<u>BUSINESS STUDIES NOTES (6025)</u>

<u>TOPIC 1: BUSINESS IN ITS ENVIRONMENT</u>

The Need for and Nature of Business Activity

Several definitions have been put forward to define what a business really is. This introductory part seeks to help you understand the main features of a business and explore the various types of businesses.

Definition(s) for Business

A business may be defined as a "**set of stable social relationships which are deliberately created with the explicit or clear intention of achieving a specific goal or purpose".** This definition highlights the fact that a business is made up of an interlinked network of social relationships whose main motive is to achieve a specified objective.

It is also defined as "**any form of human association in which people are driven by the aim of achieving common objectives"**. From this definition, it can be noted that what brings people together is the unanimous and collective need to realise certain desired objectives.

An organisation can also be referred to as any grouping of people who work towards the attainment of a common objective. It is a form of every human association responsible for the achievement of a specific objective. Management was defined by Mary Parker Follet as the art of getting things done through people. Management is a discipline which involve planning, controlling, leading, coordinating and directing.

<u>Classification of organisations</u>

Organisation can be classified into three categories which are public organisation, private organisation and non-governmental organisations.

Private Sectors

- Comprises of businesses owned and controlled by individuals or a group of individuals, with the objective of profit maximization e.g. Delta corporation, Unilever and others

Public Sectors

- Comprises of organisations accountable to and controlled by central or local government with the objective of providing merit and public goods at affordable prices e.g. ZBC, ZINWA,NRZ and others

Non-governmental organisation

- These are organisation which offer welfare and charity to the people e.g. Oxfam, UNICEF, CARE international etc.

Levels of Economic Activities

They are three levels/ sectors of economic activities in a country and these are primary, secondary and tertiary level.

Primary Sector Activity

- Are sectors where firms are engaged in farming, fishing, and all other industries that extract natural resources so that they can be used and processed by other firms? They provide raw materials for the secondary sector

Advantages

- Provides raw materials for the secondary sector.
- Creation of employment in farms, mines etc.
- Increase the gross domestic product of the country.
- Generates foreign currency through exportation of cash crops.

Secondary Sector Business Activity

- Involves manufacturing and processing of products from natural resources, for example, brewing, baking and construction. It uses input from the primary sector.

Tertiary Sector Activities

- These are firms that provide services to consumers and other businesses such as retailing, transport, banking and tourism. They provide backup services for primary and secondary sectors

NB therefore these sectors or levels of economic activities are of equal importance and they cannot be used in isolation because secondary sector uses raw materials from the primary sector and tertiary sector provides backup services for both primary and secondary sectors

Industrialization

- It is the growth of the relative importance of the secondary sector or activity over primary activities in the country
- This might mean mass production at large and this can refer to the expansion or growth of industries and industrial services.

Benefits

- Total national output increases and this raises average standards of living.
- Increases output of goods and can result in lower imports and higher exports of such products.
- Expanding manufacturing business will result in more jobs being created.
- Expanding and more profitable firms pay more tax to the government.
- Value is added to the country's output of raw materials, rather than just exporting these basic unprocessed products.
- It may result in economic growth.

Problems

- The chances of work in manufacturing encourages rural to urban migration which can lead to overcrowding, housing and social problems in towns.
- Imports of raw materials are often needed and they increase import costs.
- Much of the growth is due to multinational companies which have some consequences such as labour exploitation, dumping of inferior goods and over exploitation of natural resources

De-Industrialization

- Is a decline in the importance of the secondary sector activities and the growth of tertiary sector activities?

Reasons for de-industrialization include:

- Rising income associated with higher living standards leads to consumers spending more of their extra income on services rather than goods. A feature of developed countries.
- As the rest of the world industrializes, manufacturing firms face competition and rising imports by domestic firms takes away markets from secondary sector firms.

Types of Private Sector Organisations

1. Sole Traders

- A business in which one person provides the permanent finance and in return has full control of the business and is able to keep all the profits.
- The person usually trades under his own name.
- They are common in industries such as farming, hairdressing, window cleaning and retailing.

Advantages of Sole Traders

- Easy to set up and no legal formalities required
- Owner has complete control, not answerable to anybody else.
- Owner keeps all profits.
- Able to choose times and patterns of work.
- Able to establish close personal relationship with staff and customers.
- Decisions are made quickly and not consultative.
- They are likely to receive assistance from the government.
- Pay little or no tax to the government.
- Can have flexible and convenient working hours.

Disadvantages of Sole Traders

- Unlimited liability – All of owner's assets are potentially at risk.

- Often faces intense competition from bigger firms.
- It may be difficult to raise finance to expand the business.
- Since capital is obtained from personal savings, borrowing and ploughing back profits, the firm has no access to larger capital markets.
- The business depends heavily upon the owner's ability. He cannot be jack of all trades, for example, he can be skilled in mechanics for all cars but finds it difficult to cope with accounts.
- If the owner is ill, dies or not fit, the business lacks continuity.
- Sole traders often overwork themselves.
- Have no one to share ideas with and suffers all the losses.

2. Partnerships

- A partnership is legally defined as two or more persons carrying on business in common with a view of profit making.
- It can be defined as business formed by two or more people to carry on a business together with shared capital investments and usually shared responsibilities.
- Partnerships have a legal maximum of 20 people, they require few documents.
- It is an unincorporated business and partners have unlimited liability.
- The partnership agreement does not create a separate unit; a partnership is just a group of individuals formed to overcome some of the drawbacks of sole traders.
- Errors and decisions of each partner are considered to be the responsibility of them all.
- A partnership deed is often drawn and likely covers matters such as:
    - The amount of capital to be contributed by each partner.
    - Proportions in which profit and losses will be shared.
    - Management responsibilities of each partner.

- Maximum drawings of cash by each partner.
- Terms under which the partnership will be terminated.
- Voting rights.

Advantages of Partnerships

- Partners may specialize in different areas of business management.
- Shared decision making.
- Can raise more capital through each partner's contribution.
- Partners share the losses.
- Greater privacy and fewer formalities than corporate organisations.

Disadvantages of Partnerships

- Unlimited liability for all partners (with exception of limited partnerships).
- Lack of continuity. The partnership will have to be reformed in the event of one partner's death.
- All partners are bound by decisions of any one of them.
- Cannot raise capital from selling shares.
- Loss of independence in decision making as in sole traders.
- They share profits.
- Conflicts may arise.
- Decision making is consultative and is time consuming.

3. Limited Companies

- Sole traders and partnerships are unincorporated businesses and have some differences from companies, "incorporated businesses" including:

3.1. Limited liability

- Ownership of companies is divided into small units called shares. People can buy these and become shareholders (part owners) of the business.
- Individuals with large blocks of shares, for example, 50% often become

directors of the business. All shareholders benefit from limited liability.

- The only liability or potential loss the company has if it fails is the amount invested in the company not the wealth of the shareholders.
- Nobody makes any further claims to the shareholders should the company fail. This has two important effects:
  - People are prepared to provide finance to enable companies to expand.
  - The greater risk of the company failing to pay its debts is now transferred from the investors to the creditors (lenders who have not been paid).

3.2. Legal Personality

- A company is recognized in law as having legal identity separate from that of its owners, for example, if the food sold by a company is found to be dangerous, the company itself can be taken to court, not the owners. A company can be sued or sue through the courts.

3.3. Continuity

- In a company, the death of an owner or director does not lead to its dissolution. Ownership continues through inheritance of the shares.

4. Private Limited Companies

- A small to medium sized business that is owned by shareholders who are often members of the same family. This company cannot sell shares to the general public.
- Limited companies are sometimes called joint stock companies because their stock or shares is held jointly by a number of people.
- Private limited companies have a restriction on the sale of shares.
- It cannot advertise its shares for sale on the stock exchange.
- Shareholders have limited liability and business accounts are not published.
- Existing shareholders can only sell their shares with the agreement of the other shareholders.

Advantages of Private Limited Companies

- Shareholders have limited liability.
- Separate legal personalities.
- Continuity in the event of the death of a shareholder.
- Original owner is still often able to retain control.
- Able to raise capital from the sale of shares to family and friends.
- Greater status than an unincorporated organisation.
- Many private limited companies are large enough to obtain benefits of large scale productions.
- There is no minimum authorized capital.
- Accounts are less complicated than those of public limited.
- It is possible to restrict transfer of shares, for example, preserve ownership by family and accounts can remain private.

Disadvantages of Private Limited Companies

- There are complex legal formalities in establishing the business.
- Shares cannot be sold to the general public.
- It may be difficult for shareholders to sell their shares and get their investment back.
- End of year accounts must be sent to company available for public inspection.

5. Public Limited Companies

- Can be recognized by the use of PLC or Inc.
- Often a large business with legal rights to sell shares to the general public, share prices are quoted on the stock exchange.
- They have all advantages of private limited companies plus the right to sell shares to the general public on the stock exchange.
- Existing shareholders may quickly sell their shares if they want to. This

flexibility of selling shares encourages the public to buy the shares.

- Most PLC shareholders do not take part in the management of the firm which is run by a board of directors elected by shareholders.

Advantages of Public Limited Companies

- Limited liability.
- Separate legal identity.
- Continuity.
- Easy buying and selling of shares for shareholders. This encourages investment.
- Access to substantial sources of finance due the ability to issue a prospectus to the public and offer shares for sale.
- They benefit from economies of scale.

Disadvantages of Public Limited Companies

- As a large firm, the company may seem impersonal to customers and employees.
- They are vulnerable to takeovers.
- Because of their size, they make diseconomies of scale such as decisions taking a long time to make.
- Legal formalities in formation.
- Costs of business consultants and financial advisors when creating such a company.
- Share prices subject to fluctuations.
- Directors influenced by short-term objectives of major investors.
- There is divorce between ownership and control.

Difference between Public Limited Companies and Private Limited Companies

- Original owners of a private limited company are able to retain a majority of shares and still continue to exercise management control; however, this is unlikely with Public Limited Companies due to sheer volume of shares issued. There is divorce between ownership and control. Shareholders own the company but appoint a board of directors to run the business.

- Private limited companies sell shares to private individuals, for example, friends and family, whereas public limited companies can issue a prospectus and sell shares to the public.
- In private limited companies, shareholders sell their shares only after an agreement by other shareholders, whereas in public limited companies there is flexibility in terms of share purchases and sales.
- Private limited companies enjoy confidentiality, while public limited companies disclose all its accounts publicly.

Registration of Joint Stock Companies

- When a joint stock company is established, certain documents must be submitted to the registrar of companies.

1. Memorandum of Association

- This governs the firm's external relationship with other people and organisations and provides the world at large with certain basic information about the company. It contains several items:
    - Name of company.
    - Address of the registered office.
    - Objectives clause. This states the type of business in which the company will be involved in, for example, retailing or building services.
    - Limitation clause. This is a statement that shareholders have limited liability.
    - Capital clause.

2. Articles of Association

- These are rules governing the internal affairs of the company.
- It covers matters such as:
    - Voting rights of shareholders.

- Election of directors.
- Buying and selling of shares.
- Payments of dividends.
- Detailed procedures to be followed at meetings.

3. Statutory Declaration

- This is a statement that the company has been set up within the regulations of the companies act. It is sent to the registrar of companies along with the memorandum and articles of association.

4. Certificate of Incorporation

- This is issued by the registrar of companies and is necessary before the company starts trading. It is the company's "birth certificate".
- A private limited company can start immediately upon receipt of the certificate of incorporation.

5. Certificate of Trading

- It is also issued by the registrar and must be obtained by a public limited company before it can start operating. To obtain this document, the PLC must have raised a minimum amount of capital through selling shares to the general public. This is to ensure that the company will have sufficient funds to trade.

Other Forms of Business Organisations

1. Cooperatives

Features of cooperatives:

- All members can contribute to the running of the business, sharing the workload, responsibilities and decision making.
- All members have one vote at important meetings.
- Profits are shared equally among members.
- Shares keep the same value.

Advantages of Cooperatives

- Bulk buying.
- Working together to solve problems and make decisions.
- Good motivation of all members to work hard as they will benefit from shared profits.

Disadvantages of Cooperatives

- Poor management skills unless professional managers are hired.
- Capital shortages because there is no sale of shares to non-members, that is, the general public.
- Slow decision making since all members are to be consulted.

2. Franchises

- A franchise is a business that uses the name, logo and trading systems of an existing successful business.
- It is a legal contract between two firms.
- It allows one firm, the franchisee to use name, logo and marketing methods of the other firm, the franchiser.

Benefits of Opening Franchised Businesses

- Fewer chances of new businesses failing, as established brands and products are used.
- Advice and training offered by the franchiser.
- National advertisements paid for by the franchiser.
- Supplies obtained from established and quality-checked suppliers.
- Franchiser agrees not to open another branch in the local area.

Limitations of Franchised Businesses

- Share of profits or sales revenue has to be paid to the franchiser each year.
- Initial franchise license fee can be expensive.
- Local promotions may still have to be paid for by the franchisee.

- No choice of supplies or suppliers to be used.
- Strict rules, over pricing and layout of outlets reduce owner's control over his business.

3. Joint Ventures

- Two or more businesses agree to work closely together on a particular project and create a separate business division to do so.
- They are not the same as a merger but they can lead to mergers.

Reasons for Joint Ventures

- Costs and risks of a new business venture are shared. This is a major consideration when the cost of developing new products is rising rapidly.
- Different companies might have different strengths and experiences and they therefore fit well together.
- They might have their major markets in different countries and they could exploit these with new products more effectively than if they both decided to go for it on their own.

Drawbacks of Joint Ventures

- Style of management and culture might be so different that the two teams blend well together.
- Errors and mistakes might lead to one blaming the other for mistakes.
- The business failure of one of the partners could put the whole project at risk.

4. Holding Companies

- It is a business organisation that owns and controls a number of separate businesses, but does not unite them into one unified company.
- Often the separate businesses are in different markets.
- Keeping the businesses separate means they are independent of each other for decisions or policy changes.

5. Public Sector Enterprises (Public Corporations)

Public Corporation

- Is a business enterprise owned and controlled by the state. They are also known as nationalised industries.
- Public sector organisations do not often have profit as a major objective.
- Their products might be regarded as strategic in that they are vital to the people in the economy.

Nationalization

- This is a process of converting privately-owned enterprises to state-owned.

Arguments for Nationalization

- They may provide socially important services such as rural railway lines and postal services which might not be supplied by a private firm because they are unprofitable.
- Some industries are natural monopolies. It may not be financially worthwhile for one firm to provide a service such as water. Therefore nationalisation reduces monopoly
- Many industries require investments in expensive equipment and technology. A private firm might be unwilling to risk such a large sum of capital.
- The government should control the economy on behalf of the citizens.
- Managed with a social objective rather than profit.
- Loss making services might still be kept if social benefits are great enough.
- Finance is raised mainly from the government.

Arguments against Nationalization

- Tendency towards inefficiency due to lack of strict profit targets.
- Subsidies from the government may encourage inefficiency.
- Government may interfere in business decisions for political reasons, for example, opening a new branch in a certain area to gain popularity.
- They is lack of competition and it is difficult to assess organizational

efficiency

- Resources may be wasted due to poor quality services
- It creates a dependency syndrome
- It increase government spending
- Some unprofitable organisation may continue to operate despite the shoddy services they offer

Privatisation

- Selling of state-owned or state controlled businesses to investors in the private sector.
- It means switching production of goods and services from the public sector to the private sector.

Four Methods of Privatisation

- **Denationalization –** Selling government-owned enterprises to the private sector.
- **Deregulation –** Removing statutory monopolies, for example, abolishing restriction upon business services.
- **Contracting out –** Allowing private firms to bid for the supply of public services, for example, hospital cleaning, and refuse collection.
- **Marketization-**The shifting of services into the market sector which were hitherto/previously provided by the public sector so that private participants/players can also offer such services, e.g. health services, education and security, among others.x

Arguments for Privatization

- The profit motive of the private sector business will lead to much greater efficiency than when a business is subsidized by the government.
- Decision making in state-owned business may be slow and bureaucratic.
- Privatisation puts the responsibility of success firmly in the hands of managers and staff who work in the organisation. This can lead to strong motivation as they have a direct involvement in the work that they do. There is a greater sense of empowerment.

- Market forces will be allowed to operate, failing businesses will be forced to change or die and successful ones will expand, unconstrained by government limits on growth. Profits of most of the privatized businesses increase following their sell-off.
- There is always a temptation for government to run state-owned industries for political reasons or as a means of influencing the national economy, for example, keeping electricity prices artificially low, decision making may not be taken for commercial reasons.
- Sale of nationalised industries can raise finance for government, which can be used for other state projects.
- Private businesses will have access to private capital markets and this will lead to increased investments in these industries.
- Better quality is produced. Due to greater competition, producers will have to continually improve their products to fight competition
- It reduces government spending
- It also increase revenue through the payment of taxes such as PAYEE and corporate tax.

Arguments against Privatization

- The state should take decisions about essential industries. These decisions can be based on the society's needs and not just the interest of shareholders. This may involve keeping on businesses that private companies might consider unprofitable.
- With competing privately run businesses, it will be much more difficult to achieve a coherent and coordinated policy for the benefit of the whole country, for example, railway system, electrical grid.
- Through state ownership, an industry can be made accountable to the country. This is by means of a responsible minister and direct accountability to the parliament.
- Many strategic industries could be operated as "private monopolies" if privatised and they could exploit consumers with high prices.
- Breaking up nationalised industries, perhaps into several competing units, will reduce the opportunity for cost saving through economies of scale.

- The government might loss control in the economy if most of the factors of production are in the private hands
- There is a danger of resources wastage for the benefit of fewer individuals
- Certain services that have been provided by the state such as education and security may not be provided by private firms
- It may result in high level unemployment

Factors of Production

- Are resources needed by a business to produce goods and services. These are:
  - **Land –** This includes renewable and non-renewable resources of nature such as coal, crude oil and timber. The reward for land is rent.
  - **Labour –** Manual labor and skilled labor make up the workforce of the business. The reward for labour is salary or wages
  - **Capital –** This is not just the finance needed to set up a business and pay for its continuing operations, but also the man-made resources used in production. These include capital goods such as computers, machines, factories and vehicles. The reward for capital is interest
  - **Enterprise –** This is the driving force provided by the risk-taking individuals that combines the other factors of production into a unit capable of producing goods and services. It provides a managing, decision making and coordinating role. The reward for enterprise is profit or loss.

Business Objectives

- These are clear ideas of what the business is trying to achieve. They are set goals and principles that a business seeks to achieve.
- Objectives should follow the **SMART** criterion.
  - **Specific –** Objectives should focus on what the business does and should apply directly to the business, for example, a hotel may have an objective of 15% bed occupancy over the winter period. This is specific to the business.

- **Measurable –** Objectives that have a quantitative value are likely to prove to be more effective targets for directors, for example, increasing sales by 20%.
- **Achievable –** Setting objectives that are almost impossible in the time frame given will be pointless as they can demotivate the staff trying to reach the targets.
- **Realistic and Relevant –** Objectives should be realistic when compared to the resources of the company and should be expressed in terms of relevance to the people carrying them out, for example, informing a factory cleaner about increasing market shares will be irrelevant but target of cleaning material usage.
- **Time Specific –** A time limit should be set when an objectives is established. Without a time limit it will be impossible to assess whether the objective has actually been met.

Objectives can be strategic or tactical.

1. Strategic Objectives

- They state in broad terms what the firm would like to do in the long run, for example, increase annual profits by 10% every year for the next 5years.

2. Tactical Objectives

- Are designed to ensure that the strategic objectives are reached. They are more detailed and short-term.

Corporate Aims

- These are very long-term goals which a business hopes to achieve. The core of a business activity is expressed in its corporate aims and plans.

Mission Statement

- A statement of a business core aims phrased in a way to motivate employees and to stimulate interests by outside groups.

Common Business Objectives

1. Profit Maximization

- All stakeholders in a business are working for a reward. Profits are essential for rewarding investors and for financing further growth. Profits are necessary to persuade owners and investors to take risks. Firms seek to widen the gap between total sales revenue and costs.

Limitations of profit maximising as an aim on business

- Focus on high short term profits may encourage competition to enter the market and jeopardize the long term survival of the business.
- Most analysts assess the performance of a business through return on capital employed rather than profits.

2. Growth

- Larger firms will less likely to be taken over and should be able to benefit from economies of scale. Managers will be motivated by the desire to see the business achieve its full potential from which they may gain higher salaries and fringe benefits. Business that grows encourages investors and provides job security.

Limitations of Growth to Business

- Expansion that is too rapid can lead to cash flow problems.
- Sales growth might be achieved at the expense of lower profit margins.
- Large businesses can experience diseconomies of scale.
- Using profits to finance growth, "retained earnings", can lead to lower short-term returns to shareholders.
- Growth into new business areas and activities away from the firm's core activities can result in a loss of focus and direction for the whole organisation.

3. Increasing Market Share

- Closely linked to overall business growth.
- Increasing market share indicates that the marketing mix of the business is proving to be more efficient than that of its competitors.
- This has the benefit that retailers will be keen to stock and promote the best-selling brand.

- Profit margins offered to retailers may be lower than competing brands as the shops are keen to stock it. This leaves more profit for the producer.

Limitations to Increasing Market Share

- It depends on the size of the market at large. If the market is small it is relatively difficult to increase shares held.

4. Survival

- It is likely to be the key objective of new business start-ups. The high failure rate of new businesses means that to survive for the first two years of trading is an important aim.

5. Profit Satisficing

- This means aiming to achieve enough profit to keep the owners happy but not aiming to work "flat out" to earn as much profit as possible.

- This is common with owners of small businesses who wish to live comfortably but do not want to work even longer hours to earn even more profit.

- Once a satisfactory level of profit has been achieved, they consider that other aims takes priority, for example, leisure.

6. Maximizing Short-term Sales Revenue

- This could benefit managers and staff when salaries and bonuses are dependent on sale revenue levels.

Limitations to Maximizing Short-term Sales Revenue

- If increased sales are achieved by reducing prices, the actual profits of the business might fall.

7. Maximizing Shareholder Value

- This could apply to public limited companies and directs management action towards taking decisions that would increase the company share price and dividend paid to shareholders.

- These targets might be achieved by pursuing the goal of profit maximization.

8. Corporate Social Responsibility (CSR)

This was developed by Milton Friedman and Archie Carroll

- This concept applies to those businesses that consider the interest of society by taking responsibility for the impact of their decisions and activities on customs, employees, communities and the environment. Examples of corporate social responsibilities are provision of scholarships, cleaning campaigns and creation of employment

Importance of Business Objectives

- Objectives give the business a sense of direction. All organizational efforts will be tailored toward the achievement of objectives. This prevents conflicts of interests.
- Objectives act as a yardstick against performance and can be measured. Progress is assessed against set standards, thus allowing for corrective action if actual performance is below the mark.
- Objectives act as motivators boosting the esteem and meeting the self-actualisation of workers.
- Objectives help in setting rules, policies and strategies for the whole company. They assist in policy making.
- They help in formulating guidelines that give the business a sense of purpose.
- They provide a framework for decision making.
- Allows the business to evaluate its performance.

Limitations to Business Objectives

- They can demotivate workers if they are unattainable.
- Formulation of objectives can be time consuming.
- Objectives might change over time leading to constant review of the objectives from time to time.
- They show what is to be achieved not how it will be achieved.

Conflicting Objectives of Stakeholders

Different stakeholders in a business have different objectives.

1. Owners

- When owners play no part in the running of the business, their objective is to maximise their returns. Typically this occurs when the business is a medium to large sized company owned by shareholders. This might conflict with managers' objectives who might want to retain profit for growth rather than pay them out as dividends.

2. Workers

- Ordinary workers from middle management have little interest in the objectives of the owner. They want pay and job satisfaction. They want the highest possible wages and this might conflict with the owners' objectives of cutting costs and increasing profits.

3. Customers

- They want the best prices with the best quality. They want good service. This may conflict with other stakeholders' interests, for example, spending more on research and development to create new products might lower the amount payable as dividends to shareholders. Improving quality might lead to high costs.

4. The Community and the Government

- The community in which a business operates tends to welcome jobs, taxes and prosperity which the business can bring to the area. The government might insist on costly developments, for example, to avoid pollution by insisting on pollution-free equipment. This might conflict with the firm as it increases costs.

Economic Systems

- All countries are faced with an economic problem of scarcity. Economic systems have to make choices in resolving the questions of:
    - What should be produced?
    - How should it be produced?
    - Who should get what is produce?
    - When shall it be produced?
- **Free Market Economy/Laissez-faire/Capitalist Economy**

It is a market whereby the means of production are controlled by few private individuals and there is little or no government intervention. A feature of developing countries such as Botswana, Zimbabwe and others

Features

- Firms operate to make profit.
- Market forces are allowed to operate.
- There is free entry and exit of firms.
- Prices are determined by market forces of demand and supply.
- There is a limited government intervention in the economy.
- Countries close to this economy includes, USA, Japan and Canada.
- High level of investment
- High level of employment

- **Command Economy/Centrally Planned/Planned/Socialist Economy**

It is a market whereby the means of production are controlled by the state. A feature of developed countries such as France, Denmark and others

Features

- There is government ownership and control of resources.
- The government sets prices.
- Firms produce goods for the benefit of the public.
- Examples of countries include, Cuba, North Korea and China.
- There is low level of wealth inequalities
- Low level of unemployment
- Low level of investment

3. Mixed Economy

- This is a combination of the planned and the free market economy.

- Most essential goods and services which benefit society, are provided by both government and private firms, for example, schools, hospital and broadcasting.
- Many products are provided by private firms, for example, cars, computers, clothing and jewelry.
- Government controls pollution and restricts monopolies.
- Examples of countries include Zimbabwe and UK.

Economic System	Advantages	Disadvantages
Free Market • Supply and demand forces. • Profit motive • Private ownership.	• Profit encourages efficiency. • Competition improves quality. • Increases customer choice. • Creates employment. • Improves standard of living.	• No government control over pollution. • Little or no production of public goods. • Limited state support for the elderly and the unemployed.
Command Economy • State ownership of resource. • Prices set by the government.	• It prevents wasteful competition and duplication of goods and resources. • Allows for long term planning, usually 5yrs plan. • Production is based in the needs of majority not consumer spending habits.	• No consumer choice. • Encourages brain drain. • Poor quality. • Inefficiency. • Very slow decision making.
Mixed Economy • Mixture of state and private ownership. • Taxes collected pay for public goals.	• Essential services for both rich and poor. • There is competition. • Consumer choice.	• Tax rates can be too high. • State businesses are inefficient. • Excessive control can inhabit enterprises from growing.

Measuring Business Size

There are a number of criterias or method used to measure the size of the firm and these are explained below

1. The Number of Employees

- A firm employing a few numbers of people is considered small. A business with thousands of employees may be considered large, but however it should be remembered that some firms are not labor intensive but capital intensive, for example, a highly automated chemical plant may only employ 45 people but have a turnover of over $5 million.

2. Sales Turnover

- The larger the sales, the larger the business, but however, this is useful when comparing firms in the same industry. The comparison is compromised as some firms sell high value items while others sell low values items. Thus a large firm with many workers might sell low value goods and sales revenue will be low, at the same time a small firm with few employees might sell very few expensive computers and its sales revenue will be high.

3. Capital Employed

- This refers to the total value of long term finance used in the business. Generally the greater the enterprise the greater the value of capital needed for long-term investments, however comparisons between firms in different industries may give a rather misleading picture. Two different firms employing the same number of people might have different capital needs.

4. Market Share

- Market share is the sales of the business as a proportion of total market sales.
- It is a relative measure. If a firm has high market share, it must be among the leaders in the industry and comparatively large. Market share is calculated as follows:
- However, when the size of the total market is small, a higher market share will not indicate a very large firm.

5. Market Capitalisation

- It is the total value of a company's issued share value. It is calculated by current share price × total number of shares issued. High value of shares might mean the firm is large, however, as share prices tend to fluctuate; this form of comparison is not very stable.

6. Profits

- A business which has high profits than others can be classified as large, however the level of profit may be misleading.
- A large company may have problems and make only small profits over a period of time. Profit is considered as a measure of efficiency when compared with the sales or capital employed. Again different businesses have different ways of calculating different figures. For example, depreciation and stock hence such methods have different effects on profits.

7. Organizational Structure

A large firm is characterized with a formal organizational structure such as geographical, divisional, matrix and functional whereas a small firm is a firm with an informal structure not showing the chain of command and span of control

- **Geographical Coverage**

  A large firm has a large coverage with a large number of branches and subsidiaries whereas a small firm covers a small area with few branches

- **Assets of the Business**

  A large firm have more valuable assets than a small firm

Small Firms

- These are firms which can be defined in following ways:
  - The size of the labor force (200 or less).
  - They have a relatively small market share.

- They are managed by owners in a more personalized way.
- They are independent of large groups.

Importance of Small Firms to the Economy

- Employment is created, each one of them will not employ many people but collectively they employ a significant proportion of the working population.
- They produce a wide variety of goods, increasing consumer choice.
- Small firms create competition for large ones leading to improved quality, efficiency and low prices.
- Small firms widen the tax base for the government.
- Small firms contribute to the national output (GDP).
- Small firms also contribute to exports bringing in the much needed foreign currency.
- They could become the large firms of tomorrow.
- They provide raw material to large firm
- Flexibility of operations. This allows the owner to switch easily from one business to another
- Management and control is retained by the owner reducing possible conflicts common with large companies between managers and shareholders.
- Personal contact of the owner with workers.
- Low capital is needed to set up small businesses.
- Face fewer legal formalities.
- They are likely to get assistance from the government.

Problems faced with Small Firms

- Problems in raising both short-term and long-term finances due to lack of collateral security

- Lack of management expertise. Owner performs all functions.
- Difficulty in finding suitable and reasonably priced premises.
- Marketing risks arising from a limited product range.
- Do not enjoy economies of scale.
- They face stiff competition from large firms
- They lack continuity if the owner dies
- Lack of skilled personnel
- Suffer from heavy taxation from the government
- They lack reasonable premises

Government Assistance for Small Firms

The government can assist small firms in the following ways

- Providing information, advice and management support through departments and agencies. In Zimbabwe, ZIMTRADE and the ministry of small and medium scale enterprises.
- Low interests through the small enterprise development corporation (SEDCO).
- Trade exhibitions such as the Zimbabwe International Trade Fair (ZITF) to promote exports.
- The government often urges commercial banks to provide low interest loans to small businesses. In Zimbabwe the Commercial Bank of Zimbabwe (CBZ) provides community banking. Standard Chartered bank limited in 2005 introduced a scheme for small enterprises at favorable interest rates.
- Trade attaches (consular officials) based in foreign countries promote goods produced by both small and large firms.
- The government should expose small firm to alternative mergers and takeover
- The government should provide training facilities through universities and polytechnic colleges

- Provision of reasonable premises such as Glen View 8 home industries and gulf complex

Survival of Small Firms

- Small firms survive despite competition from large firms. This due to the following:
  - **Joint Ventures –** Small firms may agree to do business jointly so as to enjoy economies of scale.
  - **Supporting Role –** Small firms supply large firms with components and spares.
  - **Specialist Services –** Services such as accountancy, legal advice and consultancy cannot be mass produced. Small firms can supply such services.
  - **Personalized Services –** The need to give personal attention to customers who demand unique products best suits small firms. The market is too limited for large operations. In addition the need to address individual taste can only be served by small firms.
  - **Niche Marketing –** Through market segmentation, small firms might discover a gap that will be exploited to earn greater profits. The size of the market may be too small for consideration by large firms.

Why Small Firms Remain Small in Size

- Remaining small reduces the business' overall costs, for example, labour costs and rental costs.
- Small firms usually get support from the government in terms of training, subsidies, grants, tax holidays etc.
- Market for goods and services might be small, unless the market grows, the firm will remain small.
- To avoid the problem of diseconomies of scale as a result of excessive growth.
- The owners of some small firms do not have the necessary management or technical skills needed for large businesses.
- Lack of capital.

- To avoid payment of huge taxes to the government.
- To avoid over trading

N.B.: Government can threaten survival of small firms through:

- Heavy taxation.
- Price controls.
- Minimum wages
- Corruption.
- Import controls.

Growth of Firms

Reasons for growth include:

- Increased profits. If the main aim of the owner is profit, then expanding the business and achieving higher sales is one way of becoming more profitable.
- Increased market share. This will give the business a higher market profile and greater bargaining power.
- Increased economies of scale.
- Increased power and status of the owners.
- Reduced risks of being a takeover target.
- Motivation of staff as job security increases.

Firms can grow internally and externally.

Internal Growth

- Expansion of a business by means of opening new branches, shops and factories. It is also known as organic growth. This can be quite slow. It avoids the problems of excessively fast growth, which tend to lead to inadequate capital (overtrading) and management problems associated with bringing two businesses together.

External Growth

- Business expansion achieved by means of merging with or taking over another business from either the same or different industry.
- External growth is often referred to as integration as it involves bringing together two or more firms.
- This form of growth can lead to rapid expansion which might be important in a competitive and expanding market.

Integration

It is one of the methods of growth that a firm can pursue. It encompasses takeovers and mergers

- **A takeover** is when one company acquires another company. The acquired company will lose its identity completely.
- **A merger** or integration occurs when two or more firms agree to join their operations into a single entity.

1. Horizontal Integration

- Is the joining of firms in the same line of business and at the same stage of production, for example, a bakery merging with another bakery.

Advantages of Horizontal Integration

- Eliminates competition.
- Possible economies of scale.
- Increased power over supplier.
- Similar skills of employees.
- Less likelihood of failure caused by moving into a totally new area.

Disadvantages of Horizontal Integration

- Rationalization may bring bad publicity.
- May lead to monopoly investigation if the combined businesses exceed certain market share limits.

Effects on Stakeholders

- Consumers now have less choice.

- Monopolies can charge high prices.
- Workers may lose job security due to rationalization.
- High dividends to shareholders due to high profits.

2. Vertical Integration

- It takes the form of forward integration and backward integration.

2.1. Forward integration

- It is integration with a business in the same industry by a customer of the existing business.
- It is merging with a business at the next stage of production, for example, manufacturing firm merges with a retail firm.

Advantages of Forward Integration

- Business is able to control the promotion and pricing of its own products.
- Secures outlets for the firm's products may now exclude competitors' products.

Disadvantages of Forward Integration

- The business might lack the necessary experience in that stage.
- A successful manufacturer does not always make a good retailer.

Effects on Stakeholders

- Workers may have greater job security because their business has a secure outlet.
- Consumers may resent lack of competition in the retail outlet because of the withdrawal of competitor products.

2.2. Backward-Vertical Integration

- Integration with a business in the same industry by a supplier of the existing business.

Advantages of Backward-Vertical Integration

- The business will control suppliers of raw materials.

- It encourages joint research and development into the quality of supplies.
- It gives control over quality, prices and delivery.

Disadvantages of Backward-Vertical Integration

- Suppliers may become relaxed as a result of having guaranteed customer.
- The business may lack experience in managing a supplier.

Effects on Stakeholders

- Greater opportunities for career advancement for workers.
- Customers may get improved quality products and innovated products.
- Control of suppliers from competitors reduces competition and limits consumer choice.

3. Lateral Integration

- Involves the merging of two firms with related goods which do not compete directly with each other.
- Production techniques or distribution channels may be similar.
- Cadbury and Schweppes is an example since the two firms used similar raw materials and had similar markets but do not compete with each other directly.

Conglomerate (Diversifying Merger)

- Firms producing unrelated products merging. This is also known as diversification.
- The business is diversified away from its core business.
- It is a combination of two or more corporations engaged in entirely differently business.
- A firm might fear a loss of market share due to greater competition and as a result it may try to explore near and different opportunities.

Advantages of Conglomerate

- This spreads risks over more products and markets.

- A fall suffered by one subsided part can be counterbalanced by stability or even expansion by another.

Disadvantages of Conglomerate

- Lack of managerial experience in the acquired business.
- There could be lack of clear focus and direction since the business is spread across more than one business line.
- Cultural clashes may occur.
- It also increases the overall expenses of the business.

Impact on Stakeholders

- Greater opportunities for career advancement for workers.
- Job security as risk is spread across many industries.

Problems of Growth

- Expansion is expensive hence a
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- Additional finance is required.
- Management may fail to cope with large business.
- Divorce between ownership and control becomes more pronounced.

Stakeholders in a Business

- These are people who have an interest in the performance and activities of a business. They are either affected directly or indirectly affected by the activities of a business.

The Difference between a Stakeholder and a Shareholder

- A stakeholder is anyone with an interest in the business and affected either directly or indirectly by the business activities, whereas a shareholder is one of the stakeholder who is a part owner of the company and affected directly by the business activities.

- Examples of stakeholders include:
    - Owners.
    - Workers.
    - Customers.
    - Suppliers.
    - Local community.
    - Banks.
    - Government.

Stakeholder	Roles	Rights	Responsibilities
Customer	• Purchase goods and services. • Provide revenue from sales which allow the business to function and expand.	• To receive goods and services that meet local laws regarding health and safety design. • To be offered replacements, repairs, compensation in the event of the product failure.	• Honesty, to pay for goods bought or services received. • Not to steal. • Not to make false claims about poor service, underperforming goods or failed items.
Suppliers	• Supply goods and services to allow the business to offer products to customers.	• To be paid on time. • To be treated fairly by the purchasing firm, for example, not to be forced to charge low prices.	• Supply goods and services ordered by the business as in the purchase contract.
Employees	• Provide manual and other labour services to the business to	• To be treated within the minimum limits as established by	• To be honest. • To meet the conditions and requirements of the

	allow goods and services to be provided to consumers.	a national law, for example, minimum wage rates. • To be paid the way described in the employment contract. • To be able to belong to a trade union.	employment contract. • To cooperate with management in all reasonable requests. • To observe the ethical code of conduct.
Local Community	• Provide local service and infrastructure to the business to allow it to operate, produce, sell within legal limits.	• To be consulted about major changes that affect it, for example, expansion plan or changing method of production. • Not to have the community lives badly affected by the business activities.	• To cooperate with the business where reasonable to do so, on expansion and other plans. • To meet reasonable requests from business for local services such as, public transport, for example, to allow staff to get to work
Government	• Passes laws that restrain many aspects of business activities. • Provides law and order to allow legal business activities to take place. • Achieves economic stability to encourage	• Businesses have the duty to government to meet all legal constrains, such as producing only legal goods and to pay taxes on time.	• To treat businesses equally under the law. • To prevent unfair competition that could damage business' survival. • To establish good tracking links with other

	business activities.		countries to allow international trade.

Impact of Business Decisions on Stakeholders

Business Decision	Impact on Employees	Impact on Local Community	Impact on Customer
Large expansion of the business by building a new head office	• More jobs and career opportunities. • Disruption during building and more complex lines of communication after expansion.	• More jobs for local residents and increased spending in other local business. • Disruption caused by increased traffic and lose of green field for amenity use.	• Better service provided by bigger business with more staff. • Larger business could be less personal and therefore offer inferior customer service.
Takeover of a competing firm (horizontal integration)	• The larger business may be more secure and offer career promotion opportunities. • Rationalization may occur to avoid waste and cut costs. • Jobs might be lost.	• If the business expands on the existing size, local job vacancies and income might increase. • Rationalization of duplicated offices or factories might lead to some closure and job losses.	• The larger business may benefit from economies of scale, which could lead to lower prices. • Reduced competition could have the opposite effect. • Less consumer

			choice might result in high prices.
Significant application of IT into production methods	• Training and promotion opportunities might be offered. • Fewer untrained staff will be required and those unable to learn new skill may be made redundant.	• Local business providing IT services could benefit from increased orders. • Specialist workers may not be available locally so more commuting by staff in cars might be necessary.	• More efficient and flexible productio n methods might improve quality.

Overtrading

- Is when an organisation undergoes a rapid expansion without the adequate finance to support growth.

Symptoms

- Desperate selling of assets at unfavorable terms.
- Desperate borrowing at unfavorable terms.
- Failure to pay creditors.
- Liquidity constraints

Causes

- Competition fighting.
- In- effective management of working capital.
- Temporary outburst of marketing opportunities.
- Over-optimistic views about the future.
- Poor planning.

Solutions

- Effective management of working capital by monitoring the pressure points, that is, cash, stocks, debtors and creditors.
- Accurate demand forecasting.
- Effective planning.
- Organizational restructuring.

Organizational Culture

- This is a system of shared meaning held by members that distinguish the organisation from other organisations.
- It explains the way things are done in an organisation.
- It encompasses beliefs, values, morals , dressing and attitudes

Factors which influence Organizational Culture

- The philosophy of the founder.
- History/tradition of the organisation.
- The nature and activities of the business.
- The size of the organisation.
- Rules and objectives.
- Managers and employees personality
- Type of customers.

Importance of Culture

- Boundary creation – define role and distinguish organisations.
- Conveys a sense of identity for organisation's members.
- Facilitates the generation of commitment to something larger than one individual's self-interest.
- It enhances the stability of social system, that is, it acts as a social glue, provide appropriate standards on how to behave.

- Acts as a sense of control, a mechanism that guides and shapes attitude and behavior of employees.
- It makes communication easy.

Disadvantages of Organizational Culture

- These strong cultures become barriers to change when something new is introduced.
- Bad cultures can tarnish image of the firm.
- It may result in high level of conflict within the organisation.

International Business

- International trade involves exporting and importing, the sale and buying of goods to/from other countries.
- International business involves setting up business interests in several countries.
- The parent company becomes a multinational corporation with subsidiaries in many countries.

Benefits to Countries of International Trade

- Creates specialization. Countries will concentrate on providing those goods they are best at producing and importing those they are less efficient at producing. This is called comparative advantage.
- Living standards of all trading countries increase.
- Increased competition. Importing goods increases domestic competition leading to low prices and improved quality.
- Greater choices. International trade offers consumers a wide selection of goods to choose from. This improves consumer choices.
- It improves international relationships between countries.
- It creates markets for exporters.

Problems of International Trade

- Loss of foreign currency if imports exceed exports for several years (balance of payment deficit)

- Loss of output and jobs from firms that cannot compete with foreign goods.
- Infant firms may find it difficult to survive foreign competition. This affects local investments.
- It can result in dumping by some firms to eliminate local competition.
- It can result in unemployment since some firms are forced to close, they cannot match with foreign competitors.

Free Trade

- It is international trade that is allowed to take place without any restrictions such as tariffs and quotas.

Protectionism

- Governments restrict trade for the following reasons:
    - To maintain balance of payment at favourable levels.
    - To protect infant industries.
    - To earn revenue for the state.
    - To safeguard domestic employment.
    - To prevent dumping of inferior goods

The following restrictions can be used:

1. Tariffs

- These are taxes imposed on imported goods. They do not stop the goods from entering the country but makes them expensive.

2. Quotas

- This is a maximum limit on the physical quantity of goods that can be imported.

3. Financial Subsidies

- Some governments give financial subsidies to local firms to help them meet production cost. This provides the firm with a price competitive advantage.

4. Voluntary Exports Limits

- An exporting country may agree to limit the quantity of goods to be sold to another possibly to prevent tariffs and quotas to be imposed.

5. Embargo

- This is a total ban of imports from certain countries.

6. Globalization

- Refers to the greater free movement of goods, capital and people around the world. Free trade and use of the internet have reduced the international distances.

Advantages of Globalization

- More choices for customers.
- Competition from foreign goods reduces the prices of the goods.
- Increased investments or advanced technologies coming from outside.
- Globalization also increases communication and transport between countries
- With the free movement of labour, the firm can employ or hire skilled workers from other countries and hence that increases the competence of the firm. Those workers can also bring in new ideas.
- The firm also benefit from the use of internet for marketing their products and search for markets to sell their products.

Disadvantages of Globalization

- Intense competition from foreign firms can affect infant firms or local firms.
- Exploitation of workers.
- Some firms might dump their products in other countries e.g. Japanese second hand cars

Multinational Businesses

- These are companies which operate in more than one country either through a branches or a subsidiary e.g. Delta corporation, Barclays bank, price water house coopers etc.

- These are companies with head offices in one country and subsidiaries in several countries.
- Large multinationals are commonly registered in more than one stock exchange.
- Multinational corporations employ expatriates and have directors from several countries.

Why Become Multinational Business

- The company will benefit from better market information on consumer preferences, low transport costs for finished goods and may gain customer loyalty.
- By operating locally, multinational companies avoid trade restrictions.
- The multinational companies may want to be near the sources of raw materials.
- Multinational companies may benefit from low labour costs due to an abundant supply of labour, cheap rent and perhaps government grants and tax cuts to encourage investments.

Reasons why multinational companies might locate in other countries

- Favourable political environment
- Market availability
- Availability of raw materials
- Availability of cheap labour
- Little or no government intervention
- To facilitate trade
- Favourable climate

Possible problems for Multinational Companies

- There may be poor communication links with head offices.

- Cultural and language differences with local workers, customers and the government.
- Local labor force is likely to be unskilled resulting in high investment in the training of employees.
- Coordination with plants elsewhere needs to be carefully planned to avoid producing poorly competing products on world markets.

Benefits of Multinational Companies to Host Companies

- Total national output of the country may increase GDP.
- Management expertise in the community may improve if locals replace foreign supervisors after training.
- Employment is created if multinational companies engage in local labour and training will improve the quality and efficiency of locals.
- They bring foreign currency when setting up in the host country.
- Advanced technology is also brought into the host country.
- Local firms can benefit from supplying raw materials and components of the new firms, creating jobs and generating income.
- Tax revenue to the government will increase.
- They engage in corporate social responsibility, for example, infrastructural developments.
- It creates international relations
- Training of local labour
- Development of infrastructure

Problems of Multinational Companies to Host Countries

- Local businesses may be forced to close due to inferior equipment.
- Exploitation of local natural resources. They have little incentive to conserve natural resources as they can relocate to other countries.
- Distortion of local culture by the power of advertising and other promotions through semi-nude celebrities, for example, J. Lopez and Madonna.

- Exploitation of local labor through low pay for long working hours. Some multinational companies do not stick to health, labour and safety regulations and do not offer incentives such as pensions.
- Pollution may be at higher level than is permitted in the home country. This could be due to relaxed rules of the multinational organisation's economic muscle negative externalities.
- Some multinational companies become involved in local politics and may sponsor rebels.
- Profits are repatriated to their home countries, thus host countries may experience a decrease in their GDP as assumed.
- Top positions are reserved for foreigners

Reasons why State might wish to Control Business Operations of Multinational Companies

- To control the environment and resources.
- To protect political interests.
- To ensure long-term contributions.
- To protect the interest of employees.
- To protect the balance of the economy.
- To protect interests of existing businesses.
- To ensure benefits to the best of the country.
- To maintain the local culture

Government Assistance for Exporters

The government can assist exports through the following ways

- Information and advice on international market through ZIMTRADE.
- Low interest loans through Small Enterprises Development Corporation (SEDCO).
- Tax exemption. Firms involved in export business are taxed at lower rates for certain levels of exports.

- Consular officials are based in several countries around the globe to promote foreign trade.
- Trade exhibitions, for example, the Zimbabwe International Trade Fair (ZITF) is an annual exhibition to help firm's access to foreign customers.

Problems Faced by Firms when Exporting for the First Time

- Insufficient commitment by top managers to overcome initial difficulties and financial requirements for exporting.
- Insufficient care in selecting foreign agents and distributors.
- Failure to obtain qualified export counseling and to develop a master international marketing plan before starting an exporting business.
- Neglecting export business when domestic market experiences a boom. This is a result of the firm viewing the export market as a residual market for extra output.
- Failure to print warranty messages, names of products and instructions in locally understood languages.
- Inability to engage an export management company to conduct the firm's foreign business when it is obvious its own personnel cannot undertake such activities.
- Failure to modify products to meet regulations or cultural preferences of other countries. Nations exhibit diversified cultures that require firms to modify their products to meet local demands.
- Failure to consider licensing or joint venture arrangements to enter those countries protected by import restrictions.

De-Integration

- It is a process whereby an organisation reduces the activities rather than expand in order to raise finance.

Forms of De-Integration

There are five forms of de integration and these are explain below

- **Divestment –** This involves the selling of a subsidiary or part of a company. It is done in order to get rid of the parts of the organisation which are no longer profitable.

- **Contracting Out/Sub-Contraction –** It is the hiring out of the services mainly non-core activities such as catering, cleaning and transport so that the organisation will be able to concentrate on major activities.
- **Management Buy-Out (MBO) –** It is a process whereby the organisation gives an opportunity to the workers to buy shares so that they will be part of the shareholders.
- **Management Buy-In (MBI) –** It is a process whereby the organisation gives an opportunity to outside members to buy shares from the organisation.
- **De-Merger –** It is the creation of two companies out of one existing company.

Business Environment

External Influences on Business Activity (MACRO)

- These are factors which affect the business and are beyond the business' own control.
- Many of the factors are constraints in the sense that they may limit the nature of decisions that business managers can take.

1. Legal Constraints on Business Activity

- In most countries these fall into the main categories
    - Minimum wages.
    - Environment protection laws.
    - Pricing commission.
    - Employers and employees relations at work.
    - Consumer rights, laws protecting customers.
    - Business competition. Setting laws restricting monopolies.
    - Location of business and some other government policies.

Negative Impact of Legal Constraints on Business

- The firm might suffer high wage costs if less than the minimum wage was being paid before this law was introduced.
- Costs of protective clothing and insurance to meet health and safety laws.
- Through increased competition, quality for customers improves.
- Provide customers with confidence in the firm, for example, they will be assured that drivers are above 25years.

However there are Real Benefits

- Workers will feel more secure and highly valued if they are offered fair and clear employment contract. This will lead to more satisfied and motivated workers and such workers are more likely to work hard to help business achieve its goals.
- A safe working environment will reduce the risk of accidents and time off work for ill health and injury.
- A business offering a healthy environment beyond legal requirements is likely to get a higher profit which attracts the best employees.

2. Technological Constraints

- It means the use of tools, machines and science in an industrial approach.

Negative Impact of Technology

- **Costs –** Capital costs can be substantial, labor costs and will recur regularly with further technological advancement. Redundancy costs if any of the existing staff needs to be replaced.
- **Labor relations –** These can be damaged if the technological change is not explained and presented to the workers in a positive way. Workers might suffer the risk of job security.
- **Reliability –** Breakdowns in an automated production or stock-handling system can lead to the whole process being halted.

However this can be Beneficial

- Increases speed of production, hence output increases (mass production).

- Better and quality products are produced.
- Replaces vast quantities of paper work.
- Improves effectiveness of communication.

3. Social and Demographic Constraints

- The structure of society is constantly evolving. The change occurring may include:
    - An ageing population with reduced birth rates and longer life expectancy.
    - Changing roles of women.
    - Better provision of education facilities.
    - Changing patterns of employment

Negative Impact on Business

- Changing population structure might affect business negatively in the sense that business will have to conduct more research to investigate what is needed. This is costly.
- Age structure of workforce may change.

However the firm may benefit:

- If the population increases it would mean increased customers.
- Increased number of women working meaning increased labour supply, thus labour can be obtained cheaply.

3. External Economic Influence on Business Behavior

- The state of the country's economy, that is, the rate of economic growth, the rate of price inflation, the unemployment level and the exchange rate, can contribute directly to the success or failure of a business.

Economic Objectives of Governments

- All governments set targets for the whole economy and these are referred to as macro-objectives.

- Economic growth.
- Low rate of unemployment.
- Favorable balance of payment.
- Exchange rate stability.

a. Inflation

- It is an increase in the average price level of goods and services.
- It can also be defined as too much money chasing too few goods.

Causes of Inflation

1. Cost Push Causes of Inflation

- Businesses are faced with higher costs of production due to:
  - A lower exchange rate leading to rising prices of imported goods.
  - World demand for raw materials increases prices.
  - High wage demands from employees.
- Therefore, the business will attempt to maintain profit margins by raising selling price. This is inflationary.

2. Demand Pull Causes

- This is usually due to consumer demand rising due to economic boom. Companies will raise prices to earn higher profit margins.

Impact of Inflation on Business

- Real value of debt owed by companies will fall. Since the value of money is falling, a debt is repaid using money with less value than the original loan. In general, value of liabilities will fall.
- Rising prices affect assets held by the business. The value of assets such as land and building rises.
- Cost increases can be passed on to consumers in the form of increased prices.
- Stock bought in advance and sold later result in increased margins.

Problems for Businesses

- Staff will experience a decline in the real value of their wages.
- Consumers become price sensitive and look for bargains and no brand names.
- Rapid inflation leads to high interest rates. Highly geared companies will be unable to raise cash for interest payments.
- Cash problems arise and companies will be unable to raise cash to pay for increased costs.
- If inflation in one country is higher than in other countries, the local firms will lose competitiveness. Business will be unwilling to extend credit to customers.

During periods of high inflation companies will

- Reduce investment spending.
- Reduce labor costs.
- Cut borrowing to levels at which the current interest rate are manageable.
- Cutting profit margins to limit their own price rises to stay as competitive as possible.
- Reducing time period for customers to pay.

Deflation

- It is a fall in the average price level of goods and services.
- If a $1 buys more goods this year than it did last year, then the value of money has increased. This might be caused by deflation.

Causes of Inflation	Government Policy	Impact on Business Strategy for Government Policy Aiming to Control Inflation
Cost – Push	• High exchange rate policy. This could be assisted by higher interest rates set by the central bank. • Discourage high wage settlement, may use	• The high exchange rate will make exports less competitive. Business could switch to concentrating on domestic markets. • High interest rates will

	public sector workers as an example.	discourage business borrowing and investments. Business may cancel investments projects. • Consumer credit will also be discouraged reducing demand especially for expensive goods. • Business is likely to be influenced by government views on wage settlements. They will pay what is needed to attract and keep staff, along as the business remains profitable.
Demand – Pull	• Policies designed to reduce aggregate demand such as higher tax rates and lower government spending. • Central bank is likely to raise interest rates.	• Higher taxes will reduce consumer demand, if progressive taxes increased, there could be a swing away from luxury goods. Business may change their product mix to offer less expensive goods. • Lower government spending could hit certain industries very hard. For example, defense equipment manufacturers, hospital equipment manufacturers. These firms may attempt foreign markets.

b. Unemployment

- Exists when members of the working population are willing and able to work, but unable to find jobs.

Causes of Unemployment

Causes	Definition	Government Policies towards Causes
Cyclical unemployment	• Unemployment resulting from low demand for goods and services in the economy during a period of small economic growth.	• Try to manage savings to avoid fluctuations of business cycles. • Try to keep inflation low. • Maintains high income.

Cost of Unemployment

- The economy could be producing more goods and services which will then be available for consumption.
- The cost of supporting unemployed workers and their families is substantial, is paid for out of general taxation.
- There will be loss of income and lower living standards.

c. Exchange Rates

- It is the price of one currency in terms of another.

Depreciation of the Currency

- A fall in the external value of a currency as measured by its exchange rate against other currencies. If $1 falls in value from £2 to £1.5 then the value of a dollar has depreciated.

The Domestic Firms who are likely to Suffer from Depreciation

- Producers that rely on imported raw materials. Their costs will rise and reduce price competitiveness.
- Retailers that buy foreign currency supplies especially if there are close substitutes. The price of these substitutes will rise and retailers will be forced to find local suppliers.

However those who benefit are

- Home-based exporters who can now reduce their prices on overseas markets. This should increase in exports and expansion of the business.
- Businesses that sell in domestic markets will experience less price

completion from importers.

Appreciation

- It is a rise in the external value of a currency as measured by its exchange rate against other currencies.

d. Business Cycles

- These are regular swings in economic activity. It varies from boom conditions (high demand and rapid growth) to recession when total national output declines.

Recession

- A period of six months or more of declining real GDP.

Effects on Business

- Since output will be flowing, growth of business is hindered.
- Unemployment increases and income falls, so demand for goods and services declines.
- Demand for inferior goods could actually increase.

Ethical Constraints

- These are dos and don’ts.
- They refer to anything referred to as being just or unjust, fair or unfair, wrong or right and good or bad.
- It considers issues on:
    - Type of advertisements.
    - Treatment of employees.
    - Testing employees for HIV against their will.
    - Religious issues.

Ethical Factors

- Corruption.
- Discrimination.

- Nepotism.

Internal Constraints (Micro)

- Refers to factors which affect business which a business can control.

1. Owners

- Shareholders of a big company used to be passive, letting the top management to run their businesses. Owners can expect higher returns which might constraint the firm.

2. Employees

3. Managers

Economic Policies

1. Foreign Trade Policy

- The government can use import duties or exchange rates to influence foreign trade.
- Import duties are taxes levied on imported goods, by raising tariffs, the government can reduce the volume of imports into the country since tariffs makes imports expensive.
- This, in turn forces consumers to buy locally manufactured goods. This may lead to the collapse of import dependent firms.

2. Fiscal Policy

- Is concerned with decisions about government expenditure, taxes, rates and government borrowings. These operate largely through the government annual budget decisions.
- Major expenditure programs include social order, health services, education, construction of roads and defense. Government raises finance for these activities through taxation.

3. Monetary Policy

- Is concerned with the decisions about the rate of interests and supply of money in the economy.
- If inflation is low and is forecast to remain below government targets

then the central bank may decide to lower interest rates.

- This has three main impacts on business:
  - Increase interest costs and reduces profits for business that have high debts.
  - Reduces consumer borrowing and this reduces demand for goods bought on credit.
  - It tends to lead to an appreciation of the country's exchange rates.

4. Exchange Rates Policy

- Government can allow exchange rates to float or fix it.
- The government can devalue the currency to businesses which rely on imports. Devaluation is a disadvantage since it raises the price of imports.

5 indigenization - it is a process of increasing the participation of marginalized groups in the economy

It is a deliberate involvement of indigenous Zimbabweans in the economic activities to which they had no access in order to ensure the equitable ownership of the nation's resource

It is beneficial to the country in the following ways

- It may result in economic growth thus raising the income levels of the local people and poverty reduction
- It lead to employment equity and control, ownership of business and assets
- It creates opportunities for the local people to run businesses
- It also spreads the benefits of economic growth to everyone

However if the indigenization policy of a country is strict it may result in discouraging foreign investors, closure of a number of companies thus leading to high unemployment and increase in poverty

IMPACT OF ICT ON BUSINESS AND ITS ENVIRONMENT

- Facilitate effective communication between individuals or groups that are physically distant from each other.
- Maintain effective level of communication among the workforce, send marketing communication messages to current and potential customers, measure the level of customer satisfaction, make sales, engage in team building initiatives, increase the level of employee morale etc.
- The creation of new sales channels. The traditional sales channels for businesses were limited to conducting sales on the store and over the phone. However, with the advent of internet, today businesses have the possibility of selling their products and services online, and therefore offering their products and services in the global marketplace.
- Enhance the customer relationship aspect of business. This has resulted in e-mail being adopted as one of the most effective tools in terms of customer relationship management. Some banking corporations have adopted e-mail as an integral component of customer relationship management. Their customers receive automatic e-mail notifications about any changes related to their online banking, as well as, online notifications of correspondence sent to their online banking.
- Identification of the level of customer satisfaction through obtaining customer feedback. Specifically, the majority of large, developed companies employ various forms of information technology in order to

obtain customer feedback that can be used to improve the quality of products and services.

- Enabled new forms of working patterns to evolve, that includes working from home and other locations. Working from home is made possible by internet, e-mailing, Skype, instant messaging and other related technologies. The main advantages of working from home include significant cost saving for both company and employees, increased level of performance, as well as achieving better work-life balance.

Chapter 2

PROJECT MANAGEMENT AND BUSINESS PLANNING

QUESTIONS

1. Define the following terms

a) Project (2)

b) Project management (2)

c) Business plan (2)

d) Business planning (2)

2) What are the contents of the business plan? (10)

3) How useful is business planning to manufacturing firm? (25)

4) Evaluate the relevance of project management to firm in the construction industry (25)

5) Prepare a business plan for a small medium enterprise (25)

6) When can a business carry out a business plan (6)

PROJECT MANAGEMENT AND BUSINESS PLANNING

Project Management

A **project** is a (temporary) sequence of unique, complex, and connected activities having one goal or purpose and that must be completed by specific time, within budget, and according to specification.

Project management is the process of scoping, planning, staffing, organizing, directing, and controlling the development of an acceptable system at a minimum cost within a specified time frame.

Measures of Project Success

- The resulting information system is acceptable to the customer.
- The system was delivered "on time".
- The system was delivered "within budget". The system development process had a minimal impact on ongoing business operations.

Causes of Project Failure

- Failure to establish upper-management commitment to the project.
- Lack of organization's commitment to the system development methodology.
- Taking shortcuts through or around the system development methodology.
- Poor expectations management.
- Premature commitment to a fixed budget and schedule.
- Poor estimating techniques.

- Over-optimism.
- The mythical man-month.
- Inadequate people management skills.
- Failure to adapt to business change.
- Insufficient resources.
- Failure to "manage to the plan".

Why is Software Project Management Difficult?

- The product is intangible.
- It is hard to monitor progress and assess quality. No clear understanding of the underlying process.
- Rely on process models.
- Software systems are often 'one-off' project.
- Critical and innovative in nature.
- Makes it hard to accumulate experience and to produce useful data.

Project Management Tools and Techniques

- A Program Evaluation and Review Technique (PERT) chart is a graphical network model that depicts a project's tasks and the relationships between those tasks.
- A Gantt chart is a simple horizontal bar chart that depicts project tasks against a calendar. Each bar represents a named project task. The tasks are listed vertically in the left-hand column. The horizontal axis is a calendar timeline.

Joint Project Planning Strategy

- Joint project planning (JPP) is a strategy wherein all stakeholders (system owners, users, analysts, designers, and builders) in a project participate in a one-to-three day project management workshop, the result of which is consensus agreement on project scope, schedule, resources, and budget. Of course, subsequent workshops or meetings may be required to adjust scope, budget, and schedule.

Project Management Functions

- Scoping.
- Planning.
- Estimating.
- Scheduling.
- Organizing.
- Directing.
- Controlling.
- Closing.

Activity 1: Negotiate Scope

- Scope defines the boundaries of a project, that is, what part of the business is to be studied, analyzed, designed, constructed, implemented, and ultimately improved?
    - Product.
    - Quality.
    - Time.
    - Cost.
    - Resources.
- A statement of work is a narrative description of the work to be performed as part of a project. Common synonyms include scope statement, project definition, project overview, and document of understanding.

Activity 2: Identify Tasks

- A work breakdown structure (WBS) is a hierarchical decomposition of the project into phases, activities, and tasks.
- Milestones are events that signify the accomplishment or completion of major deliverables during a project.

Activity 3: Estimate Task Durations

- Estimate the minimum amount of time it would take to perform the task. We will call this the optimistic duration (OD).
- Estimate the maximum amount of time it would take to perform the task. We will call this the pessimistic duration (PD).
- Estimate the expected duration (ED) that will be needed to perform the task.
- Calculate the most likely duration (D) as follows:

Activity 4: Specify Intertask Dependencies

- Finish-to-start (FS). The finish of one task triggers the start of another task.
- Start-to-start (SS). The start of one task triggers the start of another task.
- Finish-to-finish (FF). Two tasks must finish at the same time.
- Start-to-finish (SF). The start of one task signifies the finish of another task.

Scheduling Strategies

- **Forward scheduling** establishes a project start date and then schedules forward from that date. Based on the planned duration of required tasks, their interdependencies, and the allocation of resources to complete those tasks, a projected project completion date is calculated.
- **Reverse scheduling** establishes a project deadline and then schedules backward from that date. Essentially, tasks, their duration, interdependencies, and resources must be considered to ensure that the project can be completed by the deadline.

Activity 5: Assign Resources

- **People –** inclusive of all the system owners, users, analysts, designers, builders, external agents, and clerical help that will be involved in the project in any way, shape, or form.
- **Services –** a service such as a quality review that may be charged on a per use basis.

- **Facilities and equipment –** including all rooms and technology that will be needed to complete the project.
- **Supplies and materials –** everything from pencils, paper, notebooks, toner cartridges, etc.
- **Money –** a translation of all of the above into the language of accounting, that is, budgeted dollars.

Resource Leveling

- This is a strategy used to correct resource over-allocations by some combination of delaying or splitting tasks.
- There are two techniques for resource leveling:
    - Task delaying.
    - Task splitting.

Task Splitting and Delaying

- The **critical path** for a project is that sequence of dependent tasks that have the largest sum of most likely durations. The critical path determines the earliest possible completion date of the project.
    - Tasks that are on the critical path cannot be delayed without delaying the entire project schedule. To achieve resource leveling, critical tasks can only be split.
- The **slack time** available for any noncritical task is the amount of delay that can be tolerated between the starting time and completion time of a task without causing a delay in the completion date of the entire project.
    - Tasks that have slack time can be delayed to achieve resource leveling.

Activity 6: Direct the Team Effort

- Supervision resources.
    - The Deadline – A Novel about Project Management.
    - The One Minute Manager.
    - The Care and Feeding of Monkeys.

- Stages of team maturity.

Activity 7: Monitor and Control Progress

- Progress reporting.
- Change management.
- Expectations management.
- Schedule adjustments – critical path analysis (CPA).

Activity Network

- Precedence relations among activities.
- Two types of representations:
    - Activity on arrow (AOA) – Event 2, Event 3, Activity (2, 3).
    - Activity on node (AON) – Arrow to show precedence.

Critical Path Analysis and Slack Time

- Using intertask dependencies, determine every possible path through the project.
- For each path, sum the durations of all tasks in the path.
- The path with the longest total duration is the critical path.
- Find slack times for non-critical tasks.

Business Planning

The business plan is a useful and versatile tool. It is a guide that can also be described as the businessman's best friend. In today's global and highly competitive business environment, enterprises, whether large or small, cannot hope to compete and grow without proper planning.

The Importance of Business Planning

- Business plans and other planning documents are vital to winning agreement and support. Writing a strong, clear proposition can mean the difference between a project going ahead or surviving or not. Developing a business plan requires a lot of time and energy, but it's invaluable for one primary reason - it forces you to come to terms with your business idea.

- Think about what sets your business apart before approaching potential investors and lenders. Develop a fallback plan and consider other options and contingencies. Decide what your basic business strategy is, whether to develop a solid customer base, go for growth or seek to constantly re-shape the business to attract new customers chasing new products or ways of selling; then try to decide what this will take, whether it plays to your strengths and what resources will be required, especially those you don't already have.

- Growth-based strategies require the group to be experts on the market, on industry features and the products and services being sought by customers. You can't rely on other people to do it since it's this knowledge that can make or break a business.

- Once in business, key personnel can be overwhelmed by the day-to-day demands of managing. Yet there are many strategic decisions that have to be made as well. Periodic business planning and review can help to avoid sudden crises in the business, expensive problems developing, and under-performance at critical times or over long periods that will kill the business.

When do you do Business Planning?

Business planning obviously takes place in a variety of ways and for a variety of reasons. Businesses generally plan when they find themselves in the following situations:

- Starting a new business or activity or launching a new product.

- Developing new strategies to defend an existing market position.

- When attempting to grow the business or maintain growth rates in changing situations.

- Fighting back against new competitors or adverse market conditions.

- Regular review of activities and forward-planning.

- Risk and contingency planning to cope with unforeseen eventualities.

- Preparing things likely to occur in the short-term: a recession, take-over or campaign by a competitor.
- Coping with other events.

The Business Plan

Business planning can be a highly beneficial exercise for the entrepreneur. In order to derive the desired benefits from business planning it is important to take full ownership of the process, and make it your own from beginning to end. While this does not mean that you should not seek professional advice when needed, you should be careful, not to commit the common mistake of asking others to write the plan for you or being influenced by unqualified opinions even if well intentioned.

Who Writes the Business Plan?

- The chief executive, manager or a small executive group of the business' management group should take overall responsibility. In some businesses smaller units will need to write their own development or business plans, in which case the chief executive will delegate responsibility to the service team while shaping its overall approach and conclusions.
- The best approach is top down, bottom up, where the management group decides the strategy, the manager develops the plan in line with that strategy and the whole process is reviewed, changed, corrected and improved, then re-approved.
- The key will be in how well ideas, strategies and proposals are communicated. A joint effort combining the strategic with the operational and between management and operational personnel, is a good way to get cooperation, understanding and commitment.
- There is no point to planning if the people charged with implementation have no confidence in the plan, do not understand it or have different priorities, leading them to implement the plan in the wrong way. This means planning should involve everybody who will be involved in implementation, even if it's only to hear objections which can be incorporated before the final version is produced. It should be your plan. If you do use outside experts, look for someone who understands your business, your abilities, the resources available to it, its aims and

operating environment.

The Process of Business Planning

- Business planning begins by deciding what you are trying to achieve and the outcomes you are seeking or the problems you are trying to solve. Having identified these, planning proceeds by a series of steps, as follows:
    - Describe your business activities or plans.
    - Outline the current status of the business or its planned activity in Year 1.
    - Describe the external market, any competition and where you place yourself in the market.
    - Decide the objectives of the plan over a given period of time.
    - Develop strategies for achieving these objectives.
    - Identify risks and opportunities of various strategies.
    - Develop coping strategies that limit risks and exploit opportunities.
    - Develop a series of working plans.
    - Calculate costs and income as part of an overall financial plan.
    - Ensure the strategy is set down clearly and concisely.
- Be flexible. Particularly when estimating likely risks and opportunities you may be forced to go 'back to the drawing board', selecting different strategies that might be less good but contain fewer risks.
- The planning process and writing a business plan are almost the same thing. Document your plans and the planning process will have written most of the business plan for you.

The Contents of the Business Plan

Every business plan should address a number of fundamental issues without which it would not be complete. These issues can be grouped under six major areas that are the pillars of every business activity whether large or small. The six major areas are:

- Sales and Marketing.
- Operations.
- Human resources.
- Finance.
- Technology and ICT.
- Management Information.

The Business Plan Format

- In reality there is no standard format for the presentation of a good business plan. Business plans vary in content and size according to the nature and size of the business concerned and on the emphasis that is placed on certain critical areas as opposed to others.

Useful Points

- Table 2.1 lists the important elements of a business plan and offers some simple points that need to be taken into consideration in regard to each section. It is worth noting that these points are by no means exhaustive and are meant to serve only as examples. The table is intended to provide you with a simple framework/format upon which to base your business plan.

A Simple Format

- The format provides you with a framework for presenting your thoughts, ideas and strategies in a logical, consistent and coherent manner. In other words the business plan format helps you to clarify your own ideas and present them clearly to others.

Table 2.1 – Essential Contents of a Business Plan

Contents	Useful Points
• **Executive Summary** This section is a brief overview of the whole Business Plan.	• Highlight the attractions of your business. • Show that your plan is well researched with figures to back up your forecasts. • Demonstrate your management ability. • Show that your product has a

	market.
• **Enterprise Description** It is important that you demonstrate a clear understanding of the business you would like to be in. You should also explain your business concept and the reasons why you think it will be a success.	• Provide an overview of your business idea. • State why you chose to go into this particular business. • Show any personal skills and/or experience that will help you in your business. • State why you believe the business will be a success.
• **Product or Service Description** This section helps you to think about your product or service which reflects on your ability to understand and cater for your clients' expectations.	• Describe your range of products or services. • Mention plans for new additions to your range. • Speak about innovative ideas. • What value would the clients place on your products? • What will your clients expect from your product? • Example: Quality, Design, Reliability, Innovation, Reasonable Price, Customer Care.
• **Industry Analysis** This section helps you to understand the industrial environment you intend to be working in and through it you can identify important changes that are likely to take place in your market.	• How big is your sector? • How many companies operate this sector? • What are the general trends? • How is your industry changing? • How will these changes affect you? • Are you aware of legislation and/or regulations that could affect your business? • Have you thought about any other changes – political, economic or technological – that could affect your business?
• **Competition Analysis** In order to compete successfully in any business you need to know your competitors. It is useful to study how and why they achieve success. Also you need to be aware of their failures to avoid committing the same errors.	• Who are your competitors (local and foreign)? • What are their strengths and weaknesses? • How can you be different? • How can you become more competitive?
• **SWOT Analysis**	• **Internal**

S = Strengths **W** = Weaknesses **O** = Opportunities **T** = Threats This section enables you to look closely at the internal strengths and weaknesses of your business, and to identify external threats and potential opportunities.	What are your strengths? What are your weaknesses? • **External** What are the opportunities? What are the threats?
• **Marketing Sub-Plan** It is no use having the greatest product in the world if you cannot sell it. This section focuses on your potential customers and allows you to see whether your products can satisfy their needs.	• Is the market Static, Growing or Declining? • What market segment/s do you wish to operate in? • Who are your target clients? • Do you have niche or mass market products? • What is your pricing policy? • How do you compare with the competition? • How do you intend to sell your product? • Where do you intend to sell your product?

• **Operations Sub-Plan**
This section helps you to look at your internal operations in detail to see if your business can be run efficiently and effectively. It draws attention to your team and allows you to develop strategies for good and effective management.
	• How strong are your management systems?
	    • general management
	    • marketing management
	    • financial management
	• How will you ensure an efficient production system?
	• Have you thought about quality certification?
	• How important are health & safety standards for your product?
	• Do you intend to invest in product development?
	• Will you invest in new or second hand equipment?
	• Has consideration been given to where the equipment was manufactured?

• **Human Resources Sub-Plan** People are the greatest resource of any business venture. This	• Describe your management structure. • What technical skills will your

section focuses your attention on your work force, their training needs as well as their material needs in terms of health & safety, professional development, job satisfaction and remuneration.	employees have? • Do you need to invest in training? • How will you motivate your workforce? • How will you monitor their performance?
• **THE BUDGET** The budget provides the financial planning detail for every aspect of the business, for example, employee costs, rent, IT investments, machinery costs, sales value, direct material costs, shipping and freight charges, etc. The ultimate target that should result from the budget is the budgeted net profit. It is a key tool for operating the business, and by facilitating comparison of actual performance versus budgeted performance, it highlights the operating variances to management. The budgeted net profit, after taxation, when expressed as a percentage of the net investment in the business, gives the Return On Investment – ROI – the single most important piece of financial data and the reason for being in business in the first place.	• How will you go about setting up the budget? • How often will you review actual performance against budget? • How will you carry out the task of looking into the reasons for the variances and taking corrective action? • On what basis will you set the ROI that you wish the business to give you?
• **Liquidity** Liquidity is fundamental to every business in relation to being able to trade and meet obligations. Management monitors the risks in liquidity by tracking cash movements with a Cash Flow Forecast ensuring adequate cash or facilities to raise money to carry out the business.	• How will you keep control of your cash flow? • How will you finance the changes you may need to make in your business?
• **Financial Sub-Plan** Business is all about the management of products, services and money. To enable	• Keep management accounts and produce them with regular frequency. • Will you provide the resource to

management to do their job, the tool they need is management information. Information relating to business performance is transmitted via management accounts. These are therefore a very powerful and essential reporting mechanism requiring high priority attention. Successful businessmen understand how money works but need to have the information to support the decision making.	develop the contents of the management accounts to provide quality information, both within the business and with external information that would best assist and support management to do their job efficiently?

• **Selected Options and Critical Measures**
Following a careful analysis of your business you should now be in a position to make a list of logical options open to you.
Once the options have been identified, you should be in a position to list a number of critical measures that need to be implemented in line with the options you have selected.
	• As a result of the analysis carried out in the preceding sections make a list of the critical measures you need to carry out. Example:
	  • Look into energy savings efficiencies on machinery.
	  • Apply for ISO certification.
	  • Invest in training for management.
	  • Invest in training for employees.
	  • Employ new staff.
	  • Carry out market research.
	  • Invest in Information Technology Systems.
	  • Seek new premises.
	  • Seek foreign partners.
	  • Look for new market segments.
	  • Others.

• **Milestone Schedule** This is a list of all the critical measures that are mentioned in the Business Plan. When implemented, the measures in the milestone schedule will help your enterprise become more efficient.	• Once you have identified the critical measures, you should plan their implementation. • List all the important critical measures. • List the time frames for the implementation of each critical measure. • Estimate the cost of implementation of each critical measure.

Keeping it Simple

- The business plan format is simple and easy to follow.
- It is designed as a guide to help you understand your business better.
- It helps you to analyse your strengths and weaknesses, and makes you think about your goals.
- It also helps you to develop the right strategies in order to achieve your goals.

Note:

- Business planning involves a thinking process. It is not how much you write but what you write that matters.
- Each section of the business plan is directly linked to the others and cannot be viewed in isolation. Thus, for example, you cannot speak of marketing strategies without considering their implications on your human resources, operational and financial requirements.
- Every decision you take in one area of your business has a direct bearing on all others.

Using the Plan: Implementation

- The business plan creates the basic foundation from which you can build a business and something you can compare progress and development to. On implementation, ask yourself:
    - Are you achieving what you set out to achieve?
    - Has implementation followed the plan and if not, why not?
    - Were the risks properly predicted and have opportunities been realised?
    - Have costs been in line with forecasts?

Making it Happen

- Communicate the plan widely. Make sure that you have the widest possible understanding and commitment to its aims and delivery plans.

- Organize the business in ways that ensure the business plan is at the heart of operations throughout the business.
- Clearly define roles and responsibilities and communicate them to staff and other key people.
- Set personal objectives for every employee and volunteer, agreed with that person.
- Develop individual budgets to support various aspects of implementing the plan and assign responsibility for managing the budgets - with clear spending limits - to individual staff or staff teams.
- Distribute the budgets and operational/delivery plans.
- Monitor progress, performance and outcomes; control spending and timetables.
- Reward successful performance.
- Take corrective action as required. Revise strategies and plans if necessary.
- Ensure people who need to know are kept informed and ensure that issues, outcomes and other information about implementation are available when the next planning exercise comes along.

While you are implementing the business plan, don't forget to keep checking progress. Review developments against the plan. Learn from events; adjust the plan as required within the constraints of the business (time, money, and people).

Chapter 3

HUMAN RESOURCES MANAGEMENT

QUESTIONS

- Define the term human resources management. [2]
- State any four functions of human resource management. [4]
- Differentiate between personnel management and human resources management. [4]
- How useful is the human resources department to a timber manufacturing firm. [6]
- Justify the need for a human resource department to a timber manufacturing firm. [6]
- What are the differences between recruitment and selection? [3]

- Define the following terms:
  a) Recruitment
  [2]
  b) Selection
  [2]
- Explain any two internal and two external sources of recruitment.
  [4]
- Differentiate between internal and external recruitment using examples.
  [3]
- Explain any three factors which affect recruitment.
  [6]
- Define the term job analysis.
  [2]
- Explain why job analysis is of great importance when recruiting a new
  [2]
  accountant.
- Why would a firm prefer to use internal recruitment when recruiting an
  [2]
  accountant than external.
- How useful is external recruitment to a cement manufacturing firm.
  [4]
- Assess the usefulness of internal recruitment when recruiting a new accountant. [4]
- How useful are employment agencies in recruiting employees.
  [4]
- Give two reasons why most of the organisations are now using employment [2]
  agencies in recruitment.
- Draw up a job analysis for a typical secretary.
  [6]
- Differentiate between job specification and job description.
  [3]

- Evaluate the usefulness of job analysis to a firm in the manufacturing sector. [6]
- Explain any three factors that influence the selection process. [6]
- Explain the selection process of an organisation of your choice. [25]
- Define the term shortlisting in selection. [2]
- Explain any three types of tests used in selection of employees. [6]
- How useful are interviews in selecting employees for a job. [5]
- Explain any two types of interviews. [4]
- Give reasons why medical examinations are important when recruiting new [4] employees.
- What are the contents of a medical examination? [4]
- How useful is the contract of employment when recruiting new employees? [6]
- Justify the need for induction training to a manufacturing firm. [4]
- Distinguish between training and development. [2]
- How useful is training to a manufacturing firm? [4]
- Explain any two methods of training. [4]
- Give any two on-the-job and any two off-the-job training methods. [4]

- Define the term training.
  [2]
- What is a training program?
  [2]
- Evaluate the usefulness of on-the-job training to a manufacturing firm.
  [4]
- Under what circumstances might a firm adopt on-the-job and off-the-job training? [4]
- Define the term performance appraisal.
  [2]
- How useful is performance appraisal to a firm in the service industry?
  [6]
- Distinguish between performance appraisal and performance management. [2]
- What are the problems associated with performance appraisal?
  [3]
- Define the term job evaluation.
  [2]
- Is job evaluation necessary to a manufacturing firm?
  [6]
- Assess the usefulness of human resource/manpower planning to a service sector. [6]
- Define the term collective bargaining to an organisation in the manufacturing [6]
  sector.
- Assess the usefulness of collective bargaining to an organisation in the
  [6]
  manufacturing sector.
- Justify the need for collective bargaining to a firm.
  [4]
- What is a strike?

[2]

- State any three organized and three unorganized forms of industrial action. [6]
- Define the term labour turnover.
  [2]
- Explain the causes and effects of labour turnover.
  [5]
- How might management attempt to reduce the level of labour turnover?
  [5]
- State any three causes of strike.
  [3]
- State any four costs of strikes.
  [4]
- Define the term industrial relations.
  [2]
- What are the indicators of poor industrial relations?
  [4]
- How would you attempt to overcome poor industrial relations?
  [4]
- What effect does workers involvement and participation have to an organisation? [6]
- Show how and why management might encourage workers participation in an [25]
  organisation.
- What role does the following play to an organisation?
  a) Health and safety
  [4]
  b) Trade unions
  [4]
  c) Workers' committee
  [4]
- A newly appointed personnel manager has announced that there is poor

industrial relations in an organisation.
a) What symptoms might he have observed? [10]
b) If you were the personnel manager how would you attempt to ensure good [15]
industrial relations?

- Evaluate the methods which can be used by an organisation to assess the [25]
effectiveness of a personnel manager.
- How might a firm gain from employing a personnel manager? [2]
- Explain the reasons why organizational change is inevitable. [4]
- State any four causes of change. [4]
- Explain any two methods of change. [4]
- Why do workers resist change? [4]
- Why may fear lead to resistance to change? [3]
- Explain any three strategies that a firm might employ to manage resistance to [6]
change.
- How do workers resist change? [4]
- Evaluate the different methods which can be used by an organisation to [25]
effectively manage resistance to change.
- Define the term conflict. [2]
- State any four causes of conflicts.

[4]

- Why is organizational conflict inevitable? [4]
- How useful is conflict to an organisation? [6]
- How might a firm attempt to resolve conflicts? [6]
- Evaluate the different methods that a firm might use to manage conflicts. [25]
- "Organizational conflict is not always detrimental." Discuss. [10]
- What might be the possible benefit of conflicts? [5]
- What factors may determine the choice between on-the-job and off-the-job [6] training?
- Give reasons why conflicts are inevitable in a large organisation? [6]
- Discuss how a firm might resolve the pay dispute with the workers. [10]

N.B.: Show advantages and disadvantages of negotiation, conciliation, arbitrations.

- Critically examine the schemes managers might use to widen the employees [15] participation in the workplace.

N.B.: Include evaluation of schemes like quality circles, MBOS, team working, workers councils etc.

- Evaluate how human resource management might affect success of a business. [25]
- Discuss why managers should worry about high labour turnover. [12]

- “The training of workers is an unnecessary business cost.”
  a) To what extent do you agree with this statement?
  [12]

HUMAN RESOURCES MANAGEMENT

Human resources management is the strategic approach to the effective management of an organization’s workers so that they help the business gain a competitive advantage.

It is the management of people at work.

Differences between Human Resources Management and Personnel Management

Human Resources Management	Personnel Management
• It is a modern term.	• It is a traditional term.
• Manpower is treated as assets.	• Manpower is treated as machines or tools of work.
• Decision making is fast.	• It is slow.
• Basis pay on job performance evaluation.	• Basis pay on job evaluation.
• Individual contracts exist with each employer.	• Negotiations based on collective bargaining with union leader.

Roles/Functions of Human Resources Management

- Planning the workforce needs of the business.
- Recruiting and selecting appropriate staff using a variety of techniques.
- Compensation, administration and reward management.
- Job evaluation.
- Health and safety.
- Policy initiation and formation.
- Appraising, training and developing staff at every stage of their careers.
- Preparing contracts of employment for all staff and deciding on whether these should be permanent or temporary, full or part-time workers.

- Involving all managers in development of their staff, emphasizing that this is not just human resources responsibility.
- Improving staff morale and welfare.
- Developing appropriate pay systems for different categories of staff.
- Measuring and monitoring staff performance.

Recruitment and Selection

Recruitment

- Once the manpower requirements are determined, recruitment begins.
- Recruitment is a process of identifying the sources of potential employees and encouraging them to apply for the jobs in the organisation.
- It can be defined as the process of attracting potential employees to the company.
- Recruitment provides a pool of candidates from which personnel with required skills can be selected.

Sources of Recruitment

Internal Sources

- Internal recruitment consist of recruiting personnel already working in the enterprise. Many organisations fill job vacancies through promotions and transfer of existing staff.

Advantages of Internal Recruitment

- Keeps employees happy and high in morale.
- Applicants may already be known to the selection team.
- Applicants will already know the organisation and its internal methods – no need for induction training.
- Culture of the organisation will be well understood by the applicants.

- Often quicker than external recruitment.
- Likely to be cheaper than using external advertising and recruitment agencies.
- Gives internal staff a career structure and a chance to progress.

Disadvantages of Internal Recruitment

- Existing employees may not be fully qualified for the new job. Required talent might not be available.
- Internal candidates become accustomed to the company's work patterns and as such may lack originality and fresh outlook.
- This method narrows the choice and denies the outsiders opportunities to prove their work.
- Disputes may arise and demotivation as some are chosen while others are not.

External Sources

- This can take the form of advertising in newspapers and journals, educational institutions and etc.

Advantages of External Sources

- External applicants will bring new ideas and practices the business. This help keep the existing staff focused on the future rather than the way things have always been done.
- Should be a wide choice of potential applicants, not just limited to internal staff.
- Avoids resentment sometimes felt by existing staff if one or their former colleagues is promoted above them.
- Standards of applicants could be higher than if just limited to internal staff applicants.

Disadvantages of External Sources

- It creates heart-burning and demoralization among existing personnel.

- It is expensive. Greater time and money have to be spent on advertising, tests and interviews.
- Sense of insecurity.
- Dangers of maladjustment. Some candidates chosen from outside may fail to adjust to the new environment.

Factors which Affect Recruitment

- Job analysis.
- Description.
- Person specification.
- Labour market analysis.
- Employment law (equal employment opportunities).
- Organizational goals.
- Urgency of the vacancy.
- Government registration.

Methods of External Recruitment

1. Walk-Ins

- Individuals will become applicants by walking into the company.
- It is formal and less expensive.

Disadvantage

- The organisation might not get the required people.

2. Employment Agencies

- They act as mediators between job seekers and the organisation. The organisation is assured to employ the right person for the job.

Disadvantage

- It is very expensive.

3. Referrals

- These are words of mouth adverts. Employees are rewarded from referring skilled employees to organisations.
- The problem is that it creates nepotism whereby employees bring friends and relatives.

4. Professional Associations

- These may advertise their vacancies in their newspapers, journals and at annual general meeting.

Advantage

- Information is send to skilled employees.

5. Advertisements

- They can advertise through newspapers, internet, etc.

Advantage

- It is cheaper because the advert will appear to many.

Disadvantage

- It may be expensive because resources may be wasted if all applicants do not meet the requirements.

6. Education Institutions (Schools, Colleges, Universities)

- Organisations make use of these educational institutions.

Advantage

- The organisation will employ young and energetic workers.

Disadvantage

- These people may lack experience

Selection

- It is a process of making a choice or identifying those employees who meet the expected standard of the job.
- It is a process of carefully screening the candidates, who offer themselves for appointment so as to choose the most suitable person.

Steps taken in the Selection Process

1. Shortlisting/Initial Screening

- It involves finding if the candidate has minimum qualifications from the job and it is done to save time.

2. Application Form

- It is filled in the applicant's handwriting for proper identification.

3. Testing

- It is used to provide a clear picture of the application.

Types of Tests

- **Aptitude Test –** This measures your accuracy and speed.
- **Achievement Test –** It measures the acquired skills or knowledge.
- **Vocational Test/Interest Test –** Used to find whether the applicant likes the job.
- **Personality Test –** Measures how individuals interact with others.
- **Attainment Test –** It measures qualifications of employees.

Factors that Affect the Selection Process

- **Nature of the organisation –** Where the organisation has reached an advanced stage in terms of technology, it may require highly skilled employees or not.
- **Size of the organization –** Small organizations use an informal process meaning education, experience and qualifications are not important.
- **Number of candidates for a specific job –** A large number of qualified

personnel might require a sophisticated process.

- **Trade unions –** They can dictate selection criterion.
- **Government legislation –** It requires equal employment opportunities.
- **Reference checks –** These are telephone inquiries from employers.

Interviews

- During the interviews, the organisation would find more about the applicant's background and the worker will have the opportunity to ask more about the organisation.
- The interviews ask on areas such as home backgrounds, family and organisation.

Types of Interviews

1. Planned Interview

- Questions are prepared in advance and an area to be focused on such as work experience.

2. Stress Interview

- It is used to assess the attitude of the individual. This frustrates the interviewees by putting them under pressure. The aim is to know whether the interviewee can control his behavior or emotions.

3. Exit Interview

- Is done when the employee leaves the organisation.

4. Panel Interview

- Are conducted by three or more people and have the advantage of being more objective.

Limitations of an Interview

- Can be biased.
- Many abilities cannot be measured by an interview.

- It is time consuming and costly to the organisation.

Importance of Medical Examination to an Organisation

- To reject those whose physical qualifications are insufficient for the job.
- To obtain a record of the physical condition of the applicant at the time of employment.
- To prevent employment of those with contagious diseases.
- To place those who are employable but whose physical condition requires an assignment to specific duties.
- Therefore, medical examinations should be used as a positive and in the selection process and not as a device to eliminate others, those who are physically handicapped must be supported.

Contents of the Medical Examinations

- Medical history.
- Height.
- Weight.
- Blood pressure.
- Vision (eyesight).

Manpower Planning

- It is a process by which a firm ensures that it has the right number of people and the right kind of people and the right place and time.
- It can be defined as a process of forecasting manpower needs and developing appropriate policies and programmes to meet the needs.
- It can be defined as an appraisal of an organisation's ability to perpetuate itself with respect to its management as a determination of measures necessary to provide essential talent.

Advantages of Manpower Planning

- It anticipates personnel needs of the organisation in future so that advance preparation may be made for procurement and development of the required personnel. It avoids hurried and emergency staffing.

- It is an essential component of strategic planning. It seeks not simply to meet short-term replacement needs but is based on long-range plans for the organisation.

- It focuses on the working conditions and relationships in which individuals function.

- It reveals the potential and shortcomings of existing staff.

- It provides adequate control measures to ensure that the necessary personnel are available as and when required. It anticipates redundancies and avoids unnecessary dismissals.

- Help provides sufficient staff, that is, it avoids potential surplus and shortages of personnel.

- It enables the organisation to cope with changes in the market, technology, products and competition.

- It helps in making the best use of manpower resources and in improving the quantity and quality of manpower.

- It compels management continuously to look ahead and appraise the tasks of the enterprise. It reveals potential trouble shots like shortages of personnel, over-staffing and underutilization of skills.

Disadvantages of Manpower Planning

- More money will be spent in the process.

- Small firms might fail to come up with a human resources panel department.

- Problem of predicting external events e.g., how many employees are required.

- Its success depends on the skills of the human resources panel to come up with the right people.

Training

- It is an organized process for the increasing the knowledge and skills of people doing a particular job.
- It is a learning process involving the acquisition of skills and attributes.

Training and Education

- Training is concerned with importing specific skills for particular purposes. The purpose of training is to bring about improvement in the performance of work. It includes learning of such skills as are required to do a specific job in a better way. The major burden of training falls on the employees.
- On the other hand, education is broader in scope and more general in purpose. It involves increasing general knowledge and understanding of total environment.
- Formal education is given in a school or college whereas training is vocational and generally imparted at the workplace.
- Training has more immediate utilitarian purpose than education. The major burden of education falls on the state. However, the two can take place simultaneously.

Training and Development

- Training implies learning the basic skills and knowledge required for a particular job. On the other hand, development involves the growth of individuals in all respects.
- In training non-managerial employees the focus is on imparting manual skills, technical procedures and routine methods, but managers require generalized conceptual skills.
- Training is job centered whereas development is career bound.
- Management development aims at increasing the capacity for further tasks of greater difficulty. Therefore, the contents and techniques of employee training may differ from those of management development. Development is more akin to education than training. It involves developing the whole person physically, mentally and socially.

Differences between Training and Development

Training	Development
• It is the acquisition of knowledge, skills and competences as a result of teaching.	• Development is concerned with making the employee more efficient and productive at work.
• Training includes on-the-job training, induction and seminars.	• Development refers to a more personalized, individual experience, job rotation, coaching. Training can also be part of development.
• Focus on immediate results.	• Leads to development of tomorrow's results.
• Training is group based.	• Development is individual based.
• Training focuses on short-term goals of the company (task oriented).	• Development focuses on the employee as a person and is an on-going process which continues well beyond training.
• Training provides the skills.	• Development maximizes the skills.

Purposes of Training

- To support new employees (individual training).
- To improve productivity.
- To increase marketing effectiveness.
- To support high standards of customer service and quality.
- To facilitate introduction of new technology systems and other changes.
- To support employee progression and promotion.
- Giving directions to organisation activities.

Effective Training has the following Benefits

- High quality.
- Better productivity.
- Motivation through greater empowerment.

- Less supervision is required.
- More flexible through better skills.
- Easier to implement change in the organisation.
- Better recruitment and employee retention.

Methods of Training

1. Induction Training

- It is the process of introducing a new employee to the organisation and the organisation to the employee.
- It involves training of new employees.
- It is important to device an induction programme to ensure that employees:
    - Are integrated as quickly as possible.
    - Understand their responsibility.
    - Learn the relevant aspects of the mission, culture, policies, procedures and methods of working.
    - Feel comfortable, motivated and productive as soon as possible.
    - It avoids costly mistakes by new employees not knowing procedures and techniques of the new job.
    - Reduce higher labour turnover.

The following areas may be concluded in the induction training:

- Seeing the layout of the premises.
- Learning the values and aims of the business.
- Learning about the internal working and policies of the business.
- Identify the needs of the new employees.
- Learning about the duties of the job.

- Meeting new colleagues.

Conditions for Effective Induction Training

- You must consider the needs of the new employees.
- Provide an induction booklet for reference purposes.
- Reflect the organisation roles and culture through the firm's policies and mission statement.
- Enough time must be given for the induction training.

On-The-Job Training (Internal Training)

- Employees receive training whilst remaining in the workforce.
- It allows employees to learn as they work.
- The main methods of "on-the-job training" include:
    - **Demonstrating/Instructing –** Showing the employee how to do the job.
    - **Coaching –** A more intensive method of training that involves a close relationship between experienced employees and the trainee.
    - **Projects –** Employees join in project teams which give them exposure to other parts of the business and allow them to take part in new activities.

Advantages of On-The-Job Training

- It is cost effective and easy to organise.
- Training alongside real colleagues can motivate the trainee.
- It is an opportunity for workers to learn while doing the job.
- Aids to production.
- It is specific to a job and not general.

Disadvantages of On-The-Job Training

- Quality depends on the ability of the trainee and the time available.
- Learning environment might not be conducive.
- Potential disruption to production.
- Bad habits may be passed on.

Off-The-Job Training (External Training)

- This occurs when employees are taken away from their workplace to be trained.
- Examples include distant learning, evening classes, self-study, and sponsored sources in higher education.

Advantages of Off-The-Job Training

- A wide range of skills and qualifications can be obtained.
- Can learn from outsider specialists or experts, workers can be more confident.

Disadvantages of Off-The-Job Training

- More expensive, for example, transport and accommodation.
- Employees may now have new skills and qualifications and may leave for better jobs.
- Lost time of work and potential output.
- New employees may still need some induction training which can be a cost to the firm.

Training Links to Motivation of Staff

Assuming training is effective:

- Employees feel more loyal to the business.
- Show that the business is taking an interest in its workers.
- Employees benefit from better promotion opportunities.

- It is an opportunity to develop new skills and knowledge.

Benefits of Training to the Employer

- Improves quality.
- Improves motivation of staff.
- Better health and safety helping the firm reduce accidents and raise standards.
- More effective use of staff and less costs.
- Training brings in new ideas and skills that improve efficiency, productivity and profitability.
- Less supervision of workers.

Costs of not Training/Indicators that Training is needed

- Higher level of wastage or rework hence increased cost and lower productivity.
- More accidents, lack of integration and coordination of jobs.
- Lack of multi-skilled and flexible workforce.
- Poor customer satisfaction, for example, more complaints.
- Defective goods.
- Low morale.

Measures Used to Assess Effectiveness of Training

- Level of motivation.
- Level of productivity.
- Number of customer complains.
- Quality of products.
- Levels of industrial disputes.

- Skills levels.
- Flexibility of workforce.

Job Analysis

- It involves acquiring desired knowledge about the job within an organisation.
- It is a process of determining and reporting pertinent information relating to the nature of the specific job. Job analysis tries to define the jobs within the firm and behavior necessary to perform them.
- It also defines a job description and job specification.

Job Description

- It is a broad statement of the purpose, duties and responsibilities of the job holder.
- It should cover the aspects such as job or payable little resources available etc. place in the hierarchical structure, how the job will be assessed and measured etc.

Advantages of a Job Description

- It assists in manpower planning.
- It also helps in performance appraisal.
- It identifies the need for training.
- It helps in recruitment and selection.
- Both management and employees have a statement of what is expected of a successful applicant.
- Employees have strong case for refusing to do tasks that were not included in the job description.
- It can also be used in job evaluation to establish pay structure and helps in identifying training needs.

Disadvantages of a Job Description

- In a rapidly changing environment, rigid adherence to a job description could stifle innovation and the much needed change.
- If they are poorly written using vague rather than specific they might provide little guidance to workers.
- Sometimes job descriptions are not updated as the duties change.

Person Specification

- This involves specifying information about the needs such as skills, knowledge and ability required of the person to take the job.
- It covers the knowledge, experience, physical characteristics, qualifications and age of the candidate.
- It is like a person's profile and it will help in the selection process by eliminating applicants who do not match up the necessary requirements.

Contract of Employment

- It is a legal document that sets out the terms and conditions governing a worker's job.
- It is a legally binding document.
- The contract details:
    - The employee's responsibility.
    - Working hours.
    - Rate of pay and holiday entitlements.
    - The number of days of notice that must be given by the worker when he wants to leave.
- The contract provides responsibility on both the: employer – to provide the conditions of employment laid down and the employee – to work to the standards specified in the contract.

Advantages of a Contract of Employment

- It creates a workable relationship between the employer and employee.

- It shows the details of the job such as working conditions, salary and allowances.
- It creates a bond between the employer and employee.
- It shows the responsibilities of the employees and employers thus reducing the level of conflicts.

Disadvantages of a Contract of Employment

- It is difficult to prepare.
- It is time consuming.
- It may be complex such that employees may fail to understand.
- Some conditions of the contract may not be respected.

Labour Turnover

- It is the rate at which employees are moving in and out of the organisation over a certain period.
- Is the number of staff leaving a business over a period of time.
- It is measured by the formula:

Voluntary Staff Turnover

- It measures the number of employees who leave the firm for their own accord.

Causes of High Labour Turnover

- Relatively low pay levels lead to higher labour turnover as workers leave to get better paid jobs.
- Relatively few training and promotion opportunities will encourage workers to leave their current jobs.

- Poor working conditions or low job satisfaction, for example, bullying and harassment.
- Some businesses are relatively poor at selecting and recruiting the right candidates for posts, where workers are ill-suited to their jobs there is more chance that they will leave quickly.
- Unfavorable leadership style.
- Lack of job security, for example, no contracts.
- Poor relationships (informal groups).
- Poor motivation.
- Personal issues – pregnancy, illness and migration.

Problems of High Labour Turnover

- Recruiting new staff can be costly, for example, paper works and advertising expenses for recruiting new staff.
- It takes time for new staff to become familiar with their roles and the way in which the business operates.
- Leaving costs – payroll costs and personal administration of leavers.
- Loss arising from reduced input from new starters until they are fully trained.

Benefits of High Labour Turnover

- New staff can bring in fresh ideas and experience from their work with other businesses.
- Some workers may be ineffective and needs to be encouraged to leave, getting rid of ineffective staff leads to labour turnover.
- If business is shrinking in size, reducing the size of the workforce will result in high labour turnover.
- Where a business pays low wages or where conditions of work are poor, it may be profitable to have a constant turnover of staff rather than raising wages or improving conditions of work.

Solutions to High Labour Turnover

- Higher pay.
- Better working conditions.
- Better internal promotion prospects to workers.
- Better selection procedures.
- Effective procedures against bullying and harassment.
- Offer bonuses.
- Profit sharing.

Working Management

Modern workforce is split into three main groups:

- Core workers.
- Peripheral workers.
- External workers.

Core Workers

- These are full time employees who are well paid but may work longer hours.
- They are termed core workers because they are at the heart of the organisation doing many of the important jobs on which the continuity of the business depends.

Peripheral Workers

- These are part-time and other workers with flexible working arrangements. They are paid less than core workers.
- Part-time workers are employed to:
  - Match staffing levels to demand.
  - Because of employee preference for part-time work.

- To retain valued staff.
- To reduce pay and non-pay costs.
- Because such workers are unlikely to be unionized.
- Because such workers have fewer statutory rights.

Advantages of Part-Time Workers

To the firm:

- Can be used when there is higher labour turnover.
- The firm can operate more hours or close late.
- Part-time workers are flexible since they are hired during the peak and laid off during slack periods.
- Before offering the workers full-time they can first assess them while they are still part-time.

To the owner:

- Able to hire people who are willing to receive low wages, for example, school children during holidays.
- Some workers with low wages elsewhere can be called for the job during the period.
- Some workers with no qualifications can be called.

Disadvantages of Part-Time Workers

To the firm:

- Might make more mistakes since some of them might lack skills and experience.
- More supervision will be required since there will be more employees.
- Might be difficult to establish good teamwork between part-time workers and existing full-time workers.

To the worker

- They get low pay than full-time employees since some of them might lack skills.
- Since they do not have unions to represent them, they are usually exploited and can be fired anytime without a good reason.

Temporary Workers

- They are hired to meet business demand.
- Why they are hired:
  - To provide short-term cover.
  - To match staff to demand.
  - Because some workers prefer temporary work.
  - To provide cover in times of changing levels.

External Workers

- They do not work directly for a company.
- They enjoy good rates of remuneration but their contracts are only for a limited length of time.

Subcontracting or Outsourcing

- Is the transfer of internal activities to a third party (external worker).
- Examples include human resource activities, for example, training, payroll management, information systems, security, ground maintenance.
- The aims are to:
  - Use expertise not available in the organisation.
  - To concentrate on activities that are seen as central to the achievement of organizational objectives.

Job Evaluation

- It is a systematic way of determining the value/worth of a job in relation to other jobs in the organisation.
- It tries to make a systematic comparison between jobs to assess their relative worth for the purpose of establishing a rational pay structure.
- It focuses on the job and not the past holder.

Methods/Techniques of Job Evaluation

1. Ranking

- Jobs are ranged from highest to lowest in order of their value or merits to the organisation.
- Jobs can also be arranged according to the relative difficulty in performing them.

2. Point Rating System

- Jobs are expressed in terms of key factors, for example, specific skills, competence etc.
- Points are assigned to each factor after prioritizing each factor in order of importance.
- The points are summed up to determine the wage rate for the job.
- Jobs with similar point totals are placed in similar grades.

Advantages of Job Evaluation

- It tries to link pay with the requirements of the job.
- It offers a systematic procedure for determining the relative worth of jobs. Jobs are ranked on the basis of rational criteria such as skills, experience, responsibilities, hazards etc. and are priced accordingly.
- An equitable wage structure is a natural outcome of job evaluation. An unbiased job evaluation tends to eliminate salary inequalities by placing

jobs having similar requirements in the same salary range.

- Employees as well as unions participate as members of job evaluation committees, while determining rate grades for different jobs. This helps in solving wage related grievances quickly.
- When conducted properly it helps in the evaluation of new jobs.
- Pay systems results from study of each job content and responsibility and not personal characteristics of the holder.

Disadvantages of Job Evaluation

- Job evaluation conclusions need constant updating to take into account changes in work content.
- If workers are not involved then bad feelings can result from the findings.
- The system still requires subjective judgments when comparing the degree of difficult and skill needed for different jobs.
- It does not consider performance in each past or the supply of people willing to undertake each job.
- It is very expensive and time consuming.

Performance Appraisal

- It is a systematic evaluation of employees with respect to their performance of the job related based on the job description and their potential development.

Characteristics of a Performance Appraisal System

Performance evaluation must be:

- **Relevant –** Performance appraisal measures whatever is relevant to the objectives of the job as specified in the job description. It must measure only those behavior or actions that are related to the objectives of the job.

- **Reliable –** Performance evaluation procedures should produce consistent and repeatable results. If the same behavior is evaluated differently at different times, it should provide the same result.

- **Free from contamination –** Evaluation must measure each employee's performance without being influenced by factors beyond the employees control such as lack of materials, poor tools and economic factors.

Uses of Performance Appraisal/Advantages of Performance Appraisal

- Management development provides a framework for future employee development by identifying and preparing individual for increased responsibility.

- Performance measurements establish the relative value of an individual contribution to the company and help evaluate the individual accomplishments.

- Performance improvements encourages continued successful performance and to make employees more effective and productive.

- Performance appraisal helps determine appropriate pays for performance and equitable salary and bonuses incentive based on merit and results.

- Identification of potential candidates for promotions.

- Feedback outlines, what is expected from employees against actual performance.

Problems of Performance Appraisal

- **Individual Threat –** Many people especially poor performers and those who generally dislike work being evaluated. The evaluation threatens their self-esteem. The irony of the evaluation process is that poor performers who are most in need of performance feedback to help them improve are most threatened and therefore more resistant to accepting the evaluation feedback.

- **Poses a Threat to Supervisor –** Supervisors do not like to explain evaluation to the subordinates. They argue that evaluating their subordinates places them in the position of role conflict by forcing them to act as judges, coaches and friends at the same time. Many supervisors do not have interpersonal and communication skills to conduct an effective and efficient evaluation of a subordinate's performance.

- **Measuring Performance –** Performance may be difficult to measure in jobs that do not produce a physical product or in service industries.
- **Halo Effect –** One positive or negative characteristic about a person strongly influences all other attributes about the person.
- **Leniency/Strictness Effect –** The tendency to give favourable or unfavorable ratings to all.
- **Central Tendency Effect –** Managers give employees average ratings to avoid sticking their necks out by identifying marginal performers.
- **Sequencing Effect –** The evaluation of one individual's performance may be influenced by the relative performance of the preceding individual. An individual might receive a favourable evaluation of his/her after other performers and vice versa.
- **Recency Effect –** An individual's good work for the whole year may be ignored as a result of one negative incident occurring just prior to the performance review.
- **Bias/Subjectivity Perception –** That is dependent on the impression and perception of the evaluation.

Health and Safety

- It is concerned with preventing harm arising from incidentals, hazards in the workplace.

How to Ensure Health and Safety Programme

- Training, education and provision of facilities.
- Ensure that the right warning signs are provided and looked after.
- Provide health supervision as needed.
- Check that the right work equipment is provided and is properly used and regularly maintained.

- Provide adequate first aid facilities.
- Make sure that ventilation, temperature, lighting, toilet, washing and rest are provided.
- Make the workplace safe.

Benefits of Health and Safety Legislation

- It improves efficiency thus the ill health cases can cause failure and deficiencies.
- It reduces costs, for example, medical or injury costs.
- It enhances the reputation and hence the firm can attract skilled workers.
- It increases the moral and it is ethical to do so.
- It boosts productivity of the workers.

Problems of Health and Safety Legislation

- More costs will be incurred and thus reduce the profits of the firm.
- The shareholders may be worried if more money is used in healthy and safety programme since the move reduce dividends.

Employment Legislation

- It is a body of laws aimed at ensuring that employers treat employees fairly and with regard to their safety and welfare. The main issues include unfair dismissal, incapable of doing the job, redundancy, refusing to accept a reasonable change in duties or a clash of personalities.

Conflicts

- It may mean disagreement, hostility, contradiction or incompatibility between individuals and groups in the organisation.
- Conflicts occur when two or more parties pursue mutually exclusive goals, values or events.

Causes or Sources of Conflicts

- Different objectives.
- Different status.
- Different perception.
- Sharing the scarce.
- Workers interdependence.
- Organizational ambiguities.
- Joint decision making.

Levels of Conflicts

- Latent conflicts.
- Perceived conflicts.
- Felt conflicts.
- Conflict manifestation.
- Conflict aftermath.

Benefits of Conflicts

- Can lead to better solutions.
- It increases awareness that a problem exist.
- Promote changes.
- It enhances communication.
- It strengthens the relationship between employees and management.
- It encourages creativity and innovation.

Problems of Conflicts

- It can destroy an organisation through industrial action.
- If not properly managed, it reduces productivity in an organisation.

- It can tarnish the image of the firm.
- It can affect organizational growth.
- Conflicts can sour relations between staff.
- Can be time wasting if unproductive.
- Conflicts can suppress some ideas by minors.

Ways of Resolving Conflicts

- **Forcing –** Refers to a situation where the person in authority uses force because he/she is the boss. However, workers might reduce their productivity and this weakens the relationship between the workers and their boss.
- **Smoothening –** Is a more diplomatic way of suppressing conflict where the manager tries to persuade one side into giving in. However, the manager might be biased towards one side or fail to suppress it.
- **Avoidance –** It is the situation where the two parties are disagreeing.
- **Majority Rule –** Is a situation whereby a group conflict is solved by a majority vote. This can, however, only be fair if the group members regard the procedure as fair.
- **Compromise –** Involves convincing each party to the conflict to sacrifice certain objectives in order to gain others. However, it might be difficult to convince other parties to give in.
- **Collaboration –** It is the willingness of parties to identify the major causes of the conflict and try to search for solutions considered to be mutual objectives.

Trade Unions

- It is a group of workers who join together in order to protect their own interest and to be more powerful when negotiating with their employers.

Aims of Trade Unions/Roles/Benefits

- To improve the pay of its member.

- To improve working conditions.
- To support the trading and professional development of its members.
- To ensure that members' interests are considered by employers when a decision is made which will affect the workers.
- To act as a channel between workers and employers.
- For collective bargaining purposes.

Problems of Trade Unions

- Its effectiveness depends on the strength of the organisation.
- Might stimulate grievances.
- Can lead to industrial actions.
- Change balance of power between worker and managers.

CHANGE (Management of Change)

- Conscious attempts to modify certain operation, functions and processes.

Causes of Organizational Change

External Forces

- Market situations, for example, highly competitive markets might force introduction of cost-saving equipment.
- Technology – It makes other assets obsolete and the need for change is stimulated.
- Population Dynamics – Changing age distribution may result in shortage of certain skilled people.
- Political and legal system.

Internal Forces

- Deficiency in existing system.
- Changes in managerial personnel.

- Need for improving quality and productivity.
- Scarcity of certain resources.

Reaction to change

- Acceptance include – enthusiasm, cooperation.
- Indifference – apathy, menial contribution.
- Passive resistance – regressive behavior, non- learning behavior, protests, intentional errors, sabotage.
- Active resistance – menial work, slowing down, personal withdrawal.

Why change is resisted

The barrier can be at organizational or individual level and they include;

- Structural inertial thus the change threatens the logic of the way things are currently done
- Existing power structure thus change obviously threatens those whose power is most threatened.
- Resistance from work groups as change may threaten the groups.
- The failure of previous initiative. This will make people hostile to other proposed changes.
- Individual resistance is caused by a combination of economic, social and psychological factors as follows.

Economic Factors

- Fear of job losses.
- Fear of loss of earnings.
- Reduced promotional prospects.
- Increased workload.

Social Factors

- Break up of work groups.
- Change in relationships.

- Fear of increased supervision and control.

Psychological Factors

- Insecurity.
- Fear of inability to cope.
- Loss of increased supervision.
- Loss of previous freedom.

Strategies to overcome Resistance to Change

Sources of Resistance	Strategy
• Fear of unknown.	• Offer information and support.
• Poor timing.	• Delay change, wait for appropriate time.
• Contrasting interpretations.	• Information – group discussions.
• Insecurity.	• Clarify intentions, training.
• Need for change not recognized.	• Demonstrate the problem or opportunity.
• Threat to vested interest.	• Enlist key people in planning change.
• Different personal ambitions.	• Extra incentives.

Workers' Participation

- It means the inclusion of employees in decision making process.

Forms of Workers Participation

- **Workers directors –** Employees' representatives on the board of directors.
- **Works council –** Employees' representatives on a council to discuss issues relating to employees.
- **Consultative committee –** Workers' representatives consulted on issues such as health and safety.
- **Quality circles**
- **Team briefing –** discussion which affects the business.
- **Physical environment.**

- **Financial involvement.**
- **Workers' committees**

Advantages of Workers Participation

- Extension of democracy into the workforce.
- Increased satisfaction and personal development.
- Improved motivation and increased commitment.
- Improved industrial relations.
- Utilizes the knowledge and experience of workers.
- Development of consensus.
- Improved flow of information.

Disadvantages of Workers Participation

- Time-consuming.
- Workers might lack technical knowledge.
- Employees take short-term views.
- Conflicts of interests may arise.
- Decisions should be made by risk takers and experts to whom the authority is delegated otherwise interferes with manager's right and duty to manage.
- If representatives are via unions then workers who are not members will lose out.

Industrial Relations

- Refers to the relationships that govern the employment stakeholder, for example, trade unions, government, employers and employees.

Indicators of Poor Industrial Relations

- High labour turnover.
    - Labour turnover is the rate at which workers are moving in and out of the organization.
    - It is caused by poor motivation of workforce, poor leadership style, poor communication etc.
- Industrial actions, for example, theft, demonstrations, absenteeism, strikes.
- Reduction in productivity.
- High rate of wastage.
- Reduction in sales.
- Lack of cooperation.
- High level of conflicts.
- High rate of absenteeism.
- A lot of grievances.

How to Overcome Poor Industrial Relations

- Worker involvement and participation in decision making.
- Collective bargaining.
- Using organization's policies.
- Offering motivational benefits.
- Offering intention allowances.

Industrial Action

- It is a type of warfare under which privileged groups gain at the expense of the unprivileged.

Unorganized Forms of Industrial Action

- Absenteeism.
- Theft.

- High labour turnover.
- Deliberate destruction of property.
- Late coming.
- Work to rule.
- Social loafing.

Organized Forms of Industrial Action

- Strike action.
- Sit in.
- Picketing.
- Overtime born.

Strikes

- It is a temporary holding of employee's services from the employer for the purpose of getting greater gains.

Causes of Strikes

- **Basic Issues –** Salaries, wages, hours of work, working conditions.
- **Solidarity Issues –** Workers rights and union recognition.
- **Financial Issues –** Working arrangements and discipline.

Types of Strikes

- **Economic Strikes –** It is based on demand for better salaries and wages.
- **Sympathy Strikes –** It is whereby other unions who are not part of the strike decide to strike sympathizing with their colleagues.

Cost of Strikes

- Loss of profits
- Legal costs

- Fringe benefits of striking workers
- Extra security guards are required

Post-Strike Costs

- Hiring and training costs
- Loss of customers as they switch to other suppliers
- Overtime to catch up with others

Collective Bargaining

- It is a negotiation process through which employees and employers, by an agreement, create and adjust the terms and conditions of employment.
- It covers issues such as wages, working hours and conditions.

Importance of Collective Bargaining

- Creates a peaceful relationship between the employer and employee.
- Creates mutual trust between parties in labor relations.
- Creates a favorable working environment.
- Brings a sense of respect and honor.

Disadvantages of Collective Bargaining

- It narrows the relationship between employees and employers leading to lack of respect.
- Time-consuming.
- May result in destructive behavior such as table ponding may affect the results.
- If not properly done it may affect the efficiency of the organisation. This may result in industrial discontent.
- It requires highly skilled negotiations.

Industrial Disputes

- Failure to negotiate leads to disputes.

Methods of Resolving Conflicts

1. Conciliation

- The parties to a dispute use a conciliator, who meet with both parties separately and together in an attempt to resolve their differences but the third party does not impose a settlement.

2. Mediation

- A third party, the mediator, assists the parties to negotiate a settlement, and usually at the end a compromise is reached by the two parties.

3. Arbitration

- A third party reviews the evidence in the case and imposes a decision that is legally binding on both sides and enforced in the courts.

4. Job rotation

5. Separation of conflicting parties

6. Provision of more resources

7. Negotiations

8. Use of force and threats

9. Confrontation

10. Avoidance

11. Communication

IMPACT OF ICT ON HUMAN RESOURCES MANAGEMENT

Information communication technology is more beneficial to an organisation's human resources department. This is because ICT will enable the organisation human resources department to acquire skilled personnel through electronic recruitment and this will enhance the competitiveness of the firm. The human resources department will be able to have an updated data base of the organisation's employees through the human resources management information system. Moreover due to ICT the human resources department would be able to control the rate of absenteeism, run its payroll using the pay net and belina systems. Effective communication will also be enhanced through the ICT

Chapter 4

QUESTIONS:

COMMUNICATION

- Define the following terms in communication:
  - Communication. [2]
  - Grapevine. [2]
  - Encoding. [2]
  - Decoding.

[2]

- Barrier.
  [2]
- Feedback.
  [2]
- Oral communication.
  [2]
- Internet.
  [2]
- Vertical communication.
  [2]
- Horizontal communication.
  [2]

- What role does communication play to a firm in the manufacturing sector?
  [6]
- Illustrate the communication model
  [4]
- Evaluate the usefulness of effective communication to a firm in the service [25]
  industry.
- How does a large manufacturing firm like Delta Corporation attempt to ensure [25]
  effective communication?
- Explain any six barriers to effective communication and what are the methods [25]
  used to manage these barriers?
- Communication is glue that binds an organization. Discuss.
  [25]
- State any three barriers to effective communication that are in line with the:
  - Receiver.
    [3]

- Sender .
  [3]
- Channel.
  [3]

- Distinguish between:
  - Vertical and horizontal communication.
    [5]
  - One way and two way communication.
    [5]
  - Upward and downward communication.
    [5]
  - Verbal and non-verbal communication.
    [5]
  - Formal and informal communication.
    [5]
- Assess the usefulness of the following:
  - Verbal communication.
    [6]
  - Oral communication.
    [6]
  - Vertical communication.
    [6]
  - Horizontal communication.
    [6]
  - Written communication.
    [6]
  - Formal communication.
    [6]
  - Informal communication.
    [6]
  - Grapevine.
    [6]

- Explain any three human problems associated with the use of computers. [6]
- State any three types of networks in communication. [3]
- a. How useful is the all channel network in communication? [4]

  b. How useful is chain network in communication? [4]
- Using examples discuss the relevance of informal groups to the success of an [12] organization.
- Analyze how managers might asses the effectiveness of communication within a [12]

  Business.
- Evaluate the importance of informal communication to business effectiveness. [12]
- Evaluate how communication between management and staff might be made [10]

  More effective within a school.
- Analyze two possible reasons for communication problems in a factory. [4]
- Evaluate two ways in which communication might be improved in a factory. [10]
- 'Communication is the life blood of an organization'. Discuss this statement. [25]
- Define the term diagonal communication. [2]
- Why is it often difficult to achieve effective communication within a large [6]

  Organisation?
- How useful is the use of internet in communication? [6]

- How useful is electronic communication within a large organization? [6]
- Differentiate between communication and effective communication. [2]
- With the help of illustrations, explain the communication model. [6]

COMMUNICATION

Communication is the sharing of messages, facts, opinions, ideas and emotions between a receiver and sender. It can be oral, visual, printed, electronic, diagrammatic and boldly

Effective Communication

- Communication is effective if the message is accurately sent, properly received and understood as well as proper feedback is sent.

Importance of Effective Communication in a Business

- There is a link between good communication and motivation as suggested by Herzberg. With two way communication, where employees are able to participate and give valuable information they will be motivated. As a result, productivity will increase.

- Allows communication with other stakeholders, for example, creditors, and suppliers. This will increase profits.
- Effective communication helps to solve some of the business problems, for example, conflicts between departments can be solved by carrying out meetings. Once the conflicts are resolved, the firm will be able to achieve overall goals.
- With two way communication, quality can easily respond to any change in the market, for example, if customers want a new type of shoes, the firm can be informed quickly via the suggestion boxes and hence sales can be increased.
- Good communication also helps in promoting coordination between departments. Without communication, one department might make a decision which can affect other departments.
- It improves the decisions made by the firm, for example, management by objectives, the subordinates are able to give valuable information that the management requires.

Classification of Communication

a. According to direction

1. Vertical communication – Is when people from different levels of hierarchy communicate with each other. It can be downward or upward communication.

Downward communication (from top to down, that is, from management to employees)

- It allows decisions by management to be carried out by employees.
- Ensures that action is consistent and coordinated.
- Reduces costs because fewer mistakes would be made.
- Should lead to greater effectiveness and profitability as a result of the above.

Upward communication (from bottom to top, that is, from employees to management)

- It helps employers to understand the employees' views and concerns.
- It helps managers to keep in touch with employees' attitudes and values more.
- It can alert the managers of potential problems.
- It can provide managers with the information that they need for decision making and gives feedback on the effects of previous decisions.
- It helps employees to feel that they are participating and this can motivate them.
- It provides feedback on the effectiveness of downward communication and how it can be improved.

2. Horizontal communication

- It occurs along the organisational chart between people who have approximately the same status but different areas of responsibility either through team meetings or committees.
- It coordinates activities, helps solve problems and offer advice.

Common problems

- Different departments may not understand the culture, ways of working, objectives, problems or technical language of the other department.
- The outlook and objectives of different departments could conflict.

b. According to media

1. Oral communication

- Face to face communication which involves an oral message being between people talking to each other.

Advantages

- Allows new ideas to be generated.
- It is direct.
- Easy to understand.

- Can be questioned quickly.
- Can be varied to suite needs of the receiver.
- The sender can use body language.
- It can bring motivation.

Disadvantages

- There may be no written record of what was said which is inappropriate for complicated or technical matters.
- It can be time consuming.
- Body language may affect the message especially if the sender appears bored.
- People responding must be willing to participate and communicate.
- Body language creates a barrier.

2. Written communication

- This can be through notice boards, letters, memos, reports, diagrams and minutes of a meeting which provide a permanent record.
- It allows the transmission of complicated data via diagrams.

Advantages

- The same message is sent to many and is faster.
- It can deal with a large audience and is faster.
- Information exists in recorded form.
- It can act as a backup to complicated verbal communication.

Disadvantages

- No guarantee or receipt of understanding.
- It reduces participation.
- It can result in ambiguity of written language without feedback.

3. Electronic media

- It has the benefit of speed and can often be combined with a written record.

- Internet, email use, intranets (internal computer links), fax messenger, video conferencing and mobile telephones.

  Drawbacks

  - It may require staff to be re-trained.
  - They also reduce human contact and therefore there is a sense of isolation.
  - Information technology can also lead to information overload as a result of speed and low transmission costs.
  - The equipment needed to facilitate communication is also very costly.
  - On the spot classifications are not possible

4. Visual communication

- This can be used to accompany oral, written or electronic messages.
- Diagrams, charts, pictures and pages of computer images can be used.
- Visual communication is usually used in training and in marketing programs.

  Advantages

  - More interactive.
  - Demands attention.
  - Easier to remember.

  Disadvantages

  - Not always clear.
  - Interpretations can vary.

c. According to degree of formality

1. Formal communication

- This is the communication that takes place in the organisation set up which is viewed to be official, planned and organised, for example, written communication, meetings, and memos.

- Are officially recognized by the organisation and follow the organisation's structure.

2. **Informal communication (Grapevine)**

- It takes place in informal and interpersonal contacts among employees.
- Communication is not part of the organisation structure but exists as people socialize at work.
- The grapevine can lead to rumors and exaggerations.
- It is unofficial, unplanned and outside the organisation's formal channels.

1. **One way communication**

- It is communication that does not allow feedback from the receiver. The subordinates just obey with no feedback.
- It involves communication via notice boards and there are usually no meetings.
- It is usually used by autocratic leaders and that method cannot motivate workers since it does not allow consultation with subordinates.
- It is characterised by high levels of conflicts, labour turnover, lack of motivation and reduction in productivity.

2. **Two way communication**

- It is when there is room for feedback from the receiver of the message. It is associated with a more democratic leadership style.
- It is also enables subordinates to contribute in decision making, for example, by use of meetings, reports etc.

However, it is much slower than one way communication and it is due to the long discussions involved.

Downward communication	**Upward communication**
From higher to lower levels	From lower to higher levels
Flow is downward	Flow is upward
Directive in nature	Non directive
Purpose is to get plans implemented	Purpose is to provide feedback

Travels quickly	Travels slowly
Orders, instructions, lectures, manuals, handbooks etc. are the main examples	Reports, appeals, suggestions, grievances, protests, surveys are the main examples

Formal communication	Informal communication
Official channel	Unofficial channel
Deliberately planned and systematic	Unplanned and spontaneous
Part of the organization structure	Cuts across formal relationships
Oriented towards goals and tasks of the enterprises	Directed towards goals and need satisfaction of individuals
Impersonal	Personal and social
Stable and rigid	Flexible and unstable
Slow and structure	Fast and unstructured

Definition of Terms

- **Encoding –** It is when the sender the message tries to establish mutuality of meaning with the receiver by choosing the appropriate channel or medium and symbol for communication.
- **Channel –** The means by which the information is transmitted.
- **Decoding –** It refers to the situation whereby the receiver tries to deduce the meaning by converting symbols into meaning.
- **Feedback –** It refers to a situation when the receiver report back to the sender or encoder about the message communicated.

Communication model

Sender (encoder) **message to be sent through** **receiver (decoder)**

appropriate channel

feedback

Barriers to Effective Communication

1. **Failure in any stage of the communication process**

- The medium chosen might be inappropriate, for example, detailed technical diagram being explained on a cell phone.
- A rage message would result in poor understanding.
- Excessive use of technical language or jargon.
- **Information overload –** If there is too much information at the decoding, such information will take long and may be inaccurate.

2. **Poor attitudes of sender and receiver**

- Accept the message or act upon.
- The sender might have low opinion of the receiver and thus make no effort to ensure clarity of the message.
- Intermediaries in the channel may deliberately sit on the message or change it in order to demotivate the receiver.

3. **Physical reasons**

- Noisy factories are not suitable for communication.
- Geographical distance can limit communication.

Channel problems	**Receiver problems**
Destruction	Noise
Different perception	Ignorance
Lack of interest	Information filtering
Informative filtering	Poor listening skills
Withholding information	Attitude
Source evaluation	

Solutions to Barriers to Effective Communication

- Ensure the message is clear, precise and adequately detailed.

- Keep the communication process as short as possible.
- Build feedback in the communication channel/process.
- Ensure the channels of communication are known by all in the organisation.
- Use simple language for easier understanding.
- Establish trust between senders and receivers.
- Make sure the physical environment is appropriate for messages to be heard or received in either way.

Results of Communication Failure

- Poor decision making.
- High level of conflicts.
- Poorly delegated tasks.
- Failure to implement plans.
- High levels of mistakes and errors.
- Withdrawal of cooperation which may result in strikes.
- Low morale.
- Poor quality work.
- Lack of control.
- Conflicts.

Computers in Communication

Information Technology

- It is a collective term for various technologies which covers collection, storage, processing and communication of information by electronic means.

Advantages of Information Technology Communication

- It increases the volume of information.
- It increases productivity.

- It increases speed of information processing.
- It increases accuracy of information.

Disadvantages of Information Technology Communication

- High cost of installation and running the equipment.
- It is very expensive to train staff.
- It may result in resistance to change.
- It may result in high levels of unemployment.
- There are a number of problems which are caused by breakdown of equipment.
- There is a problem of security confidentiality and data handling.

Internet

- It is a network of networks.
- It is an interconnection of networks through the use of the World Wide Web.

Advantages of Internet

- It can be used to advertise a firm's products.
- It can be used in the selling of goods and services.
- Information gathering is made quickly and faster through online search engines such as Google and Yahoo.
- It can be used for effective communication by the use of emails.
- Offers a platform for business transacting.

Disadvantages of internet

- It may include incomplete, trivial and illegal information.
- It can be slow to both connect and use.
- It can produce information overload.
- Security and trust are necessary.
- Workers can waste valuable time surfing the internet.

Email

Advantages of Email in Communication

- Provides cheap and effective long distance communication.
- It offers unlimited potential for personal networking.
- It has a worldwide source of information.
- It is democratic and open to everyone.

Disadvantages of Email in Communication

- It includes incomplete, trivial and illegal information.
- It can be affected by information overload.
- Employees can waste valuable time surfing the net.

Telephone and Fax

Advantages of Telephone/Fax

- Delivery is faster than mail.
- It is possible to send one message to many people with one original copy.

Disadvantages of Telephone/Fax

- It is not always secure.
- It can be used inappropriately.

Human Problems Associated with the Use of Computers in Communication

- Eyesight problems.
- Computer illiteracy.
- Hacking.
- Sleeping problems.
- Computer vision syndrome.
- Suffering from increasing evaporation of tears, blurred vision, double vision, red eyes, eye irritation, headaches, neck and back pains.

Factors That Affect Choice of Communication Media

- Importance of the message to be communicated.
- Advantages to be gained to the staff.
- Costs involved.
- Speed of communication medium.
- Quantity/size of data to be communicated.
- Urgency of the message.

Communication Networks

- It is a pattern of inter-connected lines.
- It is the system where the message may flow in one direction or in several directions.

1. All Channel Network/Free Flow

- It represents a free flow of communication.
- Every member is allowed to communicate freely with other members
- It provides highest satisfaction.
- It is an unstructured and informal communication network.
- With its participatory style and more open communication, it provides the best solutions to complex problems.

Disadvantages

- It is slow.
- It tends to disintegrate under time pressure to get the results when operated in a group.

2. The Circles

- This shows that each department can only communicate with two departments, for example, A communicates with B or D and it is not possible with C.
- This type of communication can occur between the middle managers from different departments but at the same level of the organisation.

Disadvantages

- Decision making can be slow or poor because of lack of coordination.

3. **The Chain**

- Is when one person passes information to others who then pass it on.
- This approach tends to be the formal approach adopted by hierarchical organisations such as civil service.
- The main advantage is that there is a leader/coordinator at the top of the hierarchy who can oversee communication downwards and upwards to different areas of the business.
- One problem may be the isolation felt by those at the bottom of the network.
- Their motivation may be less than others if they feel at their periphery.

4. **The Wheel**

- A is the head office.
- B,C,D,E are managers from different departments.
- There is a person, group or department that occupies a central position.
- This network is particularly good at solving problems.

5. **The Y-Network**

- It is a centralized form of communication.
- It combines the wheel and the chain communication.
- C passes information to A, B, D and E.
- Without C information will not flow.

Grapevine

- It is an informal form of communication that ignores formal communication and spreads rumor and gossip at all levels in an organization.

Disadvantages

- It carries incomplete information within the organization.

- It can be a baseless argument within an organization.
- It can be a source of strikes.
- May spread gossip which is dangerous to the organization.

Reasons for not Ignoring Grapevine in an Organization

- It is a source of social relationships and moral boaster at work.
- Gives vital feedback in the organization.
- Social problems can be solved through grapevine.
- It acts as an important source of communication especially in times of change.

IMPACT OF ICT ON COMMUNICATION

- **Memory Management –** E-mail is a popular form of communication for academic institutions and businesses. Each e-mail you have in your e-mail box takes up a certain amount of memory on the system's server. The amount of memory available on the server is managed by information technology personnel.

- **Troubleshooting –** Schools and businesses usually have an IT department or at least one IT professional. One task an IT department is responsible for is troubleshooting. Whenever there is a problem with a technology-based communication tool the IT department is called to diagnose and fix the problem.
- **Guidelines –** To prevent problems, IT personnel give guidelines for people to follow. For example, with e-mail you should compound several smaller messages into one e-mail so you do not use up unnecessary memory.

Chapter 5

QUESTIONS: POWER AND LEADERSHIP

- Define the following terms:
  - Power. [2]
  - Leadership. [2]
- Differentiate between power and leadership. [3]
- State any three forms of power. [3]
- Outline any two forms of power. [4]
- Explain any three types of power. [6]
- Distinguish between managers and leaders. [5]
- Discuss the trait approach to leadership. [9]
- What are the differences between autocratic and democratic leadership style? [4]
- Explain any two leadership styles. [5]
- What are the characteristics of the following:
  - Autocratic style. [4]
  - Democratic style. [4]
- Explain what is meant by exploitative – authoritative style in leadership study. [4]
- Discuss the factors which influence the choice of the leadership style. [25]

- Evaluate the influence informal leadership might have on a business. [12]
- Is there a single best style in leadership? [6]
- a. Outline the principles of the scientific management. [8]

  b. Does the scientific management have any relevance to modern world? Justify your answer.

POWER AND LEADERSHIP

Power is the capacity of an individual to influence a group of people to work towards the achievement of a common objective.

Sources of Power

- French and Reven developed 5 sources of power which are:

1. Coercive Power

- It is the power based on fear of the manager because the manager is the only one who have power and have the right to punish and fire employees or authority to raise salaries.

- It is the power to enforce compliance.

2. **Expert Power**

- It is the power that a person receives because of a special skill or knowledge.
- For example, a doctor has expert power over a patient.

3. **Legitimate Power**

- It is the power a person receives as a result of his position on the hierarchy of an organization.
- For example, the chief executive officer has legitimate power over his subordinates.

4. **Reward Power**

- It is power based on the ability to distribute rewards that others view as valuable and people comply because it produces benefits.

5. **Referent Powers**

- This is power based on personal attributes of a leader.
- It can also be power based on the ability to imitate the positive characteristics and behavior of their superior.

6. **Informational Power**

- Power that comes from access and control of information, for example, people in an organization who have knowledge that others' needs can make those people to defend on them.

Differences Between Power and Leadership	
Power	**Leadership**
Vested in positions	Not vested in positions
Not inborn	Can be inborn
The capacity to influence or exert pressure	The ability to influence

Leadership

- It is the ability of an individual to influence a group of people to work towards the achievement of a common objective.
- For a leader to be effective, he should have followers.

Characteristics/Qualities of a Leader

- Have positive self-image, backed up with a genuine ability and realistic aspirations.
- Have a vision and commitment to suggest radical solutions.
- Are experts in particular fields and well-read in everything else.
- Leaders are often creative and innovative, they tend to seek new ideas to problems, make sure that important things are done and try to improve standards.

Theories of Leadership

1. The Trait Approach to Leadership

- It shows that leaders are born not made.
- Most people are born with the qualities of leadership such as intelligence, courageous and self-confidence.
- Margaret Thatcher was regarded as an effective leader because she was highly confident, determined and innovative.
- Nelson Mandela was also an effective leader because of his traits or qualities such as courage, self-determination and creativity.
- Traits refer to inborn characteristics on a person such as intelligence, personality etc.

Criticism of the Traits Approach

- It did not consider the role of the environment (nature) on which environment plays an important role in shaping leadership traits.
- This is the reason for the existence of institutions of higher learning and colleges where people are trained in various disciplines like management, finance and accounting.

2. The Behavioral Theory

- Focuses on the study of specific behaviors of a leader.
- For behavioral theorists, a leader's behavior is the best predictor of his leadership influences and as a result is the best determinant of his/her leadership success.
- This behavior focused approach provides real marketing potential as behaviors can be conditioned in a manner that one can have a specific

response to specific stimuli.

- Moreover, it states that anyone can be made a leader by teaching them the most appropriate behavioral response for any given situation.

Leadership Styles

- There are four main leadership styles:
  - Autocratic.
  - Democratic.
  - Paternalistic.
  - Laissez Faire.

1. Autocratic Leadership Style

- This is whereby the leader retains all the authority.
- There is one way communication.
- Leaders use force, threats and punishments.
- Production is very low.
- There is high level of labor turnover.
- Motivation is very low.
- High level of conflicts.
- There is quick decision making since it is centralized.
- It instills discipline among the subordinates.
- The style is applicable in the armed forces where there may be need for the troops quickly and for orders to be obeyed instantly.

2. Democratic Leadership Style (Consultative Leadership Style)

- The leader consults his subordinates.
- There is division of work.
- There is two way communication.
- More time is spent in decision making rather than in working.
- Workers have personal commitment to the organization.
- There is high level of employee involvement in decision making.

- Management may lose control of the work force.
- High quality products are produced.
- High level of motivation leading to good industrial relations.
- Level of labor turnover is lowers activities.
- There is high rate of trust between the subordinates and superiors.

3. **Laissez Faire Leadership Style**

- This has both features of autocratic and democratic leadership styles.
- Allows employees to carry out activities freely within the broad limits.
- The result is a relaxed atmosphere but where there are few guide lines and directions.
- This can result in poor productivity.
- It is more applicable for research and design teams.

4. **Paternalistic**

- It is a father to son or mother to daughter relationship.

Rensis Libert's Four Management Styles of Leadership

1. **Exploitative – Authoritative style**

- The managers make all work related decisions, that is, what is to be done, by whom, how and when the work is to be completed.
- Subordinates are expected to listen carefully, obey explicitly and execute tasks faithfully.
- The performance standards and the work methods are closely monitored.
- Managers believe that workers have nothing to contribute to quality.
- Workers fear their managers will punish them when standards are not attained.
- There is poor team work.
- There is one way communication, that is, top down approach.
- Managers use threats, punishments and force to their subordinates.
- The level of motivation is very low.
- There is higher level of labor turnover.

- Managers put little trust and confidence in their subordinates.

2. **Benevolent**

   - Managers give orders but they allow their subordinates to express their opinions and sometimes discussions are permitted and explanations are given.
   - When subordinates exceed their targets, rewards are given.
   - Managers believe that they know their work and do not have to listen to their subordinates unless it is an idea that applies to them.
   - Subordinates are given flexibility to carry out their duties.

3. **Consultative**

   - Managers set goals and issue general orders after discussing with their subordinates.
   - Subordinates make their own decisions on how to carry out the duties.
   - Rewards are used rather than threats.
   - Subordinates are free to discuss work related issues with their managers.

4. **Total Participation/Participative Approach**

   - Goals are set and work related decisions are made by the group.
   - Leaders have complete confidence and they trust their subordinates.
   - Participation is encouraged and there is total commitment.
   - There is low level of conflicts.
   - High levels of productivity.
   - Low levels of labor turnover.

Factors Which Determine the Choice of Leadership Style

1. **The demand of the job/nature of the job**

   - The tasks requirements influence the leadership style to adapt to a given situation.
   - Jobs that require precise instructions such as operations require an autocratic leadership style.

2. **Organizational climate/culture**

- Culture consists of values, beliefs, norms adopted in an organization.
- Culture also refers to the way in which people in an organization do their things.

3. **Expectations of the superiors**

- These are very important in determining the leadership style.
- On most of the organizations, the managers copy the style of their superiors.

4. **The leaders' past experience and expectations**

- The manager's values, background may affect his choice of leadership.
- However, this does not mean he cannot change his style of leadership.

5. **Subordinates' characteristics, expectations and behavior**

- The characteristics of subordinates may influence the leadership style.
- When employees are well trained, when they prefer to plan and organize their work then a democratic style may be used.
- In some situations leaders are expected to be autocratic because their subordinates expect it.

6. **Peer-colleague-workmate expectations**

- The colleagues of the managers play an important role in influencing the style of leadership.
- Managers adopt a style similar to that of his peers and friends.

Differences Between Autocratic and Democratic Leadership Style	
Autocratic Leadership	**Democratic Leadership**
The leader is the sole decision maker.	Leader makes decisions in consultation with his subordinates.
There is one way communication.	There is two way communication.
Associated with task oriented style.	People-oriented style.
Implicit obedience of orders and instruments.	Interchange of ideas and recognition of human values.
The motivation technique is fear and punishment.	The motivation technique is rewards and involvement.

Informal Leadership

- Leadership may be informal in the sense that one person dominates a group because of their personality, position, access to information, special knowledge, experiences and hence the organization must identify such informal leaders.

- Such leaders are able to motivate the group and lead them.

Benefits of Informal Leadership

- The firm can use the informal leader to influence the other members to accept change. Suppose there is resistance to change, the informal leader can use his social characteristic to persuade others.
- The informal leader can help to solve some personal problems experienced by workers, for example, family problems. Formal leaders may fail to solve such issues.
- They help in satisfying social needs by organizing parties. This will improve the morale of the workers.
- Informal workers are good communicators and are close to workers.
- Informal leaders can motivate the workers more than formal leaders can.

Problems of Informal Leadership

- Workers can use informal leaders to demand unrealistic incentives, for example, demanding more wages when a firm is facing serious financial problems.
- Sometimes the informal leaders can work against the firm and might influence workers to work against the firm.

IMPACT OF ICT ON POWER AND LEADERSHIP

- Improves business efficiency by automating information processing.
- Improves management effectiveness by satisfying information needs.

- Improves competitiveness by affecting the business strategy.

Chapter 6

QUESTIONS: MOTIVATION

- What is meant by the term motivation? [2]
- Why was F.W. Taylor regarded as the father of scientific management? [4]
- How useful are the motivational theories? [4]
- Explain the meaning of the term Hawthorne Effect. [3]
- Can workers be sorely motivated by financial motivators alone? [6]
- Evaluate the relevance of motivational theories in modern day organizations in [25] Zimbabwe.
- With reference to Taylor and Herzberg, evaluate the usefulness of financial [25] incentives in motivating staff.
- Discuss how a firm can use work study and other motivational tools to effectively [25] motivate its staff.
- To what extent do you agree with the statement "workers are only motivated by [25] financial incentives".
- Evaluate the usefulness of the following to an organization in motivation:
  - Job rotation. [5]
  - Job enlargement. [5]
  - Job enrichment. [5]
  - Management by Objectives. [5]
  - Team work. [5]
  - Workers' participation.

[5]

- Comment on Herzberg's two factor theory. [4]
- Give reasons why Herzberg distinguished between hygiene and motivational [3] factors.
- Give the needs and expectations of the worker at the workplace. [4]
- Distinguish between intrinsic and extrinsic motivators. [8]
- Using examples, explain the following terms:
  - Intrinsic motivators. [4]
  - Extrinsic motivators. [4]
- Explain the contributions made by Taylor to motivation. [4]
- What are the contributions of Herzberg to motivation? [4]
- Explain what Abraham Maslow meant with self-actualization and explain why he [4] did put it at the top of the pyramid.
- Illustrate Maslow's hierarchy of needs. [4]
- "Abraham Maslow's theory of motivation is outdated and has no contemporary [25] place in this modern era of management. Discuss.
- Define the following terms using examples:
  - Physiological needs. [4]
  - Security needs. [4]
  - Social needs. [4]

- Esteem needs.
  [4]

- Distinguish between content theory and process theory.
  [3]

- How can a cellphone manufacturing firm use Maslow's theory to motivate its [4]
  staff.

- State any two financial and non-financial incentives.
  [4]

- How might a firm benefit from having a well-motivated work place?
  [4]

- Assess the usefulness of the following to an organization:

  - Piece rate.
    [4]

  - Time rate.
    [4]

  - Performance related pay.
    [4]

- Explain how a firm can motivate its employees financially.
  [4]

- Justify the need for motivation to an organization.
  [4]

- Sate any four aspects of job design.
  [4]

- Define:

  - Job redesign.
    [4]

  - Autonomy work group
    [4]

- Evaluate the relevance of F.W. Taylor's theory to Zimbabwean firms.
  [25]

- Explain David McClelland's 3 needs theory.
  [6]

- Explain the concept of management by objectives and evaluate its worth. [25]

MOTIVATION

Motivation is the set of processes that arouse direct and maintain human behavior towards attaining some goals. It is the commitment to do something. Motivation deals with how behavior is energized, how it is directed and how it is sustained.

Motivational theories include:

- Early views on motivation.
- Content/needs theories.
- Process theories.
- Contemporary theories.

Scientific Management Approach to Motivation

Fredric Taylor – Father Founder of Scientific Management

- One of the pioneers of scientific management considered motivation as it relates to individuals at work, the organization itself and the inter-relationships in the organization.

Implications of Taylor's Theory

- He viewed workers as generally lazy needing tight control to ensure that they deliver.
- He considered them as lacking ambitions and unwilling to take responsibility.
- Man is an economic man concerned with maximizing his economic gain. So the firm must give the employees more wages so that output can increase.
- Taylor thought workers were motivated by money and that if given higher salaries, they will improve productivity.
- He also recommended bonus payments and incentive schemes to motivate employees to perform at a higher level.
- Developed the carrot and stick approach to motivate the employees.
- He was concerned about creating conditions which would ensure maximum production.
- He also cited that individuals should be consistent with organizational goals.
- He identified lack of cooperation between management and labor as one of the reasons workers did not perform to the fullest potential.
- He also cited poor integration of workers to their work roles as another problem in organizations.
- He was determined that workers would be motivated to work better if their jobs were broken down into smaller repetitive tasks.
- He suggested that managers should give workers clear instructions about their work and the workers should follow the order without question.

Advantages of Taylor's Approach

- Division of work thus specialization will increase the productivity and increase quality since each worker will be doing what he knows best and have skills in.

- Fairness to payee since it supports the use of piece rate system, thus if a worker produces more units, he is given more as payee because there will be no conflict between workers.
- Motivates the workers to work hard (piece rate system), more products will increase the firm's productivity.
- It leads to improvements in the working methods resulting in economic gains in productivity.
- Taylor's approach has close links with the concept of autocratic management. That makes the theory more useful since it is supported by other management styles.
- Management will become more involved with production activities and thus encouraged to show leadership.

Disadvantages of Taylor's Approach

- Not everyone is motivated by money, that is, Taylor overlooked that workers work for different reasons. According to Herzberg, non-financial factors also motivate workers.
- It ignores the existence of groups and teams because individuals might reduce the productivity of the firm since they would lack support and sharing of ideas.
- It leaves no room for individual preferences and initiatives because management might not be aware of some good ideas from subordinates that might help the firm to increase productivity.
- Piece rate system is appropriate when output is standardized. It is not applicable for service.
- Workers are given boring and repetitive tasks to carry out.
- Because of piece rate system, workers might be more concerned about quantity and compromise on quality.
- It ignores that workers have social needs.
- Excessive specialization leads to deskilling and cause workers to become alienated and frustrated.

Human Relations Model – Developed By George Elton Mayo

- The human relations model looked at motivation from the perspective of human needs.

- He founded that the boredom created by repetitive tasks actually reduced workers' social contacts that helps to create and sustain motivation.
- He introduced the human relations school of thoughts which focused on managers taking more interest on the workers treating them as people who have worthwhile opinions and realizing that employees enjoy interacting with each other.

The Hawthorne Experiments

- The Hawthorne Experiments were carried out at the Western electric plant near Chicago in USA.
- Workers were divided into groups, that is, control groups with test groups.
- He stressed the impact of each of the following variables' performance:
    - Temperature.
    - Working hours.
    - Rest hours.
    - Wage rate.
    - Illumination.
    - Supervision.
- The objective of the experiment was to determine the relationship between the level of lighting in the working place and productivity of the workers.
- The test group was subjected to deliberate changes in lighting while the control group lighting was not changed.
- The results of the experiment were that when lighting conditions were improved productivity for the test group tended to increase as expected.
- Surprisingly, when lighting conditions were lowered, productivity continued to increase.
- At the same time, control group's productivity increased just like that of the test group even though the control group experienced no changes in lightning.
- In the second experiment the test group had its wages increased, rest periods, reduced the work day.

- The result was that productivity increases over time and then decreases. He concluded that employees work harder if they believed that management was concerned with their welfare despite challenges which may be faced such as lowering lighting.
- If workers appear to have meaning and if people feel valued they will be content in their work thereby increasing productivity.
- This relationship between attention paid to employees and an increase in productivity became known as the Hawthorne effect.
- From the experiences, Mayo concluded that workers can be motivated by:
  - Better communication between managers and workers.
  - Working in groups or teams.
  - Ensure work is interesting and repetitive.
  - Training and development.

In general, he argued that:

- Individuals are social beings with needs which have to be addressed.
- People are not only motivated by economic considerations but by a variety of social and psychological factors.
- Individuals require decent treatment.
- Individuals need empowerment (control over situations).
- Workers have the right to information (communication).
- Informal groups should be recognized.
- Security enhances performance.
- Positive feedback is essentialism.

Criticism of the Theory

- Some critics argue that Mayo's approach is largely subjective because workers are usually manipulated to work hard by managers (views of theory x).
- Others viewed the approach as a way of reducing union power.
- The assumption that workers and management share the same goals is not realistic.
- The idea of workplace concerns may not always exist as it may take time

to agree due to variations in ideas and thinking.

- Informal groups may end up negatively affecting the goals of the organization, for example, extending their meetings by twenty minutes which ends up affecting productivity.

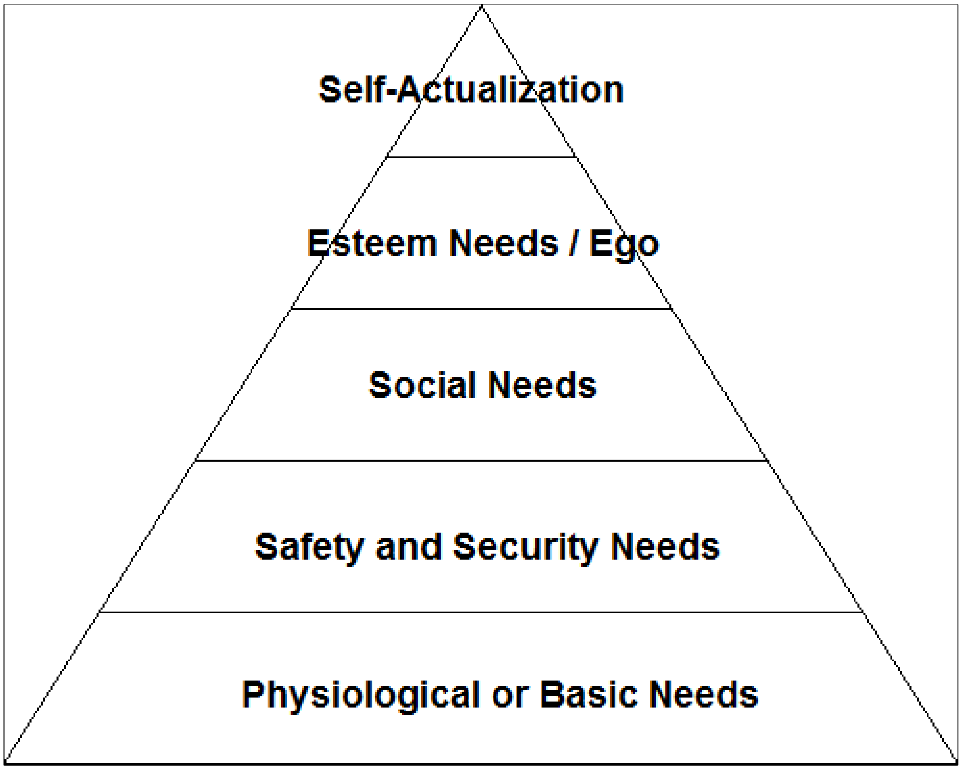
Content Theory

- These theories focus on what motivates people, that is, a need that must be satisfied.
- The need may be satisfied by a reward that is either extrinsic to the task, for example, money or intrinsic, for example, job satisfaction.
- Key contributors to this approach include:
    - Maslow's hierarchy of needs.
    - Herzberg's two factor theory.
    - McGregor's theory X and Y.
    - McClelland's theory.

Abraham Maslow's Hierarchy of Needs

- Abraham Maslow viewed motivation as a progression of needs ranging from the most basic needs to the highest need of self-actualization.
- Maslow suggested that people are in a continuous sate of motivation and that the nature of that motivation is variable and complex. He suggested that people are rarely in a state of complete satisfaction except for a short while. As they fulfill one need, another assumes prominence and motivates further effort until satisfied.
- Unless and until a lower need has been satisfied, higher needs do not motivate. Once a need is satisfied, it no longer motivates, only unmet needs motivate.

The Hierarchy Needs



- **Physiological Needs** – Include shelter, food, oxygen, sexual intercourse, and clothing. Normally people come to work after their basic needs are satisfied. Basic needs can be satisfied through raising employees' wages.
- **Safety and Security Needs –** They are needs which include job security and safe working environment and other necessities such as medical aids and pensions. Workers will be motivated to work well if their security needs are well taken care of. These needs can be satisfied through medical aids, supply of protective clothing, for example, helmets and by offering contracts.
- **Social Needs –** They are referred to as needs of affiliation, that is, the workers become "the social men", need to be loved, accepted by both management and the co-workers. Workers want to have a sense of belonging. This can be achieved by way of building sports clubs and allowing people to belong to informal groups.
- **Esteem Needs –** They are needs for achievement and they are intended to boost an individual's morale. Hence the worker is motivated if he/she is achieving something, for example, set targets. They also include needs to be respected and recognized at the workplace.
- **Self-Actualization** – At the epitome of the hierarchy is the self-actualization needs. They entail the ability to achieve the best that one

can do. These are needs to do with personal growth. They are realized when a worker is given a leadership position or when the worker is sent for studies to acquire more knowledge relating to the job.

- According to Maslow, lower order needs have to be satisfied first for higher order needs to motivate hence satisfaction should start from the bottom of the hierarchy until to the top.
- He believes satisfied needs are non-motivators.

Advantages of Maslow's Hierarchy of Needs

- It helps identify and classify all the needs that are essential for a worker. Maslow was able to classify human needs.
- It helps firms to identify which needs have been satisfied and which are not at the moment. This will help it to focus on the needs not satisfied and maintain motivated workers.
- It also helps the management to look for ways to satisfy a need, for example, social needs can be satisfied by parties or building sports clubs.
- It helps identify the order in which the needs must be satisfied, for example, a higher need cannot be satisfied unless a lower need is satisfied, for example, promotion when a lower need is not satisfied, for example, shelter will not motivate the worker.

Disadvantages of Maslow's Hierarchy of Needs

- Individual behaviors seems to respond to several needs at the same time, not just one at a time so the firm satisfying them one by one might have more time to satisfy the needs of the workers.
- Each worker can produce his own hierarchy, for example, some rank self-esteem higher than safety, hence, the firm will need to identify the needs that are important to workers rather than using Maslow's approach.
- There is a problem in deciding when a need has actually been satisfied since it is more subjective and hence a firm might think a need is satisfied when it is not. This is a problem because managers might focus on unmet (higher) needs when some (lower) are not yet satisfied.
- The model ignores the often observed behavior of individuals who tolerate low pay for the promise of future benefits.
- There is little evidence to suggest that people are motivated to satisfy only a need at each level at a time.

- Self-actualization is never permanently achieved as suggested by Maslow.

Herzberg's Two Factor Theory

- Herzberg distinguished between intrinsic and extrinsic factors.

Intrinsic Factors

- These are factors that motivated and gave positive satisfaction. They include:
    - Sense of achievement – reaching or exceeding task objectives.
    - Recognition – entails acknowledgement of achievement by senior staff member which is motivational.
    - Advancement – entails promotion, rising rewards for achievement progress.
    - Responsibility – entails the opportunity to exercise authority and power.
    - Job interest – a motivational job should provide positive satisfaction.
    - Growth.

Extrinsic (Hygiene/Maintenance) Factors

- They do not motivate but their absence may cause dissatisfaction. They include:
    - Pay and benefits, for example, basic pay, bonuses, holidays etc.
    - Company policy – entails rules and regulations that govern employees and employers.
    - Job security – degree of confidence that the employee possesses regarding continued employment in the organisation.
    - Personal life involves time spent on family, friends and interests which is usually restricted by time spent at work.
    - Working conditions, for example, working hours, facilities and equipment.
    - Status is determined by the rank, authority and relationship with others reflecting the level of acceptance.
    - Treatment at work.

Criticism of the Theory

- Herzberg considered monetary as non-motivators, but during hyper-inflationary environment monetary incentives pay a crucial role in motivating.
- Some critics argue that the views of Herzberg might be less practical since business may not continue with such polices during recession period.
- Some argue that Herzberg relied too much on the opinions of people on what satisfies/dissatisfies people at work as this may be subjective.
- Some critics are of the opinion that Herzberg gave workers more freedom.
- Needs are not always stratified into two factors.
- One person's hygiene factor is another's motivational factor.
- Today's motivational factors may be tomorrow's hygiene factor.

Need Theory by David McClelland

- He was concerned with the differences between individuals and then understanding common factors in motivation.
- He was concerned with 3 needs:
    - Need for achievement.
    - Need for power.
    - Need for affiliation or belonging.
- The need for achievement is typical to Maslow's self-actualization needs.
- The need for power is similar to esteem, ego needs of Maslow.
- According to him, the dominance of these needs influence the behavior of individuals.
- He argued that the need for achievement is a key factor in human motivation and is developed by environmental factors like values of society, education, potential influence etc.
- For him the need for achievement is not hereditary but results from environmental factors.
- He states that people with high need for achievement usually:
    - Have low need of affiliation.

- Need feedback on their performances (weaknesses, strengths, assessments).
- Seek tasks which are challenging but which they are in control of.
- Seek tasks which they can exercise personal responsibility.

- Need for affiliation – relationships.
- The need to be liked and accepted by others. This need is evident at lower levels of the organization.
- Need for power – deals with the degree of control a person desires over situations and the desire to have impact and to be influential.
- He further suggests that people's motivation will be determined by some personality features in that person.

Douglas McGregor's Theory X and Y

- He constructed two sets of assumptions about workers' attitude towards work.
- Theory X depicts the 'the economic man' characteristics of Taylor management.
- Theory Y depicts workers autonomy responsibility and gains a sense of achievement from work.

Theory X manager assumes	Theory Y manager assumes
Workers inherently dislike work and will try to avoid it when necessary.	Spreading effort at work is as natural as praying and resting
Because of this, workers should be controlled, directed or threatened in order to get towards the company's goals.	Employees should exercise their own authority and are rewarded through effort towards achievement of the organization's goal.
The average person want to be directed and controlled and has little ambitions therefore seeks to avoid responsibility.	The average person learns to accept and seek responsibility. Management should cut down on controls and threats and encourage employees through empowerment.
Pessimistic approach.	Optimistic approach.

Acceptance of the negative theory X views results in:

- Autocratic leadership style.
- Traditional organizational structure.

- Centralization of decision making.
- Scientific management (Taylor).
- Extrinsic factor; pay and punishment.

Acceptance of the positive theory Y views results in:

- Free reign style of leadership (democratic).
- More flexible structures.
- A search of appropriate ways to motivate the worker.
- Decentralization of decision making.
- A stress of intrinsic factors.

N.B.: Problems arise when employees who accept theory Y are subjected to theory X.

Process Theories

- They suggest that people are motivated towards rewards that they want and that they believe they have a reasonable chance or expectance of obtaining.
- They focus on effort and reason required to accomplish certain set objectives.

Vroom's Expectancy Valence Theory

He argues that the urge to do something is determined by the:

- Attractiveness of the outcome to the individual (that is, the importance the individual attaches to the outcome).
- Performance – Reward linked to it (that is, the degree to which the individual believes that performing at a certain level will lead to attainment of the desired outcome).
- Effort – Performance linkage (that is, the probability assumed by the individuals that exerting a given effort will lead to performance).
- The three variables are summed up and give the following equation:

Where:

V is valence – the value of income,

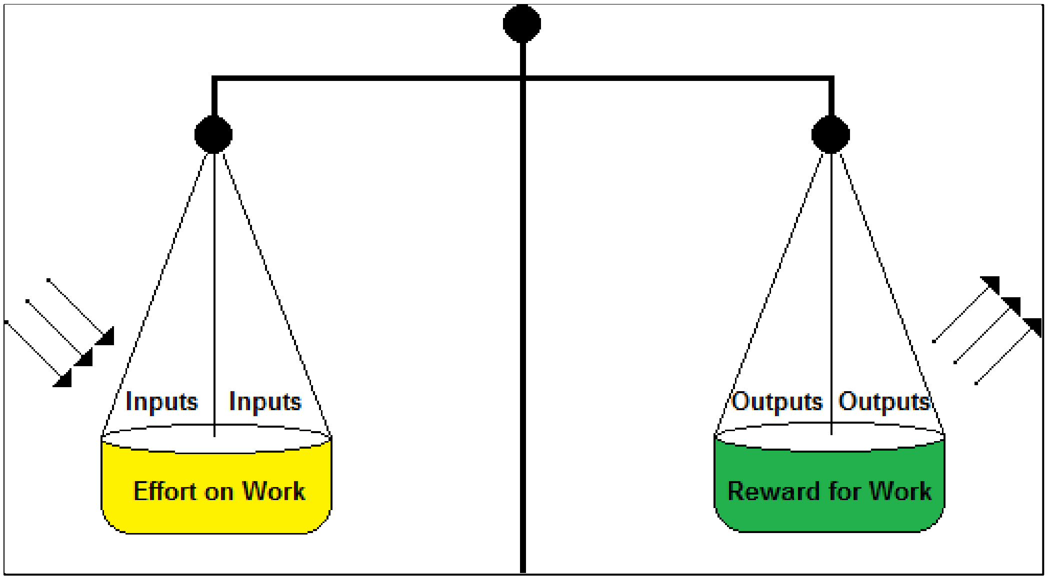
E is expectancy – the perceived likelihood of outcome.

- Effort is not sufficient; it has to be accompanied by ability and skill.
- Job satisfaction will result in effective job performance.
- Job design is of great importance.

Adam's Equity Theory by Adam Stacey

- It is about fairness between effort (inputs) and rewards.
- In other words, there should be a sought of balance between the effort applied by employees and their rewards, the greater the effort, the more the reward and this enhances motivation.
- **N.B.:** The fairness of inputs and rewards of the company's employees is compared to the inputs and rewards of other people performing comparable tasks.
- Equity exists when the ratio of one's outcome to his/her inputs equals another one's ratio.
- Workers feel sense of injustice if their efforts are not rewarded in conformity to other people's rewards (relative to their efforts).
- **N.B.:** Equity deals with comparisons of your own situation to the situation of others, for example, all teachers expect equal remuneration.
- A motivator is nothing which arouses behavior.
- If workers perceive that their rewards are higher than performance, they increase their performance and vice versa.
- If workers perceive that there is equity between their inputs and rewards, they maintain performance.

Adam's Equity Theory



Factors Affecting Motivation

- Payee or salary.
- Security of employees.
- Social grouping.
- Promotional aspects.
- Norms, values and beliefs.
- Style of leadership.
- Nature of work.
- Sense of challenge in relation to work ability.
- Opportunity to participate in decision making.

Employee Benefits/Fringe Benefits/Cafeteria Benefits

- These are the elements which are used by an organization to effectively motivate its workforce.
- They can be easily divided into two groups which are financial and non-financial.

Financial Benefits

- These include cash and anything that can be converted into cash, for example, bonus (13th cheque), time rate, piece rate, performance related pay, competence based pay, company cars, houses, lunch, education, loans, holiday allowances, medical aid and salaries.

Bonus

- This is a form of financial motivator which is awarded over and above the normal pay.
- This is given to employees usually at the end of the year or at the end of a quarter or after accomplishing a certain task.

Time Rate System

- In this system, earnings are calculated according to the time spent on work (number of hours worked × rate per hour).
- Circumstances where time rat is appropriate:
    - In organizations where employees have no control over how fast they do their work.
    - Where output is of non-standard type.
    - In service industries.

Advantages of Time Rate System

- Less harmful to quality.
- Less harmful to the health of workers.
- Simple and easy to understand.
- Appropriate in service industries.

Disadvantages of Time Rate System

- Does not provide incentives for extra effort.
- Requires supervision of the workforce.
- Workers may slow down work so that they can work for more hours and earn increased pay.

Piece Rate System

- It is whereby workers are paid according to the output or quantity of item produced.
- It is usually used when output is measurable.
- Output can be attributed to an individual worker so that the worker receives a reward.

- It is calculated by multiplying number of units produced by the rate per unit.
- A low rate may demotivate the worker.
- It can be adjacent to reflect the difficulty of the job and standard time needed to complete it.

Advantages of Piece Rate System

- It encourages greater effectiveness and faster working.
- Encourages workers to device improved methods.
- More output produced.
- Labour costs for each work is determined in advance. This helps to set a price for the product.

Disadvantages of Piece Rate System

- It requires output to be measured and standardized.
- Workers can be injured at work since they stress themselves to extremes.
- Little security for pay, thus if there is no production, there will be no pay. Sometimes the machine might break or a worker might be injured and this might mean no pay.
- It encourages workers to cut corners and this reduces quality on products.

Performance Related Pay

- It is whereby employees are paid according to their performance.

Advantages of Performance Related Pay

- It motivates the employees.
- It increases commitment of employees to the organization.
- It develops a performance culture.
- It can be used to recruit and retain high quality.

Disadvantages of Performance Related Pay

- Money is not the only motivator.
- Attention may be focused on volumes and speed.

- It may result in higher levels of pay differences.

Salary

- It is an annual income usually paid on a monthly basis.
- It is paid to professional and management staff.
- The salary is fixed each year and is not dependent on time or unit.
- The salary level is determined by the status of the post in an organization.

Advantages of Salary

- Security of income.
- Gives status compared to piece and time rate.
- Aids in costing, that is, salary is not variable.
- Suitable when output is not measured.

Disadvantages of Salary

- Income is not related to the output.
- May lead to complacency of the worker.
- Regular appraisals may be needed to assess whether an individual should earn higher.

Measured Day Work

- The idea of measuring day work provides answers to the problems of piece rate and time rate.
- Instead of workers receiving a variable extra amount of pay depending on their output, they are paid a fixed amount as long as a fixed output is maintained.

Other Financial Benefits

- Commission – payment for achieving a target.
- Profit sharing.
- Company cars.
- Private health insurance.
- Subsidized meals.

- Low interest rates.
- Housing allowances.

Non-Financial Benefits

- These cannot easily be converted into cash and they include delegation, management by objectives, work groups, job design, job simplification and specification.

Job Design

- Refers to the application of motivational theories to the structure of work in order to enhance satisfaction and productivity.
- Usually well-designed jobs offer some variety, provide some degree of autonomy, enhance team work, and utilize skills and abilities of employees to their full potential.
-

The following are strategies in designing a job:

Job Enlargement (Horizontal Work Loading)

- It includes combining series of tasks into a new broader job that gives a challenge and variety to the employees.
- It is an attempt made to broaden the tasks which are undertaken or increasing load of tasks on existing workers.
- It involves giving an employee more work to do of a similar nature, for example, instead of an employee putting wheels onto a bicycle only, he may be allowed to complete the whole bicycle.

Advantages of Job Enlargement

- It prevents boredom with one repetitive task.
- Encourages employee satisfaction in their work as they are completing the whole process.
- It is more efficient if workers are organized into groups.

Disadvantages of Job Enlargement

- It is simply giving a worker more of the same job.
- It reduces efficiency since the worker is to complete the whole task (increased work).

- It over-burdens the worker.

Job Enrichment (Vertical Work Loading)

- It came from Herzberg's motivational factor (advancement).
- It attempts to give employees responsibility by vertically extending their role in the production process.
- It involves promotions.
- It gives employees responsibilities for planning tasks, quality control, work supervision, ordering materials and maintenance.
- In other words, workers will be performing work which was supposed to be performed by line managers/supervisors.
- Some degree of authority and decision making is delegated to the employees.
- Something which was done by someone higher on the hierarchy will be done by someone at lower levels.

Advantages of Job Enrichment

- The workers feel as part of the organization and their effort is rewarded.
- Employees will also be provided with varied tasks which may possibly lead to future promotions.
- It gives employees a challenge to develop their unused skill.
- It reduces the level of labour turnover.

Disadvantages of Job Enrichment

- Some workers may feel that they are not able to do extra tasks.
- Some workers might demand more wages for increased work.
- It may be a source of demotivation if challenging tasks are given to employees.
- It can result in stress to employees.

Job Rotation

- It is the systematic and planned movement of employees from one job to another to provide them with variety.
- Employees switch from one job to another from time to time, for example,

from human resource department to marketing department.

Advantages of Job Rotation

- Reduces boredom.
- Enables skills and experience to be gained.
- It is part of the training.
- In case of emergency, if one is absent, another employee from another department can cover for the employee.

Disadvantages of Job Rotation

- Gains in productivity may be offset by fall in output as workers learn new jobs and take time to settle in.
- Motivation is not guaranteed if the employee is switched from one boring job to another.
- Some workers do not like.

Management by Objectives

- Developed by Drunker Further refined by Ordione and McGregor.
- It is a management technique which includes setting out strategic plan, implementation and evaluation.

N.B.: The objectives which are set must be smart.

S - Specific
M - Realistic
A - Achievable/Attainable
R - Realistic
T - Team Specific

Advantages of Management by Objectives

- Each manager has a clear vision of the vital areas of work and standards required.
- Individuals will be aware of the organisation's goals.
- It will be easy to assess staff performance and the areas which need to be improved.
- Greater participation improves employee morals and communication.

- Managers have power to achieve results which are a means of ensuring growth and profits.
- It can be used to motivate workers.

Disadvantages of Management by Objectives

- It takes time to be effective.
- It can lead to more paper work than actual action.
- Workers may be frustrated if unattainable standards are set.
- Some employees may not want to be given responsibility.

Quality Circles

- A quality circle is a voluntary group of employees of an organization from the same work area ranging between 6-8 people who discuss and try to solve problems relating to their work, for example, quality, productivity issues.
- They may agree to meet weekly.
- It is an example of an informal group.

Features of Quality Circles

- The Quality Circles is made up of voluntary membership.
- It implements and monitors solutions that have been agreed.
- It presents its findings to the management.
- Meetings are usually short but frequent.
- A facilitator is there to assist the Quality Circles.

Advantages of Quality Circles

- Greater awareness of shop floor problems.
- Job enrichment.
- Improved motivation and morale.
- Improved quality.
- Increased productivity.
- It allows participation of all staff (Herzberg).
- Contribute to the minimization of costs of production.

Disadvantages of Quality Circles

- It is time consuming as a result of discussions.
- Quality Circles may be expensive to run as they may increase the costs to the organization. This means that Quality Circles need to be motivated financially.
- It requires some resources. For it to continue to exist, the manager must supply group members with necessary resources.
- Quality circles may be a source of demotivation to workers whose ideas are neglected.

Autonomy Group Working (Team Working)

- The word autonomy means self-determination, or simply independent.
- It means that an experienced group of workers is given greater discretion in planning and making of decisions.
- Usually management sets a task but how that work is supposed to be done is decided by the workers.
- To be more effective, this method requires an experienced work force who might be willing to take responsibility and managers who use democratic type of leadership.
- A group or team of people decides between them how work is to be distributed and how to solve problems that arise.

Advantages of Autonomy Group Working

- Improves communication between managers and the employees.
- Productivity increases sustainability.
- Labour turnover reduced.
- Workers will develop relationships with colleagues and team spirit which may improve motivation.
- Flexibility may result. For example, team members might be more willing to cover for an absent colleague.
- Quicker decision making and generation of more ideas.

Disadvantages of Autonomy Group Working

- Conflict between team members and managers may resent the responsibility delegated to teams.

- It results in loss of specialization among workers.
- Too much emphasis on individualism, for example, teams may fail to deliver results if the emphasis of the company is placed on individuals.

Workers' Involvement and Participation

- This means inclusion of employees in the decision making process.
- Forms of workers' participation include:
  - Worker directors – Employee representatives on the board of directors.
  - Worker council – Employee representatives on the council to discuss issues relating directly to employees.
  - Consultative committees – Employee representatives consulted on issues such as health and safety.
  - Quality circles.
  - Team briefing.
  - Workers' committees.
  - Employee share ownership plans (ESOP)

Advantages of Workers' Involvement and Participation

- Extension of democracy into the workplace.
- Increased satisfaction and personal development.
- Increased motivation and increased commitment.
- Improved industrial relations.
- Utilizes the knowledge and experience of workers.
- Development of consensus.
- Improved information flow.

Disadvantages of Workers' Involvement and Participation

- Time consuming.
- Workers lack technical knowledge.
- Employees take a short-term view.

- Conflicts of interests.
- Decisions should be made by risk takers and the experts to whom authority is delegated.
- If representations are via unions, workers who are not members will lose out.

Training

- It is the acquisition of skills, knowledge and competences as a result of teaching. It enhances cooperation.
- It is a process whereby individuals acquire job related skills and knowledge.

Advantages of Training

- High quality.
- Better productivity.
- More flexible through better skills.
- Easier to implement changes in business.

Training Links to Motivation

Assuming training is effective then:

- Employees feel more loyal to the organization.
- It shows that the business is taking an interest in its workers.
- Employees benefit from better promotion opportunities.
- The employee might be able to produce more output which might increase his/her wages.
- It is an opportunity to develop new skills and knowledge.

However, training might mean more costs to the business.

Other elements include:

- Delegation.
- Certificate of appreciation.
- Job simplification.
- Long service certificate.

IMPACT OF ICT ON MOTIVATION

- Employees using technology in their line of work feel more successful, get more motivated to do work and have increased self-confidence and self-esteem.
- Production of efficiently completed tasks, correctly presented through the aid of computers motivates those employees who find producing such tasks manually difficult.
- Employees find working in a technology-enhanced environment more stimulating and employee-centered than in a traditional environment.
- Employees are generally more 'on task' and express more positive feelings when they use computers than when they are required to do it manually.
- Laptops, palmtops, smartphones and other portable devices involved in execution of tasks motivate employees to work longer and harder with an increased pride in their work.
- Regular use of ICT across the workplace can increase employee confidence and motivation in working.

Chapter 7

QUESTIONS: MANAGEMENT

- Define the following terms:
  - Management. [2]
  - Span of control. [2]
  - Functional structure. [2]
  - Matrix structure. [2]
- What factors influence the choice of the span of control? [6]
- What is the narrow of span of control ? [2]
- Distinguish a wide and narrow span of control to a firm in the manufacturing [4] sector.
- How useful is a wide span of control to a firm in the manufacturing sector? [4]
- Explain why it is favorable for employees to work in organizations with a wide [4]

span of control.

- Under what circumstances might a firm adopt a wide span of control? [4]
- Distinguish a span of control and chain of command. [4]
- What is meant by the following terms:
  - Esprit de corps. [3]
  - Stability of tenure. [3]
- Explain any three levels/types of authority. [6]
- Differentiate responsibility and authority. [4]
- Define the following terms:
  - Line authority. [2]
  - Staff authority. [2]
- Explain the term labour turnover. [2]
- Define the term delegation. [2]
- Why do managers delegate work to their subordinate. [4]
- Explain why managers find it difficult to delegate work to their subordinate. [6]
- What is meant by the term accountability? [2]
- How useful is specialization to a firm in the clothing industry? [6]
- Explain the term division of labour. [2]

- Define the following terms:
  - Centralization. [2]
  - Decentralization. [2]
- Explain the concept of management by objectives. [4]
- Define the term management by walking around. [2]
- Why does a business plan? [2]
- Differentiate management by objectives and management by walking around. [3]
- Explain any three managerial functions. [6]
- With the help of a diagram of a typical functional structure, explain the following:
  - Span of control. [3]
  - Chain of command. [3]
- How useful is centralization to a firm in the manufacturing sector? [5]
- What are the advantages and disadvantages of decentralization? [2]
- Explain the contributions of McGregor's theory X and Y to Zimbabwean [5] organizations.
- How applicable is the McGregor's theory X and Y in the workplace situation? [5]
- Is functional structure always good structure? [6]
- Distinguish a functional and a matrix structure. [4]

- Illustrate a divisional structure. [6]
- What are the advantages and disadvantages of a matrix structure? [6]
- Using the diagram, explain the geographical structure. [6]
- Evaluate the relevance of management theories to modern day management. [25]
- What are the causes of high labour turnover? [12]
- Discuss the methods which a firm might employ to curb labour turnover. [10]
- What arguments might there be for the retention of the centralization of the [12] marketing and finance function?
- Evaluate the usefulness of decentralization to a firm in the manufacturing sector. [13]
- Discuss the factors which influence the level of the span of control. [25]
- What are the benefits of planning? [10]
- Explain the concept of management by objectives and evaluate its worth. [10]
- Explain the factors which influence the structure of the organization. [10]
- How useful is a functional organizational structure to a manufacturing firm? [15]
- Discuss the influence of Fayol's theory to modern day organization. [25]
- How useful are hierarchy organizational structure to Zimbabwe organizations? [15]
- What are the features of bureaucratic organizations? [5]
- What application do you consider McGregor's Theory X and Y in the work

[5]
situation?

- Distinguish a formal and informal structure.
[4]
- Distinguish a tall and flat structure.
[4]
- What are the features of a tall structure?
[4]
- Evaluate the relevance of Fredrick Taylor's scientific management theory to
Zimbabwean organizations.
[25]
- Explain the term corporate culture.
[4]
- Discuss the factors which influence the level of specialization.
[10]
- Distinguish between division of labour and specialization.
[6]
- Evaluate the methods management might consider to ensure effective
[12]
communication within a decentralized organizational.
- Discuss the factors that might influence the decision whether or not to
[10]
decentralize decision making within an organization.
- Why is it important for managers to distinguish between authority and
[12]
responsibility?
- Evaluate the influence of informal leadership to a business.
[6]
- If a huge project is successful, the business will grow quickly. Suggest and justify [10]
an appropriate organizational structure if this happens.
- Define delayering.
[2]
- With the aid of an organization chart, explain the main features of a

formal organization.[10]

MANAGEMENT

Management is the art of getting things done through other people (Mary Parker Follet).

- It is the achievement of objectives via the utilization of resources.
- It is the attainment of organization's goals in an efficient and effective manner by planning, organizing, controlling organizational goals.
- It can be seen as a group of people who are appointed by owners of the business to run the business on their behalf.

Differences between Managers and Leadership	
Managers (Management)	**Leaders (Leadership)**
Drucker defined management as doing things right.	Leadership is doing the right things.
Managers are usually managers the work, for example, financial manager manages the financial accounts and makes decisions concerning that field.	Leaders lead people and motivate them.
Managers want results.	Leaders seek achievements.
Managers try by all means to minimize taking risks.	Leaders usually have personal charisma.
Managers have formal authority.	Leaders seek to achieve long term vision of the firm

Managerial Functions

Organizing

- It is a management function that is concerned with assigning of tasks, grouping tasks together within subsections of the organization, allocating resources to these subsections.
- A formal structure is a means of establishing authority and responsibility and of gaining the advantages of specialization.

Controlling

- It is concerned with monitoring activities keeping the organization on track so that it keeps moving towards its goals, taking appropriate corrective action as and when required.

Leading

- It involves the use of influence to motivate employees to achieve the organizational goals.

Directing

- Suggests orders, instructions, supervision or at the very least guidance.

Planning

- Is the establishing of objectives and the formulation, evaluation and selection of policies, strategies, tactics and action required to achieve them.
- All planning requires forecasts.

Importance of Planning

- It allows managers to look ahead rather than being obsessed with the day to day running of the business.
- It helps managers to identify strengths and weaknesses, opportunities and threats.
- It provides focus and sense of direction.
- It establishes a criterion by which performance is evaluated.
- It facilitates delegation.
- It reduces the gap between performance and objectives.
- Encourages teamwork.
- It identifies inefficiencies and unnecessary duplication of efforts.
- It enables people to respond effectively to events rather than it would be without planning.
- It forces managers to be realistic in terms of objectives set.

Limitations of Planning

- Lack of accurate information. It is a mere prediction.
- Time consuming and expensive process.
- Inflexibility.
- It may result in internal rigidness in managerial work.
- False sense of security.
- A manager may feel that once a plan is formulated, it will be easier to carry out.

Business Plan

- It is an essential document for describing aims and objectives and enabling measurement of progress towards achieving them.
- It can be used as a requisite for seeking finance from investors.
- It provides the means to:
  - Appraise the present and future of the business.
  - Work out short and long term objectives.
  - Establish a framework to establish the objectives.
- It can be seen as a working document that helps the owner to monitor the current operations, plan the future of the business and evaluate actions necessary for the success of the business.

Contents of the Business Plan

- Summary.
- A description of the business.
- The product or service.
- The market.
- Marketing plan.
- Financial information.

Importance of Business Plan

- Focuses attention on objectives and results.
- It reduces uncertainty and risk.
- It provides a sense of direction in the business.
- Encourages innovation and creativity.
- Guides decision making.
- Facilitates control.

Types of Business Plans

1. Strategic Plan

- Deciding on the objectives of the organization, changes in these objectives, the resources used to attain them and policies that are to govern the acquisition use and disposition of the resource.

Advantages of Strategic Plan

- It lays down major goals and policies of the organization.
- It provides long-term views.
- It takes a macro view of the organization.
- It provides direction for the growth of the enterprise.

2. Tactical Plan

- Ensuring that resources are obtained and used effectively and efficiently in the accomplishment of the organizational objectives.

Advantages of Tactical Plan

- Helps to implement strategic plans by coordinating the work of different departments.
- Assists when making short-term moves and maneuvers within the broader strategic existing plans.

3. Operational Plan

- Ensuring that specific tasks are carried out effectively and efficiently.

Advantages of Operational Plan

- Specific and detailed.
- They provide form and content to long-term plans.
- Helps in maximizing efficiency in the day to day operations.
- It ensures uniformity of action.

Management Theories

1. Scientific Management Theory – F.W. Taylor

- Fredrick developed his theory of scientific management as he worked his way up from a laborer to a manager in USA Steel work.

Implications of Taylor's Theory

- Man is a rational economical animal, 'economic man' concerned with maximizing his economic gain. The firm must give the employee more pay so that the output can increase.

- Selection of the best person for the job (someone with skills or character).
- Workers should be given appropriate training and tools so that they can work as efficient as possible.
- Workers do not naturally enjoy work and they need close supervision and control. Workers should be encouraged to work harder and maximize productivity.
- Divide work between managers and workers. Managers apply to scientific management principles in planning and supervising the work.
- A manager's job is to tell employees what to do and the workers' work is to do what they are told.

Advantages of Taylor's Theory

- Division of work thus specialization will increase productivity and increase quality since each worker will be doing what she knows best and have skills in.
- Fairness in pay since it supports the use of piece rate system thus if a worker produces more units he/she will be given more pay.
- Motivates workers to work hard (piece rate system). Thus if a worker produces more, productivity increases.
- Emphasis is on measuring what enables improvement.
- Leads to efficient production methods since the managers and workers will be trained so they will introduce more ideas and production methods.

Disadvantages of Taylor's Theory

- Not everyone is motivated by money, that is, Taylor overlooked that workers work for different reasons. According to Herzberg, non-financial motivators always motivate, for example, job enlargement and job enrichment.
- It ignores the existence of groups and teams. Because of that individualism might reduce the productivity of the firm since teamwork produces more products since they support each other and can share ideas.
- It gives no room for individual preferences and initiative. Because of that management might not be aware of some good ideas from subordinates.
- Piece rate system is appropriate where output is standardized and measurable.

- Workers are given boring repetitive tasks to carry out and are treated like human machines.
- Ignores the fact that workers have social needs.

2. McGregor's Theory X and Y

- In the human side of enterprise, Douglas McGregor contrasted two sets of assumptions about workers' attitude to work and responsibility.
- Theory X depicts the economic man characteristics of Taylor's theory.
- The theory X is therefore a reluctant worker who has to be coerced and given extrinsic rewards.
- In theory Y, the worker prefers autonomy, responsibility and gains a sense of achievement from work.

Acceptance of the negative theory X views results in:

- Autocratic leadership style.
- Traditional organizational structure.
- Centralization of decision making.
- Scientific management (Taylor).
- Extrinsic factor; pay and punishment.

Acceptance of the positive theory Y views results in:

- Free reign style of leadership (democratic).
- More flexible structures.
- A search of appropriate ways of motivating the worker.
- Decentralization of decision making.
- A stress of intrinsic factors to the work itself.

Theory X manager assumes	**Theory Y manager assumes**
People dislike work and will seek to avoid it.	People enjoy work.
Workers are unambitious, irresponsible, lazy and not to be trusted.	People seek responsibility.
Workers have to be controlled.	They do not wish to be controlled.
Such people have security as their greatest need.	Workers desire to satisfy social and self-actualization needs.

3. Elton Mayo: Human Relations Theory

- Elton Mayo believed that workers are not just concerned with money but could be motivated by having their social needs met at work (something that Taylor ignored).
- He introduced the human relations school of thought which focused on managers taking more interest on the workers' treating them as people who have worthwhile opinions and realizing that workers enjoy interacting with each other.
- Mayo conducted a series of experiments at the Hawthorne factory of the western electric company in Chicago.
- From his experiments, he concluded that workers are motivated by:
  - Better communication between managers and the workers.
  - Working in groups.
  - Insure work is repetitive and interesting.
  - Training and development.
  - Empowerment.
  - Security enhances performance.

Criticism of the Theory

- Some critics argue that Mayo's approach is largely subjective because workers are usually manipulated to work hard by managers (views of theory X).
- The assumption that the managers and workers share the same goals is unrealistic.
- Others viewed the theory as a way of reducing union power.

Max Weber's Bureaucratic Theory

- Max Weber is a German sociologist who pro-founded that an organization constitutes of a number of individuals such that there is need to regulate and control the activities.
- He stressed the need to adhere to the organizational rules and regulations as a sign of authority within the organization.

Principles of Max Weber's Bureaucratic Theory

- **Division of labor –** It is the pivot around which the classical theory revolves. It implies that work must be divided to obtain a clear cut specialization with a view to improve performance of workers.
- **Departmentalization –** Division of work if followed by assignment of work to individuals responsible for its performance.
- **Coordination –** The classical theory pointed that the division of work should be balanced by unity of control. There should be a single center of authority and control in the organization.
- **Scalar and Functional Processes –** These processes deal with vertical and horizontal growth of the organization respectively. Scalar chain refers to a series of superior subordinate relationships from the top to the bottom. The functional process is concerned with division of the organization into specialized parts and subparts and their regrouping on the basis of similarity and compatibility.
- **Structure –** It implies the logical relationship of functions in an organization to accomplish its objectives effectively. It is the mechanism for introducing logical and consistent relationships among the diverse function.
- **Span of Control –** This implies a number of subordinates a manager can effectively supervise. It determines the levels of authority and the shape of the organization. The concept also directs attention to the complexity of inter-relationships in an organization.

The Classical/Administrative Theory by Henry Fayol

- Fayol emphasized on goal attainment.
- In his book, he emphasized the role of the manager (management functions) as:
  - Forecasting and planning.
  - Organizing.
  - Commanding.
  - Coordinating.
  - Controlling.

N.B.: Before coming up with the principle of management, he brought the division of business activities into:

- Technical production.

- Commercial.
- Financial.
- Accounting.
- Security.
- Management.

His fourteen principles of management are:

1. Division of Work

- He believed that division of work leads to efficiency at all levels of the organization.
- He quoted discipline with obedience.

2. Authority and Responsibility

- Authority means the right to act whereas responsibility is the duty to act.

3. Discipline

- He saw discipline as an act of respect for agreements which are directed at achieving obedience, application, energy and the outward marks of respect.

4. Unity of Command

- Each employee must receive instructions about a particular operation from a single superior.
- When an employee reports to more than one person, conflicts may occur and confusion of authority may result if authority is undermined.
- Indiscipline is a jeopardy which results in disorder and instability in the organization.

5. Unity of Direction

- Necessary to ensure that all the people within the organization work towards the organizational goals (same direction).
- This objection should be directed by only one manager using one plan, for example, personnel department in an organization should not have two directors because they might have different hiring policies.

6. Subordination of the Individual to the General Interests

- The individual interests of employees should not take precedence over the interest of the firm (common goal) hence interests of one employee should not prevail over those of the organization.
- According to him, ignorance, ambition, selfishness, laziness, weakness and all human passions may cause organizational interests to be lost in favor of individual interests.

7. Centralization

- Refers to the extent in which decision making authority is attained by the management.
- It is all about decreasing the role of the lower levels in decision making.
- Fayol believed that management should retain the final responsibility but need to delegate enough to the subordinates in order to do their job properly.
- However, the problem is to find the crucial amount of centralization at each level.

8. Scalar Chain/Organogram

- A hierarchy is necessary for a unit of direction.
- Authority in the organization runs in order of rank from the top management level to the periphery (lower levels) of the enterprise.

9. A Fair System of Remuneration

- Compensation for work done should be fair to both the employer and the employee and should provide satisfaction to both parties.
- Should encourage keenness and discourage over payment.
- Underpayment may result in labour turnover whilst overpayment might negatively affect the liquidity position of the firm.

10. Order

- It is the placing of the right man in the right place. Materials, people and all resources should be at the right place at the right time and under control.
- According to him, "there is a place for everything and everything in its place".

11. Equity

- Account to have managers both friendly and fair to their subordinate. It entails a combination of justice and kindness.
- This enhances loyalty of the workforce towards management.

12. Stability of the Staff Tenure

- He argued that a high employee turnover is not good for efficient running of the organization.
- According to him, a high turnover of staff was costly to the organization and was both a cause and effect of management.

13. Initiative

- Subordinates should be given the freedom to conceive and carry out their plans even though some mistakes may occur.

14. Esprit De Corps

- He believed that there is strength in union and he emphasized the need for teamwork and the importance of good communication.
- According to him, harmony is strength and managers should have a sense of organizational unity.
- To him, even a small factor can help to develop this spirit, for example, use of verbal communication instead of formal written communication whenever possible.

Key Contributions

- The organizational theory leads to professionalism in factories.
- The theory succeeded in putting across the notion that management should be learnt as a skill, for example, one cannot be an effective accountant without having practiced accounting.
- He gave guidelines that helped to increased productivity and efficiency, for example, the importance of discipline, team work and fair remuneration cannot be underestimated.
- His advice on stability of staff tenure and the need for order is still relevant.

Limitations

- Some critics are of the views that organizational theory recognized a human being as a financial/economic being rather than an important factor.

- Some of the points were good for the organization during that era but as the organization grew, some of the points may no longer be relevant.

Span of Control

- This is the number of people directly accountable to and reporting to a manager.

Narrow Span of Control

- Means that there are many mid and top level managers who each supervise a small number of employees reporting to them.
- Narrow span leads to a tall organizational structure.

Diagram of Narrow Span of Control

Advantages of Narrow Span of Control

- It is easier for a manager to provide guidance to subordinates and to supervise and control their activities.
- It is easier to develop group cohesiveness within the smaller groups of employees reporting to each manager and ensure faster communication.
- It is possible to have organizational units with more focused functions rather than many different functions grouped under one manager.
- Fast communication between superiors and subordinates.

Disadvantages of Narrow Span of Control

- It tends to increase the total number of organizational levels. This makes it difficult for managers at high levels to keep in touch with ground realities at operating levels.
- It increases the total number of employees in the organization. This increases costs of the employers.
- It creates problems of coordination between different managers and organizational units.
- Excessive distance between the bottom and the top of the organization.

Wide Span of Control

- Means that there are fewer managers of mid and the top level with each supervising a large number of employees thus more people reporting to one manager.

- Wide span of control results in flat organizational structure with fewer layers.

Diagram

Advantages of Wide Span of Control

- Close relationships between workers and employees.
- Close supervision of employee tasks.
- Greater supervisory attention to employees by managers.
- Possibility for more upward growth for employees.
- Possibility for greater complexity of tasks for employees.
- Short decision making process.

Disadvantages of Wide Span of Control

- Greater levels of management mean greater operational costs.
- Tall organization with many layers of management means less efficiency in communication upwards and less interest in communication downwards.
- Lessening of employee morale and feeling of belonging.
- Lower skilled, less motivated employees require more supervision.

Factors which Influence the Level of Span of Control

- The experience and personality of the manager.
- The nature of the business.
- The skills and attitude of the employees.
- Highly skilled, professional employees might flourish in a business adopting wide span of control.
- The tradition and culture of the organization. A business with a tradition of democratic management and empowerment of workers may operate wider span of control.

Relationship between Span of Control and Hierarchy

- The ambition of span of control and chain of command results in a pattern of levels that is called a hierarchy.

- Thus the unbroken line of authority from the top to the bottom of the organization.
- At the top of the organizational hierarchy are similar ranking officials and at the bottom are general workers.

Centralization

- Refers to a relatively high degree of concentration of decision making among very far top managers at the head offices and the bottom are general workers.
- There is centralized administration, human resources, finance, purchasing etc.
- With centralization, decisions are taken at the center or at the upper level of the organization.
- This leaves little discretion and authority for the periphery or lower levels.

Advantages of Centralization

- Greater control.
- Economies in staffing.
- Easier communication.
- Economies of specialization.
- Economies of scale.

Disadvantages of Centralization

- Excessive bureaucracy.
- Rigidity.
- Delays in decision making.
- Loss of initiative.
- Stiffer personal development.

Decentralization

- The dispersal of authority of decision making to the lower level management is termed as decentralized.
- Means diffusion of authority.
- Is closely linked to delegation.

- It is when there is considerable delegation and autonomy at lower levels.

Advantages of Decentralization

- Relieving top managers of work overload so that they concentrate more on strategic decisions.
- Quicker and better decision making taken at the scene of the action.
- It offers training of junior managers and prepares them for more challenging roles.
- Decisions in response to market changes become quicker and flexible since head office will not be involved all the time.
- Increases employee motivation through participation in decision making.
- Personal development is promoted.

Disadvantages of Centralization

- Coordination by top managers may become difficult.
- Lack of control and ineffective communication may lead to inconsistences relating to organizational policy.
- Divisions may pursue their own objectives at the expense of cooperative goals.
- Loss of some economies of scale.
- Development of narrow department view.

Factors which Influence the Level of Centralization

1. **Cost**

- The more costly the action to be decided on the more probable. It is that the decision will be at the top levels of management so the greater the degree of centralization and vice versa.

2. **Desire for Uniform Policy**

- Consistency and uniformity is associated with centralization, where top management desires uniformity. It is likely that decision making will be centralized.

3. **Size and Character of the Organization**

- Small organizations tend to centralize while large organizations due to their complexity decentralize.

4. History and Culture of the Organization

- Organizations that grow internally and the history of the organization determine the degree of centralization.

5. Management Philosophy

- Some managers prefer to keep decision making authority to themselves because they believe that their subordinates are incompetent.

6. Geographical Location of the Organization

- If the business distributions are in distant markets, there is a tendency for the organization to decentralize decision making.

7. Communication Frequency and Facilitates

- The existence of communication facilities, for example, IT leads to a highly centralized organization since the head office is always in contract with its branches.

8. Type of Organization's Functions

- Personnel and Finance are usually centralized functions in most companies.

Stability of Tenure (Labour Turnover)

- It is the proportion of staff leaving a business over a period of time.
- It is measured by the formula:

Causes of High Labor Turnover

- Relatively low pay levels of workers for better paying jobs.
- Few training and promotions.
- Poor working conditions or low job satisfaction, for example, bullying and harassment.
- Some businesses are relatively poor at selecting and recruiting the right candidates for posts, whereby workers are ill-suited for their jobs.
- There is more chance that they will leave relatively quickly.
- Unfavorable leadership style.
- Lack of .job security, for example, contracts.

- Poor relationships, for example, informal groups.
- Poor motivation.

Benefits of Labour Turnover

- New staff brings in new ideas.
- It avoids keeping of staff that are ageing.
- Where business pays low wages or where conditions of work are poor, it may be more profitable to have a consistent turnover of staff rather than to raise wages or improve the conditions of work, so some people must go.
- If business is shrinking in size, reducing the size of the workforce will lead to high labour turnover.

Problems of Labour Turnover

- Lost production whilst the post is not filled.
- Lost production while training.
- Cost of new recruitment and training.
- Tarnishes the image of the firm.
- Payment of bonuses to other employees whilst replacement is found.
- It takes time for new staff to become familiar with their roles and the way in which things are to be done.

Solutions to High Labour Turnover

- Improve the process of employee selection.
- Ensure that the employees are being fully utilized.
- Improve working conditions.
- Promoting group morale and cohesiveness.
- Job enrichment, enlarging and rotation.
- Demonstrate that promotion prospects exist.
- Increase remuneration.

Delegation

- It is a process by which managers such as school heads, transfer part of their authority to subordinates for the performance of certain tasks and responsibilities.

Advantages of Delegation

- Reduces management stress and workload.
- Enables senior management to focus on key tasks and delegate less important tasks.
- Subordinates are motivated and empowered.
- Better decisions since employees are knowledgeable to the use of resources.
- Good method of on-the-job training.
- Increased participation by subordinates.

Effective Delegation Conditions

- Select the person to delegate to on the basis of sound knowledge of the staff member in terms of their varying levels of competency, commitment and capability.
- The nature and the scope of the work to be delegated must be clearly defined and be for the benefit of the organization as a whole.
- Delegated tasks must be clearly described.
- The person to whom the job is delegated must be capable of carrying out and willing to take the responsibility.
- Some form of reporting to provide a means of progress control is required.
- Reward successful achievement of delegated tasks.
- Two way communication is necessary.

Disadvantages/Barriers to Effective Delegation

- Insecurity where the leader is not ready to take chances (risks) or fear that subordinates may let him down.
- Loss of power if the subordinates do not do the task very well and even better than the leader would have done it.
- Failure to plan ahead. This makes it difficult to decide which tasks to delegate and to whom and when.

- Some managers continuously monitor the work of subordinates and hence find it difficult to delegate.
- The atmosphere of the organization. Some organizations are democratic and others are bureaucratic.
- Lack of trust between managers and staff.

Reasons why Managers are Reluctant to Delegate

- Fear of the unknown.
- Sometimes managers do not have delegation skills.
- Staff managers fear employees might perform better than them.
- Some managers feel better doing it on their own.
- Shyness.

Responsibility

- Refers to individuals' obligations to carry out assigned duties.
- These are duties one is assigned to do by his superiors.
- Responsibilities involve being accountable or being required to justify an action, for example, managers responsible for a department may be asked to justify poor performance to the board of directors.

Advantages of Responsibility

- It promotes motivation as the subordinates will need to meet targets or goals.

Accountability

- It is the obligation to carry out responsibility and exercise authority in terms of performance standards established by the superior.

Authority

- It is the right to exercise power or the right to command.
- This is the power management has to exercise and make decisions in carrying out assignments.
- In other words, it is the ability to carry out the tasks for, for example, it would not make sense asking an office worker to pay company debts when she does not have authority to sign cheques.

- Employees at lower level have less responsibility and authority than the further up.

Types of Authority

Line Authority

- Direct authority involves the right to give orders and have decisions implemented. All superiors have line authority over the subordinates in their teams or department. Line authority is a feature of scalar chain of command which runs from top to bottom of an organization, for example, production managers are line managers responsible for work of production. The flow of line authority is always downwards.

Advantages of Line Authority

- It is clear. There is clear division of authority and responsibility.
- It allows for unit of command.
- There is efficiency in decision making.
- Effective discipline.

Disadvantages of Line Authority

- Managers should be experts as they do not consult.
- There is no career development.
- Lack of specialization.
- Centralization and subjective control.

Staff Authority

- Can be seen as auxiliary authority in that it does not provide the right to command. Staff authority has come to mean advisory or supportive authority.

N.B.: Staff authority of those individuals who provide line managers with advice and service staff can offer services such as legal, financial analysis.

Advantages of Staff Authority

- Ideas are shared so that decision making is improved.
- It assists managers with expert help.
- They assist in policy implementation, legal and financial issues.

Disadvantages of Staff Authority

- Employing specialized labour is costly to an organization.
- It creates conflicts as some managers refuse to take advice.

Line Authority	Staff Authority
Right to decide and command.	Right to provide advice, assistance and information.
Contribute directly to accomplishment of organizational goals.	Assists in the effective accomplishment of organizational goals.
Relatively unlimited and general.	Relatively restricted to a particular function.
Flows downwards from a superior to a subordinate.	May flow in any direction depending on the need of advice.
Possessed by generalists.	Possessed by specialists.
Exercises control.	Investigates and reports.
Doing function.	Thinking function.
Makes operational decisions.	Provides ideas for decisions.

Functional Authority

- It can be defined as the right to give orders in a department other than your own. The relationship arises when a specialist is allowed to take over a limited defined function.
- The line managers dedicate authority to a specialist to carry out the task.
- Although this creates problems in terms of complicated relationship, coordination difficulties and confusion over authority. It does have the advantage of relieving line managers of certain task and making use of specialization, for example, a personnel manager has functional authority to instruct every employee to sign the attendance register.

Differences between Responsibility and Authority	
Responsibility	**Authority**
Obligation to act.	Duty to act.

Chain of Command

- This is the plan that satisfies who report to whom in the organization. It is a line of authority through which orders and responsibilities are delegated.
- It refers to the relationship of the superiors and its subordinates shown by lines on an organizational chart.

- The concept is supported by the following principles:
    - Scalar factor – Someone in the organization might have ultimate authority and a clear line of authority should be in existence, for all enterprise/lines of authority are shown in broken lines from the top to bottom of an organizational chart.

Problems of a Long Chain of Command

- Long chains of command slow down decision making since it passes through more people and the competitors might take advantage and exploit its market before the firm reacts.
- Miscommunication can occur since there are more middle managers.
- It also reduces the company's ability to react and make decisions.
- More costs since more money is needed to pay the money managers.

Unity of Command

- It states that employees should report to just one manager. Instructions from two or more managers may conflict which may work against organizational goals.

Specialization

- Doing the job or work in which one is talented at, for example, lawyers, engineers.

Advantages of Specialization

- Workers and firms become experts in a particular job or task.
- Workers acquire specific skills quickly.
- Surplus goods are produced.
- Improves the quality of goods and services.
- Firms will be able to employ and utilize specialized machinery and equipment.

Disadvantages of Specialization

- Automation leads to unemployment.
- Leads to interdependency.
- Results immobility of labour.

- Leads to lack of craftsmanship.
- Repetitive tasks boring to workers.

Division of Labour

- It means workers concentrate upon one particular job.
- Breakdown of work or trade activities into individual tasks or small tasks done by different people.

Advantages of Division of Labour

- More goods are produced for various markets.
- Large scale production resulting in more employment.
- Levels of trade.
- Prompted to interdependence of workers.
- Goods are produced at a faster rate due to mechanization and automation.

Disadvantages of Division of Labour

- Leads to interdependence of workers.
- Goods produced are standardized.
- Tasks become repetitive and boring.
- Lack of job satisfaction.
- Unemployment caused by mechanization and automation.

Team Work (Esprit De Corps)

- It involves placing each member of staff into small teams of employees.
- An effective teamwork involves quality circles.

Advantages of Teamwork

- It leads to workers learning several skills rather than just one.
- It helps create a more flexible and adaptive workforce.
- It motivates, leading to a lower labor turnover since workers in a group have security and social needs.
- Better sharing of ideas.

- Leads to high quality in total quality management if incorporated.

Disadvantages of Teamwork

- Some workers may find it difficult to work closely with others.
- If the team allows a strong informal leader who may not conform to the objectives of the organization, the team may work inefficiently.
- It might be time consuming.
- Conflicts may arise.
- Blame game may arise.

Organizational Functions (Departments)

1. The Marketing Function

- It is the department in direct contact with the business customers.
- Marketing is concerned with identifying and responding to the needs of the customers.
- Marketing managers are responsible for:
  - Research of the market:
    - Identifying the market opportunities.
    - Undertaking desk and field research.
    - Organize data of field research.
  - New product development (in coordination with production department) which involves:
    - Developing new product.
    - Decision making to the continuation or abortion of products.
    - Developing strategies for product launching.
  - Development of strategies in relation to:
    - Products.
    - Product mix.
    - Markets.
    - Promotion of products, pricing and distribution.

2. **The Accounting Function**

- This function deals with the money aspect of the business.
- Accounting involves correction, recording, presentation and analysis of financial data. The financial side concerns the raising of finances for the business operations and making decisions on how the money should be spent.
- Financial accounting is concerned with preparation of final accounts for the benefit of shareholders and other stakeholders.
- Costs accounting is concerned with identifying the costs of producing output.
- Management accounting involves accounting for decision making in relation to:
  - Planning activities.
  - Budgets.
  - Capital investments.
- The finance function involves making decisions about:
  - Cashflow.
  - Credit control.
  - Debt control.
  - Expenditure.

3. **Production Function**

- Deals with the making of goods and provision of service.
- It involves coordination of human and other resources to achieve the desired level of output at the lowest costs.
- Production function involves:
  - **Purchasing and Inventories**
    - Acquisition of materials.
    - Stock control.
    - Storage.
  - **Research and Development**

- Development on new products.
- Design.
- Development of new processes.

- **Production Planning**
  - Location.
  - Layout.
  - Capacity planning.
  - Machine setting.
  - Work and method studies.
  - Control of operations
- **Operations**
  - Scheduling of activities.
  - Maintenance.
- **Quality control**
  - Distribution.

4. **The Human Resource Function**

- This function deals with the acquisition and deployment of the human resources of the organization.
- All management activities relating to employees pay, welfare, conditions of employment and training are the responsibility of the personnel function.

1. **Employee Resourcing**

- Contracts of employment.
- Job analysis.
- Recruitment and selection.
- Termination of employment.

2. **Training and Development**

- Work design.

- Management development.
- Performance appraisal.

3. **Pay**

- Pay administration.
- Job evaluation.
- Pensions, sick pay.
- Incentives.
- Fringe benefits.

4. **Employees Relations**

- Negotiations.
- Participation.
- Grievances.
- Discipline.

5. **Welfare**

- Health and safety.
- Medical services.
- Disability.
- Social activities.
- Redundant and retired workers.

5. **Information Technology**

- This function deals with installing, maintaining, updating and monitoring the information technology.

Organizational Structures

- It is primarily concerned with the allocation of tasks and delegation of authority.

Matrix Structures

- It is one in which a team of specialists from different departments of the organization get together to work on a special project under the supervision of the project manager.

- It can be defined as an organization that employs a multiple command system that includes not only the multiple command structure but also related mechanism and associated organizational culture and behavior pattern.

Diagram

Advantages of Matrix Structure

- It allows total communication between departments and cuts across traditional boundaries. The knowledge and expertise can be transferred from one project to another.
- Efforts are channeled towards what is good for the project/business instead of individuals or departments.
- As project teams can be created easily, the system responds quickly to changing marketing conditions.
- It develops individual skills and helps them boost confidence.
- It acts as a motivational tool as people can identify themselves at the end products.
- There is inter-disciplinary cooperation within the organization.
- Provides flexibility.
- Creativity is encouraged.
- It encourages decentralization.
- Decision making can be delegated to lower levels which help in employee development.
- High technical standards can be maintained.

Disadvantages of Matrix Structure

- It encourages power struggles as to who is going to be the project manager.
- May be time consuming when participants spend more time on discussion rather than on action.
- May affect the morale when people are re-arranged at the beginning and end of the project.
- Split allegiances.

- Overlapping authority.

Functional Structures

- It is where the company is divided into separate units based on roles such as accounting, marketing, research and development or distribution.
- It can be defined as one which is structured according to functions and makes use of specialized resources.

Advantages of Functional Structures

- It offers high level of specialization since each unit operates as a self-contained mini-company charged with carrying out its specific role and the workers become experts within their functional area and the company benefits from their expertise and experiences overtime.
- A worker who is an expert in his functional area can perform tasks with high level of speed and efficiency which enhances productivity.
- Staff members within a department can easily communicate and use one another's knowledge.
- Functional structure makes supervision easier.

Disadvantages of Functional Structures

- Staff may develop a narrow outlook and be unable to see the business as a whole.
- It may be difficult to prepare managers for a wide range of function since there is specialization.
- Because functional managers have to report to central headquarters, it can be difficult to get quick decisions.
- It is often harder to determine the accountability and judge performance in functional structures, for example, if a new product fails, who is to blame.
- While specialized units within the functional structures often perform with high level of efficiency, they may have difficulty in working well with other units.
- If the company expands into new geographical areas, maintaining control and managing the separate functions can be even more of a challenge.

Diagram

Geographical Structures

- It is organized by regions.
- It is also known as the departmentalization.
- This is crucial to large scale firms whose activities are geographically spread over a wide area, for example, banks, insurance companies, transport companies etc.
- Activities are divided into zones, divisions and branches.

Diagram

Advantages of Geographical Structures

- The equipment used is all in one place.
- Managers develop expertise in solving problems peculiar in their location.
- Managers develop personal relations with customers and get to know customers' problems.
- Multinational companies may get to be known in different regions of the world.
- Operating costs are lower as all business functions are operated within each region.
- The firm will be able to compete.
- Training ground for management.
- Better communication at local levels.
- Emphasis is on local conditions.

Disadvantages of Geographical Structures

- Problems of control since some activities need to be centralized.
- High costs.
- Conflicts may arise between regional divisions' activities and overall organizational goals, for example, it is possible that managers may begin to introduce their own policies.
- There is duplication of functions at all locations.
- They may require that the head office comes out with extensive rules and regulations to ensure uniformity of quality among locations.
- Does not foster employee knowledge of problems experienced at other locations.

Divisional Functions

- It involves grouping of activities on the basis of common customers or types of customers.
- It involves grouping together employees who deal with specific customers.
- The assumption is that customers in each division have common set of problems and needs that can be best met by specialists.

Diagram

Advantages of Divisional Functions

- Customers get the advantage of specialization.
- Customers' needs are satisfied and customers might prefer to do business with a company that is sensitive to specific customer needs.
- Market segmentation – a business may divide its market into different market segments.
- Develop expertise in handling customers.

Disadvantages of Divisional Functions

- Top management needs to coordinate activities of different departments to achieve organizational goals. Individual departments may pursue their own goals and senior management might find it difficult to control the organization.
- Sometimes customer needs cut across several departments.
- Customer definition – it is not always possible to clearly define a particular customer group.
- In-efficiency – it is possible that some departments are too small because they do not have enough customers, in this case, costs per customer could be high.

Top Structures

- It is a structure in which the span of control is narrow and as a result there is a large number of hierarchical levels.
- A tall organizational structure has a narrow span of control which results in a multiplicity of layers.
- There is decentralization of authority.

- There are many authority levels.
- Long lines of communication.
- High degree of functional specialization.
- Bureaucratic.

Advantages of Top Structures

- Can adopt to change better and there is better coordination.
- It facilitates effective supervision due to centralized or dosed work.
- Opportunities for promotion are greater due to many positions.
- Good for staff desiring detailed guidance.
- Less pressure on managers.
- Easy application as less competent subordinates can be employed.

Disadvantages of Top Structures

- Delayed communication.
- Costly in terms of administrative overheads.
- Slow decision making.
- Greater administrative distance between the top management and the workers.
- Little opportunity for development of subordinates.

Flat Structures

- It involves a broad span of control and relatively few hierarchy levels.
- There is centralized authority.
- Few authority levels.
- Low levels of delegation.
- Easier coordination.

Advantages of Flat Structures

- Good for staff requiring greater independence, challenge and responsibility.
- Speedy and improved communication.

- Reduced overhead costs and uses supervisors.
- Faster decision making.
- Lesser administrative distance.

Disadvantages of Flat Structures

- Loose control.
- Difficult in coordination.
- More mistakes due to loose supervision.
- Pressure on managers and heavy penalty for failure.

Formal Structures

- It refers to the organizational structure deliberately created by management for achieving the objectives of the enterprise.
- It is a pattern of activities, processes, human relationships and roles planned and structured in order to accomplish organizational goals.

Informal Structures

- It refers to the pattern of activities, interactions and human relationships which emerge spontaneously due to social and physiological forces operating at the workplace.
- It rises naturally on the basis of friendships or some common interest which may not be related to work.
- It is an unintended and unplanned network of unofficial and social patterns of human relationships.

Differences between Formal and Informal Structures		
Point	Formal organization	Informal organization
Origin	Created deliberately	Arise spontaneously
Nature	Planned and official	Unplanned and unofficial
Size	Large	Small
Focus	Built around jobs	Built around people and their roles
Continuity	Stable	Unstable and dynamic
Structure	Definite structure – mechanical and rational	Structure-less, impersonal and emotional
Goals	Profits and service to the society	Satisfaction to the members
Control Purpose	Rigid rules and regulations	Group norms and values

Communication	Difficult and well defined paths. One way and slow flow of information	Unspecified channels, two way communication and fast flow of information
Influence Process	Legitimate authority	Power

Hierarchical Structure/Bureaucratic

- It is where there are different layers of organization with fewer and fewer on each higher level.
- It is often represented as a pyramid. Most co-operational governments are hierarchical with different levels of management power.

Diagram

Advantages of Hierarchical Structure

- Clear communication. Employees receive their policy, directors and day to day assignments from their direct managers.
- The role of each individual is clear and well-defined.
- Specialization of tasks is also possible.
- Responsibility and accountability are clearly defined.

Disadvantages of Hierarchical Structure

- Inflexibility – it works for standardized processes but not useful in dynamic environment thus they are slow to react to new opportunity ties.
- Slow decision making – this is because responsibility and authority are centralized in few people at the top.
- Resistance to creativity.
- It can stifle creativity and innovation.
- Lack of coordination – there are few horizontal links between the departments. Departments make decisions which benefit themselves rather than the business as a whole.
- Management by walking around (MBWA).
- Unstructured approach to hand to hand direct participation by the managers in the work related affairs of their subordinates in contrast to rigid and distance management.
- In management by walking around, managers spend a significant

amount of their time making informed visits to work area and listening to the employees.

- The purpose of this exercise is to collect qualitative information, listen to suggestions and complaints and keep a finger on the pulse of the organization.
- Also called management by walking around.

Management by Objectives (MBO)

- It is a process whereby the superior and the subordinate managers of an enterprise jointly identify its common goals, define each individual's major areas of influence and responsibility in terms of the results expected of him and use the measures as a guide for operating the unit and assessing the contribution of each of its members.

Objectives of Management by Objectives

- To measure and judge performance.
- To relate individual performance to organizational goals.
- To clarify both the job to be done and the expectations of accomplishments.
- To foster increasing competence and growth of the subordinate.
- To enhance communication between superiors and subordinates.
- To serve as a basis for judgments about salary and promotions.
- To stimulate the subordinates' motivation.
- To serve as a device for organizational control and integration.

N.B.: The objective of the business must follow the smart criterion. They should be specific, measurable, achievable/attainable, realistic, and time specific.

Advantages of Management by Objectives

- Improved managerial performance.
- Concentrate on profit making activities.
- Better delegation.
- Improved communication.
- Improved moral and sense of purpose.

- More effective development of executives.
- Early recognition of management potential.

Disadvantages of Management by Objectives

- Difficulty in goal setting.
- Time consuming.
- More paperwork.
- Pressure on people.
- Leadership problems.

Management by Exception

- This is almost similar to the concept of management by walking around. In this case, critical areas will be monitored, donations recorded and action taken to correct deviations.

Benefits of Management Theories

- Increased performance.
- Improves efficiency of production.
- Improves product quality.
- Increases effectiveness of production processes and system.
- Helps managers to make decisions.
- It defines the roles of managers.

Limitations of Management Theories

- It results in repetitive and monotonous tasks which may cause employees dissatisfaction.
- Some of the theories are not specific.
- It results in over simplification of human behavior.
- It is affected by constant changes in environment.

Additional Notes

Delayering

- The problem associated with tall structures has forced firms to opt for delayering.

- It is a process of removing whole layers of management to create shorter structure.

Organizational Charts

- It is a pictorial or diagrammatical representation of functions, departments and people in an organization.
- Separate units and positions in an organization are represented by boxes which are connected to each other by dotted lines.
- Solid lines indicate chain of command and official channel of command and official channel of communication.

Advantages of Organizational Charts

- Employees are given a clear structure/picture of how the organization is structured.
- Managers and subordinates know their responsibilities (if someone is required to handle a specific problem, the chart indicates where he is to report).
- The process of making up a chart can pin point the organization's defects, for example, areas of duplication.
- Provides useful source of information for new recruits highlighting position, responsibility and lines of authority.
- Formal relationship between different employees and departments is highlighted.

Disadvantages of Organizational Charts

- The chart does not indicate who has greater degree of responsibility and authority on each managerial level.
- It does not indicate the influence or informal relations and formal facts.

Informal Groups/Grapevine

Advantages to Organizations

- They help members to communicate. Managers can use these unofficial channels to transmit messages secretly. They check reaction before officially making the decision at the end. The firm will make a decision supported by the employees and hence avoid resistance to change.

- They share common norms and values and hence they are likely to agree and work in harmony.
- Informal groups provide social satisfaction, status and security, for example, to make jokes, eat meals and socialize after work. This sense of fulfillment reduces labour turnover and absenteeism.
- A sense of security is achieved since they are moving in numbers, for example, can bargain for more wages without fear.
- Fast communication – it does not follow scalar chain, so there can be faster spread of information.
- It helps members to solve personal problems.

Disadvantages to Organizations

- Grapevine dispenses both true and false messages.
- They can lead to heavy resistance to change since they take advantage of strength in numbers.
- Conformity – they act as a reference point, encourages conformity among members acting the same way, lacking creativity for fear of losing group approval.

A Comparison between Decentralization and Delegation	
Decentralization	**Delegation**
It is the end result of delegation.	It is a process or an act.
It denotes the relationship between top management and various departments.	It denotes the relationship between a superior and a subordinate.
It is optional as top management may or may not disperse authority.	It is essential for management process.
The control may be delegated to departmental heads.	The delegator exercises control over the subordinates.
It is a philosophy of management.	It is a technique of management.

IMPACT OF ICT ON MANAGEMENT

Chapter 8

QUESTIONS : MARKETING MANAGEMENT

MARKETING MANAGEMENT

Marketing management refers to an integrated process that encompasses identification, anticipation and satisfaction of consumer needs and wants. It is a management process that involves identifying what consumers need and want, to provide goods and services that satisfy these needs and wants. It can be identified as the process by which companies create value for customers and build strong relationships in order to capture value from customers in return.

Differences between Marketing and Selling

- Marketing is concerned with first identifying customer requirements whereas selling is only concerned with making consumers want the product of the company.
- Marketing takes the customer as a king and believe that the best and better products are only determined by customers whereas selling believes that the company best knows the product that consumers must buy.

- Selling does not involve selling research into customer specification but it allows products to be made first and then the product will be sold whereas marketing aims to provide products that sell themselves.

Marketing Management Orientations

1. **The Product Concept**

- It holds that customers favor products that are available and highly affordable.
- Therefore, management should focus on improving production efficiency. It is believed that once a product is cheap, customers will want it.
- However, although useful in some situations, the production concept can lead to marketing myopia. Companies adopting this concept run a major risk of focusing too narrowly on their own operations and losing sight of real objectives, that is, satisfying customer needs and building customer relationships.
- It holds that consumers will favor products that offer the most in quality performance and innovative features.
- It focuses on making continuous product improvements.
- It assumes that producers know the best.

2. **The Selling Concept**

- The idea that customers will not buy enough of the firm's products unless it undertakes a large scale selling and promotion effort.
- It focuses on the skills of selling rather than on the needs of the buyer.

3. **Marketing Concept**

- The marketing management philosophy that achieving organizational goals depends on knowing the needs and wants of the target markets and so achieving the desired satisfaction better than competitors do.

4. **Social Marketing Concept**

- A principle of enlightened marketing that holds that a company should make good marketing decisions by considering consumer wants, company requirements and society's long run interests.

Distinction between Marketing and Selling	
Marketing	**Selling**
First determines the needs of the	Manufactures the product first.

consumer.	
It is profit oriented.	It is sales volume oriented.
Planning is long run.	Planning is short run.
Consumers determine the price.	Costs determine the price

The Differences between Market and Marketing	
Market	**Marketing**
Place where people/traders meet to exchange.	Process of identifying, anticipating and satisfying of consumers' needs and preferences

Marketing Mix

- Marketing mix consists of the 4Ps, that is, **P**roduct, **P**lace, **P**rice and **P**romotion.
- This refers to controllable variables that are considered by the organization when coming up with ways of responding to the market's demand.
- It is the total assortment of product, place, price and promotion.

1. Product

- It is the total set of characteristics designed to provide quality to the customers.
- It is anything that can be offered to marketing for attention.
- It considers variety, size, packaging, brand names and product features.

2. Price

- It is the monetary value attached to a product.
- It is what the product is expected to be worthy.
- It is the value which is used for the exchange of products.
- It consists of credit terms, discounts, pricing strategies and policies.

3. Promotion

- It is a set of tools or tactics which are used to encourage consumers to buy the product, for example, sales promotion. This include advertising, personal selling, publication etc.

4. Place

- These are tactics involved in moving goods to the right consumers at the right time.
- It includes issues on channels, coverage, location and transