponds to the output level (Q_1) and price (P_1) below which the firm cannot pay average variable costs (SAVC) in the short-term, is the firm's short-run supply curve in Figure 4.34.

f. The long-run supply decision of the perfectly competitive firm

The lowest point on a fully competitive firm's long-run average total cost (LAC) curve, such as point C in Figure 4.35, is the long-run shutdown point.

Point C in Figure 4.35 represents the firm's shutdown point, which corresponds with price (P_3) and output (Q_3) below which no output will be produced. The long-run marginal cost curve (LMC) above point C (the minimum point on the LAC) represents the firm's long-run supply curve.



P_3

C _____ D

0

Q_3

Output

Figure 4.35: The Long-run Shutdown Point for a Perfect Competition Firm

g. Advantages and disadvantages of perfect competition

Advantages of perfect competition

- a. **Goods are sold at the lowest possible price:** Because there are fewer obstacles to entrance, new firms can emerge when the sector is experiencing prosperous economic outcomes. When industry supply increases, prices fall, potentially enabling consumers to pay prices that correspond with the production's marginal cost.
- b. **Efficient utilisation of resources:** As a price-taker, every company aims to reduce expenses while using resources as efficiently as possible.
- c. **Sales promotion is less expensive:** Since buyers perceive all products to be the same under a perfect competition, costly advertising and sales promotions are avoided.
- d. Consumers enjoy and are better off in terms of consumer surplus.

Disadvantages of perfect competition

- a. **Firms make little or no profits:** Generally speaking, the perfectly competitive firm is small and generates little short-term profit. Additionally, the company only makes regular profits over the long term.
- b. **Inventions and innovations are not encouraged:** Lack of entrance barriers encourages technical theft, which deters new ideas and technologies. Consequently, there is no assurance that resources are being used as efficiently as possible.
- c. **Social costs are disregarded:** In order to determine its optimal production/output, the company compares its marginal costs to its

private costs. This indicates that when calculating the true benefit of an item to society, the social costs resulting from negative externalities, particularly environmental pollution, are not taken into account.

- d. **The problem of income inequality is worsened:** In the long-run, some entrepreneurs with greater financial resources will use cost-cutting technologies, reduce prices, and force out smaller companies.

4.5.2 Monopoly

The complete opposite of perfect competition is a monopoly. A pure monopoly is a market arrangement where one company produces a good or renders a service that has no near substitutes. Since it is the only supplier in its market, the pure monopolist is presumed to have no rivals at the moment and is shielded from possible competition from new competitors.

a. Characteristics of monopoly

The main characteristics of monopoly can be identified as:

- i. **One firm in the industry:** An industry with just one firm is known as a pure monopoly. Therefore, the monopoly firm's demand curve is the industry demand curve, and it slopes downward, meaning that in order to sell more of its goods, it must cut its price.
- ii. **Barriers to entry:** Barriers are in place to keep new firms from entering the market so that a firm can continue to hold its dominant position. The primary sources of monopoly power are these barriers, which include consumer loyalty, economies of scale, legal protection, and control over the factors of production.
- iii. **Absence of supply curve:** The monopolist simultaneously takes cost and demand into account when determining how much to produce and what price to charge. In contrast to what occurs under perfect competition, the monopolist's supply curve is not independent of demand conditions.

b. Sources of monopoly power

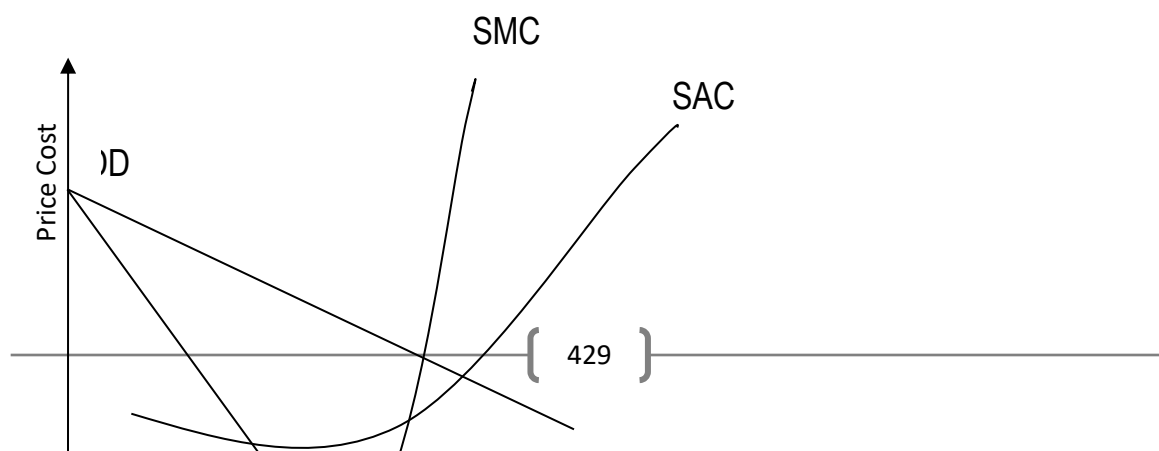
Any of the following factors may explain the emergence of a monopoly firm:

- i. **Control of the entire supply of a basic input:** A firm can monopolise the supply of the product if it controls the whole supply of the fundamental raw materials needed to produce it.

- ii. **Economies of scale:** Through cost advantages from the adoption of cost-saving technologies, a major company may be able to maintain a monopoly power by selling successfully at a lower price than any tiny competitor could.
- iii. **Franchises and patents:** The government may give a company monopoly privilege in the form of an exclusive license or patent if it creates a machine or production method after significant expenditures have been spent on research and development (R&D). This legal protection makes it unlawful for other companies to manufacture the same kind of machine. This is to promote economic innovation.
- iv. **State monopoly:** The government may give a company monopoly privilege in the form of an exclusive license or patent if it creates a machine or production method after significant expenditures have been spent on research and development (R&D). This legal protection makes it unlawful for other companies to manufacture the same kind of machine. This is to promote economic innovation.
- v. **Merger and acquisition:** Large firms may merge to control the whole market supply, or they may purchase (buy) smaller companies that are no longer profitable to obtain complete control over the market supply.
- vi. **Location factor:** Given the size of an area, investors may not be motivated to open businesses there, unless one of them assumes the risk of becoming the only firm in the area with monopoly power. In the majority of emerging economies, this is true for rural banking schemes.

c. The short-run equilibrium of a monopoly

By modifying its rate of production until marginal cost (MC) equals marginal revenue (MR), the monopoly achieves its profit-maximising goal by precisely following the same rule as the competitive market.



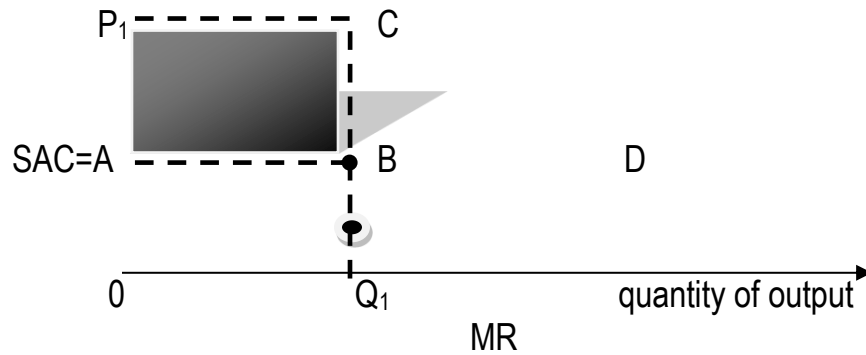
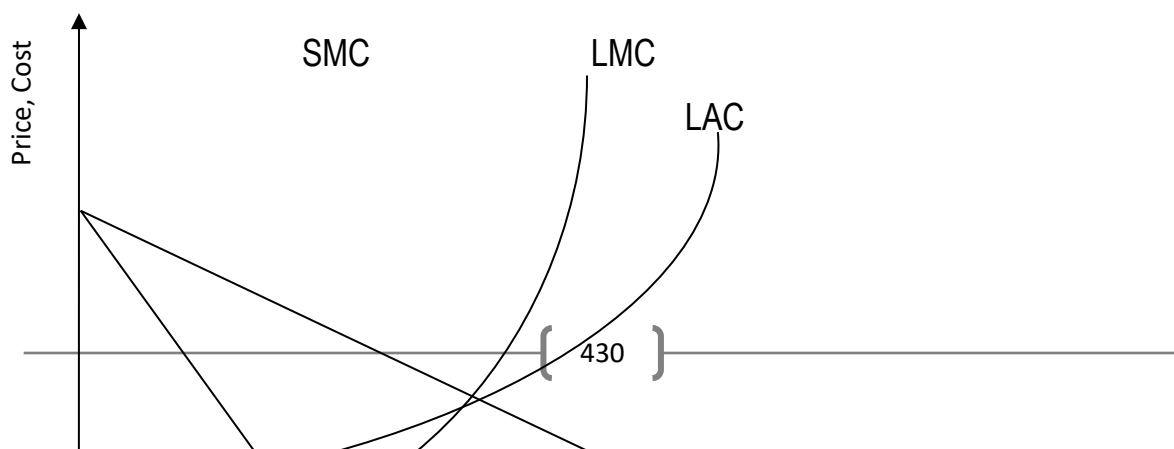


Figure 4.36 Short-Run profit maximising position for a monopoly

Figure 4.36 illustrates the case of a monopolistic firm that produces at output Q_1 where SMC is equal to MR and generates supernormal profit (that is, positive economic profits) in the short term because the price (P_1) exceeds the short-run average cost (SAC). The size of the monopolist's profits is indicated by the area of the shaded rectangle P_1ABC .

d. The long-run equilibrium of a monopoly

Long-term supernormal profits are made possible by barriers to entry in monopolies. Therefore, as long as price (P) is larger than or equal to long-run average cost (LAC), a monopolistic firm will produce where marginal revenue (MR) equals long-run marginal cost (LMC) in order to maximise profit over the long term. Long-term prices will typically be higher and output lower under monopoly than under perfect competition, *ceteris paribus*, because the monopoly firm is not compelled to operate at the minimal point on the LAC curve.



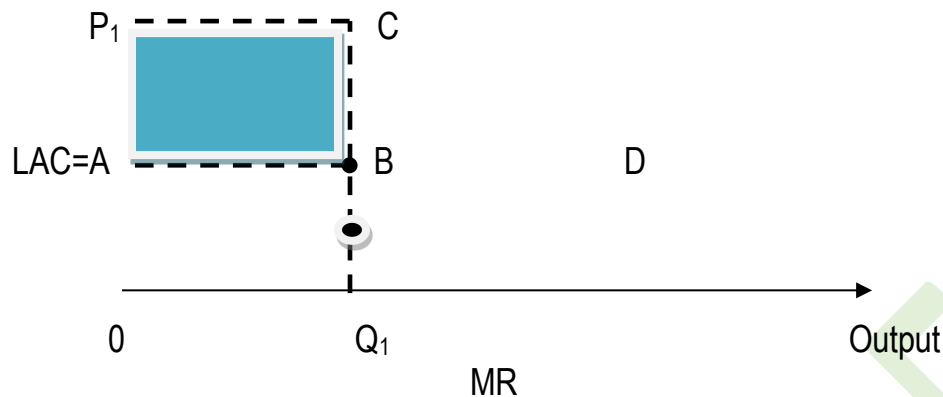


Figure 4.37 Long-run profit-maximizing positions for a monopoly

The shaded rectangle $P_1 ABC$ in Figure 4.37 represents the monopoly firm's supernormal profit, while P_1 and Q_1 stand for the price charged and profit-maximising output, respectively.

e. Monopoly price discrimination

If a monopolist can distinguish between many customers and their varied demand curves, it may be able to charge different prices to different customers, mainly to increase its profits. As stated by Edwin Dolan in 1980:

The practice of charging different prices for different quantities of the same product when the price differences are not supported by variations in the cost of supplying various clients is known as price discrimination.

The conditions under which a monopolist will be able to discriminate profitably are given as:

- a. The price elasticity of demand for the product must vary by market or customer class, differences in income or tastes may be the cause of this. In markets where demand is less elastic, the corporation will raise prices in an effort to boost overall revenue and profit.
- b. The cost of separating the different customers according to their demand elasticity should not be so high as to outweigh the intended benefit of price discrimination.
- c. It must be impossible for some customers to purchase the commodity at a lower price and then resell it to others at a higher price.
- d. The price discriminating monopoly firm's profit-maximising output level is the one at which the marginal cost of all of its output equals the marginal income in each market.

f. **Advantages and disadvantages of monopoly**

The usual arguments for and against monopoly are presented in this section.

The advantages of monopoly

- a. **No risk of over-production:** Being a sole manufacturer, the company is aware of how much demand there will be for its goods and will not overproduce.
- b. **Efficient and full use of resources:** The monopolistic corporation can use its equipment and machines to their utmost ability to generate a vast quantity of its goods depending on the recognised market. The completely competitive firm is not confident of its market share and hence its resources may be underutilised.
- c. **Monopoly helps to reduce price:** The firm can afford to sell at a lower price than the fully competitive firm since monopoly is associated with large-scale manufacturing and low average costs.
- d. **Inventions and innovations:** Because of the obstacles to entry, the monopolist is incentivised to invest in R&D. For the advantage of the customers, the company has a propensity to use a less expensive method, offer its products at a reduced cost, or enhance its quality.

The disadvantages of monopoly

- a. **Exploitation of the consumers:** Because consumers can't get the product elsewhere, they pay more than they would have in a market with perfect competition.
- b. **Consumer choice is restricted:** Since the company is the sole manufacturer in the market, consumers are unable to select from a large selection of identical goods, unlike in a perfect competition scenario.
- c. **Creation of artificial scarcity:** To sell at greater prices and increase its profit, the monopolist typically attempts to limit output.

g. **Comparison between monopoly and perfect competition**

Under monopoly market, the AR curve slopes down to the left with the MR curve below it, and they are at equilibrium when $MC = MR < \text{Price (AR)}$. In a perfectly competitive equilibrium, MR and AR coincide and form a straight line parallel to the quantity axis, meaning that $MC = MR = \text{Price (AR)}$.

- (i) **Number of firms in the industry:** Numerous small businesses (sellers) and buyers are engaged in perfect competition. Demand and supply dictate prices for the entire industry, and every company is a price-taker. On the other hand, a genuine monopoly is an industry with

only one business, and the firm fixes the price for its products. It is consequently called a price fixer.

- (ii) **Output and price:** The level of output is higher and the price is lower in a perfectly competitive market than in a monopoly.
- (iii) **Equilibrium conditions:** Because MR and AR coincide and form a straight line parallel to the quantity axis, in a completely competitive equilibrium, $MC = MR = \text{Price (AR)}$; in a monopoly, the AR curve slopes to the left, with the MR curve beneath it; and they are in equilibrium when $MC = MR < \text{Price (AR)}$.
- (iv) **Profit maximisation positions in the long-run:** Because the new firms entering the industry compete away the short-term supernormal profits, the firm in perfect competition will ultimately earn normal profits. On the contrary, because there exist obstacles impeding competition and the admission of new businesses, the monopoly firm will always generate supernormal profits over the long term.

4.5.3. Monopolistic competition

Monopolistic competition characterises a market or industry where many companies manufacture (sell) goods that consumers consider to be near but not perfect substitutes for one another.

a. Characteristics of monopolistic competition

The primary characteristics of monopolistic competition are as follows:

- i. **The larger market of firms in the industry:** Each of the numerous small businesses only contributes a tiny portion of the market's overall production. As a result, no company has any discernible impact on the choices made by other companies in the sector regarding pricing and output.
- ii. **Product differentiation:** Because the companies provide differentiated products, that is, similar but distinct, each company has some degree of market power, particularly the ability to sell its goods at its own prices.
- iii. **Freedom of entry and exit of firms:** Productive resources are highly mobile, and entry barriers are either negligible or non-existent. Differentiating products tends to make it easier for new businesses to enter the market.
- iv. **Nature of demand curve:** Because there are so many close substitutes, the demand curve for each company's product slopes downward and is extremely price elastic. In order to sell a lot, the price

must be reduced; as a result, the MR curve also slopes downward and drops below the demand curve.

v. Short-run equilibrium under monopolistic competition

Equilibrium operates according to the same principle as monopoly and perfect competition, a monopolistic competitive firm will adjust its rate of production until MC equals MR in order to maximise profits, if it cannot cover all of its variable cost of production at any positive rate of output, it will shut down entirely in the short term in order to minimise losses.

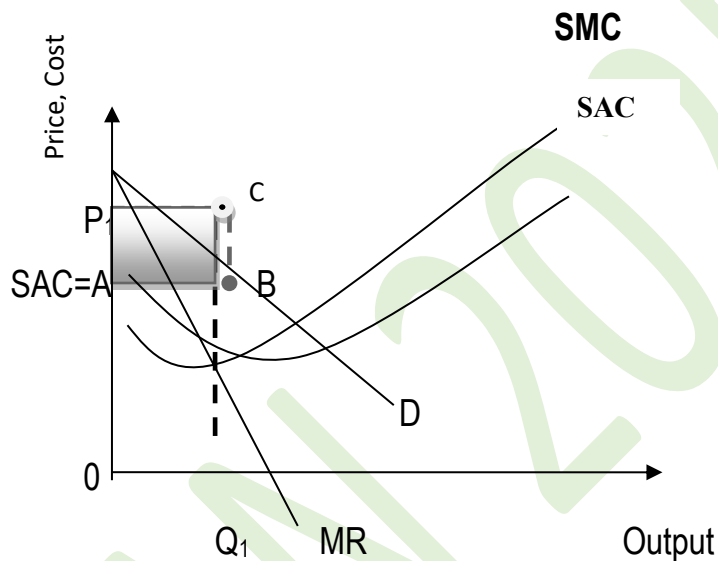
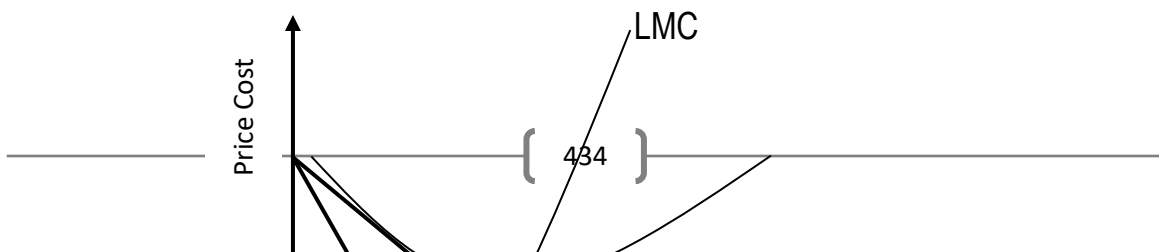


Figure 4.38: Short-run profit maximising position of a monopolistically competitive firm

The shaded rectangle $P1ABC$ in Figure 4.38 above illustrates how the company is making supernormal profits in the short term by charging price $P1$ and generating output $Q1$.

b. Long-run equilibrium under monopolistic competition

As firms under perfect competition experience, the entry of new firms producing close substitutes causes the supernormal profits earned in the short term to compete away in the long run. Eventually, the monopolistically competitive firm will reach long-run equilibrium (profit-maximisation) where it receives a price (P) equal to the long-run average total cost (LAC), meaning it will only be earning a normal profit, as shown in Figure 4.39.



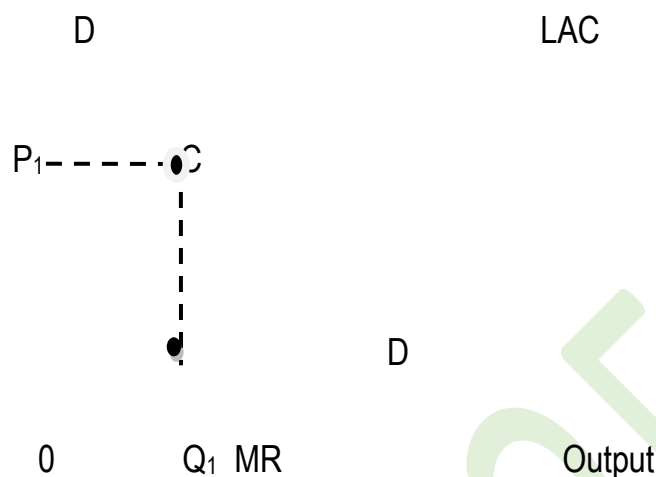


Figure 4.39: Long-Run Profit Maximizing Position of a Monopolistically Competitive Firm

4.6 Market failure, externalities and intervention

4.6.1 Market failure

Market failures are circumstances where market equilibria cannot be trusted to produce Pareto optimal outcomes because some of the welfare theorems' presumptions do not hold. Any inefficiencies that occur in a market economy can be linked to the violation of at least one of the assumptions of the theorems. These assumptions include perfect competition, full information, production and consumption convexity.

a. Sources of market failure

i. Market power

In a competitive market, it is thought to be ideal when no one can influence prices and all consumers and producers act as price takers. But when there are only a few agents on one side of the market, this assumption of many buyers and sellers may not hold and agents may not act competitively. Monopolies and oligopolies are two instances of market power.

One type of market failure that typically results in lower production volume being sold at a higher price is the existence of market power. The possibility of more output, which consumers value more than the higher expense producers experience, results in a welfare loss.

b. Externalities

The existence of externality is a significant cause of market failure. Generally speaking, an externality is an unintentional and unpaid consequence of one person's or company's actions on another. For instance, the consequences of smoke emissions from companies, cars, and cigarettes on one's health. Leakage in the neighbour's home may result from construction activity in one's own home. Technical interdependence in production or consumption is the origin of these side consequences. However, market prices do not represent this connection. Although it does not have an impact on pricing, the activity of one economic agent influences the utility or profit level of another economic agent.

c. Public goods

A public good is a good that, when consumed by one agent, does not prevent other agents from using it. In contrast to private commodities, public goods are utilised by society as a whole rather than being consumed by economic agents on an individual basis. They can provide advantages to everyone at the same time.

Non-rivalry is the quality that when one person enjoys a public good, it does not make it less available to others. A unique kind of externality is produced by the private provision of public goods, when one person contributes one unit of a public good, everyone benefits. Therefore, it is usually Pareto inefficient for the private sector to provide public goods. It is also conceivable to differentiate based on whether it is feasible to deny a person the advantages of a public good.

By using a price mechanism, exclusion for private commodities occurs automatically. The price mechanism makes sure that buyers do not consume a product until they have paid the right amount. For public commodities, however, excludability might or might not exist. There are two main components to excludability. Two of these are the expense of exclusion and the technology of exclusion. In certain cases, it is theoretically impossible to keep a specific consumer group from using a product. Even in cases where physical exclusion is feasible, the costs of implementing it may be unaffordable in comparison to the benefits. Only when there are inexpensive methods of exclusion will there be exclusion.

d. Common property resources (CPRs)

Resources that are owned collectively as opposed to privately, are known as common property resources or CPRs. These often possess traits that provide a technical benefit to joint management or pose challenges when it comes to

defining private property rights. Although these resources may not have a legal owner, they are frequently administered as common property and some sort of ownership control is exerted jointly. Individuals consume the products made from these resources (as private goods). Forests and pasture areas, for instance, are CPRs and offer products like feed and firewood.

CPRs may have unrestricted or limited access. Free or open access CPR refers to circumstances in which there are no limitations on the usage or access to a resource. When a resource is abundant, it makes little sense to limit its usage or restrict access to it. However, a common property-free access system is no longer suitable if the resource becomes scarce and the demand for it rises as a result of causes like population pressure, industrialisation, economic expansion, etc. Therefore, the social cost of resource exploitation is more than the individual private cost. In this way, congested public goods and open-access common property resources are intimately related.

e. Asymmetry of information

Another cause of market failure is when there is an information asymmetry among market participants. The first welfare theorem's assumption of a complete market implicitly requires that all market participants be able to observe the characteristics of traded commodities, otherwise, distinct markets cannot exist for commodities with different characteristics. Take, for instance, a used car, where all buyers agree that the vehicle is of a specific model, made in a specific year, but they might not be aware of the exact state of the vehicle. Economic agents may not be fully informed since, in general, it is costly to gather knowledge. Asymmetry of information causes welfare loss and so market outcomes are Pareto inefficient.

4.6.2 Externalities

Externalities are economic effects that flow from the production or consumption of goods and/or services by one economic unit into the utility function of another economic unit. In other words, these effects can be either positive (gains) or negative (losses); that is, they occur when the benefits of consumption cannot be restricted and passed on to a consumer or when economic activity results in social costs that are not borne by the producer/consumer who generates them, also known as the externality generator. The fundamental requirement is that interdependence between two or more economic agents arises from the presence of real variables in the utility function of the receiving party.

a. Nature of externalities

- (i) Externalities are involuntary transactions or unexpected consequences.

- (ii) The market system is unable to appropriately price or value externalities.

b. **Causes of externalities**

There are two principal causes of externalities.

- i. **Production externalities:** It occurs when people of a locality experience profits or losses as a result of production activity without receiving payment or other compensation. For instance, persons living in the vicinity of production activities will experience both job and business opportunities (gains) and dangerous repercussions (losses) as a result of oil exploration. This demonstrates that a company's earnings are impacted by the actions of other economic entities in the business environment, in addition to its own operations.
- ii. **Consumption externalities:** This happens when the advantage of consumption cannot be restricted and attributed to a specific customer. This occurs when people in a region depend on one another for their consumption activities without paying the externality generator any kind of price or remuneration. This suggests that the usefulness of one person's consuming actions will affect the usefulness of another person in the community.

c. **Types of externalities**

Externalities may be either of these types:

- i. **Negative externalities.** This is used to describe the losses that an economic entity sustains as a result of another economic unit's actions. For instance, a train or jet in motion will create a lot of noise, disrupting the peace of the surroundings.
- ii. **Positive externalities:** It is the profits or benefits derived from another economic unit's operations that are not offset by compensation to the externality generator. For example, building an expressway will open up new markets for the nearby villages. Production and consumption of goods and services will rise as a result of positive externalities.

4.6.3 **Government Intervention**

Any regulatory action taken by the government in an attempt to influence the decisions made by individuals, groups, and organisations about social and economic issues is referred to as government intervention.

To account for the effect of externalities, the government might employ a variety of strategies. When there are negative externalities, such as pollution, the government

can deter the behavior that results in bad impacts by imposing taxes, fines, levies or enact laws. As an example, the government could fine or tax polluting companies, making it costlier for them to pollute and incentivise them not to do so. However, subsidies can also be used by the government to support initiatives that produce positive externalities. To promote more innovation, the government could, for instance, provide subsidies to businesses that conduct research and development.

a. Purpose of intervention

i. Indirect taxation

Taxes that are computed as a proportion of the cost of a good or service are known as ad valorem taxes.

Ad valorem taxes are imposed to either create government revenue or internalise external costs (negative externalities), sometimes known as negative externalities.

Example: Ad valorem taxes on cigarettes are imposed in many nations to fund healthcare initiatives and deter smoking, which is a negative externality.

ii. Specific taxation

a. Specific taxes are fixed amounts per unit of a good or service.

b. They are frequently employed to target particular markets or goods. In order to produce income or alleviate negative externalities, specific taxes may also be implemented.

Example: In order to address environmental concerns (negative externality) and finance infrastructure initiatives, petrol is frequently taxed at a set rate per gallon or litre under particular taxation.

iii. Subsidies

a. Financial aid given by the government to promote the production or use of specific goods or services is known as a subsidy.

b. By encouraging the supply of public goods, addressing positive externalities, or boosting vital businesses, subsidies seek to address market shortcomings.

Example: To help farmers, maintain a steady supply of food, and avoid market failures caused by food scarcity, agricultural subsidies are widespread around the world.

iv. Maximum and minimum prices

- a. **Maximum prices (price ceilings):** Maximum prices are restrictions set by the government on the cost of a commodity or service. To shield customers from exorbitant costs, they are usually set below the equilibrium price.
Example: Rent control policies in cities like Lagos, New York and San Francisco, impose maximum rents to make housing more affordable for low-income residents.
- b. **Minimum prices (price floors):** Minimum prices are restrictions set by the government on the cost of a commodity or service. In order to support producers and ensure that they receive appropriate compensation, they are typically set higher than the equilibrium price. Example: The U.S. government sets a minimum milk price to ensure that dairy farmers receive a reasonable income. The government of Nigeria imposed minimum prices on produce, such as cocoa, groundnut, cotton, palmoil to guarantee the income of farmers.

v. Other methods of government intervention

a. Trade pollution permits

A market-based strategy for lowering pollution is the use of tradeable pollution permits. Governments grant businesses a number of permits that allow them to release a specific level of pollution into the environment. Permits can be purchased and sold by businesses, providing incentives for effective emissions reduction. Example: The EU Emissions Trading System (EU ETS) allows companies to trade through carbon emissions permits in an effort to reduce greenhouse gas emissions.

b. State provision of public goods

Usually, taxes are used to pay for public goods. For instance, governments provide public goods like street lighting, public parks, and national security to benefit all citizens.

c. Provision of information

To help people make informed decisions, governments frequently give them information. Information-sharing can increase market efficiency and safeguard customers. For instance, food labelling laws mandate that producers list ingredients and nutritional information on food packaging, assisting consumers in making better decisions.

d. Regulation

Government standards and rules are used in regulations to make sure market players abide by the predetermined rules.

- e. It can cover topics including consumer rights, environmental preservation, and safety. Example: The goals of financial laws, like the Dodd-Frank Act in the US are to encourage openness and protect the financial system from excessive risk-taking.

Analysing how government policies affect markets and economic results requires an understanding of the goals of government involvement in many settings, as well as the techniques used. These interventions are frequently intended to assure equity, address market imperfections, and advance the general welfare. In general terms, there are three main arguments for government intervention.

Efficiency arguments for government intervention

There are instances of market failures that lead to inefficient resource allocation. Because of these inefficiencies, the mix of products and services produced across the economy deviates from the combination that would best satisfy the preferences of customers (as indicated by their desire and ability to pay).

When production is made on the PPC at the point where resources are fully utilised and utilised to their maximum potential, production efficiency happens. Allocation on the PPC is Pareto efficient, meaning that improving one person's situation will inevitably make another person worse off. When the economy functions on a point on the PPC that symbolises the combination of commodities and services that best meets the requirements of the consumers, this is known as allocative efficiency.

Equity arguments for government intervention

Arguments about economic efficiency are not the exclusive, or frequently the primary, justification for government action. The degree to which equity considerations are significant, depends on political judgment. There are various ways to make equity arguments for intervention:

- a. **Vertical equity:** Income from wealthier people and families is redistributed to poorer people and families in this situation. Taxes and government transfers in the form of unemployment insurance and similar benefits are frequently used to accomplish this.

- b. **Horizontal equity:** This implies that individuals and families with comparable requirements should be treated equally, for example, in terms of access to services, such as health care and education.
- c. **Social inclusion:** This is aimed at ensuring that everyone should have access to money, opportunities, and services that enable them to fully participate in their societies., It is strongly related to both vertical and horizontal equity. Schools and hospitals that get public funding, for example, might encourage social inclusion. Redistributing income through cash benefits, rather than in-kind benefits, like health care and education, could be the answer for individuals and families living in poverty. When it comes to cash benefits, people and families are free to spend their money in any way they deem fit.
- d. **Intergenerational equity:** This relates to striking a balance between present and future generations' requirements. Government engagement in the economy is largely justified by the perception that it is more deliberate in investing for future generations.

Ethical arguments for government intervention

When society perceives limits to the role of markets, ethical reasons often justify government intervention. Although markets are typically economically efficient, certain goods and services may not be appropriate for buying and selling due to their intrinsic value or societal impact. This distinction gives rise to the concepts of merit and demerit goods.

Merit goods are considered beneficial for individuals and society, and their consumption is encouraged. Governments can promote their use by providing them for free, offering subsidies, or even mandating their consumption.

On the other hand, demerit goods are viewed as harmful. To discourage their use, governments may impose taxes, increase tariffs to raise their cost, or ban them altogether. In essence, while merit goods are subsidised to boost consumption, demerit goods are taxed or restricted to reduce their prevalence.

Examples of merit goods

Education, healthcare services, clean water and sanitation, public housing, environmental conservation

Examples of demerit goods

Tobacco products, alcohol, illicit drugs, sugary soft drinks, single-use plastics

4.7 National income accounting

National income is the measure of the monetary worth of the flow of goods and services produced in an economy over a given period of time, often a year.

4.7.1 Basic concepts of national income

a. Gross domestic product (GDP)

The total production of the domestic economy is measured by the gross domestic product. It is the sum of the monetary values of all finished goods and services produced in a nation over a given time frame, typically a year. It encompasses all of the production generated by domestic and foreign businesses operating inside the economy. Three distinct metrics of total output are nominal GDP, real GDP, and potential GDP.

The market worth of all completed goods and services produced in the domestic economy at current prices is known as nominal GDP. (i) This definition only includes output that is traded in a market; do-it-yourself services, such as washing your clothes, are not included; (ii) output is valued in its final form, which is the state of the good at the time no further changes are made that would change its market value; and (iii) today's prices are used to measure output.

Because nominal GDP estimates are inflated by changing prices over time, aggregate output is also computed while maintaining constant prices for goods and services. The term "real GDP" refers to the GDP at constant prices. The third measure of total output is potential GDP (trend GDP), which is the maximum production that can take place in the domestic economy without raising the level of prices, generally.

b. Gross national income (GNP)

Gross national product (GNP) is the market value of all finished goods and services generated by a nation's citizens over a given time period, usually a year. This definition implies that the GNP includes all products and services generated by a nation's citizens, whether they are produced domestically or abroad.

c. Net national product (NNP)

The net money worth of finished products and services generated in an economy over a given time period, often a year, is known as NNP. It is calculated by subtracting capital consumption allowance (depreciation), from the GNP [NNP = GNP – Depreciation]

d. National income (NI)

This is the total income received by the economy's factors of production over a given time frame, often a year. The national income gives the value of output at factor costs, rather than market prices, since it accounts for the costs of the economic resources used in the present production (of this year's output).

4.7.2 Methods of computing national income

There are three ways of calculating national income, and they are mutually exclusive. They are (i) the method of product/output; (ii) the method of income; and (iii) the method of expenditure. The available data and the intended use will determine which approach is used.

a. The product/output method

This approach adds or aggregates the values of all commodities and services in a specific economy over a defined time period (such as a year).

Finding the gross domestic product at market prices (GDP), or the worth of goods and services generated inside a nation's borders, is the first step in the aggregation process. The monetary value of all finished goods and services within a specific accounting period inside a nation, or the values contributed at intermediate levels of production, are combined to determine GDP. The actual values of commodities and services are converted to their monetary equivalents, using market prices.

GDP is calculated by adding the pertinent monetary values of the products and services generated during the accounting period.

The value of products and services generated inside a nation's borders, such as Ghana or Nigeria, is measured by its GDP. It includes the products and services offered by foreign-owned businesses based in Ghana or Nigeria, respectively.

Finding GDP at factor cost is the second step. GDP is calculated by converting real values into monetary values, using market pricing. These figures do not represent the factor cost of output and are skewed by indirect taxes and subsidies. The GDP factor cost is calculated by subtracting indirect taxes and adding subsidies to GDP to account for these effects.

$$\text{GDP at factor cost} = \text{GDP} - \text{indirect taxes} + \text{subsidies}$$

The gross national product at factor prices (GNP), which is the third step in the product method, is a measure of the final monetary value of goods and services produced by Nigerian-owned factors of production, whether they are located in Nigeria or abroad. For instance, the services of Chevron, a foreign-owned oil consortium, are included in Nigeria's GDP, but some of Chevron's profit in Nigeria

is sent to Belgium and is included in Belgium's GNP because Chevron is owned by an oil consortium in Belgium.

Therefore,

$$\text{GNP} = \text{GDP} \pm \text{Net property income (NPI)}$$

NPI is the net difference between the flow of earnings and other incomes from foreign-owned assets residing in Nigeria and the interest, profits, and dividends that Nigerian assets owned abroad bring into the country.

Lastly, the net national product is computed. Capital stock deteriorates when it is employed to create commodities and services. Depreciation is allowed in order to account for wear and tear. Net national product, or NNP, is the same as national revenue after depreciation is deducted from GNP.

b. The income method

According to this method, GDP is calculated as the total of the final earnings received by a nation's factors of production for the production of goods and services within a specific accounting period.

Finding and adding up factor incomes is the first step in the income approach. Only factor earnings from the production of goods and services are taken into consideration. Among these are wages, salaries, commissions, and other incomes received by employees prior to taxes, social security, and pension deductions; land-related incomes, such as rent and royalties; capital-derived interest and dividends; and enterprise-derived profits from both public and private enterprises.

As a result, we do not include transfer payments, such as state pensions or private money transfers between individuals, in the accounts.

The accumulation of these relevant incomes before taxes and other deductions yields gross domestic income at factor cost (GDYf). Gross national income at factor cost (GNYf) is then determined by subtracting or adding net property income (NPI) to GDYf, so that $\text{GNYf} = \text{GDYf} \pm \text{NPI}$.

Lastly, we calculate the net national income. This is accomplished by deducting depreciation from the GNYf, or what is known as national income.

c. The Expenditure method

According to the expenditure approach, GDP is the total of all final purchases made in a nation at market rates for goods and services. The four primary expenditure sectors are the foreign sector (X-M), businesses (I), government (G), and household consumption (C).

Symbolically, $GDP = C + I + G + (X - M)$

where: C = Household spending on consumption that is, personal consumption expenditure. This includes household spending on both durable and non-durable goods and services, such as cars, shoes, and plantains. I = Capital investment spending, which is calculated as gross private domestic investment. This includes business fixed investment, such as plant and machinery, all construction, including residential and commercial buildings, and inventory changes.

G = General government spending that is, government purchases of final goods and services. They comprise central government expenditure on defence, wages and salaries of government personnel and other expenditures on and by local authorities. However, it excludes any government transfer payments because such outlays do not reflect any current production.

(X-M) = Net exports: - these consist of exports of goods and services minus imports of goods and services.

Having identified the spending areas, we now begin to total them up. The first stage is to compute total spending in the domestic economy on all products and services, whether produced locally or imported for an accounting period. This is known as market-priced total domestic expenditure (TDE). That is, $TDE = C + I + G$.

The second step involves calculating gross domestic expenditure (GDE), which is the same as GDP. The entire amount spent on products and services produced domestically is known as the GDE. TDE is the total amount spent in a nation on goods and services, whether they are imported or domestically produced, thus we must modify it to get GDE. Two changes have been made:

- i. Products made domestically but exported are known as exports. We must calculate the value of the current output exported and add it to TDE if we are interested in the total output value, or GDE.
- ii. However, imports must be deducted from TDE in order to calculate GDE because they are commodities and services that we pay for but that are not produced in the country.

Symbolically, $GDE = C + I + G + (X - M)$

GDE is calculated using market prices hence it must be converted to factor cost. This is accomplished by adding market-priced subsidies to GDE and deducting indirect taxes.

From GDE at factor cost, we add or subtract net property income (NPI) to obtain GNE at factor cost. That is, $GNE \text{ at factor cost} = GDE \text{ at factor cost} \pm NPI$. Finally, we subtract depreciation from GNE at factor cost to get NNE at factor cost, which is referred to as national income.

d. The circular flow of income.

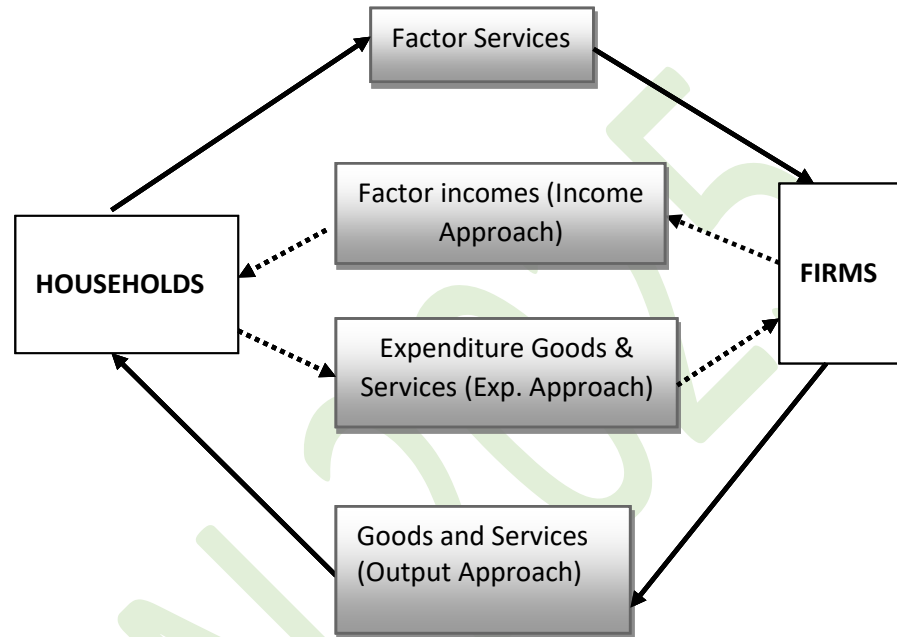


Figure 4.39: The Circular Flow of Income

The diagram (Fig 4. 40) shows Real Flow (goods and services) and Monetary flow (Income and expenditure) .

The goods market is represented by the pair of arrows at the bottom. Households in this market trade cash for the products and services that businesses produce. From a product/output perspective, the total value of these products and services is used to assess national income. The spending approach is shown by the other arrow. The spending approach is represented by the total of these expenses.

The factor market, represented by the top pair of arrows, is where businesses trade money for the services that households give, such as wages (payments for labour services), interest on capital, land rent, and enterprise profit. The incomes received by the factors of production that produce the commodities and services that the economy depends on, are represented by this examination of national income.

The circular flow diagram demonstrates that final output or product (Product or Output Method), final revenue (revenue Method), and final spending (Expenditure Method) can all be used to measure national income.

The basic national income identity is shown by the diagram: National Product = National Expenditure = National Income. According to this principle, actual earnings received by the economy are the same as actual expenditures and actual output or product generated. It is also important to note that ex-post, or what actually occurred in the economy, rather than ex-ante, or what individuals hope or want to happen, is used when accounting for national income.

4.7.3 Problems of measuring national income

a) **Multiple or double counting:**

This relates to intermediate goods, intermediate expenditures, and transfer payments. It is possible to value, for instance, cassava and gari, count the cost of materials for making the suit and the suit itself and count incomes received that are not used for productive activities (transfer payments). This would greatly inflate the value of the total output; this issue is largely avoided by only recording value-added or final expenditures and leaving out transfer payments.

b) **Marketability of goods:** The monetary worth of the commodities and services generated within a specific time period is known as national income. There is an issue with products and services that are not traded on the open market. By including products and services that are not sold, this issue is partially resolved. Traditionally, this includes things that do not reach the market.

- i. Owner-occupied homes are charged rent.
- ii. Food produced and consumed on farms is likewise given value.
- iii. Housewives' services are not covered, but maid, servant, and washer-man services are covered.

c) **Depreciation:** When capital stock is employed to make products or provide services, it wears. This is recorded as a capital allowance or depreciation. Depreciation is deducted from GNP to arrive at NNP. How to precisely calculate depreciation is the issue here. The country will always be impacted if the depreciation value is overestimated or underestimated.

d) **Inadequate statistical data:** The absence of statistical data is a fundamental issue in estimating national income. In emerging nations like Ghana and Nigeria, this issue is particularly severe. Sometimes, people, businesses, and the government fail to maintain accurate records of their earnings, output, and

expenses. The government agencies tasked with gathering and compiling essential statistical data do not maintain correct records. For instance, Ghana does not use the income technique to estimate national income due to a lack of income data.

- e) **Price level changes:** Money, whose value fluctuates periodically, is used to estimate national revenue. As a result, establishing a consistent national income valuation is challenging. Estimates of national income are expressed in constant prices in real terms to address this issue.
- f) **National income records legal incomes of goods and services:** Thus, illicit incomes are not included. Since some unlawful incomes might infiltrate the national income, this could present a practical challenge for national income accountants.

4.7.4 Use of national income estimates

- a. **Indices of economic welfare:** Estimates of national income, especially per capita income, are a highly helpful way to gauge economic well-being. Real per capita income provides rough estimate of a nation's economic well-being.
- b. **Used for economic planning:** Estimates of national income are used to calculate a nation's prospective savings and investment rate, as well as its economic growth rate. It is necessary to know the current levels of national income in order to make plans for future increases. If we compute income estimates, this information is given.
- c. **Helps policymakers to understand the economic structure of a country:** The product method offers comprehensive data on the contributions of the economy's many sectors and subsectors. The expenditure approach's data provides insight into the percentage of revenue that is invested, consumed, or transferred. Lastly, information on the functional distribution of income is provided by the income approach data, which is helpful for income tax policy.
- d. **Used to approximate the potential demand:** Demand for different goods is estimated using statistics on per capita income. For prospective investors, this is a really helpful piece of information. Per capita income will be of interest to investors because generally speaking, the demand for products and services will increase with per capita income, all other things being equal.
- e. Estimates of national income are used to calculate how much each country pays to international organisations to which it belongs, such as the UN, ECOWAS, IMF, and IBRD.
- f. **Estimates of national income can also be used as a foundation for comparing living levels across time and countries:** The standard of living

in two or more nations can be compared, thanks to these estimates. Real per capita income is typically used in this context. Additionally, by comparing the magnitude of the national income prior to a plan, with the national income following the plan's implementation, one can determine the performance of an economy after a planned time. We refer to this as intertemporal comparison. It is possible to compare the national income figures of several nations. We refer to this kind of comparison as an international comparison.

4.8 Financial Institution

Financial institutions are the major channels via which funds flow from the sectors of the economy with surplus funds to other sectors with insufficient funds to enable optimal usage of such resources in the promotion of economic growth and development.

The two primary categories into which financial institutions can be divided are banking and non-banking. Among the banking institutions are the Central Bank, development banks, and commercial and merchant banks. Conversely, non-banking organisations include discount houses, building societies, insurance companies, equipment leasing companies, and hire-buy companies. It is important to keep in mind that different nations have varied legislative frameworks under which financial institutions operate.

4.8.1 Central Bank

The ultimate authority in a country's banking and monetary system is its central bank. Despite being owned by the government, it is frequently independently managed by the Board of Directors, whose members are selected by the government. The Central Bank of Nigeria (CBN) and the Bank of Ghana (BOG) are two of the earliest central banks established in the West African sub-region.

a. Traditional functions of the Central Bank

The following are the traditional functions of the Central Bank:

- (i) **Currency issue and distribution:** The Central Bank is the only entity legally permitted to print coins and currency that are utilised as a medium of exchange in the country. Having the monopoly power to create legal tender currency is necessary to control the money supply and prevent inflation.
- (ii) **The bankers' bank:** The Central Bank gives other institutions, particularly commercial banks, the ability to maintain cash reserves and use the clearing house to settle their balances. The Central Bank is known as the "lender of last resort" since it also lends money to commercial banks or discounts their bills when they are low on funds.

- (iii) **Banker to the government:** The Central Bank maintains the accounts of the governments and all their corporations and agencies. It collects all payments owed to the government and borrows money on the government's behalf by issuing short- and long-term securities, such as development stocks, and treasury bills and certificates. The Central Bank is also in charge of managing the government's debts, both domestic and foreign.
- (iv) **Promotion of monetary stability:** To support price stability, the central bank regulates the economy's money supply. This entails the application of monetary policy tools, including reserve requirements, the discount rate, open market operations (OMO), etc.
- (v) **Foreign exchange management:** To ensure that foreign exchange distribution and allocation are in line with economic priorities, the Central Bank acquires, distributes, and monitors the use of the nation's limited foreign exchange resources, in addition to maintaining the country's foreign exchange reserves.
- (vi) **Supervision of finance houses:** To facilitate the efficient implementation of monetary policy, the Central Bank is legally empowered to keep an eye on and oversee the operations and procedures of financial institutions in every contemporary economy.

b. **Developmental Functions of the Central Bank**

The Central Bank takes part in several programmes to promote economic growth.

- (i) **Fostering the expansion of financial markets:** The Central Bank, typically launches initiatives to raise both short- and long-term capital and money market funds.
- (ii) **Fostering the growth of financial institutions:** The Central Bank actively (both financially and morally) supports the creation of non-bank financial institutions like the Finance houses, as well as development banks like the Bank of Industry (BOI) and Nigeria Agricultural Co-operative and Rural Development Bank (NACRDB) in Nigeria.
- (iii) **Human capital development:** The Central Bank contributes directly and indirectly to the training of workers for the banking industry. For

example, in Nigeria, the CBN is involved in the activities of the Chartered Institute of Bankers of Nigeria (CIBN) and the Financial Institution-Training Centre (FITC).

- (iv) **Creation of special plans and funds:** To support economic growth, the Central Bank encourages the creation of special plans and funds in the fields of small and medium-sized businesses, export development, and agricultural finance. The Small and Medium Industries Equity Investment Scheme (SMIEIS) and the Agricultural Credit Guarantee Scheme Fund (ACGSF) are two Nigerian examples.
- (v) **Data sources for research:** The Central Bank releases data on financial indices and indicators for use in Research and Development initiatives through its frequent publications.

4.8.2 Universal/Commercial Banking

a. Universal Banking

In its broadest sense, universal banking is a system that allows a bank, or any institution that accepts deposits, to own and manage non-financial organisations in addition to conducting a variety of financial operations.

However, it should be mentioned that there is not a single, widely agreed-upon definition of universal banking. The definition of banking, which differs from nation to nation, is the fundamental basis for universal banking practices. However, there appears to be consensus over its key characteristics. For a banking organisation to provide integrated financial services, for example, universal banking practices involve removing barriers between the money, capital, and insurance markets. These

b. Commercial Banking

In addition to being profitable businesses, commercial banks serve as important financial intermediaries that allow the monetary authorities to efficiently distribute money throughout the economy.

i. Functions of Commercial Banks

Commercial banks offer a range of services which include :

- a) **Acceptance of deposits:** As savings institutions, commercial banks enable the mobilisation of funds by taking deposits from individuals, businesses, and the government. They accept demand deposits, savings deposits, and time deposits, using current accounts, savings accounts, and fixed deposit accounts, respectively.

- b) **Granting advances and loans:** Commercial banks make profits when they give credit to deserving borrowers at interest rates higher than what they pay on deposits. Customers are given access to short-term credit facilities through special loan accounts or current account overdrafts. It can also take the form of loan syndication, in which a major project is financed by two or more banks.
- c) **Serving as payment agents:** Customers of commercial banks have current accounts that they can access to pay for products and services, as well as to settle debts. Additionally, they use direct debiting and standing order collection to move money on behalf of their customers.
- d) **Creating demand:** Commercial banks increase the purchasing power of the economy by lending out the money, or deposits, that they have gathered from certain customers.
- e) **Offering services relating to international trade:** Commercial banks are involved in the financial aspects of international trade, particularly by establishing letters of credit for their importer customers and discounting bills of exchange for their exporter customers. A letter of credit is a commitment made by the bank to redeem its customers' liabilities under an import agreement.
- f) **Offering brokerage services:** Commercial banks purchase and sell stocks and shares on behalf of their customers.
- g) **Foreign exchange services:** To handle foreign exchange allocation, commercial banks serve as middlemen between their individual and corporate customers and the Central Bank or approved foreign exchange dealers. Additionally, they offer traveller's cheques to their customers who are travelling out of the country.
- h) **Valuable item storage:** Commercial banks agree to store valuable assets for their customers, including government stock, share certificates, academic credentials, certificates of occupancy, jewellery, insurance policies, etc.
- i) **Equipment leasing:** This is the practice of banks' lending money to their customers, who are primarily businesses, to buy fixed assets and permit installment repayment.

c. **Merits of Universal/commercial banking**

The merits of Universal/commercial banking include the following:

- i. By providing long-term funding for business and industry, it stimulates economic growth;
- ii. It increases efficiency through economies of scale and scope; and
- iii. It encourages competition by allowing banks to enter a variety of financial and non-financial activity sectors.

d. Demerits of Universal/commercial banking

The following arguments are commonly presented against universal banking practice:

- i. Because of the rise in connected lending, it skews the distribution of credit among different economic activities/entities;
- ii. It encourages a greater concentration of political and economic power; and
- iii. It results in conflicts of interest, when a bank takes on more tasks than it can handle or makes it harder for it to support its customers' operations.

4.8.3 Developmental Banking

Specialised financial organisations known as development banks or development financial institutions (DFIs) are founded to support the growth of particular economic sectors, such as the commercial, industrial, agricultural, rural, urban, and housing sectors. Development banks play the following roles, particularly in low-income countries (LICs):

- i. Provision of medium and long-term loans for investments in a range of industries, including manufacturing, commerce, and agriculture.
- ii. Identifying, promoting, and developing profitable private sector initiatives. It provides guidance and support for domestic companies. This involves managerial, technical, and financial guidance to guarantee successful outcomes.
- iii. Making direct investments in the mining, housing, and agriculture sectors of the economy.
- iv. Monitoring the execution of projects they fund by visiting project locations and obtaining status updates.
- v. They commission and/or conduct research on the economic and social demands of the economy to recommend policies to the government.
- vi. They foster the citizens' capacity for entrepreneurship and provide take-off loans to aid in their endeavours.

- vii. They act as conduit for transferring investible capital from foreign organisations into the local economy.
- viii. To encourage foreign direct investments (FDIs), local and particularly international investors are nominated as technical and management partners.

The Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB), Bank of Industry (BOI), and Urban Development Bank (UDB) are a few Nigerian examples of DFIs.

4.8.4 Other Financial Institutions

The next section discusses a few more organisations that act as intermediaries in the financial system.

(a) Finance companies

Organisations that focus on short-term non-bank financial intermediation are known as finance companies.

Their activities include:

- i. mobilisation of funds from the investing public through borrowing and offering services for debt factoring, equipment leasing, hire purchase, project financing, and local purchase orders (LPO) financing;
- ii. assisting businesses in setting up effective management structures and controls; and
- iii. offering corporate finance guidance, including capital restructuring and project financing services.

(b) Discount houses

Discount houses are financial institutions which intermediate funds between the Central Bank, licensed banks and other financial institutions. Their activities include:

- i. mobilising funds for investment in short-term securities, especially treasury securities and other short-term financial instruments by providing discounting/re-discounting facilities;
- ii. assisting financial institutions to effectively manage their idle cash balances by bringing together surplus and deficit units in the money market; and
- iii. underwriting issues of treasury securities, thereby promoting monetary policy objectives.

(c) Insurance companies

Companies that provide insurance, both life and non-life, are crucial financial players in any economy. They encourage asset acquisition and facilitate the growth of commerce and industry by:

- i. mobilising relatively long-term funds from policyholders in the form of premiums, thereby promoting savings in the economy;
- ii. investing their funds in bonds, stocks, mortgages, and government securities, thereby contributing to the efficient utilisation of scarce investible resources; and
- iii. providing palliatives in the form of "claims" if a policyholder suffers a loss.

(d) Pension Fund Administrators (PFAs)

Private companies, known as pension fund administrators are legally permitted to open and oversee employee retirement savings accounts, invest and oversee pension funds as periodically specified by the Pension Reform Act 2014, and keep track of all account transactions pertaining to the pension funds under their management, give regular updates, give employees and beneficiaries accurate investment information. The Act defines a pension fund administrator as any corporate entity accredited by the Pension Commission (PenCom) to administer pension funds, which includes the Nigerian Social Insurance Trust Fund (NSITF).

PFAs are businesses that have been granted licenses by the Pension Commission to do pension business exclusively. The funded pension system revolves around the PFA's. Future retirees' prospects are determined by their capacity to manage contributions over time, in a way that generates real returns for savers after deducting inflation and management costs. The Pension Fund Custodian (PFC) holds savings on trust to keep asset holdings and the PFA's investment function separate. PenCom sets guidelines on the maximum percentage of investment that PFAs are permitted to make in various asset classes, such as government bonds, money market instruments, and specific domestic equities.

4.8.5 Money and Capital Markets

To mobilise savings for economic growth, a nation's monetary authorities create and maintain financial markets known as the money and capital markets.

a) The Money Market

Short-term loans are traded in the money market. It is made up of people who want to borrow money and financial institutions that have surplus money to lend on a short-term basis. The market encourages reasonable distribution of resources by converting savings into investments. By enhancing the safety and liquidity of financial assets, it also promotes investment and saving practices.

The Central Bank, commercial banks, and discount houses are among the organisations that are active in the market. Treasury securities, commercial papers, call money, Bankers Unit Fund, Bankers Acceptances, and other short-term financial products are some of the products in the Nigerian money market.

b) The Capital Market

Medium- and long-term finances can be mobilised through the capital market. Both the issuance of new securities and the trading of already-issued securities take place in this market. Stocks, bonds, debentures, and equities are the main capital market vehicles used to raise money. The stock exchange, issuing houses, and stock broking businesses are the primary market institutions.

4.8.6 Foreign Exchange Market

a. Foreign Exchange Management 1986 to 2022

Foreign exchange management in Nigeria has evolved significantly over several decades, moving from a highly controlled system to a market-driven one.

Before 1986, the market was tightly regulated, with the **CBN** and the Federal Ministry of Finance controlling the allocation of foreign exchange. Importers and exporters needed special licenses, and the **Comprehensive Import Supervision Scheme (CISS)** was in place to monitor imports. The government also promoted non-oil exports by offering incentives.

From 1986 to 2002, the market shifted towards a more liberal, market-oriented approach under the **Structural Adjustment Programme (SAP)**. This period saw the introduction of the **Second-tier Foreign Exchange**

Market (SFEM) and later, the **Inter-Bank Foreign Exchange Market (IFEM)**, which used daily, two-way quotes to determine the exchange rate and discourage speculation.

From 2002 to 2015, the CBN primarily managed foreign exchange through auction systems. These included the **Retail Dutch Auction System (RDAS)** and the **Wholesale Dutch Auction System (WDAS)**. In 2015, the **Interbank Rate System Regime** was implemented, moving all transactions to the interbank market with the CBN intervening as needed.

From 2016 to 2022, Nigeria adopted a **managed floating exchange rate regime** due to declining oil revenues. This allowed the naira's value to be influenced by market forces, although the CBN still intervened to boost

liquidity. New windows were created for specific sectors, such as the **Investors' and Exporters' Foreign Exchange windows**, to increase transparency and attract foreign investment.

b. Foreign Exchange Management from 2023 to Date

In order to unify the foreign exchange market, the Bank implemented a "willing buyer, willing seller" approach for trading transactions on June 14, 2023. The Nigerian Foreign Exchange Market (NFEM) was the new name given to the FX market when its segmentation was abolished and its prior segments were collapsed into the Investors' and Exporters' (I&E) windows. All qualified transactions are accepted at the NFEM and handled by the Deposit Money Banks, including FX applications for medical needs, school fees, business travel allowance/personal travel allowance (BTA/PTA), and small and medium-sized business (SMEs) transact. A Central Counter Party (CCP) cleared transactions, and order-based two-way quotes were reinstated. Additionally, the Bank allowed 43 items that had previously been barred under the 2015 Circular (TED/FEM/FPC/GEN/01/010) and its addenda to be accessible in the Nigerian foreign exchange market to use foreign currency. Money deposited in domiciliary accounts was also made available to the Deposit Money Banks without restriction, up to a daily transfer cap of US\$10,000.

4.9 Issues in Monetary and Fiscal Policy

4.9.1 Monetary policy

The term "monetary policy" describes a set of policies intended to control the value, supply, and cost of money in the economy, in accordance with the anticipated level of economic activity. A contractionary or restrictive monetary policy aims to decrease the money supply, whereas an expansionary monetary policy aims to expand it.

a. Instruments of monetary policy

The main instruments or tools of monetary policy vary between economies and over time. However, the main instruments of monetary policy are:

- i. Open market operations (OMO):** These are the purchases and sales of securities made by central banks on the open market to reach the target amount of money in circulation in the economy. The Central Bank will engage in open market securities sales in order to decrease the money supply. In contrast, the purchase of government securities will be necessary to grow the money supply.

- ii. **Reserve requirements:** The percentage of commercial and merchant banks' total deposit liabilities that they are legally obligated to hold in reserve with the Central Bank is known as the reserve requirements. Reserve requirements, such as the cash reserve ratio and liquidity ratio, will either be raised to decrease the money supply or lowered to increase it.
- iii. **Discount rate:** The Central Bank's minimum lending rate at which it rediscounts government securities and bills, or the rate it charges on loans to commercial and merchant banks in its capacity as a lender of last resort. Because it affects other rates, it is used to control credit availability and conditions in the economy.
- iv. **Moral suasion:** This refers to the Central Bank's use of persuasion as opposed to coercion to persuade other financial institutions to adopt a behavioral pattern that supports the efficient implementation of monetary policy.
- v. **Special deposits:** In order to support other contractionary monetary policy measures, commercial and merchant banks may occasionally be mandated by legislation to maintain a non-interest-bearing special deposit with the Central Bank.
- vi. **Selective credit control:** This entails giving merchant and commercial banks credit rules to guide their lending to the supposedly favoured or favoured segments of the economy.
- vii. **Credit ceiling:** This is a Central Bank mandate that specifies the rate at which commercial and merchant banks can expand their credit. This is to provide stability in the economy's foreign and internal sectors.

b. Monetary policy targets

The Central Bank can manipulate the monetary policy tools in various ways to accomplish the macroeconomic goals of price stability, economic growth, full employment, and balance of payments (BOP) equilibrium.

c. Monetary policy and inflation:

The problem of inflation will demand for contractionary monetary policy tools, such as:

- a) Government securities sales (under OMO);
- b) Reserve requirements increases;
- c) Discount rate increases; and
- d) Special deposit requests.

All these steps will lower money supply and aggregate demand in the economy and so function to halt the inflationary pressure.

d. Monetary policy and full employment:

Adopting expansionary monetary policy measures—the opposite of the inflationary policies mentioned above, will be necessary to increase employment and output in the economy.

4.9.2 Fiscal Policy

Fiscal policy is the process by which government spending and taxation are used to control economic activity. Full employment, economic growth, price stability, external balance, and equitable income and wealth distribution are macroeconomic goals that can be attained through the use of fiscal policy.

For instance, a period of economic depression or recession marked by slow economic growth and rising unemployment would necessitate increases in government spending, particularly to boost aggregate demand, as well as tax breaks and concessions for regional businesses to boost domestic output. All of these actions are referred to as expansionary fiscal policy.

However, in order to alleviate inflation pressure, contractionary fiscal policies would be needed, such as limiting the growth of government expenditure and increasing taxes to lower aggregate demand and disposable income.

(a) Types of fiscal policy

Understanding the types of fiscal policy is key. The following are the types of fiscal policy that can be adopted by any government:

- (i) **Expansionary fiscal policy:** In order to boost aggregate consumption, demand, investment, and output levels, the government may lower taxes or increase expenditure. This is known as expansionary fiscal policy. When the economy is not functioning at full employment capacity, it is usually used to boost growth. When government spending surpasses revenue, an expansionary budget helps to make it possible.
- (ii) **Contractionary fiscal policy:** moderates' overall levels of output, investment, demand, and consumption by raising taxes or cutting spending. It is usually used when the economy is overheating, experiencing rising inflation, and running above its full employment potential. A contractionary budget is made possible when government revenue surpasses its outlays.
- (iii) **Balanced or neutral fiscal policy:** This means keeping taxes and spending at the same level so that income and expenses are equal. This is usually used when the government wants to preserve both internal

and foreign economic stability, when the economy is functioning at full employment capacity. When government revenue and expenditures are equal or balanced, a balanced budget occurs.

(b) Fiscal policy instruments

The policy instruments that may be adopted by the government to achieve fiscal policy objectives, include the following:

- a) **Taxes:** A tax is a mandatory charge that the government imposes on people, products, and businesses in order to pay for government spending. Taxes can be reduced by the government if demand is weak. Demand is boosted as a result of the growth in disposable income. Tax can be in form of indirect or direct tax.
- b) **Government spending:** is another fiscal policy instrument and includes government expenditures on projects and programmes as well as purchases of products and services that impact the overall demand for such goods and services. The government can lower prices by reducing spending, if inflation is high. In contrast, when the economy is in a recession and aggregate demand is waning, the government can increase spending on infrastructure projects, which would increase demand and create jobs.
- c) **Public debt:** The entire amount borrowed by the government or public authority both domestically and abroad is known as the public debt. It is the sum of all previous deficits minus all previous surpluses. Public debt can be divided into two categories: external debt and internal or domestic debt.
- d) **Budget:** is another key instrument of fiscal policy. A budget is a financial projection of projected income and expenses for a given time frame. A budget is a financial plan that has been approved before a specified time frame, typically a year, and is expressed or presented in quantitative and monetary terms.
- e) **Subsidy:** Subsidies are financial aids given to companies or individuals in order to promote particular sectors of the economy or activities.

4.10 Issues of inflation and unemployment

4.10.1 Inflation

Inflation indicates a sustained increase in the overall price level. The inflation rate is defined as a percentage change in a price index, such as the consumer price index (CPI). When the general level of prices continues to rise, it is referred to as inflation. The inflation rate is expressed as a percentage change in a price index, like the consumer price index (CPI).

(a) **Theories of inflation**

- i. **Demand pull inflation:** This is simply an inflation that results from an increase in aggregate demand. When aggregate demand surpasses aggregate supply at current prices, prices are pushed upward to equilibrate aggregate supply and demand. It describes a persistent rise in the general price level that is caused by a permanent increase in nominal aggregate demand.

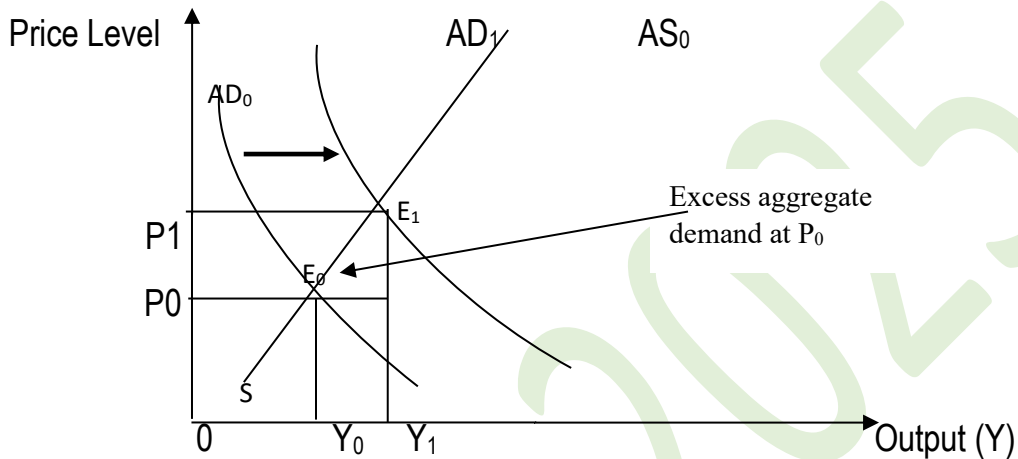


Figure 4.41: Demand Pull Inflation

When aggregate demand rises from AD_0 to AD_1 for a given aggregate supply, excess demand is created at P_0 , which raises price levels from P_0 to P_1 . A new equilibrium is created at point E_1 , with output at Y_1 and a higher price level of P_1 . This process, when repeated frequently, will result in a sustained increase in the price level, which is what demand-pull inflation is all about as depicted in Figure 4.41.

- ii. **Cost push inflation:** This type of inflation is induced by an increase in the cost of factors of production, especially salaries. The cost of manufacturing rises, for example, if workers' cost of living unexpectedly increases and they want and receive greater wages. Higher pricing for goods that workers and consumers must buy will be the result of this. As a result, workers want higher salaries because the previous raise has been undermined by price increases. The cycle continues as prices continue to grow. The figure below illustrates this.

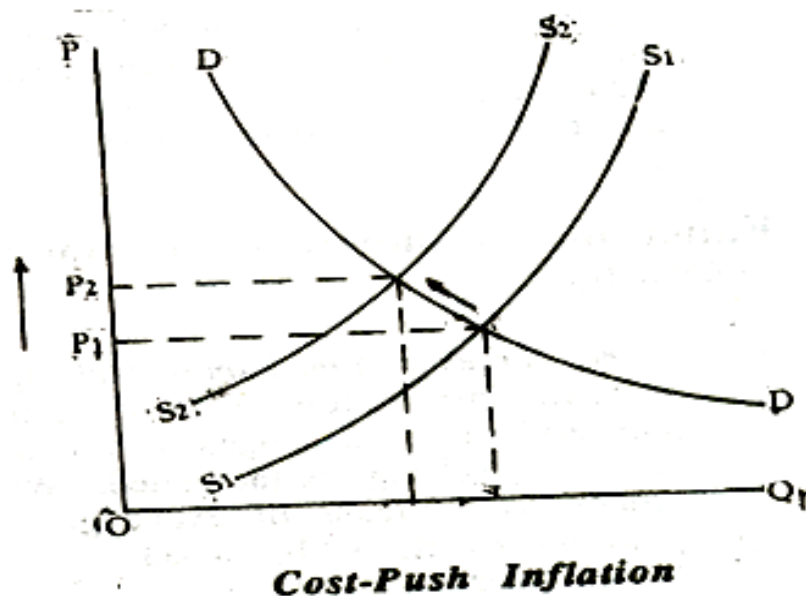


Figure 4.42: Cost Push Inflation

As we can see from the graph above, the supply has decreased from S_1S_1 to S_2S_2 , which has resulted in higher pricing due to rising production costs. In this case, the price goes up from P_1 to P_2 .

(b) Causes of inflation

- i. Inflationary pressures may arise from excessive wage increases in relation to productivity. As a result, the price level rises and aggregate demand rises in relation to aggregate supply. Through greater aggregate demand, higher government spending can raise the economy's price level.
- ii. Price shocks: These are significant spikes in the cost of certain goods, such as those caused by flooding, drought, or sharp increases in the price of oil. The cost of production may rise as a result of these price increases. Given the total demand, the price level is raised even when the total output may decline.
- iii. An excessive increase in the money supply in comparison with the economy's level of productivity: As a result, shortages arise, prices rise, and the economy's level of aggregate demand grows in relation to its level of aggregate output.

(c) Types of inflation

- (i) **Moderate inflation:** Moderate inflation is the gradual but steady rise in the general price level. The Monetary Policy Committee (MPC) of India uses inflation targeting, which aims to keep inflation at 4% annually. In accordance with the targets, the annual rate of inflation should not exceed 2 to 6 percent.
- (ii) **Galloping inflation:** Galloping inflation is the term used to describe a steady and relatively high pace of increase in the general price level. Inflation can reach double digits (20 percent, 40 percent, etc.) and occasionally even triple digits (that is, 200 percent).
- (iii) **Hyperinflation:** This occurs when the rate of inflation is extremely high, which causes the value of money to depreciate quickly. To deal with this, households tend to hold less local currency. This typically occurs in economies that have experienced wars and their aftermath, socio-political upheavals, or other crises, where it is very difficult for the government to impose taxes on the populace. This results in a fiscal deficit, which the government must primarily finance through money creation rather than taxation or borrowing.
- (iv) **Stagflation:** The scenario when an economy grows very slowly or at zero pace (stagnant) and prices continue to rise is known as stagflation (stagnation plus inflation). Increased unemployment combined with price increases, or inflation, are the side consequences of stagflation. It creates an economic conundrum because measures intended to reduce inflation could make unemployment worse and vice versa. This occurred in the 1970s, when the price of crude oil skyrocketed, causing industrialised economies to experience severe inflation.
- (v) **Deflation:** is a circumstance in which the level of prices consistently declines. Once more, you must pay attention to the terms "price level" and "consistent." Therefore, a drop in the price of a particular good cannot be said to represent deflation. When aggregate demand is less than aggregate supply, deflation occurs. Therefore, a decline in output, a rise in unemployment, and a general slowdown in economic activity are characteristics of deflation. One instance of acute deflation is the Great Depression of the 1930s when prices plummeted, unemployment skyrocketed, and the GDP of wealthy nations plummeted. Deflation has a lot of negative repercussions. In a contemporary economy, deflation is detrimental, since it raises the real worth of debt and deters economic production as prices continue to decline.

- (vi) **Core inflation:** Core inflation, which is the measurement of inflation after removing transitory or temporary price volatility, is calculated on the basis of price increases in manufactured products, excluding food products; therefore, it does not include agricultural commodities, fuel and energy, and food products. If temporary price shocks are taken into account, they may affect the estimated overall inflation numbers, which may not match the actual inflation number. To eliminate this possibility, core inflation is considered to assess actual inflation by removing the temporary shocks and volatility.

4.10.2 Unemployment

a. Definition

Unemployment occurs when people are willing and able to work, but do not find jobs at the existing wage rate. People who are eager and able to work but are unable to obtain employment at the current wage rate are said to be unemployed. A person must be able to obtain employment, willing to work at the present wage rate, and qualified for a job in order to be classified as unemployed.

b. Types of Unemployment

- i. **Frictional unemployment:** This is unemployment caused by shifts in certain labour markets. This is the kind of unemployment caused by people who have voluntarily left their jobs and are looking for new ones, or by people who are joining or returning to the workforce in search of employment.
- ii. **Structural unemployment:** This type of unemployment is brought about by modifications to technology or shifts in the pattern of demand for goods and services. Some skills may become less in demand or obsolete as a result of these developments, which could also impact the structure of the overall labour demand. However, the need for some abilities can grow. In this instance, unemployment results from a labour force composition that is slow to adapt to changing job opportunity arrangements.
- iii. **Cyclical unemployment:** This kind of unemployment, also known as deficient-demand unemployment, is brought on by a drop in the economy's real aggregate output and is also known as unemployment caused by a lack of aggregate or total expenditure.

- iv. **Seasonal unemployment:** Seasonal changes in employment are the causes of this. For instance, there will be a need for additional farm labour during the harvest season. These farm hands are laid off after the harvest season.

c. Causes of unemployment

- i. **Growing population:** Over the past few decades, the rate of population growth has been steadily rising. There are far more people in the nation than there are jobs available, particularly among the youth population. This generates a scenario of unemployment in the economy.
- ii. **Poverty and illiteracy:** The fact that fewer people are educated and literate is one of the primary causes of unemployment. The poor and illiterates frequently struggle to find work in the formal sector, since they lack the skills required for employment as a result of their poor income and way of living.
- iii. **Inflation:** When prices consistently grow without corresponding increases in the production of goods and services, the public's real income declines. When the population grows, there is a higher supply of labour than there is demand, which lowers wages. Because they are dissatisfied with the salaries they are now receiving, more people become unemployed as a result.
- iv. **Agricultural workers:** The people who are working in the agricultural industry are employed just for a specific period of time and are unable to obtain jobs for other parts of the year.
- v. **Casual and informal labour:** Individuals often work in the informal sector, which pays poorly and irregularly, because there are fewer jobs available than there are individuals in need of employment.
- vi. **The industrial sector does not operate at full capacity** because of a shortage of raw materials and sufficient machinery, which prevents it from hiring as many people as possible in factories.

Other factors include:

- a) corruption in government;
- b) neglect of agricultural and other natural resources;
- c) poor quality education; and
- d) lack of working skills.

4.10.3 Philip's Curve

A.W. Philips first explained the connection between inflation and employment in 1958. He discovered that the rate of unemployment and the rate of changes in the money wage were inversely related. The inverse relationship was explained in two ways.

- It has been observed that during periods of exceptionally high unemployment, labour demand tends to be minimal. Consequently, wage rates decline at a moderate pace, as workers are generally unwilling to offer their services below prevailing market rates. Conversely, when unemployment is extremely low and the demand for labour is high, wages are expected to increase rapidly in order to attract the limited pool of available workers. Employers will raise wages during a time of increased economic activity when unemployment declines and there is a greater need for workers. In contrast, companies will be hesitant to raise wages during a period of declining business activity, when there is a decline in the demand for labour and a rise in unemployment. Instead, they will lower salaries. However, during these times, unions and employees will be hesitant to accept pay reductions. As a result, firms are compelled to fire employees, which raises unemployment rates. Therefore, a slight decrease in earnings would result in a significant rise in unemployment during a downturn in the labour market.

Based on these reasoning, Philips came to the conclusion that, when shown graphically, the relationship between unemployment rates and change in money earnings would be extremely non-linear. The Philips curve is the name given to such a curve. The figure that follows illustrates this.

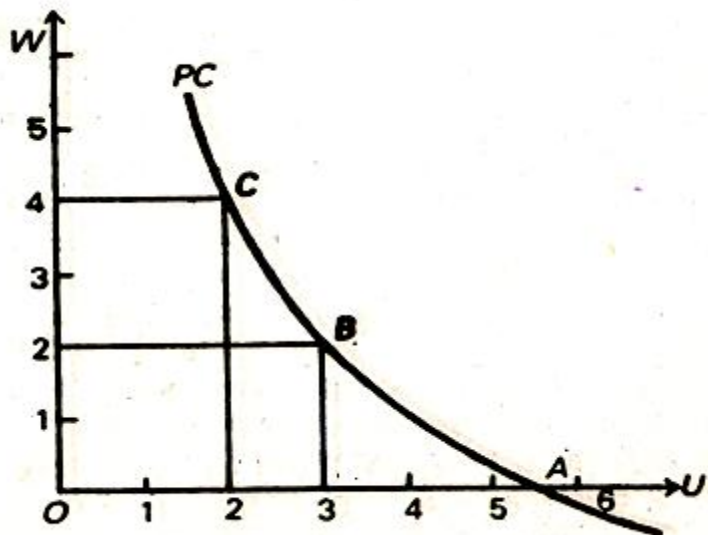


Figure 4.43: Philip's Curve

The PC curve, also known as the Philips curve, connects the rate of unemployment (U) on the horizontal axis to the percentage change in the money wage rate (w) on the vertical axis. Originally Philips tracked the association between the unemployment rate and the rate of change in money wages, the study was later expanded to look at the relationship between the unemployment rate and the rate of inflation. A US study supported the presumption that there is a positive correlation between rising wages and price levels. The Philips curve suggests that the rate of employment and the rate of inflation are positively correlated.

A lower unemployment rate can only be attained by permitting the inflation rate to rise, according to the Philips curve, which suggests that there is a trade-off between the two rates from a policy perspective.

4.11 Issues of economic growth and development

4.11.1 Economic growth and development

(a). Economic growth

Economic growth is often understood to be the increase in a country's actual output. However, other economists would rather characterise economic growth as the increase in a country's capacity to generate the commodities and services that its citizens desire.

When real per capita income rises in tandem with real aggregate output (real GDP), this is referred to as economic growth. A nation is considered to be

experiencing economic growth, if both its real output (real GDP) and real per capita income rise over time. The percentage rise in real GDP over time is used to calculate the pace of economic growth. We must differentiate between economic growth and actual GDP growth. Real GDP growth is the term used to describe an annual rise in real GDP. Conversely, economic growth demonstrates a steady rise in real GDP over time.

(b) Economic development

Economic growth and economic development are not synonymous. A prerequisite for economic development is economic growth. This assumes that economic development is more than economic growth. Economic development is defined as a steady rise in real GDP, which entails higher real per capita income, improved health and education, environmental protection, institutional and legal reforms, and an effective system of production and distribution for products and services.

4.11.2 Sources of economic growth

- (i) **Human resources:** Human capital investment is regarded as a critical component of economic expansion. This is accomplished by improving the calibre of a country's workforce, via advanced technology education and training. Literacy has also been shown to increase productivity and increase a person's ability to adjust to new situations.
- (ii) **Natural resources:** Another essential source of growth is a country's access to natural resources, such as minerals and land. The degree of exploitation of these resources is just as important as their availability. It should be mentioned that caution should be exercised to avoid sacrificing the environment in the process of using these resources. This implies that despite preserving high environmental standards, growth resulting from the exploitation of these resources should be sustainable.
- (iii) **Capital formation:** According to growth economists, one of the primary drivers of an economy's growth is the accumulation of capital. The accumulation of more capital per person—such as industries, roads, and machinery—is emphasised. However, it should be highlighted that growth will not be fuelled by the sheer accumulation of money. Increasing the stock of capital alone will not boost productive capacity, unless there are untapped investment opportunities. Additionally, there are other productive components of production, of which capital is just one. Its marginal efficiency

decreases when it is raised in comparison to other production components.

- (iv) **Technology:** Growth is significantly influenced by scientific and engineering advancements that increase knowledge and result in new manufacturing methods and products. Technology can be acquired from other nations or developed domestically.

4.11.3 Economic Planning

To encourage rapid economic growth, economic planning entails the government's deliberate distribution of resources among the many economic sectors. Development plans are used to accomplish this. Development planning has three components: resource management, resource allocation, and resource accumulation.

A development plan is a document that outlines a country's policy framework and development agenda for a specific time frame, typically five years. It lays out the broad policies and action plans that are organised in accordance with a list of priorities or declared goals.

a. Objectives of planning

- i. **To maximise the utilisation of economic resources:** A country's resources are not always sufficient for its needs. In this sense, resources need to be distributed so that they can be used to their fullest potentials. Countries can quicken their rates of economic development by allocating their resources efficiently.
- ii. **To correct the imperfection of the market system:** Since the market system is not ideal in practice, resource allocation that takes place in a perfect competition model does not take place. Therefore, the government must step in to guarantee the effective distribution of resources.
- iii. **To bridge the gap between private cost and social cost, private benefit and social benefit:** There might be a difference between social and private benefit and social and private expense in a perfect market. Externalities—benefits or costs incurred by third parties as a result of the production or consumption of goods or services—are the causes of this. In a pure market economy, where private individuals make all investment decisions, many necessary projects might not be lucrative due to external benefits. Due to private investors' disregard for external and supplemental advantages of projects

when estimating the potential returns on their investment, the level of investment may be below the social optimum.

- iv. **To ensure balanced growth:** All economic sectors can have balanced growth with the help of planning. This will result in consistent growth, the delivery of supplementary services, and intra-sectoral connections.
- v. **To attract foreign investment:** Creating plans serves as a strategy to draw in foreign funding or investment. Grants and loans from foreign governments and international organisations must be accompanied by assurances that the funds will be used effectively. Realistic plans outlining the anticipated level of economic growth will help promote private investment. Thus, well-coordinated strategies to allocate investment funds are of importance to donor nations.
- vi. **To match the available resources with the desired goals:** Planning is made easier by the complementary nature of some financial choices. One project's feasibility might be dependent on another's. For instance, the establishment of irrigation projects and a specialised transportation system to move fresh fish, vegetables, and other goods between fields and marketplaces may be necessary for the growth of the agriculture industry. In this sense, these actions can be coordinated through planning.

b. Problems of economic planning

- (i). **Lack of data:** The primary obstacle to economic planning in West Africa is the absence of adequate, precise, or comprehensive economic data. Effective planning is impossible without sufficient data. Our database has to be improved in order to facilitate more efficient planning and execution.
- (ii). **Lack of coordination:** Activities of several ministries must be coordinated during the planning process. Coordination amongst these bodies becomes extremely challenging, if they are semi-autonomous. This could have an impact on how strategies for economic development are created and carried out.
- (iii). **Failure of foreign resources to materialise:** All foreign aids are listed in the plan in order to ensure that the provision of cash

is in line with the anticipated needs. This does not guarantee that the amount of foreign aid that is indicated will actually be provided. Ghana's five-year and seven-year development plans failed to attract the anticipated international financing and investment. This had an adverse effect on both the five-year and seven-year development plans' implementation.

- (iv). **Failure of politicians to follow the plan:** Politicians can refuse to accept the planning disciplines that have been initiated, even when the plan contains real initiatives. Certain classes, groups, and ethnicities that have stakes in maintaining the status quo in a nation may find important aspects of the plan unacceptable.
- (v). **Political instability:** Political unrest has historically disrupted economic planning in Nigeria. For instance, the 1966 military coup led to the collapse of the First Republic and derailed key national development initiatives. Such instability creates uncertainty around investor safety, discouraging both domestic and foreign investment and undermining long-term economic growth. **Shortage of Manpower:** Any economic development programmes creation and execution present management challenges. The successful implementation of an economic development strategy is contingent upon the presence of appropriately trained individuals and a well-organised administration. In developing nations, the availability of such skilled labour is a challenge.

4.12 Chapter review

This chapter discusses the introduction to key concepts in microeconomics and macroeconomics. It also gives insight into the nature, scope, and methodology of economics, markets and market mechanisms.

Worked examples

1. You are provided with the following production schedule:

Fixed Input (Y)	Variable Input (X)	Total Product (TP _x)	Average Product (AP _x)	Marginal Product (MP _x)
6	0	0	-	-
6	2	---	---	50
6	3	180	---	---
6	4	---	65	---
6	5	---	---	140
6	6	---	100	---
6	7	980	---	---
6	8	---	---	-580

Required:

- Justify whether the above production schedule is for a short run period or a long run period.
- Use your knowledge of production functions to complete the above production schedule.

Question 2

In the study of microeconomics, market structures play a pivotal role in shaping the behaviour of firms and consumers. Among these structures, **perfect competition** stands out as an idealised benchmark against which real-world markets are often evaluated.

Required:

- Explain perfect competition.
- Explain the long-run equilibrium position of a firm operating under conditions of perfect competition.

Question 3.

- In every modern economy, financial institutions play a pivotal role in maintaining stability, promoting growth, and facilitating transactions. Among these institutions, the **Central Bank** stands out as the cornerstone of monetary policy and financial regulation. Understanding its functions is essential for grasping how economies are managed and safeguarded.

Required:

Outline **FOUR** main functions of the Central Bank.

- (b) The distinction between different types of financial markets is important, particularly the **money market** and the **capital market**. These markets serve different purposes, cater for different financial instruments, and operate over varying time horizons, yet both are crucial for the smooth functioning of the financial system.

Required:

Differentiate between the 'money market' and 'capital market'.

Suggested solutions

1.

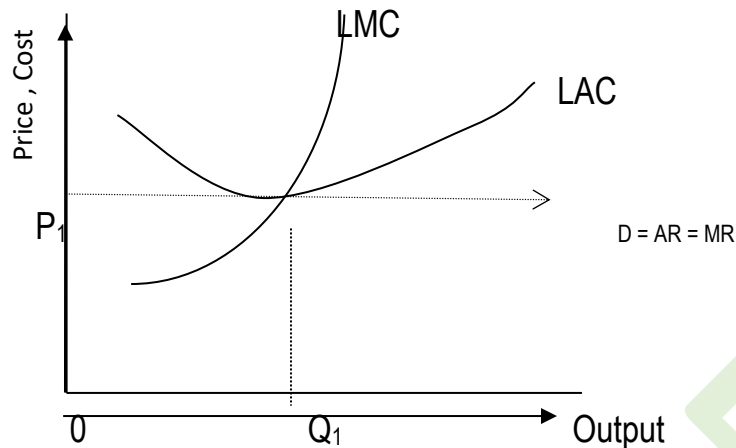
- (a) The production schedule is for the short-run period. This is due to the fact that it has both variable and fixed input. While input X is variable, input Y is fixed.

(b)

Fixed Input (Y)	Variable Input (X)	Total Product (TP _x)	Average Product (AP _x)	Marginal Product (MP _x)
6	0	0	-	-
6	2	100	50	50
6	3	180	60	80
6	4	260	65	80
6	5	400	80	140
6	6	600	100	200
6	7	980	140	380
6	8	400	50	-580

2.

- (a) The term "perfect completion" describes a market structure where a large number of relatively small businesses have the option to enter and leave the industry. Every company produces a uniform product, and every buyer and seller in the market is fully aware of the state of the market, particularly with regard to the product's current price and location.
- (b) In the long-run, the firm in perfect competition is making a normal profit or zero economic profit as shown in Figure 1 below (total cost equals total revenue).



The Long-run Equilibrium Position of the Perfectly Competitive Firm.

Since there are no barriers to entry, the possibility of short-term positive economic benefit acts as an incentive for new businesses to enter the market. Until the industry's profit margins are exhausted, the process of new entrants will continue. In other words, there will be no long-term economic or typical profit if there is an excess of supply and a constant downward revision of prices until price (P) equals average total cost (LAC).

3. a) The main functions of the Central Bank in both developed and developing economies include:
 - (i) Currency issuance and distribution: The Central Bank is the only organisation authorized by law to print coins and currency notes that are accepted as payment throughout the nation. Controlling the money supply to avoid inflation requires the monopoly power of creating legal tender currency.
 - (ii) Bankers' banks: The Central Bank offers services to other banks, particularly commercial banks, so they can maintain cash reserves and employ clearing houses to settle their balances. The Central Bank is known as the "lender of last resort" since it also lends money to commercial banks or discounts their bills when they are low on funds.
 - (iii) Government banker: The Central Bank maintains the government's and all of its businesses' and agencies' financial records. In addition to accepting all payments owed to the government, it also borrows money on its behalf by issuing long-term securities like development stocks and short-term securities like treasury bills and certificates. The Central Bank is also in charge of overseeing the government's external and domestic debt.

- (iv) Monetary stability promotion: To support price stability, the central bank regulates the amount of money in the economy. This entails the application of monetary policy tools including reserve requirements, the discount rate, open market operation (OMO), etc.
- (b) The market for short-term loans is known as the money market. It is made up of people who want to borrow money and financial institutions that have extra money to lend on a short-term basis. The market encouraged the sensible distribution of resources by converting savings into investments. By enhancing the safety and liquidity of financial assets, it also promotes investment and saving practices. The Central Bank, commercial banks, and bargain stores are among the organisations that are active in the market. Treasury securities, commercial papers, call money, Bankers' Unit Fund, Banker's Acceptance, and other short-term financial products are the main players in the Nigerian money market.

On the other hand, long-term money can be mobilized through the stock market. Both the issuance of new securities and the trading of already-issued securities take place in this market. Stocks, bonds, debentures, and equities are the main market tools for raising money. The stock exchange, issuing houses, and stock broking businesses are the primary institutions in the capital market.

Foundation Level
Business Environment

CHAPTER 5

TECHNOLOGY AND DATA ANALYSIS

Contents

- 5.0 Learning objective
- 5.1 Learning outcome
- 5.2 Business uses of computer and information Technology (IT)
- 5.3 E-commerce and electronic business
- 5.4 Emerging Technology and the accountancy Profession
- 5.5 Chapter review

5 Technology and Data Analysis

5.0 Learning objective

This chapter enhances the readers' understanding of uses of computers and information technology (IT), e-commerce and e-business, and emerging technologies in business and the accountancy profession.

5.1 Learning outcomes

At the end of this section, readers should be able to:

- a) define and explain various business it tools such as erp, ai, crm, and their integration in business operations;
- b) illustrate how data analytics and big data are applied to drive competitive advantage in firms;
- c) demonstrate an understanding of cybersecurity principles and enumerate specific risks and prevention strategies;
- d) construct a business case for an e-commerce or e-business proposition, including deployment options and it policy considerations;
- e) assess the benefits and challenges of e-commerce implementation in both local and global business contexts;
- f) identify and differentiate between e-commerce models (e.g., b2b, b2c, c2c) and explain related payment systems;
- g) describe the evolution of digital intermediaries and their influence on supply chains and consumer behaviour;
- h) evaluate the relevance of new technologies such as cloud computing, blockchain, fintech, IoT, and statistical modelling to accounting and business transformation; and
- i) apply knowledge of digital tools and strategies to solve contemporary business problems in a technology-driven environment.

5.2 Business uses of computer and information technology (IT)

In today's digital economy, Information Technology (IT) plays an indispensable role in reshaping the structure, speed, and scale of business operations. The integration of computers and IT tools has transformed how businesses plan, operate, compete, and grow. Information technology (IT) has become the backbone of modern business, enabling faster decision-making, global connectivity, and operational excellence.

According to Laudon and Laudon (2020), information systems are not only tools for data processing, but enablers of strategic capabilities. Businesses across sectors leverage IT to streamline workflows, enhance productivity, and compete globally.

Computers enhance efficiency by automating repetitive tasks, reducing human error, and improving the speed of operations. Their influence cuts across diverse business domains, such as accounting, finance, marketing, human resources, operations, logistics, and customer relationship management.

According to O'Brien and Marakas (2011), business information systems support managerial decision-making, enhance communication, improve productivity, and ensure data security. This section explores the multidimensional uses of computers and IT in contemporary business settings. Information technology enables businesses to streamline operations, enhance communication, and improve decision-making. Tools like spreadsheets and accounting software support financial analysis and reporting, while platforms such as email, video conferencing, and collaborative apps facilitate remote work (Turban et al., 2018). IT also drives digital marketing through SEO, social media, and data-driven ad targeting specific audiences. Cloud storage, secure servers, and mobile apps ensure data accessibility and business continuity. In HR and training, IT supports e-recruitment and employee development via online platforms. Research and market intelligence is advanced through data mining and analytics. As Horngren et al. (2018) note, accurate, technology-driven insights are crucial for informed decisions. The applications of IT in business are further explored below.

- i. **Enhancing operational efficiency and productivity:** One of the foremost contributions of IT is process automation. Routine tasks such as payroll processing, inventory control, invoicing, and data entry are now handled efficiently through business applications, reducing errors and speeding up execution. This allows employees to focus on strategic and high-value tasks, ultimately boosting overall productivity (Davenport & Short, 1990). For instance, the use of spreadsheet applications like Microsoft Excel, enables managers to conduct what-if analyses, create budgeting scenarios, and monitor financial performance all with ease and speed.
- ii. **Communication and collaboration:** Computers have transformed the way businesses communicate internally and externally. Tools such as email, instant messaging, video conferencing, and cloud-based collaboration platforms (for example, Microsoft Teams, Zoom and Slack) allow seamless communication between employees and departments, even across geographical boundaries. Efficient communication supports faster decision-making, improved teamwork, and agility in responding to customer inquiries or market changes (Turban et al., 2018). These tools enhance transparency and foster trust through timely responses and feedback loops.

- iii. **Data management and decision support:** With businesses generating massive volumes of data daily, IT systems enable structured data storage, retrieval, and analysis. Relational database systems, such as MySQL and Oracle, support the management of structured data, while big data platforms like Hadoop and Spark manage large-scale, unstructured datasets. Also, data analytics, using tools such as Tableau, Power BI, or Python helps to extract patterns, customer insights, and performance trends. As Brynjolfsson and McAfee (2014) observed, data-driven firms consistently outperform their competitors because their decisions are grounded in empirical evidence rather than intuition.
- iv. **Customer engagement and experience:** The customer base of a business determines the success or failure of that business. Information technology enhances how firms interact with and understand their customers. Websites, mobile apps, social media platforms, and Customer Relationship Management (CRM) software enable firms to engage users, personalise marketing, track preferences, and deliver after-sales support. CRM platforms, like Salesforce and Zoho centralise customer information, allowing businesses to deliver tailored services. This promotes customer satisfaction, loyalty, and lifetime value key drivers of long-term profitability (Kotler & Keller, 2016).
- v. **Innovation and competitive advantage:** Through IT, businesses can access tools for innovation, product development, and rapid prototyping. Technologies such as Artificial Intelligence (AI), blockchain, machine learning, and enterprise resource planning (ERP) offer novel ways to enhance value propositions and streamline operations. Firms using AI-driven insights in areas like pricing, customer behavior prediction, and fraud detection gain strategic advantages in rapidly evolving markets (Russell & Norvig, 2016). ERP systems further unify processes across finance, logistics, and HR into a centralised platform, ensuring cohesion and performance tracking.
- vi. **Supply chain and inventory management:** Advanced IT tools assist in optimising the supply chain by automating procurement, logistics, and inventory tracking. Software systems like SAP, Oracle SCM, and Odoo allow for real-time monitoring of inventory, demand forecasting, and supplier management, leading to reduced operational costs and timely service delivery (Monk & Wagner, 2012).
- vii. **Digital financial transactions:** Another important use of IT in business operations is how it aids financial transactions. IT enables secure and seamless financial transactions. Through applications such as internet banking, mobile money, point-of-sale (POS) systems, and blockchain-based

solutions, businesses can receive and make payments globally. Digital wallets, such as Flutterwave, Paystack, and Remita in Nigeria, have facilitated financial inclusion and accelerated cashless operations, with many people having access to these platforms.

- viii. **E-recruitment and human resource management:** Through IT development, online platforms and databases firms advertise vacancies, receive applications, and conduct virtual interviews. This streamlines the hiring process and expands the pool of candidates beyond geographic limitations. HR software also manages performance evaluations, benefits administration, and payroll, thus improving overall workforce management. In the modern era, many companies conduct and hire employees even without physically seeing them.
- ix. **Security and risk management:** As reliance on digital systems grows, so does the exposure to cybersecurity threats. However, IT also provides mechanisms for data encryption, multi-factor authentication, intrusion detection, and regular backups to safeguard business and personal data. IT security protocols protect firms from reputational damage and financial losses, which may arise from data breaches and cyberattacks (Whitman & Mattord, 2021).
- x. **Cost reduction and resource optimisation:** While initial investments in IT infrastructure may be high, long-term savings are realised through reduced manual labour, efficient resource use, and scalable operations. The adoption of cloud computing, for instance, eliminates the need for expensive on-premise servers and IT maintenance, as data are backed up to the cloud, offering businesses flexibility as well as affordability (Armbrust et al., 2010).

Explanation of key IT tools and systems

In today's technology-driven economy, the deployment of specific information technology tools is fundamental to the successful operation and management of modern businesses. These tools are designed not only to automate processes, but also to enhance data accuracy, decision-making, collaboration, and customer engagement.

Understanding how each tool functions and contributes to business operations is critical for accounting professionals, managers, and entrepreneurs seeking to harness the power of technology for strategic advantage. Each system is explained with reference to its purpose, business applications, and definitions.

a. Database systems

A database system is a structured collection of data that enables efficient storage, retrieval, and manipulation of information. It is a computer-based application designed to manage large collections of structured, related data. A database is “a collection of inter-related data stored together without harmful or unnecessary redundancy to serve multiple applications”. It includes a Database Management System (DBMS), which acts as an interface between users and the stored data. It enables businesses to efficiently organise, access, and manipulate data for various functional purposes. A DBMS allows multiple users to interact with data concurrently while maintaining data integrity and security. Businesses use database systems to manage inventory, payroll, customer information, and financial records.

Database systems are essential across diverse business domains, such as finance, operations, human resources, marketing, and supply chain management. Organisations use them to manage inventory, process payroll, analyse customer data, and forecast sales. A robust DBMS ensures concurrent access, data integrity, security, and minimal redundancy.

Entities such as people, products, or transactions are described by attributes (for example, name, ID, or amount), forming entity sets. Database systems support various types, based on structure and purpose:

Bibliographic Databases (for example, library systems): A bibliographic database is an organised collection of references to published literature such as journal articles, books, reports, and conference papers. These databases store metadata, like authors, titles, keywords, abstracts, and publication details, rather than full-text documents. This structure enables efficient literature search and retrieval, especially for research and academic purposes. **Knowledge Databases** (for example, AI systems): A knowledge database is a specialised repository designed to store structured and unstructured information for reuse, learning, and decision-making. Unlike traditional databases that store only data, knowledge databases capture experiential insights, historical data, technical notes, and problem-solving records. These databases are commonly used in AI systems, penetration testing, project management, and organisational learning. A knowledge database may store outcomes of past projects, frequently asked questions, known issues, best practices, and peer-reviewed findings. To remain useful, knowledge entries must be well-organised, searchable, and sanitised to protect confidentiality. While free-form input is common, structured peer review helps ensure relevance and accuracy.

Graphic-oriented databases (for example, CAD systems): Graphic-oriented databases refer to systems that manage data with strong visual or spatial representations, often used in Computer-Aided Design (CAD), architecture, multimedia modelling, and engineering applications. These databases store not just alphanumeric data, but also images, schematics, and visual components in interactive formats.

Key functions of a database system

Database systems perform the following functions:

- a. **Data definition and storage management:** The DBMS defines the structure of data through its Data Definition Language (DDL) specifying tables, fields, data types, and constraints. It also manages the physical storage of data, optimising space and ensuring minimal redundancy.
- b. **Data manipulation and query processing:** Using Data Manipulation Language (DML), the DBMS enables users to insert, retrieve, update, or delete data. Both embedded and ad-hoc queries are supported to meet operational and analytical needs.
- c. **Data security and authorisation control:** DBMS provides robust security features, including user authentication, access privileges, and encryption protocols, to prevent unauthorised access and ensure data privacy.
- d. **Data integrity enforcement:** The system maintains data accuracy and consistency through integrity constraints such as entity, referential, and domain constraints. These rules help prevent invalid or contradictory data entries.
- e. **Backup and recovery:** In the event of system failure, the DBMS employs recovery mechanisms to restore the database to its last consistent state. This includes automatic logging, checkpoints, and backup tools.
- f. **Concurrency control:** To support multi-user environments, the DBMS enforces concurrency control mechanisms (for example, locking protocols) to prevent data anomalies during simultaneous access or transactions.
- g. **Transaction management:** A transaction is a logical unit of work. The DBMS ensures atomicity, consistency, isolation, and durability (ACID) properties during transactions to maintain database reliability.
- h. **Data dictionary and metadata management:** The DBMS maintains a data dictionary (system catalogue) containing metadata, descriptions of database objects, schemas, relationships, and access rights. This enables self-description and better control.

- i. **Performance optimisation:** It optimises query execution using indexes, query planners, and cache mechanisms to ensure high-speed data retrieval and efficient resource utilisation.
- j. **Data independence:** The DBMS separates logical and physical data views, ensuring that changes in data storage do not affect application programs (physical data independence) and changes in schema do not affect users (logical data independence).
- k. **Utility and administrative tools:** It provides administrative utilities for database monitoring, tuning, schema modification, and report generation, supporting database administrators (DBAs) in managing the system effectively.
- l. **Application programming interface (API):** Modern DBMSs offer APIs and interfaces for application developers, enabling integration with programming languages (for example, SQL, Java, Python) for seamless system interaction.

b. **Accounting software**

Accounting software refers to computerised systems that automate the recording, processing, and reporting of financial transactions. Popular platforms like QuickBooks, Sage, and Xero streamline tasks, such as general ledger maintenance, payroll, invoicing, accounts receivable/payable, and financial reporting. Such tools reduce manual errors, enhance data accuracy, and facilitate compliance with regulatory standards, while providing real-time access to financial information for decision-making.

Historically, accounting automation began in the 1950s–60s with mainframe systems that processed high-volume transactions in large corporations. Over time, these evolved into more accessible and user-friendly tools.

Core features and functional capabilities

Modern accounting software, typically offer suites of modules tailored to manage various financial operations:

- a. **General ledger and subledgers:** Automatically update journal entries and integrate with subledgers, offering real-time visibility of a company's finances.
- b. **Accounts receivable (AR) and accounts payable (AP):** Tracks incoming payments and outgoing expenses, improves billing accuracy, and automates invoice generation and vendor payments.
- c. **Payroll management:** Handles wage calculations, tax deductions, direct deposits, and regulatory filings.

- d. **Inventory management:** Monitors stock levels, automates reorder processes, and tracks item movements from procurement to sale.
- e. **Cash and asset management:** Supports bank reconciliations, asset depreciation schedules, and cash forecasting.
- f. **Risk and compliance controls:** Includes internal checks, audit trails, user authentication, and compliance with tax and financial regulations.
- g. **Reporting and analytics:** Offers customisable dashboards, real-time financial metrics, and regulatory report generation.
- h. **Revenue and collection management:** Supports structured receivables tracking, customer ranking, and automated collection workflows.

i. Types of accounting software

Accounting tools vary widely based on organisational needs and scale. Key categories include:

- a. **Billing and invoicing systems:** Automate client billing, issue recurring invoices, and support online payments (e.g., Zoho Books, Invoiced).
- b. **Commercial accounting software:** Ready-made solutions for SMEs with standard financial modules (e.g., QuickBooks, Xero).
- c. **Enterprise accounting software:** Part of ERP systems, integrating accounting with operations like HR and logistics (e.g., SAP, Oracle).
- d. **Custom accounting software:** Tailored solutions developed internally for specific industry or organisational needs.
- e. **Cloud-based accounting software:** Accessible via the internet, supporting remote access, scalability, and reduced local infrastructure requirements (for example, FreshBooks, NetSuite).
- f. **AI-Powered or RPA-Enhanced tools:** Use automation and predictive analytics for advanced tasks, like forecasting and anomaly detection.

ii. Key benefits

Key benefits and advantages of accounting software include:

- **Efficiency:** Reduces manual data entry and automates routine financial tasks.
 - a. **Accuracy:** Minimises errors through real-time validations and automated calculations.
 - b. **Compliance:** Assists with regulatory submissions and tax reporting.
 - c. **Scalability:** Grows with the business, supporting more users, data, and functionalities.

- d. **Accessibility:** Cloud solutions allow access from anywhere, facilitating hybrid work models.
- e. **Decision Support:** Provides management with timely and data-rich reports for strategic planning.

iii. Limitations and considerations

Despite its advantages, accounting software also comes with considerations, such as:

- a. **Learning curve:** Staff may need training to adapt to new systems.
- b. **Security risks:** Storing financial data digitally necessitates robust cybersecurity.
- c. **Initial and ongoing costs:** Subscription fees, updates, and support may add to costs.
- d. **Internet dependency:** Cloud-based tools require reliable internet connectivity.
- e. **Customisation limitations:** Off-the-shelf products may not meet niche operational requirements.

c. Spreadsheet applications

A spreadsheet application is a digital tool designed to organise, manipulate, and analyse data in a tabular format consisting of rows and columns. Spreadsheet applications are essential tools for data analysis, budgeting, forecasting, and reporting. Spreadsheets provide businesses with flexible and user-friendly platforms for handling numerical data, performing calculations, and generating charts. Spreadsheet applications serve as powerful tools for both structured and ad hoc decision-making, particularly in small and medium enterprises.

Spreadsheets have evolved from large physical ledger sheets, used by accountants to powerful electronic platforms that support real-time data processing. Modern spreadsheet software, such as Microsoft Excel, Google Sheets, Lotus 1-2-3, and Quattro Pro, provide user-friendly interface with features, like formula bars, toolbars, scroll bars, and status indicators, making them accessible even to non-technical users.

i. Key features and functions of spreadsheet applications

- a) **Data entry & editing:** Supports input of labels, numbers, dates, and formulas, all of which can be edited easily.

- b) **Mathematical computation:** Automates calculations such as sums, averages, and percentages.
- c) **Data sorting & filtering:** Enables quick organisation and retrieval of information.
- d) **Charting & visualisation:** Facilitates the creation of bar charts, pie charts, and trend graphs for data interpretation.
- e) **Scenario modelling:** Useful for business simulations, break-even analysis, and financial forecasting.
- f) **Data storage & integration:** Stores large volumes of structured data and can be linked to external databases or applications.

ii. **Applications in business and daily use:**

Spreadsheets are widely adopted across industries for:

- a) Budgeting and financial planning
- b) Payroll and invoicing
- c) Inventory management
- d) Data collection and analysis
- e) Performance tracking
- f) Customer databases

iii. **Advantages of spreadsheet applications:**

- a) **Accuracy:** Built-in formulas reduce manual errors.
- b) **Efficiency:** Automates repetitive tasks, saving time.
- c) **Flexibility:** Supports customised models and templates.
- d) **Accessibility:** Data can be viewed, edited, and shared easily across teams.
- e) **Visualisation:** Helps decision-makers understand data through graphs and visual summaries.

d. **Enterprise resource planning (ERP)**

Enterprise resource planning (ERP) systems have become indispensable in modern business management, serving as a backbone for organisations seeking to streamline operations, improve decision-making, and gain competitive advantages. The concept of ERP emerged from the development of earlier systems such as material requirements planning (MRP) and manufacturing resource planning (MRP II) during the mid-20th century. These early systems were focused primarily on the manufacturing sector, aiding companies in managing their inventories, production schedules, and

procurement. The evolution from MRP to ERP was driven by the increasing complexity of business operations and the growing need for companies to manage not only production, but also other critical functions like finance, human resources, sales, and supply chain management. ERP systems began incorporating multiple business processes into a single integrated framework, ensuring that different departments within an organisation could share and access the same real-time data, fostering better coordination and efficiency.

As technology advanced, ERP systems evolved from being standalone, on-premise software applications to more sophisticated, cloud-based solutions that offer flexibility and scalability. Today, ERP systems are designed to integrate a wide array of functions, including finance, procurement, inventory management, human resources, customer relationship management (CRM), and more, into a single unified system. Cloud ERP, in particular, has become increasingly popular due to its affordability, ease of implementation, and reduced IT infrastructure requirements.

ERP systems integrate various business processes such as finance, supply chain, manufacturing, and human resources into a single unified system. ERP systems, like SAP, Oracle, and Microsoft Dynamics promote operational efficiency and information flow across departments, thereby enhancing productivity and strategic planning. By providing a centralised data repository, ERP systems reduce duplication and inconsistency of data across business functions.

For businesses, ERP systems offer several strategic benefits, including real-time data access, improved workflow visibility, better decision-making, and streamlined operations. However, ERP implementation is a complex process that requires careful planning, training, and management to avoid common downsides, such as high costs, extended deployment times, and resistance to change within organisations.

The global ERP market has been growing rapidly, with businesses of all sizes; small, medium, and large adopting ERP systems to enhance operational efficiency and improve their competitive position in the market. Today, ERP is not just a tool for large enterprises, but is also becoming increasingly accessible to small and mid-sized businesses (SMBs), thanks to advancements in cloud-based solutions and the availability of open-source ERP options. In Nigeria and other emerging markets, ERP adoption is gaining momentum, driven by the growing need for businesses to modernise their operations and adopt digital solutions that enhance productivity. The ability to

manage resources efficiently in an increasingly competitive market is crucial, making ERP systems a key enabler for business success.

i. **Features of ERP systems**

ERP systems come with a wide range of features designed to streamline operations, integrate business processes, and improve data accessibility. Here are the core features commonly found in ERP systems:

- a) **Integrated system:** ERP integrates various business functions, such as finance, human resources, procurement, manufacturing, sales, and inventory into one unified system, allowing for seamless data flow across departments.
- b) **Real-time data processing:** ERP systems provide real-time updates on business operations. This allows businesses to make decisions based on the most up-to-date information available, improving responsiveness and decision-making.
- c) **Automation of business processes:** Routine tasks, like order processing, invoicing, payroll management, and inventory tracking are automated, reducing manual errors, improving efficiency, and saving time.
- d) **Customisation:** ERP systems can be tailored to meet the specific needs of a business, including adjustments to workflows, modules, and user interfaces. Customisation helps businesses adapt the system to their operational requirements.
- e) **Scalability:** Most modern ERP systems, particularly cloud-based solutions, offer scalability, allowing businesses to grow without needing to change their software infrastructure. They can add modules or expand functionalities as needed.
- f) **Data security:** With a centralised database, ERP systems ensure that all sensitive business data is protected with robust security protocols, including access controls and encryption.
- g) **Reporting and analytics:** ERP systems provide powerful reporting and analytics capabilities, enabling businesses to generate detailed reports and perform data analysis across all departments to track performance and identify trends.

- **Types of ERP systems**

ERP systems can be categorised based on deployment models and business size. Here's a breakdown of the main types:

- (a) **On-Premise ERP:** This type of ERP is hosted on the company's own hardware and maintained onsite. The business is fully responsible for system updates, security, and maintenance. It is best for large enterprises with extensive IT resources and the need for high customisation.
- (b) **Cloud-Based ERP:** These systems are hosted on remote servers and managed by third-party vendors. Users access the system via a secure web browser. Cloud ERP provides flexibility, scalability, and reduced upfront costs. They can be dedicated to one company; offer greater control and customisation or shared among multiple companies; more cost-effective, with frequent updates. They are best for small to medium businesses (SMBs) and those with limited IT infrastructure. Examples include Microsoft Dynamics 365, NetSuite, Oracle Cloud ERP.
- (c) **Hybrid ERP:** Hybrid ERP combines the features of both on-premise and cloud systems. Businesses can use an on-premise system at their headquarters while deploying cloud-based solutions at remote locations or subsidiaries. These are best for large organisations with multiple locations and specific requirements for both on-premise and cloud-based solutions.
- (d) **Open-Source ERP:** Open-source ERP systems are available for free or at a minimal cost. Businesses can download and customise the software, but they must have the technical expertise to manage, configure, and maintain it. It is best for small businesses or organisations with technical teams that need a flexible and cost-effective solution. Some examples are Odoo, ERPNext, Dolibarr.

Advantages of ERP systems

ERP systems offer several key benefits that contribute to business growth and efficiency.

- (a) **Improved efficiency:** Automation of business processes reduces manual effort, saves time, and minimises errors, making overall operations more efficient.
- (b) **Enhanced decision-making:** Real-time data and analytics enable businesses to make informed decisions based on accurate, up-to-date information.
- (c) **Cost reduction:** By optimising resource management and automating processes, ERP can reduce operational costs, such as inventory holding costs, procurement expenses, and labour costs.

- (d) **Better collaboration:** ERP improves collaboration across departments by providing a centralised platform for sharing data and communications, improving internal workflow.
- (e) **Scalability:** ERP systems, especially cloud-based solutions, are scalable, allowing businesses to grow and add new functionalities as needed, without requiring a complete system overhaul.
- (f) **Regulatory compliance:** ERP systems often come with built-in tools to ensure that businesses comply with industry regulations and standards, reducing the risk of legal and financial penalties.
- (g) **Data security:** ERP provides a secure, centralised platform for storing sensitive business data, reducing the risk of data breaches or unauthorised access.
- (h) **Improved customer service:** With integrated order management and CRM features, ERP systems enable businesses to fulfil customer orders faster and respond to customer inquiries more effectively.

Disadvantages of ERP systems

While ERP systems provide significant benefits, they also come with some challenges and drawbacks:

- (a) **High implementation costs:** The initial costs of ERP implementation, including software, hardware, training, and consulting, can be substantial, especially for small businesses.
- (b) **Complex implementation process:** ERP system implementation is a complex and time-consuming process. It requires careful planning, dedicated resources, and employee training to ensure successful deployment.
- (c) **Customisation challenges:** Although ERP systems can be customised to meet specific business needs, the customisation process can be expensive and may lead to delays in system deployment.
- (d) **Resistance to change:** Employees may resist the changes brought by ERP systems, particularly if they are not adequately trained or if they fear job displacement due to automation.
- (e) **Ongoing maintenance and updates:** ERP systems require continuous maintenance, updates, and sometimes troubleshooting. If the system is not well-maintained, it can lead to system failures, data corruption, or security vulnerabilities.
- (f) **Vendor lock-in:** Businesses that adopt proprietary ERP systems may face vendor lock-in, where they become reliant on the vendor for system

updates, maintenance, and support, potentially leading to higher long-term costs.

- (g) **Data migration issues:** Migrating existing business data to a new ERP system can be a difficult and risky process, especially if the data is in various formats or lacks consistency.
- (h) **Overcomplicated for small businesses:** Some ERP systems may be too complex or feature-heavy for smaller businesses with simpler operational needs. These businesses may find it difficult to justify the high costs of ERP adoption.

ERP modules and their features

- (a) **Finance:** Central to ERP, this module handles all financial activities, including transaction tracking, accounts reconciliation, and generating financial reports.
- (b) **Procurement:** Manages purchasing and supplies, streamlining processes to avoid over-buying or under-buying by automating requests for quotes and purchase orders.
- (c) **Manufacturing:** Ensures that manufacturing processes align with demand, monitoring inventory levels and production schedules.
- (d) **Inventory management:** Real-time tracking of inventory levels at a granular level (e.g., by SKU) helps optimise stock levels according to demand forecasts.
- (e) **Order management:** Prioritises and tracks customer orders, improving order fulfilment speeds and reducing delivery times.
- (f) **Warehouse management:** Streamlines warehouse operations, focusing on more efficient methods for receiving, packing, and shipping goods.
- (g) **Supply chain management:** Oversees the flow of goods and services, from raw materials to final products, optimising the supply chain to enhance efficiency.
- (h) **Customer relationship management (CRM):** Enhances sales and customer service by tracking customer communications, managing leads, and improving engagement strategies.
- (i) **Professional services automation (PSA):** Tracks and plans projects, focusing on time and resource management, and simplifies client billing and collaboration.
- (j) **Workforce management (WFM):** Monitors work roles, attendance, hours worked, and employee productivity, helping businesses improve workforce efficiency.

- (k) **Human resource management (HRM):** Centralises employee records, including performance reviews and available paid time off (PTO), while analysing workforce trends.
- (l) **Ecommerce:** Facilitates online store management, allowing for changes in the site's design and content, including adding or editing product listings.
- (m) **Marketing automation:** Automates marketing efforts across digital channels, improving targeting and engagement with customers, leading to better sales performance.

ERP implementation process

The implementation process for ERP is as follows:

- (a) **Planning:** This includes forming a cross-functional team to identify the business requirements, evaluate processes, and address growth obstacles.
- (b) **Evaluation:** This involves assessing various ERP offerings to select the platform that best aligns with organisational needs and growth goals.
- (c) **Design:** This stage involves ensuring that the ERP system can support existing workflows, and determine necessary customisations based on departmental needs.
- (d) **Development:** At this stage, internal or external experts configure the ERP system to meet specified requirements and begin data migration.
- (e) **Testing:** Testing is essential to identify issues before deployment, ensuring the system works as expected and mitigating potential disruptions.
- (f) **Deployment:** At this stage the ERP system is Introduced with a focus on employee training to minimise resistance to the change. Some businesses may adopt a phased rollout.
- (g) **Support:** Constant ongoing support helps employees adapt to the system, including additional configurations and updates as needed.

e. Artificial intelligence (AI)

Artificial Intelligence (AI) refers to the development of machines that can perform tasks that typically require human intelligence. AI involves computer systems that can perform tasks traditionally requiring human intelligence, such as learning, reasoning, problem-solving, and decision-making. AI applications in business, include chatbots for customer service, predictive

analytics, fraud detection, and robotic process automation. . AI may be defined as "the study of agents that receive precepts from the environment and perform actions." AI technologies, such as machine learning, natural language processing, robotics, and deep learning are becoming integral across various sectors like healthcare, finance, entertainment, and education. In accounting, AI is increasingly used for audit automation, risk assessment, and financial forecasting.

Key features of artificial intelligence

- (a) **Learning ability:** AI systems have the ability to learn from data. This capability enables them to improve their performance over time without needing explicit programming for every scenario. Machine learning and deep learning algorithms are often employed for this purpose, enabling systems to identify patterns and make decisions.
- (b) **Autonomy:** AI systems can operate independently and make decisions without human intervention. Autonomous systems like self-driving cars are prime examples of AI that can perform tasks and make real-time decisions based on the environment, without human input.
- (c) **Adaptability:** AI systems can adapt to new data and evolving circumstances. For example, in customer service, AI chatbots can learn from interactions and refine their responses to improve the user experience.
- (d) **Problem-solving and reasoning:** AI systems have the ability to apply logic to solve complex problems. Expert systems, for example, use predefined rules and decision-making processes to mimic human problem-solving skills.
- (e) **Perception:** AI systems can interpret and make decisions based on sensory inputs like images, sounds, and text. Through technologies like computer vision and speech recognition, AI systems can "see" and "hear," allowing them to interact with the environment in a meaningful way.
- (f) **Natural language processing (NLP):** AI can understand and generate human language. NLP enables machines to process and analyse large amounts of natural language data, facilitating tasks such as speech recognition, text translation, sentiment analysis, and more.
- (g) **Predictive analytics:** AI is capable of forecasting outcomes based on data analysis. For instance, predictive maintenance in industries uses AI to forecast machine failures, helping businesses minimise downtime and optimise maintenance schedules.

- (h) **Automation:** AI is highly effective at automating repetitive tasks, making processes faster and more efficient. Robotic process automation (RPA) and AI-driven systems can automate administrative tasks, data entry, and other routine operations in industries such as finance, healthcare, and retail.

Benefits of artificial intelligence

- (a) **Personalised learning and assistance:** AI enables personalized learning experiences, where systems can tailor educational contents to meet the individual needs of students. AI tools like chatbots assist students, provide real-time feedback, and enhance interaction with teachers.
- (b) **Reliability and cost-effectiveness:** AI systems typically operate more reliably than humans, especially for repetitive tasks. With the ability to function continuously without rest, AI systems can lower operational costs and improve efficiency in the long run.
- (c) **Speed and efficiency:** AI's processing power allows it to analyse massive data sets and perform complex calculations in a fraction of the time it would take a human. This is beneficial in industries where speed is crucial, such as financial services or e-commerce.
- (d) **Problem-Solving in complex scenarios:** AI's ability to solve complex problems is invaluable, particularly in areas like healthcare, where AI can assist with diagnosing diseases or in fashion, where AI can recommend products, based on customer behaviour.
- (e) **Increased productivity:** AI increases productivity by automating routine tasks and handling time-consuming processes. This enables workers to focus on higher-level tasks and creativity, while AI manages the rest.
- (f) **Expanding knowledge in industries:** AI helps businesses gain insights into various fields like fashion, manufacturing, and healthcare by analysing data and predicting trends. It assists in everything from predicting customer behaviour to enhancing product design.

Challenges and disadvantages of artificial intelligence

Job displacement and unemployment: One of the major concerns with AI is its potential to replace human workers, especially in routine, repetitive roles. As AI systems automate tasks, there is a risk of unemployment, particularly in sectors like manufacturing and customer service.

- (a) **Malfunction and risks:** AI systems can malfunction if they are poorly designed or if their algorithms are flawed. Misuse or improper handling of AI technologies can result in significant risks, especially in critical areas like healthcare or autonomous driving.
- (b) **Lack of human touch and emotional intelligence:** AI lacks the ability to understand emotions or respond with empathy. In sectors like healthcare or customer service, this absence of emotional intelligence can hinder the quality of interactions and impact outcomes.
- (c) **High cost and resource intensity:** Developing and maintaining AI systems requires substantial investment in both hardware and software infrastructure. While the long-term benefits can be significant, the upfront costs can be a barrier for smaller businesses or less developed industries.
- (d) **Increased dependency on technology:** Over-reliance on AI could lead to a diminished role for human decision-making. Additionally, if AI systems fail or are compromised, the consequences could be severe, especially in areas like security, healthcare, and critical infrastructure.
- (e) **Lack of creativity and originality:** While AI can simulate creativity by processing and combining existing data, it cannot truly innovate or create original ideas. This limits its role in areas that require ground-breaking innovation or artistic expression.

Applications of artificial intelligence

AI is transforming industries by enhancing productivity, problem-solving, and innovation. However, it also brings challenges like job displacement and the need for continuous investment in technology. As AI continues to evolve, its applications will expand across new sectors, offering opportunities to solve complex global issues. AI applies to various sectors, such as:

- (a) **Healthcare:** AI can be used for diagnostics, treatment recommendations, and drug discovery. Machine learning algorithms can analyse medical images to detect diseases like cancer, while AI systems assist doctors in providing personalised treatment plans.
- (b) **Manufacturing:** AI can optimise production processes and enhance quality control. AI-powered robots and automation streamline production lines, increasing output and minimising errors.
- (c) **Fashion technology:** In the fashion industry, AI helps with design, inventory management, and personalised shopping experiences. AI

tools analyse consumer behavior, recommend products, and predict fashion trends.

- (d) **Education:** AI is reshaping education by creating personalised learning experiences. AI-driven platforms adapt to the learning pace and styles of students, providing tailored resources and feedback.
- (e) **Security and surveillance:** AI technologies, like facial recognition and behavioural analytics are improving security measures by detecting threats and scanning public spaces in real-time.
- (f) **Transportation:** AI is revolutionising the transportation industry with autonomous vehicles, traffic management systems, and predictive maintenance, reducing human error and improving safety.

f. Customer Relationship Management (CRM)

Customer Relationship Management (CRM) refers to practices, strategies, and technologies businesses use to manage and analyse customer interactions and data throughout the customer lifecycle. CRM systems are software solutions that manage a company's interactions with current and potential customers. They help businesses streamline sales, marketing, and customer service activities. CRM enhances customer satisfaction, loyalty, and retention by ensuring that customer interactions are personalised, consistent, and value-adding. The goal is to improve customer relationships, enhance customer satisfaction, and ultimately drive sales growth. CRM systems help businesses organise customer data, automate tasks, and provide personalised experiences across different customer touchpoints. Initially, CRM focused on technology, but today, it is seen as a combination of technology, processes, and people-oriented strategies aimed at optimising customer interactions.

CRM emerged as a concept in the early 1990s, and its association with technology-driven tools was boosted by firms such as Siebel Systems (now part of Oracle). By 2013, the global market for CRM software was valued at \$14 billion. Today, CRM is not just seen as software but as a strategic approach to developing and maintaining profitable customer relationships.

CRM encompasses various components, including:

- (a) **Key customers:** Identifying and targeting high-value customers who contribute significantly to revenue.
- (b) **Knowledge management:** Acquiring and sharing customer knowledge among employees to enhance customer interactions and services.

- (c) **Technology:** Leveraging information technologies to collect, analyse, and share customer data, which enables better response to customer needs.

i. **Importance of CRM**

Implementing CRM is crucial for businesses aiming to enhance customer relationships and streamline operations. However, it requires more than just technology; CRM implementation must consider company-specific needs, data privacy, and organisational goals. Effective CRM strategies must ensure that customer data is secure and used to benefit customers. It is also essential for organisations to align CRM systems with broader business strategies, ensuring that all departments are involved in customer relationship management. Here are some reasons CRM is essential:

- (a) **Customer-centric approach:** CRM fosters a customer-centric business culture, allowing organisations to better understand and meet customer needs. This approach helps retain customers, increase loyalty, and improve customer satisfaction.
- (b) **Centralised data management:** CRM systems centralise customer information, making it accessible across the organisation, improving communication and coordination among departments.
- (c) **Customer segmentation:** CRM tools help segment customers based on shared characteristics, allowing for targeted marketing strategies. This segmentation leads to better customer insights and more personalised service offerings.
- (d) **Improved customer retention:** By tracking customer interactions, CRM enables businesses to maintain long-term relationships with customers, thus improving customer retention rates. Personalised communication and tailored offers enhance the likelihood of repeat business.
- (e) **Competitive advantage:** Businesses that effectively implement CRM strategies can differentiate themselves from competitors by offering superior customer service and personalised experiences.

ii. **Features of CRM**

CRM systems include various features to enhance business processes and customer interactions. Some of the key features include:

- (a) **Data collection and management:** CRM systems collect and organise customer data, including contact details, purchase history, and interaction logs. This comprehensive data set is used for personalised engagement and decision-making.
- (b) **Automation of tasks:** Routine tasks such as sending emails, appointment scheduling, and customer follow-ups are automated using CRM software. This automation streamlines workflows and reduces manual effort.
- (c) **Customer segmentation:** CRM software segments customers into groups based on criteria, such as demographics, purchasing behaviour, and engagement levels. This segmentation helps create targeted campaigns and offers.
- (d) **Sales and marketing automation:** CRM tools automate marketing processes such as campaign management, lead nurturing, and event-based marketing. It also supports sales force automation, helping sales teams track leads, opportunities, and manage accounts effectively.
- (e) **Customer service and support automation:** CRM systems provide tools for managing customer support cases, tracking issues, and improving service levels. Case management, routing, and service-level management are some of the critical service-related features.
- (f) **Analytics and reporting:** CRM systems generate performance reports, providing valuable insights into customer behaviour, campaign performance, and sales trends. This data can be used to refine marketing strategies and improve customer engagement.

iii. **Benefits of CRM**

The implementation of CRM systems offers a range of benefits that impact both the customer and the business.

- a) **Enhanced customer experience:** By providing a holistic view of customer interactions, businesses can tailor their responses and actions to meet customer expectations, thus enhancing the overall customer experience.
- b) **Increased efficiency:** Automating repetitive tasks and integrating various business functions (e.g., sales, marketing, and customer service) within a CRM system leads to more streamlined operations and fewer errors.
- c) **Improved decision-making:** The data analytics capabilities of CRM systems provide valuable insights that help businesses make data-

driven decisions, improve customer targeting, and optimise business strategies.

- d) **Higher sales and revenue:** By fostering better relationships with customers and improving the customer experience, CRM helps boost sales through personalised offers, up-selling, and cross-selling opportunities.
- e) **Better collaboration across teams:** CRM systems enable teams (marketing, sales, customer service) to collaborate more effectively, with all customer-related data centralised and accessible, fostering better teamwork and communication.
- f) **Customer retention and loyalty:** Consistent, personalised communication and addressing customer needs help in increasing customer satisfaction and loyalty. CRM-driven loyalty programmes, targeted campaigns, and proactive customer service, all contribute to this outcome.

iv. Demerits of CRM

Despite its many advantages, CRM systems come with certain challenges and limitations.

- a) **High implementation costs:** Implementing a CRM system can be expensive, particularly for small businesses. The initial setup, training, and ongoing maintenance costs can be prohibitive.
- b) **Complexity in integration:** Integrating CRM systems with existing business systems, such as Enterprise Resource Planning (ERP) or other legacy software, can be complex and time-consuming.
- c) **Data privacy concerns:** Storing vast amounts of customer data in a centralised system raises concerns about data security and privacy. Mishandling or data breaches can result in legal consequences and damage to a business's reputation.
- d) **Employee resistance to change:** Employees may resist using CRM systems, particularly if they are unfamiliar with the technology or see it as an added burden. Effective training and change management strategies are necessary to overcome this resistance.
- e) **Over-reliance on automation:** While CRM systems automate many processes, there is a risk that businesses may over-rely on automation and neglect the human touch in customer relationships, potentially leading to a lack of personalised service.

v. Measuring CRM effectiveness

Measuring the effectiveness of CRM systems involves evaluating the impact of CRM strategies on customer satisfaction, loyalty, and business performance. Here are key metrics used to measure CRM success:

- a) **Customer Satisfaction (CSAT) Scores:** These scores gauge customer satisfaction with their interactions. For example, if 80 out of 100 customers rate their satisfaction at 4 or 5 out of 5, the CSAT score is 80%.
- b) **Customer retention rates:** This measures the percentage of customers retained over time, indicating the success of CRM strategies in maintaining loyalty. For instance, if a company starts with 500 customers, gains 100 new ones, and ends with 450, the retention rate is 70%.
- c) **Customer Lifetime Value (CLV):** CLV estimates the total revenue a business can expect from a customer throughout their relationship. For example, if a customer spends ₦2,000 per purchase, makes 4 purchases per year, and stays for 5 years, the CLV would be ₦40,000.
- d) **Sales metrics:** Metrics such as sales growth, conversion rates, and average deal size assess how CRM influences sales performance. For example, if total sales revenue is ₦100,000 from 200 deals, the average deal size is ₦500.
- e) **Customer Acquisition Cost (CAC):** This measures the cost of acquiring new customers. A lower CAC suggests the CRM system is effective in acquiring customers at a lower cost.
- f) **CRM adoption rates:** These rates track employee engagement with CRM tools and features. High adoption indicates that the CRM system is well-integrated into daily operations, enhancing efficiency.
- g) **Case resolution times:** These metrics measure how quickly customer issues are resolved. Shorter resolution times indicate effective CRM systems that support swift customer service.
- h) **Customer interaction metrics:** These metrics evaluate the frequency and quality of customer interactions, helping businesses assess how well CRM tools facilitate meaningful customer relationships.
- i) **Net Promoter Score (NPS):** NPS measures customer loyalty by asking how likely customers are to recommend the company to others. A high NPS indicates strong customer satisfaction and CRM effectiveness.

5.2.2 Application of big data and data analytics in business operations

a. Description of big data

Big data refers to extremely large data sets that may be analysed computationally to reveal patterns, trends, and associations, especially relating to human behaviour and interactions, while data analytics involves techniques and processes used to derive insights from data.

Data analytics empowers businesses to move from intuition-based decisions to evidence-based decision-making. Applications include; customer segmentation and targeting, supply chain optimisation, risk management and fraud detection, product development based on consumer behaviour analysis and real-time business performance monitoring.

Big data analytics is the process of examining extremely large and complex data sets so vast that traditional data processing applications are inadequate to handle them. It involves applying advanced analytical techniques, such as machine learning, data mining, predictive modelling, and statistical analysis to extract useful knowledge and patterns that drive business decisions. In today's data-driven business environment, big data analytics enables organisations to uncover trends, identify hidden correlations, and detect opportunities or threats in real time. For accountants, auditors, and financial managers, big data analytics transforms how financial analysis, risk assessment, fraud detection, and performance evaluations are conducted, shifting focus from historical reporting to proactive, strategic decision-making.

b. **Characteristics of Big Data (The Vs of Big Data)**

Big data is characterized by six key dimensions commonly referred to as the "6 Vs":

- a) **Volume:** Refers to the massive amount of data generated every second. Businesses today generate data from point-of-sale systems, online transactions, emails, and customer interactions. For instance, retail chains generate terabytes of sales data daily that can be mined for consumer preferences and pricing trends.
- b) **Velocity:** Data flows into organisations at unprecedented speed, requiring real-time or near-real-time analysis. For example, stock exchanges generate tick data every second that must be analysed immediately to inform trading strategies.
- c) **Variety:** Data exists in multiple formats, such as structured (for example, spreadsheets, databases), semi-structured (for example, JSON, XML), and unstructured (for example, videos, images, social media comments). Effective big data analytics must accommodate and integrate all these formats.

- d) **Veracity:** Not all data is accurate or trustworthy. Big data analytics must deal with inconsistencies, noise, and ambiguities in data sources to ensure valid and reliable outputs.
- e) **Value:** The ultimate goal of big data analytics is to extract valuable insights that can improve business outcomes. The ability to derive actionable intelligence from raw data is what distinguishes data-rich but insight-poor companies from data-driven leaders.
- f) **Variability:** Data can have varying meanings in different contexts, and the influx of data may be inconsistent. For instance, spikes in website traffic during promotions may require different interpretations than normal daily traffic.

c. **Stages in data analytics**

Big data analytics follows a structured workflow involving several critical stages:

- i. **Data collection:** This involves aggregating data from internal sources (for example, ERP systems, CRM databases) and external sources (for example, social media, mobile apps, third-party APIs). For example, an e-commerce firm may collect customer browsing history, purchase behaviour, and social media mentions.
- ii. **Data storage:** The collected data is stored using scalable systems such as Hadoop Distributed File System (HDFS), Amazon S3, Google BigQuery, or data lakes. These platforms allow for distributed storage across multiple servers, accommodating both structured and unstructured data.
- iii. **Data cleaning and integration:** Raw data must be cleaned to remove duplicates, errors, and inconsistencies. Integration involves combining data from various sources into a unified format, ensuring consistency and reliability for analysis.
- iv. **Data processing:** This step uses processing engines, such as Apache Spark, Apache Flink, or MapReduce to transform and prepare data for analysis. Processing includes filtering, aggregating, and formatting data into analysis-ready form.
- v. **Data analysis and modelling:** Statistical tools and machine learning algorithms are applied to uncover trends, predict outcomes, or identify anomalies. Techniques include clustering, regression analysis, neural networks, and natural language processing.

- vi. **Visualisation and interpretation:** Insights are communicated through dashboards, reports, and visualisations using tools like Tableau, Power BI, or Python's visualisation libraries. Clear visual presentation enables decision-makers to act on insights promptly.

d. Tools and technologies used in big data analytics

To manage and analyse big data effectively, organisations use a mix of technologies.

- i. **Hadoop:** An open-source platform that facilitates the storage and processing of large data sets in a distributed environment. It uses the MapReduce programming model to process data efficiently.
- ii. **Apache spark:** A high-speed processing engine that supports real-time analytics, stream processing, and advanced machine learning.
- iii. **NoSQL databases:** Such as MongoDB and Cassandra, are optimised for storing large volumes of unstructured or semi-structured data, unlike traditional relational databases.
- iv. **Visualisation tools:** Tableau, Power BI, and QlikView allow users to create interactive charts, graphs, and dashboards that make complex data comprehensible and actionable.
- v. **Programming languages:** Python and R are popular for data manipulation, statistical computing, and machine learning. SQL remains essential for querying relational databases.
- vi. **Cloud platforms:** Amazon Web Services (AWS), Microsoft Azure, and Google Cloud Platform provide scalable infrastructure for data storage, processing, and analytics, supporting businesses of all sizes.

e. Benefits of big data analytics

Big data analytics delivers wide-ranging benefits that cut across industries.

- i. **Improved decision-making:** By analysing current and historical data, organisations can make informed, data-backed decisions, rather than relying on intuition or outdated reports.
- ii. **Cost reduction:** Big data helps identify inefficiencies, reduces waste, and optimises resource allocation. For instance, logistics companies can use route analytics to reduce fuel costs and delivery times.
- iii. **Enhanced customer insights:** Through behaviour tracking and sentiment analysis, companies can better understand customers' preferences and deliver personalised experiences.

- iv. **Fraud detection and risk management:** Financial institutions use big data analytics to identify suspicious transactions, automate risk scoring, and predict credit defaults.
- v. **Operational efficiency:** Businesses can monitor operations in real time, automate repetitive tasks, and enhance productivity by identifying bottlenecks in processes.
- vi. **Product and service innovation:** Analytics reveal unmet customer needs and market trends, enabling businesses to design innovative offerings ahead of competitors.

f. Challenges of big data analytics

Despite its promise, implementing big data analytics is not without hurdles.

- i. **Data privacy and compliance:** Companies must navigate regulations such as General Data Protection Regulation (GDPR) and Nigeria Data Protection Regulation (NDPR) while ensuring that customer data is securely handled and ethically used.
- ii. **High cost of infrastructure:** Setting up and maintaining a big data ecosystem hardware, software and talent can be expensive, particularly for small and medium enterprises (SMEs).
- iii. **Data silos and integration issues:** When departments maintain separate data sources, it becomes challenging to integrate and analyse data holistically.
- iv. **Talent shortage:** Skilled data professionals such as data scientists, analysts, and engineers are in short supply, making recruitment and training crucial but costly.
- v. **Complexity of implementation:** Organisations may lack clear strategy or executive buy-in, leading to failed analytics initiatives or underutilised tools.

g. Strategic applications and usage across industries

Big data analytics is transforming industries by enabling smarter decision-making. In accounting and auditing, it is used for automated risk assessment, continuous auditing, and anomaly detection in financial transactions. It also reduces manual work and increases accuracy. In retail and e-commerce, by analysing customer purchase patterns, it helps optimise inventory, tailors marketing efforts, and reduces churn. Additionally, in banking and finance it assists in risk modelling, credit scoring, real-time fraud detection, and investment optimisation. Patient records and real-time monitoring data are used to improve diagnosis accuracy, treatment personalisation, and epidemic

prediction in healthcare. In manufacturing, through predictive maintenance and supply chain optimisation it helps reduce downtime and improve operational efficiency. In the public sector, big data enables traffic monitoring, resource planning, crime mapping, and smart city initiatives that enhance service delivery.

h. The Future of big data analytics

Big data analytics is evolving towards greater automation, intelligence, and ubiquity, particularly in the following areas:

- a) **AI and machine learning integration:** Predictive models and decision systems are becoming smarter, enabling prescriptive analytics that not only forecast outcomes but recommend optimal actions.
- b) **Edge Computing:** Processing data at the point of generation (for example, IoT devices) minimises latency and enhances responsiveness, especially crucial for industries like manufacturing and healthcare.
- c) **Real-time analytics:** Businesses are shifting from static reports to real-time dashboards that update instantly, empowering instant decision-making.
- d) **Data governance and ethics:** As data usage expands, companies must adopt stricter policies around data ethics, consent, and transparency to maintain trust and comply with regulations.
- e) **Industry-specific solutions:** We will see the rise of specialized big data platforms tailored to accounting, healthcare, logistics, etc., integrating domain-specific functionalities for greater impact.

5.2.3 Definition of cybersecurity

Cybersecurity refers to the practice of protecting computer systems, networks, and data from digital attacks, unauthorised access, damage, or theft. It encompasses technologies, processes, and practices designed to safeguard information assets.

cybersecurity involves the protection of information systems from theft or damage to the hardware, software, and the information on them. It also includes measures to prevent service disruptions caused by cyber incidents.

Cybersecurity is a widely used but variably defined concept. Its meaning often differs across contexts, disciplines, and users, resulting in a fragmented understanding that tends to reinforce a narrow, predominantly technical perspective. This lack of a concise, comprehensive, and interdisciplinary definition has created challenges for advancing unified solutions to complex cybersecurity

threats. Recognising this, contemporary literature and expert discussions have sought to develop a more inclusive understanding of cybersecurity that reflects its socio-technical dimensions.

At its core, cybersecurity refers to the protection of systems, networks, and data in cyberspace, the digital environment formed by interconnected computing devices and infrastructures. Cyberspace is the electronic world created by interconnected networks of information technology and the information on those networks.

Cybersecurity, therefore, involves more than just technical tools or system defences. It encompasses a wide array of strategies, human behaviours, institutional policies, and legal frameworks, designed to ensure the confidentiality, integrity, and availability of information and communications systems. Cybersecurity entails the body of technologies, processes, practices and responses and mitigation measures designed to protect networks, computers, programs and data from attack, damage or unauthorised access.

Despite numerous definitions, there remains no universally accepted understanding. Any discourse on security including cybersecurity must address key dimensions, such as the actor (who securitises), the threat (what is securitised), the referent object (who or what is being protected), and the context (why and under what conditions protection is needed). Therefore, cybersecurity must be seen not only as a technical endeavour but also as a socio-political, legal, economic, and psychological issue.

Five dominant themes that should shape a holistic understanding of cybersecurity;

- a) **technological solutions:** Tools and systems to detect and prevent attacks;
- b) **events:** Cyber-attacks, breaches, and other disruptions;
- c) **strategies, processes, and methods:** Planning and procedural frameworks;
- d) **human engagement:** The role of human behaviour and interaction; and
- e) **referent objects:** The assets and entities being secured.

The authors proposed a new, multidimensional definition:

Cybersecurity is the organisation and collection of resources, processes, and structures used to protect cyberspace and cyberspace-enabled systems from occurrences that misalign de jure from de facto property rights.

This definition reflects cybersecurity's complex and interdisciplinary nature, emphasising that protection goes beyond technical measures to include legal ownership rights, governance structures, and socio-political processes. Ultimately, effective cybersecurity must integrate both the technical and human dimensions of digital interaction. By understanding cybersecurity as a fluid, contested, and

context-dependent concept, stakeholders from policymakers to IT professionals can better collaborate across disciplines to develop robust, resilient security frameworks.

a) **Key risks to data through cyber attacks**

Cyber-attacks pose significant threats to data security, leading to potential financial, operational, and reputational damage to organisations. Below are key risks to data through cyber-attacks:

- i. **Data breaches:** Data breaches occur when cybercriminals gain unauthorised access to sensitive information, such as customer data, intellectual property, and financial records. The breach can result in exposure to identity theft, fraud, and misuse of personal or corporate data.
Types of data breaches include:
 - a) **Hacking:** where attackers exploit vulnerabilities in systems or networks to access data;
 - b) **Insider threats:** such as employees or other trusted individuals misusing access to compromise data; and
 - c) **Physical theft:** such as devices containing sensitive data getting stolen or lost.
- ii. **Ransomware attacks:** Ransomware is malicious software designed to block access to a system or data until a ransom is paid. In the event of a ransomware attack, data is often encrypted, and attackers demand payment for its release. This can lead to significant data loss or operational disruption, if a backup is unavailable.
- iii. **Phishing attacks:** Phishing attacks involve fraudulent communication, typically emails, designed to trick individuals into disclosing personal information, such as passwords, credit card details, or login credentials. These attacks often exploit human vulnerabilities rather than technical weaknesses and can result in unauthorised access to sensitive data.
- iv. **Malware and trojans:** Malware, including trojans, spyware, and viruses, are malicious programs designed to damage, disrupt, or steal data. Once malware infiltrates an organisation's network, it can spread quickly and compromise sensitive information. Trojans, in particular, are often disguised as legitimate software to bypass security systems.
- v. **Man-in-the-Middle (MitM) Attacks:** MitM attacks occur when an attacker intercepts communication between two parties, typically over an unsecured network. This allows the attacker to steal, alter, or inject data, often without

either party realising. MitM attacks are especially dangerous in e-commerce, banking, or any transaction involving sensitive data.

- vi. **Denial-of-Service (DoS) and Distributed Denial-of-Service (DDoS) Attacks:** DoS and DDoS attacks aim to overwhelm a network or website by flooding it with excessive traffic, rendering it inaccessible to legitimate users. While these attacks do not directly compromise data, they can disrupt operations, causing loss of data access and financial losses.
- vii. **SQL injection attacks:** SQL injection is a type of attack where attackers exploit vulnerabilities in a web application's database query system. By inserting malicious SQL code into a query, attackers can gain unauthorized access to a database, steal data, or alter it.
- viii. **Social engineering:** Social engineering attacks involve manipulating individuals into divulging confidential information. Attackers exploit psychological manipulation, such as creating a sense of urgency or using trusted authority figures, to trick victims into revealing sensitive data.

b) Mitigating cyber attacks: Actions and best practices

To safeguard against the key risks posed by cyber-attacks, organisations need to implement comprehensive cybersecurity measures. Below are actions and best practices to mitigate cyber threats:

- i. **Implement strong authentication and access controls:** Using multi-factor authentication (MFA) and robust password policies can significantly reduce the risk of unauthorised access. MFA requires users to provide two or more verification factors (for example, password, security token, or biometric scan) before gaining access.
- ii. **Access controls** should ensure that employees or users only have access to the data necessary for their roles.
- iii. **Role-based access control (RBAC)** restricts access based on the user's job responsibilities, minimising the risk of internal data breaches.
- iv. **Regularly update and patch software:** Outdated software often contains vulnerabilities that cybercriminals can exploit. Regular updates and patches fix these vulnerabilities and reduce the risk of cyber-attacks.
- v. **Automated updates** should be used wherever possible to ensure that critical patches are applied without delay.
- vi. **Encrypt sensitive data:** Encryption transforms sensitive data into an unreadable format that can only be decrypted with a key. This is

essential for protecting data at rest (stored data) and in transit (data being transferred). Even if data is intercepted during an attack, encryption ensures that it remains inaccessible to unauthorized individuals.

- vii. **Backup critical data:** Regular backups of critical data are essential to mitigating the effects of ransomware attacks and data loss. Backups should be stored in secure, off-site locations, and testing should be performed to ensure that the data can be recovered promptly in the event of a breach.
- viii. **Cloud backups** are a reliable solution, but local backups (for example, external hard drives) can provide an added layer of protection.
- ix. **Educate employees and conduct training:** Employees are often the first line of defence against cyber-attacks. Educating them about cyber threats, such as phishing and social engineering attacks, can significantly reduce human error-related vulnerabilities.
- x. **Monitor network traffic for suspicious activity:** Continuous monitoring of network traffic helps identify unusual patterns or behaviours that may indicate that a cyber-attack is in progress. Intrusion detection systems (IDS) and security information and event management (SIEM) tools can be used to analyse and respond to security events in real-time.
- xi. **Develop a cybersecurity incident response plan:** An effective incident response plan outlines the steps to take if a cyber-attack occurs. The plan should include roles and responsibilities, procedures for containing and investigating the attack, and communication strategies for notifying stakeholders and regulators.
- xii. **Use firewalls and anti-malware tools:** Firewalls act as a barrier between a company's internal network and external threats. Anti-malware tools help detect and remove malicious software that may have entered the network. Both tools should be regularly updated to ensure they provide effective protection.
- xiii. **Secure wireless networks:** Unsecured wireless networks are prime targets for cybercriminals. Ensuring that wireless networks are encrypted using the latest protocols (e.g., WPA3) and that strong passwords are used to prevent unauthorised access.
- xiv. **Partner with cybersecurity experts:** Engaging cybersecurity consultants or firms can help organisations develop and maintain a robust cybersecurity posture. These experts can conduct vulnerability assessments, penetration testing, and provide guidance on best practices.

5.3 E-commerce and e-business

E-commerce and e-business have transformed the global marketplace, enabling organisations to offer products and services across digital platforms with minimal geographical limitations. E-commerce is the buying and selling of goods and services over the internet, while e-business refers to the broader use of technology to automate and enhance business operations.

Electronic commerce (e-Commerce) refers to the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network primarily, the internet. It encompasses online retailing, digital marketplaces, mobile commerce (m-commerce), and electronic payments. E-commerce enables business transactions to be conducted electronically without the physical presence of the parties involved. Electronic business (E-business), on the other hand, is a broader term that not only includes e-commerce activities, but also covers internal business processes, such as inventory management, production planning, customer relationship management (CRM), and enterprise resource planning (ERP) that are conducted using internet technologies.

While all e-commerce is part of e-business, not all e-business is e-commerce. E-commerce is transactional. E-business is transformational (involving internal systems and strategy).

The growth of the internet, mobile technologies, cloud computing, and digital payments has revolutionised how businesses operate. Traditional brick-and-mortar models are increasingly giving way to digital-first and hybrid models. In Nigeria, platforms like Konga, Jumia, Flutterwave, Remita, and JiJi have disrupted traditional commerce by digitising access to goods, services, and payments. Global platforms such as Amazon, Alibaba, and eBay offer further evidence of how e-commerce is reshaping commerce globally.

5.3.1 Key concepts

a. Business case scenarios for e-commerce propositions

A business case is a formal justification for a firm's decision to invest in e-commerce. It outlines the rationale, objectives, cost implications, expected benefits, and strategic alignment with the firm's vision. Different business contexts create different scenarios in which e-commerce becomes not just viable but critical to success. A business case for e-commerce outlines the value proposition, revenue model, customer segmentation, competitive advantages, and expected outcomes of going digital. Examples include, an SME creating an online storefront to expand reach, a consulting firm offering digital downloadable products, a logistics provider digitising customer

tracking. A retail company may adopt a Business to Customer (B2C) e-commerce model to reach a broader customer base through online channels, offering 24/7 accessibility and tailored promotions. Meanwhile, a manufacturing firm might use a Business to Business (B2B) e-commerce solution to streamline procurement and sales processes, reducing transaction times and operational costs. Scenarios include:

- a) **Market expansion and customer reach:** For businesses seeking to penetrate new markets, especially across geographical boundaries, e-commerce provides a cost-effective and scalable option. For instance, a local furniture manufacturer in Ogun State, Nigeria may use an online storefront to attract customers from Lagos, Abuja, or even overseas, thereby increasing market share without opening physical stores.
- b) **Operational efficiency and cost reduction:** Many firms adopt e-commerce to automate transactions, reduce reliance on manual sales processes, and optimise inventory management. For example, a company selling spare parts can integrate real-time stock levels with its website, minimising overstocking and understocking.
- c) **Customer convenience and personalisation:** Firms with a customer-centric focus often adopt e-commerce to enhance convenience, offer personalized product suggestions, and streamline service delivery. Digital platforms enable 24/7 access, live chat, AI-based product recommendations, and instant digital downloads.
- d) **Competitive pressure and industry trends:** When major competitors adopt e-commerce, firms are forced to follow suit or risk losing relevance. For example, traditional retailers in Nigeria like Spar and Shoprite have been compelled to introduce online channels due to the dominance of platforms like Jumia and Konga.
- e) **Diversification of revenue streams:** Some businesses use e-commerce to create new income avenues, selling products, digital subscriptions, or online training, alongside their core operations.
- f) In each scenario, the firm must evaluate the investment cost, risk profile, scalability, and technology compatibility before proceeding.

b. IT policies as stepping stone to e-commerce proposition

IT policies are foundational to the success of e-commerce because they ensure that technology usage aligns with organisational goals, mitigates risk, and promotes legal and ethical compliance. These policies define protocols

for cybersecurity, data protection, user authentication, network usage, and disaster recovery, ensuring secure, efficient, and ethical use of digital resources. They also guide the development of the firm's digital infrastructure and compliance with regulatory frameworks, such as Nigeria Data Protection Regulation (NDPR). Some of these policies include:

- i. **Data protection and privacy policies:** These govern how customer and employee data is collected, stored, processed, and shared. With regulations like the NDPR in Nigeria and GDPR globally, businesses must have robust mechanisms for obtaining user consent, storing personal data securely, and allowing users to opt out.
- ii. **Cybersecurity framework:** A strong e-commerce business must have clear protocols on password management, device security, system monitoring, and incident response. This includes firewalls, antivirus software, encryption policies, and staff awareness training.
- iii. **Acceptable Use Policy (AUP):** Defines how employees and customers may use the firm's IT resources. This includes restrictions on non-work-related browsing, social media access, and use of company devices for personal activities.
- iv. **Vendor and outsourcing policies:** These policies outline how external service providers (for example, payment processors, logistics firms, cloud hosting providers) are vetted, engaged, and monitored. Contracts must include clauses on data confidentiality and service level agreements (SLAs).
- v. **Business continuity and disaster recovery:** IT policies must define how systems will be restored in the event of cyberattacks, hardware failure, or natural disasters. Regular backups, secondary data centres, and contingency plans are essential components.

Together, these policies build trust, reduce liability, and ensure that the organisation's digital operations are sustainable and resilient.

c. **Making choices for e-commerce and e-business deployment**

Firms have several models to choose from when deploying e-commerce platforms. The right choice depends on organisational capacity, customer expectations, and growth strategy. Deploying e-commerce requires strategic choices based on business needs, available resources, and technological readiness. Businesses must consider their budgets, target market, scalability needs, and integration capabilities.

Strategic decisions regarding e-commerce deployment involve:

- (i) **In-house development:** Firms with strong IT teams may choose to build their e-commerce platforms from scratch. This allows full customisation, integration with existing ERP or CRM systems, and better control of data. However, it involves high initial costs and long development timelines.
- (ii) **Cloud-based platforms and software-as-a-service (SaaS):** Cloud-based e-commerce solutions like Shopify, BigCommerce, and Magento Commerce Cloud offer pre-built platforms that businesses can customise. These are cost-effective and scalable, especially for SMEs, as they provide hosting, security, and upgrades.
- (iii) **Marketplace integration:** Rather than build a platform, businesses can register as vendors on marketplaces, like Jumia, Konga, or JiJi. This eliminates infrastructure costs, but often involves commission fees and limited control over branding and customer data.
- (iv) **Mobile-first strategy:** Given the dominance of mobile internet usage in Nigeria, firms may choose to deploy mobile apps or responsive web platforms. Payment integrations with USSD and mobile wallets are often a priority.
- (v) **Outsourcing to web developers:** Companies may contract local or international agencies to build and maintain their digital presence. This option offers professional design and functionality, but requires clear agreements on scope, cost, and timelines.

d. **Benefits and challenges of e-commerce and e-business**

i. **Benefits to consumers:**

- a) **Global reach:** Consumers access markets beyond their geographical boundaries.
- b) **24/7 Availability:** Customers shop at any time, enhancing sales potential.
- c) **Cost efficiency:** Lower overhead compared to physical stores, leading to lower prices.
- d) **Personalisation:** Data analytics enable personalised customer experiences.
- e) **Operational efficiency:** Automation of order processing, inventory, and customer support, leading to reduced delivery time and better customer service.

ii. **Benefits to businesses:**

- a) **Increased market reach:** E-commerce breaks down physical barriers, allowing firms to access customers nationally and globally.
- b) **Lower operational costs:** Automation reduces the need for human involvement in order processing, payments, and customer support.
- c) **Data-driven decisions:** E-commerce platforms generate valuable analytics that help businesses optimise pricing, inventory, and marketing.
- d) **Customer convenience:** 24/7 shopping, home delivery, and multiple payment options enhance customer satisfaction.
- e) **Agility and innovation:** Digital businesses can quickly adapt to changing trends, test new products, and enter niche markets.

iii. Challenges:

- a) **Cybersecurity threats:** Increased risk of attacks and data breaches.
- b) **Logistics and fulfilment:** Especially challenging in areas with poor infrastructure.
- c) **Payment fraud and trust deficit:** Consumers may hesitate due to scams or failed deliveries.
- d) **Technology costs:** Initial setup and maintenance can be expensive for SMEs.
- e) **Regulatory compliance:** Firms must comply with data and e-transaction laws.
- f) **Security risks:** Cyberattacks, data breaches, and payment fraud can harm customers and businesses alike.
- g) **Logistics and fulfilment:** Inadequate transportation infrastructure in many African cities leads to delayed or failed deliveries.
- h) **Digital literacy gaps:** Both staff and customers may lack the skills to interact effectively with digital platforms.
- i) **Payment barriers:** Not all users have access to cards or mobile money, and transaction failures can erode trust.
- j) **Regulatory complexity:** Taxation, data privacy, and consumer rights laws vary across jurisdictions and require continuous monitoring.

e. Business operations outsourcing methodologies

Outsourcing enables businesses to delegate non-core or specialised functions to third-party providers, often resulting in efficiency gains, cost savings, and focus on strategic objectives. For example:

Logistics and delivery (for example, DHL, GIG Logistics)

Customer service (for example, call centers, chatbot providers)

IT infrastructure management

Payment processing services

Marketing and SEO agencies

(i) Types of outsourcing models:

- a) **Business process outsourcing (BPO):** Involves delegating tasks, like call centre operations, human resources, or order processing. For example, an e-commerce firm might outsource its customer care centre to a BPO partner in India or Kenya.
- b) **Information technology outsourcing (ITO):** Covers software development, system maintenance, and cybersecurity. Firms might contract IT consultants to manage e-commerce platforms.
- c) **Knowledge process outsourcing (KPO):** Involves high-value tasks like data analysis, legal services, or market research.
- d) **Cloud services outsourcing:** Firms outsource computing power and data storage to providers like Microsoft Azure or Amazon Web Services (AWS).

(ii) Outsourcing Approaches

- a) **Onshore:** Contracting within the same country.
- b) **Nearshore:** Contracting to neighbouring countries (for example, Ghana or Kenya for Nigerian firms).
- c) **Offshore:** Contracting to distant locations for cost benefits.

f. Data centre disaster recovery, contingency plans, and recovery alternatives

Business continuity depends on the firm's ability to recover quickly from disruptions. Disaster recovery planning ensures that operations can resume with minimal data loss or downtime. Disaster recovery (DR) plans are critical for ensuring business continuity. They outline protocols to recover IT systems

and data after disruptions, such as cyberattacks, natural disasters, or system failures.

i. Key components of a data recovery plan

- a) **Data backups:** Regular and automated backups of critical data and systems, stored in secure off-site or cloud locations.
- b) **Redundancy:** Duplication of systems and data to ensure that failures in one location do not bring down operations.
- c) **Recovery time objective (RTO):** The target time to restore systems after a disruption.
- d) **Recovery point objective (RPO):** The maximum acceptable data loss measured in time (for example, data not older than 15 minutes).
- e) **Recovery alternatives**
- f) **Hot site:** A fully operational backup facility with mirrored systems, ready for immediate use.
- g) **Warm site:** A backup location with partial infrastructure that can be activated within hours or days.
- h) **Cold site:** A basic location with minimal infrastructure, requiring significant setup before use.
- i) **Cloud-based disaster recovery as a service (DRaaS):** On-demand virtual environments that replicate a firm's systems in real time.

5.3.2 Discussion of key concepts in relation to e-commerce and e-business

a. IT infrastructure requirements for e-commerce and e-business

IT infrastructure refers to the combination of hardware, software, networks, and data centres required to support e-commerce and digital business operations. A well-planned IT infrastructure must be scalable, secure, and compliant with regulations like Nigeria's NDPR or global standards such as PCI DSS for payment data.

Key components:

- a) **Servers and hosting platforms:** E-commerce websites and databases must be hosted on reliable servers, either on-premises or through cloud providers, like Amazon Web Services (AWS), Google Cloud, or local data centres, like MainOne in Nigeria.

- b) **Databases and storage systems:** Customer records, transaction histories, product catalogues, and user credentials are stored in structured databases (for example, MySQL, PostgreSQL) and secure cloud environments, with backup redundancy.
- c) **Network infrastructure:** Routers, switches, and firewalls ensure secure, high-speed connectivity between users and servers. Reliable broadband and fibre-optic connections are essential, especially in multi-branch or multi-country setups.
- d) **Application platforms:** This includes web development frameworks (for example, Laravel, Django), content management systems (for example, WordPress, Magento), and mobile app platforms (for example, Flutter, React Native) used to build and run e-commerce interfaces.
- e) **Cybersecurity tools:** SSL certificates, antivirus software, intrusion detection systems (IDS), and virtual private networks (VPNs) help prevent unauthorised access and protect user data.
- f) **Payment gateways:** Platforms like Paystack, Flutterwave, and Remita enable safe and real-time online transactions in Nigeria.
- g) **Backup and recovery systems:** Redundant storage and real-time replication tools ensure continuity in case of failure.

b. **The internet as the backbone for e-commerce**

The internet is the foundational medium that enables e-commerce. It connects buyers, sellers, intermediaries, and service providers in real-time, breaking physical barriers and democratising access. The internet enables global connectivity, real-time communication, and digital transactions, making it the bedrock of e-commerce. Without reliable internet access, e-commerce operations would be impractical. It supports various actions, such as; web browsing and search, email and digital marketing, online payments, remote collaboration and cloud computing. In Nigeria, improved mobile broadband (4G and emerging 5G), smartphone penetration, and initiatives like Google's Equiano cable are accelerating internet accessibility, thereby boosting e-commerce adoption.

i. **Why the internet is central to e-commerce:**

The internet is central to e-commerce for various reasons such as:

- (a) **Global connectivity:** A merchant in Lagos can sell to a buyer in the UK or South Africa with minimal friction.
- (b) **24/7 accessibility:** Unlike traditional businesses with working hours, online stores remain open round-the-clock.
- (c) **Multichannel integration:** Email marketing, social media, live chats, and websites can operate simultaneously through the internet.
- (d) **Cloud access:** Internet connectivity allows businesses to host applications, services, and data in the cloud.
- (e) **Customer self-service:** Shoppers can browse, compare, pay, and track their orders without any human intervention.

c. Social media platforms

Social media has evolved from a communication tool into a commercial engine that drives customer engagement, marketing, and sales. Social media also allows real-time feedback, sentiment analysis, and viral promotion, making it indispensable in the modern digital marketing mix. Social media platforms, like Facebook, Instagram, Twitter now X, and TikTok have become vital channels for product promotion and influencer marketing, customer engagement and support, and real-time feedback, as well as targeted advertising through analytics. They are also emerging as direct sales channels through features like Instagram Shops and Facebook Marketplace.

The roles of social media in e-commerce include:

- (a) **Product discovery:** Platforms like Instagram, Facebook, and TikTok enable visual marketing, helping consumers discover products organically or through paid ads.
- (b) **Social selling:** Businesses use features like Facebook Shops or WhatsApp Business catalogues to sell directly on social platforms.
- (c) **Customer engagement and reviews:** Comments, likes, and DMs allow businesses to interact with customers in real-time, build trust, and respond to inquiries.
- (d) **Influencer marketing:** Collaborating with micro and macro influencers helps brands access targeted audiences. For example, Nigerian influencers promote skincare or fashion brands on Instagram and YouTube.
- (e) **Retargeting campaigns:** Businesses use Facebook Pixel or similar tools to re-engage site visitors with customised ads based on browsing behaviour.

d. E-commerce models

E-commerce models refer to the various ways digital transactions are structured based on the nature of the seller, buyer, and product/service type.

Six e-commerce models:

- (a) **Business-to-Business (B2B):** Transactions amongst businesses, for example, a Lagos-based wholesaler may sell raw materials or equipment to SMEs through platforms like **Alibaba** or industry-specific portals.
- (b) **Business-to-Consumer (B2C):** Firms sell directly to end-users via online platforms, for example, **Jumia, Konga, and Amazon.**
- (c) **Consumer-to-Consumer (C2C):** Individuals sell to other individuals using a digital platform as an intermediary, for example, **JiJi, eBay, and Facebook Marketplace.**
- (d) **Consumer-to-Business (C2B):** Consumers offer services or products to businesses. Freelancing platforms like **Upwork** or **Fiverr** fit into this model.
- (e) **Business-to-Administration (B2A):** Includes digital platforms for tax filing (for example, FIRS TaxPro Max), license applications, or public procurement systems.
- (f) **Consumer-to-Administration (C2A):** for example, online payment of taxes or health services.

e. Payment systems including mobile payment platforms

Efficient and secure payment systems are the lifeblood of e-commerce. A poor payment experience can lead to cart abandonment and reduced trust. Nigeria's fintech boom has improved payment reliability, but network errors, delays, and chargebacks still pose challenges.

i. Types of e-commerce payment systems

- (a) **Card payments:** Debit and credit card processing through gateways like Paystack, Interswitch, and Flutterwave
- (b) **Bank transfers:** Direct online transfers with real-time confirmation
- (c) **Mobile money and USSD:** Especially popular in regions with low banking penetration. Services like Paga, OPay, and MTN MoMo facilitate such payments.
- (d) **Wallet systems:** Users preload funds into digital wallets to spend on platforms, like JumiaPay or Kuda.

- (e) **Cryptocurrency:** Though controversial in Nigeria, some international platforms accept Bitcoin or Ethereum, especially in peer-to-peer models.

f. Digitisation of the middleman (Amazon, eBay, Konga, JiJi, etc.)

Digitisation has redefined the role of the middleman and transformed traditional middlemen, such as brokers, dealers, and agents into technology-powered intermediaries. This evolution has reshaped how products are discovered, compared, and acquired. A digital middleman is a platform that connects buyers and sellers, facilitates transactions, and sometimes offers logistics, payment, or trust-based services. Thus, digital intermediaries are not just matchmakers, but value creators in the new e-commerce ecosystem.

Examples include:

- (a) **Amazon:** Aggregates sellers, provides warehousing, payment processing, and delivery services.
- (b) **eBay:** Enables C2C and B2C transactions, including bidding and feedback systems
- (c) **Konga:** A Nigerian e-commerce firm offering both direct sales and a third-party marketplace.
- (d) **JiJi.ng:** A classified ads platform allowing individuals and small businesses to post listings for products and services.
- (e) **Uber/Bolt:** Though not e-commerce in the traditional sense, they digitise the taxi middleman model by connecting drivers with passengers in real time.

Benefits of digitised middlemen include:

- a) **Efficiency:** Reduce transaction time and cost
- b) **Trust and transparency:** Reviews, seller ratings, and buyer protection policies.
- c) **Data collection:** Platforms track behaviour and preferences to enhance service delivery.
- d) **Scalability:** Operate across multiple regions without physical infrastructure.
- e) Reduce information asymmetry
- f) Lower entry barriers for sellers
- g) Offer advanced analytics and targeting tools

5.4 Emerging technologies and the accountancy profession

5.4.1 Cloud computing

a. Cloud computing concept

Through the internet, cloud computing offers on-demand access to a variety of computing resources and services, including servers, networks, storage, and applications. Businesses that employ cloud computing can use various services according to their requirements without having to pay for them upfront. Like a public utility, cloud computing depends on resource sharing to achieve coherence and economies of scale.

In a nutshell, cloud computing is the provision of computer services via the Internet, including servers, storage, databases, networking, software, analytics, and more. Cloud providers are businesses that supply these computing services, and their fees are usually dependent on usage, much like how your telephone air time or electricity bills are calculated.

Cloud computing is a pay-per-use model for enabling available, convenient, on-demand network access to a shared pool of configurable computing resources (for example, networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or interface with service providers.

b. Characteristics of cloud

The most common characteristics which a cloud should have, include:

- a) elastic capacity and the appearance of boundless resources;
- b) pay-per-use (no recurring commitment, utility costs);
- c) self-service interfaces; and
- d) abstracted or virtualised resources.

Data and apps do not have to be on the user's computer or even on the local servers of the business, thanks to cloud computing, a technology that delivers computing as a service over the Internet. Instead, apps and data are stored on the computers of a cloud computing provider and sent to the business as needed.

Two significant trends in information technology have come together in cloud computing:

- (a) IT efficiency, which uses highly scalable hardware and software resources to make better use of the power of modern computers; and
- (b) business agility, which uses IT as a competitive tool through rapid deployment, parallel batch processing, use of compute-intensive business analytics, and mobile interactive applications that react instantly to user needs.

c. **Types of clouds**

- a) **Public cloud:** Controlled by the company that provides cloud services, the infrastructure is made accessible to the general public or a sizable industry group.
- b) **Private cloud:** This type of infrastructure is run exclusively for a company.
- c) A hybrid cloud is made up of two or more public, private, or community clouds that are distinct entities, but are connected by a common technology, that allows for the portability of data and applications.
- d) **Other kinds:** Community/Federated cloud, for instance, where multiple users share the infrastructure.

d. **Cloud integration in business**

To be able to concentrate on information management rather than infrastructure, business organisations, governments and individuals have focused on cloud applications. Regarding cloud adoption and integration in the business sector, there are several publications, guidance, and success stories available. Cloud technology may help any kind of organisation, albeit, how it is used varies based on the specific business model.

Better cooperation and communication between geographically dispersed employees and clients is made possible by the recently released cloud-based dashboards, reporting apps, and unified communications systems. The amount of data that passes through accounting once a day is unthinkable; accounting firms deal with data daily. Accounting professionals may cut expenses, increase productivity, and make data more accessible by moving their operations to the cloud, which also enables them to operate from any location at any time.

Cloud computing may also greatly benefit the manufacturing sector. For instance, to enable improved business and production setup management, manufacturers can deploy sizable internet virtual server farms. Additionally, manufacturers can create a virtual presence from any location in the world by utilising SaaS, PaaS, and IaaS. They can also connect plants to an IT infrastructure more readily and open up new business prospects with cloud computing.

Tourism is another area that is being touched by cloud computing. The “consumerisation” of computing technology is transforming the way travellers connect, receive information and purchase travel necessities. They are growing more knowledgeable, assertive, and demanding. They are

requesting unique experiences, and businesses in this industry risk losing market share, if they do not heed this call. To maintain market share, new agile business strategies are therefore required. Travellers must be able to add additional services to their itineraries, make real-time arrangements, and share their experiences with their social networks.

e. Categories of cloud business model

Software as a Service (SaaS), Platform as a Service (PaaS), and Infrastructure as a Service (IaaS) are the three primary service categories that cloud computing offers to customers. SaaS is currently the most often used paradigm.

- i. Software as a Service (SaaS)** is the term for using software online on demand. Cloud-based applications are offered as a service, and end-user licenses are purchased or "released" in response to shifting demand. Companies are gradually adopting this strategy, transitioning from software licensing to service subscriptions, usually on a monthly, per-user basis. Software that completes basic tasks with little interaction with other systems is usually a good fit for SaaS models.

SaaS software was developed with a multitenant back end in mind, allowing several users to access a single application. It is mostly Web-based and designed to be used with web tools like the browser. Customers who require powerful applications but are not willing to develop software might also benefit from SaaS software. Examples of typical business applications suitable for the SaaS model include accounting, video conferencing, IT service management, customer resource management, Web analytics, and Web content management.

SaaS is not the best option for applications that need to process real-time data extremely quickly, where laws or other regulations prohibit data from being hosted externally, or where an on-premise solution already in place meets all of the organisation's requirements.

- ii. Platform as a Service (PaaS)** describes the environments and tools used to create and administer cloud services and applications. Web service-based applications can be developed on top of platform software services (PaaS), which comprise web, application, database, enterprise service bus, and other middleware with related security features. Under the PaaS paradigm, software is developed and distributed online using the cloud as a platform. PaaS offers all the tools required to create apps and services completely

online without requiring software to be downloaded or installed. PaaS services cover application design, development, testing, deployment, and hosting. PaaS is particularly helpful when several developers are working on a project or when other outside parties need to communicate with the development process. Additionally, it has proven to be crucial for businesses looking to develop apps that utilise data from current sources, such as sales data from customer relationship management tools.

Lastly, testing and deployment services can be automated with PaaS. PaaS might not be the best option for applications that need to be extremely portable in terms of hosting, where proprietary languages or methods would affect the development process, or where switching to a different provider would be made more difficult by proprietary language.

- iii. **Infrastructure as a Service (IaaS):** Infrastructure as a Service (IaaS) is the implementation of storage and computing resources as a service, which are made available across a network as virtual machine services. Other names for it include hardware as a service (HaaS). The IaaS cloud model makes it possible to rent resources like memory, CPU cycles, storage space, server space, and network equipment. This approach offers a standardised virtual server conceptually. The user is in charge of configuring and managing the guest operating system, software, and database.

IaaS makes sense in the following scenarios: when demand is high, when new businesses lack the funds to purchase hardware, when the company is expanding quickly and scaling hardware would be difficult, when the company is under pressure to reduce capital expenditures and switch to operating expenditures, for a particular business line, or temporary or trial infrastructure needs. When regulatory compliance makes it difficult to offshore or outsource data processing and storage, when the highest performance levels are required, and when on-premise or dedicated hosted infrastructure can meet business needs, these are some examples of circumstances where exercising caution concerning IaaS is advised.

- f. **Benefits of cloud**

- Flexibility**

- The majority of businesses choose to adopt cloud computing because it offers corporate flexibility. Every employee has more freedom both inside and

outside the office, thanks to it. As long as they have an Internet connection, employees travelling for work can access the data on any device. Many services that cloud computing provides help businesses achieve their needs. Employees can share files and papers online at the same time, thanks to cloud computing. The revised version is therefore available to all employees. Employees of a company who frequently work outside the company now have an additional benefit as they may readily access their data. As a result, business owners can now spend their time on various ventures in different places, rather than having to remain in one place. Additionally, because files and data are stored electronically on the Internet, employees can access the same resources at the same time.

Cost cutting

The ability of cloud computing to reduce costs is the main factor driving its adoption by organisations. Organisations are drawn to the potential cost reductions, since cloud service providers offer "in-house" provision of these services. The organisations also only pay for the services that they truly utilise. It suggests that companies only pay for the services they utilise when they use cloud services.

i. Automatic software/Hardware upgrades

The implementation of IT solutions in businesses is a challenge because of the high cost of purchasing and maintaining software and hardware, which makes it impossible to obtain adequate finance. This will have a detrimental impact. These problems can be resolved using cloud computing. Companies can choose to turn their capital expenditures into operating expenses. It not only lowers costs but also fosters deeper relationships, keeps up with technological advancements, boosts profits, and offers clients standardised, reasonably priced services. Due to the affordable subscription costs, more businesses are now inclined to use supply chain management and customer relationship management software. These applications are instantly accessible to the staff. It leads to a quicker time to market because there are no capital expenditures required for instant access. Additionally, cutting these costs will make it easier to enter the market. This will expand the prospects and inspire more businesses to launch, particularly in nations that are far behind in the IT revolution.

ii. Agility

It is essential to remain competitive in the fiercely competitive corporate world of today. The skill and time spent responding to the rapidly evolving needs of

clients is one approach to set a business apart from others. Cloud computing can accomplish this more efficiently. Owing to the Internet's accessibility, cloud computing is available 24/7. This can be utilised as a competitive tool for rapid development since it enables firms to supply services in the least amount of time. Three different low-level management options from cloud providers are provided by cloud computing, which boosts agility:

- a. **System infrastructure:** Equipment and spare component maintenance;
- b. **Policy:** handling backups; and
- c. **Single application:** handling software.

Increased agility that can swiftly adjust to changes in a business environment is made possible by cloud computing. A typical physical server will take days to acquire and commission, whereas a cloud server will only take a minute.

iii. **Scalability**

Most businesses choose to employ cloud computing because it offers corporate flexibility. Each employee has more autonomy both inside and outside the office. Any device with an Internet connection can be used to access the data by employees on business trips. Numerous services provided by cloud computing help businesses satisfy their needs.

Another benefit of cloud computing is its capacity to adapt resources to changing business needs. This can be achieved by expanding the computing infrastructure because most cloud computing interfaces are easy to utilise. Standard IT systems do not offer scalability, which is extremely problematic for businesses. The groups are refusing to maintain the resources during peak hours because they are not being used during regular hours. Customers may become dissatisfied and discontinue doing business with you. Cloud services help solve problems and increase customer satisfaction since they are scalable. Cloud computing eliminates the need for capacity planning by making resources instantly available. Smaller firms especially benefit from cloud computing since it enables resource growth when necessary. Additionally, users may examine enormous volumes of data in a matter of minutes, thanks to cloud computing's processing power. To analyse the market and predict consumer behaviour and purchase trends, has successfully attracted business specialists.

iv. **Elasticity:**

The capacity to handle workloads that have extremely high peak-to-average ratios.

v. User convenience:

Users can work in familiar settings through virtualisation instead of strange ones.

g. Challenges of cloud computing

i. Data stealing

The number of companies and users with Internet connections is growing. The likelihood of probing and assaulting with viruses and cyber terrorists is also increased by this. The servers of Google Inc., one of the service providers, were compromised in an incident.

ii. Data privacy

Cloud computing allows several businesses to access data in an unprotected format. Risks to data privacy can be depicted from a variety of angles, including regulatory compliance and inadequate user control. For the purpose of sharing, some businesses will upload files to the cloud. However, this would result in problems with data privacy and confidentiality, including safeguarding personal or company information. Sometimes, the location of the data held will lead to privacy requirements. Data leakage will result from the failure of security access permissions across several domains. Insider user threats will be created in addition to the percentage of exposures and vulnerabilities. There aren't many controls offered by providers over the data and information kept on cloud servers. For instance, in a SaaS setting, the service providers are in charge of data storage, over which they have limited control and visibility. The threat of theft has increased. Users are unaware of where their data is stored and what has been done to it because all cloud operations are carried out by computers. The storage servers are dispersed throughout the globe at various locations.

Since cloud computing is used globally and different laws apply in different countries, it can occasionally be challenging to ensure that the data complies with the law. As a result, storing data on the cloud may impact privacy and responsibility.

iii. Denial of Service (DoS) attack

Denial of Service (DoS) attacks: also known as Distributed Denial of Service (DDoS) attacks or flooding attacks, are one of the most concerning issues in cloud computing and a major problem for the availability of services. Despite

decades of efforts by network security experts to address these attacks, DoS attacks continue to grow and have a greater impact. The types of DoS attacks include SYN Flood attacks, PING of Death attacks, Tear Drop attacks, and IP Spoofing attacks. The attackers can launch a variety of DoS attacks, including resource-focused (network, memory, CPU, etc.) and application-focused (web applications, database services, etc.). They deteriorate network connectivity and service quality by rendering cloud services unusable, unbearably slow, or unavailable. Sending a lot of data packets is one method that attackers typically use. The primary goal is to overburden the bandwidth and capacity of the servers and render the services inaccessible. DoS attacks can happen at any network layer. For example, DoS attack at the network level to make the server unavailable, SYN Flood attack at the transport layer to get the server busy and send bogus requests to the application layer to waste the servers' memory.

iv. Wrapping attack

The wrapping attack weakens the web servers' validation requests by using the Extensible Mark-up Language (XML) signature element. Simple Object Access Protocol (SOAP) is used to engage with user requests for services, which are then submitted in XML format. This kind of attack often takes place when a web server and a legitimate user translate SOAP messages in the Transport Layer Service (TLS) layer. A replica of the message body will be sent to the server posing as a legitimate user. The hacker will duplicate the user's login credentials. The hackers will insert a fake element into the message structure when the user is logging in.

v. Authentication attack

Authentication is always a weak point in web servers and is always a target to attack, especially those with inefficient encryption systems. Authentication attacks are another kind of assault that happens in cloud environments. Each service provider will employ one of three authentication methods, such as a person's knowledge. The hackers attempt to obtain the user's credentials and private data during the login procedure. If they are successful, the hackers will have access to sensitive information on organisations, users, and other people.

5.4.2 Blockchain

a. Concept and definition of blockchain

A blockchain is a type of digital ledger designed to record transactions between different network participants. It is a distributed ledger that runs on the Internet and is peer-to-peer. All transactions from its inception are included. Every transaction that is uploaded to a blockchain represents a value exchange between participants (that is, a digital asset that signifies rights, duties, or ownership). Blockchain also known as distributed ledger technology (DLT), is a digital system that simultaneously records asset transactions and their details in multiple locations, blockchain technology efficiently connects individuals or businesses in a direct or peer-to-peer manner. Blockchains are the fundamental units of interactions and transfers.

Blockchain technology is software that facilitates the safe online transfer of distinct instances of value (such as cash, real estate, contracts, and identification credentials) without the need for a third-party middleman like a bank or government. Blockchain is a decentralised public ledger that offers a safe foundation for transactions between unknown parties without a central authority.

A computerised ledger called the blockchain keeps track of information and transactions.

Blockchain systems can be divided into three categories: private, public, and consortium.

Table 1: Comparisons of the three types of blockchain systems

Feature	Private Blockchain	Public Blockchain	Consortium blockchain
Access	Private	Public	Private/public
Agreement	Based on organisation	Public	Selected nodes
Efficiency	High	Low	High
Centralisation	Yes	No	Partial
Process of Consensus	based on permissions	Without permission	based on permissions
Immutability	Not impenetrable	Not impenetrable	impenetrable

Bitcoin was the first real-world blockchain application. Bitcoin can solve the issue of "double spending" in traditional payment methods without the assistance of a trusted third party. Typically, when people make payments, a trusted third party verifies the validity of the transaction before implementing it. For instance, to complete an electronic transaction, there must be a way to confirm that the funds sent have not already been spent. Traditionally, this issue is resolved by using trusted third parties like Propay, Paypal, and Venmo, which validate and verify each transaction and keep a public ledger of the user's transaction to prevent double-spending.

Nonetheless, the third party is primarily uncertain about its potential for fraud. Formal centralisation is the source of the issue since it makes everything rely on one organisation, which undermines confidence. A distinct approach to this issue is provided by Bitcoin, which uses a cryptographic roof rather than trust. Bitcoin uses a P2P network and a decentralised distributed database to build and manage the public ledger, or blockchain. This is in contrast to the current centralised database. Two public keys, one from the sender and one from the recipient, are included in every transaction to demonstrate that the money was moved. The transaction is registered in the block once both parties have signed it using their private keys. Before being added to the blockchain, the network verifies the block.

b. Characteristics of a blockchain

A blockchain is a distributed, near-real-time digital record with many special and useful features that have the potential to revolutionise numerous sectors in the future. These features include the following:

- a. **Unmodifiable:** Because transaction records on the blockchain are unchangeable and permanent from the time they are added, the transaction history is trusted.
- b. **Decentralisation:** Any registry on the network can access and copy the file that contains the blockchain.
- c. **Transparency:** Anybody can view and audit the file as soon as it accesses the chain, which establishes a reference to monitor the asset history.
- d. **Efficiency:** When it comes to cost, settlement speed, and risk management, blockchain is more effective.

- e. **Unchangeable:** The blockchain's transaction records are unchangeable and permanent from the time they are added, which fosters confidence in the transaction history.

c. Application of blockchain in financial accounting

Businesses have a choice over accounting practices, including the accounting policies they employ and the accounting estimates and decisions they make, even if they must adopt the accounting methods outlined by accounting standards for recording, presentation, and disclosure in traditional accounting. Listed firms don't disclose the accounting processes used to prepare reports; they simply give the market regular financial statements. There are several drawbacks even if this institutional framework might safeguard businesses' confidential information. Firstly, whether a company uses an electronic or paper-based ledger, there is a chance that transactions could be tampered with and harmed.

Secondly, to maximise their interests, business managers or controlling owners may manipulate or fabricate transactions. It is extremely challenging for external information users to identify issues, since the accounting process is unclear. Lastly, even with external audits, the auditors might not be able to identify every instance of fraud and error within the company, or they could not be independent enough to alert the market to the issues they find. Blockchain technology's introduction offers new concepts for financial accounting and will significantly affect recognition, measurement, presentation, and disclosure in financial accounting. This can lower disclosure and earnings management errors and significantly raise the quality of information. First, businesses can upload source documents to the public blockchain, which will use smart contracts to create financial statements and accounting ledgers automatically. Smart contracts will permanently record the accounting rules and assumptions that businesses utilise. In financial accounting, this procedure radically alters measurement, presentation, and disclosure. Second, because smart contracts automatically generate financial statements, the use of blockchain technology in financial accounting can lower operational risk and measurement errors.

Furthermore, the time gap between accounting information generation and reporting is somewhat decreased when accounting information is provided on time. Accounting blockchain's traceability and transparency will raise the likelihood that fraud will be discovered and significantly raise the cost of counterfeiting. Earnings management will decline as opportunities and expenses rise. Lastly, the traceability of accounting assumptions and policies in smart contracts will promote the

comparability of accounting information by making accounting decisions and judgments more transparent.

Thirdly, since it is uploaded to the public blockchain and all transactions are accessible to all network users, utilising blockchain in financial accounting entails thousands of backups.

In conclusion, the introduction of blockchain technology will significantly alter financial accounting measurement, presentation, and disclosure, which lowers disclosure and earnings management errors, significantly enhances the quality of information, and lessens the issue of information asymmetry.

d. Comparing traditional accounting with blockchain accounting

Traditional accounting may be computerised in the form of accounting programs, which are the most common, or paper accounting books, which are the least common. Traditional accounting is represented by the processes, records, and accounting books that are currently used in the majority of institutions and businesses. Blockchain accounting is a new system that is being developed and improved upon. It is an encrypted electronic accounting system built on the blockchain. Additionally, Table 2 illustrates the most notable distinctions between blockchain accounting and traditional accounting.

Table 2: Comparison of traditional accounting and blockchain accounting

Comparison concept	Traditional accounting	Blockchain accounting
System	Operation records are centrally maintained and processed.	Process and maintain transaction records in the (decentralised) distributed ledger
Account modelling	Model of double-entry accounting	Model of triple-entry accounting.
Data entry and editing	The financial data are entered into the system and adjusted by the accountants according to the needs of the clients.	Records cannot be altered or changed once operations have been approved.

Accessibility of data	The core ledger is only directly accessible by accountants and auditors.	All pertinent parties (accountant, auditor, client, and regulators) have access to accounting information.
Security	Medium security	High security

In conclusion, there are several benefits to using blockchain technology in financial accounting over traditional methods, such as increased transparency, traceability, timeliness, and tamper-proofness. Smart contracts can automate the creation of financial statements, which can drastically reduce financial accounting expenses while simultaneously enhancing information timeliness, reliability, and comparability; it can also minimise errors in disclosure and earnings management, guaranteeing that the financial statements accurately and truly reflect the firm's financial position and operating performance. The issue of information asymmetry can be lessened accordingly. The aforementioned benefits, however, require time to materialise because of the current limitations of blockchain technology. Blockchain-based accounting and financial reporting will eventually become a feasible and alluring choice as the technology develops.

e. Benefits of blockchain to organisations

- i. Blockchain has the potential to revolutionise the creation, upkeep, and updating of financial records. Blockchain records are shared among all users rather than having a single owner. Every participant gets access to every entry in what might be thought of as "universal entry bookkeeping." To guarantee that a permanent record is sent to every user, it employs a consensus and verification system. It is decentralised and provides an alternative viewpoint on data and transactions in contrast to traditional ledgers, which are database-focused and managed by a single central entity. Decentralised consensus, for example, may eventually enhance employee involvement in accounting matters and the validation of business transactions, leading to a move to more varied controls by blockchain-led transparency.
- ii. Financial transparency is currently a significant problem for the accounting sector. Currently, the parties involved in a transaction have very little or no financial transparency. Also, real-time data and information are absent from present systems. Blockchain technology could be used to solve this problem. Propagation, permanence, and programmability are three of blockchain's most crucial characteristics.

The capacity to provide each participant with an identical complete copy of the transaction records is known as propagation. Blockchain records are considered permanent since previous transactions cannot be changed without the majority's consent. Programmability enables the creation of smart contracts, automatic journal entries, by storing program code alongside ledger entries. The blockchain depends on permanence and propagation. These are the essential features of any blockchain-based application.

- iii. Central authorities like banks, clearinghouses, and attorneys may be replaced by the distributed ledger for transactions provided by blockchain technology. Additionally, the ability for parties to communicate directly with a single ledger eliminates the need for reconciliation, which might save a company time and money.
- iv. **Cost-effectiveness:** Additionally, tax authorities and regulators with blockchain access may view and track transactions in real time, which would improve the effectiveness of regulatory and compliance operations while also being cost-effective. A blockchain's permanent record lowers the possibility of financial wrongdoing, making records reliable. The technology facilitates a quick settlement and clearance procedure. A transaction settles in the wallet once it has been verified and added to the ledger. This quick settlement reduces the danger of fraud and saves money. Verification is made easier by the blockchain technology prior to each block being added to the ledger.
- v. It also encourages the preservation of documents. Ownership records, including transaction data and processes built into smart contracts, are accessible and verifiable by any authorised participant. The auditing process can greatly benefit from the rich information that blockchain also contains, such as time stamping and accurate asset movement histories. The operational enhancements are an additional advantage. The adoption of blockchain technology can benefit a company by removing various back-office and middle-office procedures, such as reconciliation. It also helps with error correction.

f. Challenges of blockchain

The accounting industry is a perfect fit for blockchain technology. It enables users to produce value and swiftly and accurately certify data without worrying about it getting tainted. There are, nevertheless, certain difficulties and restrictions despite the numerous advantages and applications. For the technology to realise its full potential, some aspects could need more development.

Scalability:

A system, model, or function's scalability refers to its ability to handle and function effectively under an expanding workload or scope. Even when faced with massive companies like PayPal and VISA, as well as simultaneous operational pressures, a system that scales well will be able to maintain its performance and efficiency. It is the ability of a system to maintain its functionality when its size or volume significantly changes, typically to a greater size or volume. The size of the block, where each node in the network progressively authenticates the transaction before publishing it to the blockchain, and the consensus techniques now in use cause scalability problems. In addition to increasing the number of steps a transaction must take to attain full consensus with every node, this issue is made worse by the growing amount of transactions that necessitate the addition of more nodes to sustain the network. The three main components of scalability are throughput, size and storage, and latency.

Latency

In the context of blockchain technology, latency is the amount of time needed for a transaction to commit. At the moment, blockchain has a considerable latency when compared to other major e-payment companies like PayPal and VISA. Currently, the Bitcoin network promises only 4.6 transactions per second, while VISA and Paypal handle an average of 1,736 and 193 transactions per second (tps).

Size and storage

Another difficulty is that although transactions might generate vast amounts of data, the blockchain is not scalable enough to handle enormous data storage. Decentralisation is one of the features of blockchain, which implies that each node in the network processes each transaction and keeps a copy of the whole state. There is a limit to how many transactions it can handle, and the blockchain weakens as more nodes are added to the network. Consequently, storage needs rise in tandem with the blockchain's size.

Throughput

The current theoretical maximum throughput of Bitcoin is roughly seven transactions per second. On each end of the scalability spectrum are blockchain consensus algorithms like Proof of Work (PoW) and Byzantine Fault Tolerance (BFT). While BFT-based blockchains provide acceptable performance for small numbers of replicates, their scalability is not widely explored and is intuitively quite limited, while PoW-based blockchains give good node scalability with poor performance. The deployment of the blockchain has a significant impact on

performance. A hybrid blockchain, for instance, can be made to function far better than a public blockchain. Private blockchains are a good substitute for the accounting sector to address performance issues.

i. Privacy leakage

Most blockchains consist of highly distributed, publicly accessible databases. It is nearly hard to retain anonymity on public blockchains because they are meant to be public. By exploiting publicly available information, attackers can successfully establish a connection between the sender and the recipient. Compared to traditional banking, where minimum privacy measures are required by federal rules, blockchain systems like Bitcoin are less private in this regard. Cryptographic solutions that can stop the disclosure of private and individually identifiable information about persons involved in a transaction are still being researched.

ii. Regulatory issue

Several states, the federal government, and international organisations have shown interest in regulating blockchain operations with a focus on virtual currencies. It is impossible to determine which agencies are more likely to investigate a particular blockchain operation due to the technology's broad use and relative novelty. According to PwC's 2018 report, regulatory uncertainty is the main obstacle to blockchain adoption.

iii. Standardisation

Economic activity and investments in technology are based on standardisation. As a result, these standardisation initiatives ought to be easily implementable and grounded in best practices. Since blockchain technology is young, best practices are evolving swiftly. However, organisations such as the Institute of Electrical and Electronics Engineers (IEEE) and the International Telecommunication Union (ITU), have initiated blockchain standardisation.

iv. The financial and human capacity

Small accounting and financial businesses usually lack the financial resources to implement new technology, therefore they must continue to operate using their historical accounting systems. The organisation's human capital is another problem; despite the benefits, workers are so embedded in obsolete business methods, that it is challenging for their employers to adopt new technology. There's also the worry that smaller organisations will not embrace technology as quickly as larger ones therefore, larger firms could have to wait for blockchain adoption by smaller stakeholders.

In summary, a blockchain's scalability is one of its primary limitations. Although they provide robust guarantees, blockchain systems, such as Ethereum and Bitcoin are not able to handle transactions as efficiently as other distributed systems. Block size and production rate are additional factors that restrict throughput. High latency also affects blockchain transactions. Before the transaction is put into the chain, the user must wait for a confirmation block. While other consensus techniques can help with latency, they are unable to increase throughput without altering the blockchain's architecture. Also, privacy and confidentiality present a significant obstacle to blockchain and its uses, including private data and sensitive transactions. Accounting firms should use permissioned blockchain technology rather than a permissionless blockchain to prevent such a situation.

5.4.3 Fintech

A combination of the terms "financial" and "technology," the term "fintech" refers to the application of new technologies in the financial services sector to enhance operational and customer engagement capabilities through the use of digital innovation, analytics, data management, and, in certain cases, exponential technologies. With the use of accounting technology, accountants can now operate in more dynamic ways and discover new difficulties, as well as more to offer than they could in the past, when they were seated at a desk surrounded by documents and conducting calculations that took hours to complete.

One term that is frequently used to characterise digitisation in the financial industry is fintech. Both accountants and the accounting industry as a whole stand to gain greatly from the use of contemporary technology in the field.

Fintech application and financial industry

All banks and financial institutions worldwide are greatly impacted by the following effects of the fintech revolution:

i. Smart chip technology

In the event of an accident, smart chip ATM cards have greatly reduced the amount of money lost. The chip is equipped with EMV (Europay, MasterCard, and Visa) technology. Because the code is only valid for a single transaction and cannot be used even if stolen, this method employs a one-time password for every transaction, increasing security.

ii. Biometric sensors

Biometric sensors are one of the many innovations brought about by fintech in the banking sector. Two technological innovations that ATMs are

experiencing are biometric sensors and iris scanners. Furthermore, because they do away with the necessity of carrying plastic cards, these advancements are revolutionary. Additionally, a personal identification number won't be required. These advancements will not only make ATMs more practical and user-friendly, but they will also make them safer than they were previously, allowing users to access personal accounts without a password. By utilising integrated mobile applications, fingerprint sensors, palm, and eye recognition, the biometric ATMs can identify the account holder. Additionally, ATMs use micro-veins to increase the security and precision of identification, eliminating errors that ATMs make while identifying users. When biometric technology is employed, customers who are concerned about losing their ATM card can relax because it enables them to access funds even if they misplace their cards.

iii. The Automated Clearing House (ACH):

This makes it easier to manage all electronic interbank payments that take place inside a country. Dividend payments, insurance premiums, social security, salaries, bills, and direct mortgage debits are examples of these computerised payments.

iv. Omni-channel & branchless banking:

Fintech financial services are changing the banking industry as a whole, moving away from branch-specific procedures and toward a variety of digital platforms including mobile phones and the internet. Additionally, it lessens the reliance of the bank on its physical branches. Because of this, many banks are implementing omni-channel banking, which results in fewer branches.

v. Customer service chatbots:

Additionally, fintech companies have developed popular chatbots for customer assistance. Software components known as chatbots employ natural language processing and machine learning to continuously learn from human contact. They are extremely effective in streamlining customer contacts, such as answering questions and guiding clients to the appropriate departments. Other tasks that chatbots can carry out include giving clients investment advice, as demonstrated by Erica, the chatbot from Bank of America. Another example is the chatbot that UBS Bank uses to automatically scan customer emails, cutting down the task's duration from 45 minutes to an astounding two minutes. Similarly, a chatbot used by Japan's leading bank

can help customers find relevant pieces of information on their website. Chatbots have become an integral part of all banks, since they not only reduce costs and enhance customer satisfaction, but also allow agents in the call centres to focus on value addition.

vi. Artificial intelligence (AI):

AI has grown to be a crucial component of Fintech financial services throughout time. Machine learning and artificial intelligence are essential for detecting fraud. Every time a possible fraudulent transaction occurs, alarms are generated by the fraud detection software used by banks. The human inquiry that ultimately establishes whether the incident was genuine or not later supports it. As assaults become more complex, it becomes more difficult to detect them, using too much time and money. There is also always a chance that consumer data will be lost. These days, banks are using AI technology to counter this threat.

vii. Electronic wallets:

The massive growth of e-wallets is another indication of the expansion of Fintech financial services. Among the most well-known e-wallet companies in the world are Apple Pay, Android Pay, PayPal, and Samsung Pay. These wallets can be used for a wide range of purposes, including P2P payments, utility and top-up bills, international transfers, and ticket ticketing. There are other standalone wallets, such as Starbucks and Walmart Pay. E-wallets' enticing features, such as reward points and substantial cashback, have attracted users. Many banks now see the significance of e-wallets and are using them as a cooperative approach to adapt to technological advancements as a result of their remarkable success.

viii. Mobile banking:

As smartphone usage has increased, banks have been forced to create mobile applications that make Fintech financial services easily accessible. Most banks now offer their customers easy-to-use smartphone apps. Additionally, banks have created fingerprint-identifiable smartphone apps. The initiative provides quick access to funding and does this without requiring biometric software or hardware. With a mobile application, the user can perform a variety of banking functions, such as quickly paying bills, depositing

cheques, checking account balances, generating statements, and much more.

Benefits of fintech

- i. **Efficiency and accuracy at hand:** Fintech has brought automation solutions that reduce human error and save time by streamlining repetitive operations like data entry and reconciliation. Accounting programs like Xero and QuickBooks Online have grown in popularity because they provide small businesses tools and user-friendly interfaces that automate processes like payroll, expense management, and invoicing.
- ii. **Real-time financial analysis:** Investors may now access financial accounts and KPIs in real-time, thanks to fintech, which makes research and investment choices more precise. Accountants used to rely on past data to assess a company's financial health, but fintech has revolutionised this process by providing real-time financial analysis, enabling accountants to make well-informed judgments based on the most recent data. Real-time data reduces uncertainty for accountants, increasing the precision of projections and reporting. It improves teamwork by giving stakeholders access to current information at any time and from any location. Better communication and decision-making are facilitated by this connectedness, which successfully synchronises financial plans with corporate objectives.
- iii. **Predictive analytics**
For accountants and their clients, protecting financial data has long been a top concern. To protect financial data and stop unwanted access, fintech has implemented cutting-edge security features, including encryption, two-factor authentication, and cloud-based storage. Fintech solutions have gained popularity among accountants due to their enhanced security features. They may now reassure their customers that there are no possible cyber threats to their financial information. Customers now have more faith in online financial services, thanks to fintech's improved security features. Predictive analytics helps accountants move from reactive to proactive responsibilities. They can firmly establish themselves as important consultants by providing strategic counsel based on insights gleaned from data. Accountants may improve client service, build stronger relationships, and make a substantial contribution to their performance in a changing market by utilising AI.
- iv. **Transparency:**

Blockchain ensures accuracy and transparency in financial transactions by introducing an unchangeable ledger system. On a blockchain, each transaction is permanent, traceable, and verifiable. This technology assures data accuracy and removes discrepancies, which makes it especially useful for audits. Its decentralised structure increases confidence in financial records and lowers the possibility of fraud. Blockchain technology can be used by accountants to improve regulatory compliance and guarantee data integrity. By providing a transparent transaction trail and cutting down on the amount of time needed to validate documents, the technology streamlines audits. Accountants will be crucial to leveraging the promise of blockchain technology and incorporating it into financial systems as its use expands.

v. Mobile accounting application:

Apps for mobile accounting provide financial management at the fingertips of accountants. These apps let users monitor spending, create invoices while they are on the road, and access financial data. They provide flexibility and responsiveness in financial management by providing a portable solution that allows organisations to stay in touch with their finances at any time. Mobile apps are revolutionary for freelancers and small enterprises. Without requiring in-depth accounting knowledge, they streamline routine chores like scanning receipts, keeping an eye on cash flow, and managing budgets. These technologies ensure consistent data across platforms and are reasonably priced. They also frequently connect easily with larger accounting systems.

vi. Cost-effective payment process:

The way firms manage transactions has been made simpler by fintech developments in payment processing. Secure and affordable digital systems are now available for handling recurring invoicing, processing refunds, and taking payments. These tools are more dependable, quicker, and frequently work directly with accounting software. Cost-effective payment solutions are particularly beneficial for small and medium-sized businesses (SMEs) since they lower transaction expenses. By giving real-time updates on incoming and outgoing payments, they improve cash flow management. Financial activities are further streamlined by features, like automated invoicing and payment reminders. These tools enhance cash flow analysis and streamline reconciliation procedures for accountants. Accuracy in financial reporting can be guaranteed by accountants with clear records and automated updates. Additionally, accountants may concentrate on giving clients strategic advice because of the decreased administrative burden.

Challenges of fintech

The digital divide, which is defined as unequal access to technology and the internet, continues to be a major obstacle to FinTech's ability to reach underserved populations, especially in rural and low-income areas, despite its potential to improve financial inclusion. Large portions of the populace in many developing nations are unable to take advantage of FinTech solutions due to a lack of digital literacy, internet infrastructure, and smartphone access. Therefore, increasing access to digital financial services continues to be a significant industry concern.

- i. **Insufficient interoperability:** Users find it challenging to easily access a variety of services because many FinTech solutions function in silos. The efficacy of FinTech innovations is constrained by the incompatibility of various platforms, applications, and payment systems. FinTech businesses need to meet consumer demands for more cohesive and integrated financial services in order to enhance user experience and optimise the value of their offerings.
- ii. **Regulatory uncertainty and compliance:** The FinTech industry is highly regulated, with various jurisdictions enforcing different laws and regulations on consumer rights, data protection, and financial transactions. The absence of global regulatory standardisation poses difficulties for FinTech businesses, particularly those seeking to grow internationally. Innovation is hindered by regulatory uncertainty since businesses are unsure of how to comply with changing regulations, especially in fields like blockchain and cryptocurrencies. Frameworks for regulations that are clear, consistent, and encouraging are required to promote growth while maintaining financial stability and consumer safety.
- iii. **Data privacy and cybersecurity:** Cybersecurity is one of the main issues facing the FinTech sector. The potential for fraud, data breaches, and cyberattacks has increased as financial transactions become more computerised. Cybercriminals target financial institutions and FinTech companies because they manage vast amounts of sensitive financial and personal data.
- iv. **Misleading of customers:** By using fintech solutions, businesses may mislead customers or expose them to fraudulent behaviour by mis-selling their goods and services. It would be more challenging to rectify and settle responsibilities and accountabilities when the supply chain becomes more intricate and wrongdoing happens.

5.4.4 Statistical modelling

a. Meaning of statistical modelling

The use of mathematical frameworks to explain and forecast the relationship within data to comprehend a real-life scenario and help businesses make well-informed decisions and plan strategies is known as statistical modelling in accounting and business. The art and science of gathering, evaluating, presenting, interpreting, and forecasting data is known as statistics. A statistically structured, simplified approach to approximate reality, that is, what produces your data, statistical modelling allows one to potentially forecast from this approximation. By giving managers and decision-makers a greater grasp of the business and economic environment, statistics aim to assist them in making better, more informed decisions.

b. Application of statistical modelling to accounting and other related fields

The best managers and decision-makers understand the data through the application of statistical modelling and know how to apply it efficiently.

- i. **Public accounting:** Public accounting firms use statistical sampling techniques while conducting audits for their clients. Assume, for instance, that an accounting firm wants to determine whether the amount of accounts receivable on a client's balance sheet is an accurate representation of the amount of accounts receivable. As is typical in these situations, the audit team selects a sample, or subset, of the accounts. After assessing the accuracy of the sampled accounts, the auditors decide if the amount of accounts receivable shown on the client's statement of financial position is appropriate.
- ii. **Financial analysis:** Financial analysts base their investment suggestions on a variety of statistical data. The analysts look at a variety of financial information when evaluating stocks, including price/earnings ratios and dividend yields. The analyst might begin to ascertain if a given stock is overpriced or under-priced by contrasting the data for that stock with data about stock market averages.
- iii. **Marketing:** Electronic scanners at retail checkout counters collect information for various marketing research uses. For example, data providers such as Information Resources, Inc. purchase data from supermarkets' point-of-sale scanners, process it and then sell statistical summaries of the data to manufacturers. Manufacturers then purchase the data and statistical summaries on promotional activities like in-store

displays and special pricing. When creating future marketing strategies for the various items, brand managers can use the scanner and promotional activity statistics to gain a deeper understanding of the relationship between sales and promotional activities.

- iv. **Production:** Quality control is one important application of statistics in production. A variety of statistical quality control charts are used to monitor the output of a production process.
- v. **Economics:** Economists frequently forecast how the economy or a specific aspect of it will develop in the future. A variety of statistical data are used to make these predictions. For example, economists use statistical data on factors like the unemployment rate, the Producer Price Index, and manufacturing capacity utilisation to predict inflation rates. In computer forecasting models, these data markers are commonly used to estimate inflation rates.

c. **Benefits of statistical modelling to business**

- i. **Identification of consumer locations:** The ability of statistical data analysis to discover a company's clientele is one of its main advantages. It is simpler for a company to produce goods that cater to the particular requirements of the target market when it is aware of who its clients are. Furthermore, dividing up a consumer base facilitates customised marketing, which is more economical and successful than concentrating on a broad market.
- ii. **Determining production levels:** Finding the optimal manufacturing amount to satisfy the target customer's requests might be aided by data analysis. The business will lose out on sales and profits, if the production volume is less than the demand. Additionally, excessive production should be avoided, as it may have unfavourable effects. For example, in order to sell more products, the business could have to cut prices. Firms can determine production quality with greater accuracy by examining demand, sales history, customer information, and other data.
- iii. **Capacity to schedule production according to seasons:** Depending on the season, the demand for some things varies. While some things may be in great demand during the winter, others will be in strong demand around the holidays. Production can be planned according to consumer preferences by using statistical research to determine how

such preferences fluctuate with the seasons. Considering shifting consumer demands and preferences, manufacturing firms regulate their output.

- iv. **Identifying an appropriate business location:** Analysis can also assist in identifying an appropriate business location. Because it affects sales, operational expenses, and productivity, therefore firms are carefully located. A good location allows quick access to all the tools needed to run the business, is affordable, and allows easy connection with the consumers.
- v. **Finding the most effective marketing technique:** There will be a need for some strong marketing methods for the firm to make profit because of the intense rivalry. Statistical analysis is useful, not only for customer segmentation, but also for determining the most effective channels for customer and prospect communication. Making use of the appropriate channel will raise sales and profits while also increasing brand recognition. Additionally, firms receive a higher return on their marketing investment and save money when they stop concentrating on the wrong target. Lastly, businesses can assess the effectiveness of their marketing initiatives through analysis. Regularly evaluating the effectiveness of the marketing activities will help the firms avoid investing in ineffective methods.
- vi. **Determining future requirements for capital:** Forecasting the company's future financial requirements might be aided by statistical analysis. This is crucial to making sure the firms have adequate time to make expansion plans. Statistical analysis can assist in making sound financial decisions for the present, as well as for future financial requirements.
- vii. **Making correct decisions:** All things considered, statistical analysis can assist firms in reaching more precise conclusions. Such conclusions are typically more trustworthy than those based just on conjecture, since they are supported by information.

5.4.5 Internet of Things (IoT)

a. Introduction

The Internet of Things (IoT) refers to a vast network of interconnected physical objects ranging from consumer devices to industrial machinery that are embedded with sensors, software, and other technologies to collect, share, and act on data. These “smart” devices communicate over the internet or

dedicated networks, enabling real-time monitoring, automation, and control without direct human intervention.

The concept of IoT began gaining traction in 1999, when Kevin Ashton introduced the term in the context of RFID (Radio Frequency Identification) technologies. The full realisation of IoT, however, began around 2008–2009, with the number of connected devices surpassing the global population. Today, billions of devices from smartphones and appliances to industrial sensors are part of the IoT ecosystem. Unlike traditional internet applications that centred on human-to-human communication via web browsers and email, IoT shifts the focus toward machine-to-machine (M2M) interactions. This transition enables more autonomous systems, smarter decision-making, and scalable services across diverse sectors.

IoT applications span nearly every industry, such as:

- a) **Smart homes and buildings:** Energy-saving thermostats, remote lighting control, and security systems.
- b) **Healthcare:** Remote patient monitoring, wearable fitness trackers, and real-time diagnostics.
- c) **Manufacturing:** Intelligent robotics, predictive maintenance, and supply chain automation.
- d) **Retail:** Smart shelves, inventory tracking via RFID, and personalised in-store experiences.
- e) **Transportation:** GPS-enabled fleet tracking, smart traffic lights, and connected vehicles.
- f) **Agriculture and environment:** Soil sensors, climate forecasting tools, and pollution monitoring.
- g) **Utilities and energy:** Smart meters, energy usage analytics, and decentralised grid control.
- h) **Education and governance:** Digital classrooms, virtual learning platforms, and real-time feedback systems.

b. Benefits

IoT technology is transforming how businesses operate and interact with customers. Its advantages include:

- i. **Operational efficiency:** Enhanced tracking, predictive maintenance, and resource optimisation.
- ii. **Data-driven insights:** Continuous data collection enables better forecasting and decision-making.

- iii. **Personalised services:** Devices can adapt to user behaviour and preferences.
- iv. **Innovation opportunities:** Supports new business models such as smart homes, smart cities, and connected healthcare.

c. **Challenges, barriers, and the future of the internet of things (IoT)**

The Internet of Things (IoT) presents a revolutionary paradigm in the digital age by connecting billions of smart devices to enhance real-time data exchange and decision-making. However, its widespread adoption and seamless functionality face numerous challenges and barriers.

- i. **Reliability:** Unreliable communication or device failure can lead to data loss, delayed responses, and compromised safety. To ensure reliability, both hardware and software across all IoT layers must be designed to support consistent data availability and resilience against failures.
- ii. **Performance:** Evaluating IoT performance is complex due to its dependency on diverse technologies and components. Metrics such as processing speed, data transmission rate, energy efficiency, and device scalability determine performance. Yet, a unified standard for assessing end-to-end performance across heterogeneous environments remains underdeveloped.
- iii. **Interoperability:** The diversity of devices, platforms, and communication protocols poses significant interoperability challenges. Ensuring that devices from different manufacturers work seamlessly together requires standardisation, adherence to common protocols (e.g., WiFi, NFC, GSM), and interoperability testing environments like ETSI Plugtests.
- iv. **Security and privacy:** The absence of a universal security architecture makes data exchange vulnerable to unauthorised access, cyberattacks, and breaches of user privacy. Key management, access control, and secure data handling must be integrated at both the network and application layers to address these issues effectively.
- v. **Management complexity:** Managing billions of devices entails challenges in configuration, monitoring, fault detection, and performance optimisation. Protocols, such as Lightweight M2M (LWM2M) and NETCONF Light are emerging to support remote management of resource-constrained devices.

Real-time IoT platforms, such as MASH, also provide scalable tools for asset management and connectivity monitoring.

- vi. **Manufacturing and environmental impact:** Scalable IoT adoption requires cost-effective manufacturing, such as producing passive RFID tags for under one cent and environmentally sustainable production methods. Circular design strategies that emphasise reuse and recycling across the device lifecycle are increasingly vital.
- vii. **Lack of governance:** A fragmented global governance structure impedes standardisation and coordination. The coexistence of non-compatible identification schemes (for example, EPCglobal vs. Ubiquitous Networking Lab) risks market fragmentation. A unified and neutral governance model is necessary to promote interoperability, scalability, and cross-border trust.

5.5 Chapter review

This chapter covers application of Information technology to business, including tools IT, big data analytics, cybersecurity, e-economics, e-business digital intermediaries, and new technologies, such as cloud computing, block chain, fintech, IoT and statistical modelling

Worked examples

Questions

1. Which of the following best defines Enterprise Resource Planning (ERP)?

- A. A software that only handles payroll processing
- B. A system for managing and integrating core business processes
- C. An email and communication tool
- D. A spreadsheet program for managing budgets

Correct Answer: B. A system for managing and integrating core business processes

2. What is the primary function of a Customer Relationship Management (CRM) system?

- A. To manage the marketing function
- B. To handle payroll and benefits
- C. To manage interactions with current and potential customers
- D. To monitor cybersecurity threats

Correct Answer: C. To manage interactions with current and potential customers

2. What is the primary function of a Database Management System (DBMS) in business operations?

- A. To design website and manage online content.
- B. To create marketing campaigns and manage customers outreach.
- C. It allows businesses to efficiently store, retrieve, manage, and manipulate data, enabling data integrity, security, and informed decision-making.
- D. To handle payroll and employee benefits exclusively.

Correct Answer: C - It allows businesses to efficiently store, retrieve, manage, and manipulate data, enabling data integrity, security, and informed decision-making.

4. How do spreadsheet applications contribute to financial analysis in businesses?

- A. They replace all accounting software and eliminate the need for financial professionals.
- B. They serve primarily as platforms for sending emails and managing customer relationships.
- C. They are used exclusively for graphic design and multimedia presentations.

- D. They provide tools for organizing, calculating, and visualizing financial data, enabling informed decision-making.

Correct Answer: D - They provide tools for organizing, calculating, and visualizing financial data, enabling informed decision-making.

5. In what ways can ERP systems improve business processes?

- A. By focusing solely on customer interactions and marketing campaigns.
- B. By integrating various departments into a single system, improving data accuracy and workflow efficiency.
- C. By replacing all manual labor with robots and eliminating the need for human oversight.
- D. By limiting access to business data to only top-level executives.

Correct Answer: B - By integrating various departments into a single system, improving data accuracy and workflow efficiency.

6. What is cybersecurity?

- A. The practice of protecting systems, networks, and data from digital attacks, unauthorized access, and damage.
- B. A method used to design websites and create online advertisements.
- C. A form of physical security used to guard buildings and offices.
- D. A tool for managing customer relationships and marketing campaigns.

Correct Answer: A - The practice of protecting systems, networks, and data from digital attacks, unauthorized access, and damage.

7. List three key cyber threats.

- A. Antivirus software, Firewalls, and Encryption
- B. Email marketing, Cloud storage, and Social media
- C. Phishing, ransomware, and unauthorised access/data breaches.
- D. Data backups, Password managers, and VPNs

Correct Answer: C - Phishing, ransomware, and unauthorised access/data breaches.

8. Mention two strategies to prevent cyberattacks.

- A. Ignoring software updates and disabling firewalls
- B. Sharing login credentials with colleagues and storing them in plain text
- C. Use of firewalls and antivirus and regular staff cybersecurity training.
- D. Posting sensitive company data on public forums for transparency

Correct Answer: C - Use of firewalls and antivirus and regular staff cybersecurity training.

9. Which of the following is an example of digitisation of the middleman?

- A. Shoprite stores
- B. Amazon
- C. Nigerian local markets
- D. Mobile banking apps

Correct Answer: B. Amazon

10. Why are IT policies critical for e-commerce?

- A. They serve only as optional guidelines with no impact on business operations or customer trust.
- B. They are mainly used to design product packaging and manage physical store layouts.
- C. They eliminate the need for cybersecurity measures by outsourcing all IT functions.
- D. They provide guidelines for safe system usage, ensuring security, compliance, and operational efficiency.

Answer: D - They provide guidelines for safe system usage, ensuring security, compliance, and operational efficiency.

11. State two benefits and one challenge of e-commerce.

- A. Benefits include fewer online transactions and higher rent costs; a challenge is improved data security.
- B. Benefits include limited customer access and increased paperwork; a challenge is faster delivery.
- C. Benefits include global reach and reduced costs; a challenge is cybersecurity risk.
- D. Benefits include reduced customer engagement and slower service; a challenge is enhanced marketing.

Answer: C - Benefits include global reach and reduced costs; a challenge is cybersecurity risk.

12. What role does the internet play in e-commerce?

- A. It enables online transactions, global reach, and real-time communication between businesses and customers.

- B. It is mainly used for printing receipts and managing physical inventory in stores.
- C. It replaces all business operations with automated robots.
- D. It serves only as a platform for entertainment and social media.

Answer: A - It enables online transactions, global reach, and real-time communication between businesses and customers.

- 13a. **In today's dynamic business environment, organisations continually seek ways to streamline operations, enhance productivity and maintain a competitive edge. One of the pivotal tools enabling this transformation is ERP.**

Required:

- i. Explain the concept of Enterprise Resource Planning (ERP).
- ii. Explain how ERP systems improve business processes.

- 13b. In an increasingly customer-centric marketplace, businesses are recognising the importance of building and maintaining strong relationships with their clients. As customers' expectations evolve, so too must the strategies and tools organisations use to engage, retain and understand their customers. One such tool that has gained prominence is CRM.

Required: I. Explain Customer Relationship Management (CRM).

- ii. Explain its primary function in organisations.

Suggested solutions

13a. Enterprise Resource Planning (ERP) is an integrated software platform used by organisations to manage and automate core business processes across different departments such as finance, human resources, manufacturing, supply chain, and customer service. ERP systems improve business processes by integrating operations into a single unified system, enabling real-time information sharing, improving decision-making, reducing duplication of efforts, enhancing efficiency, and ensuring better coordination across departments.

13b. Customer Relationship Management (CRM) refers to a strategy, supported by software systems, designed to manage an organisation's interactions with current and potential customers. The primary function of a CRM system is to streamline and improve customer relations by organising, automating, and synchronising sales, marketing, customer service, and technical support

processes. It helps businesses to build stronger customer relationships, increase customer retention, and drive sales growth.

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STUDY TEXT

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA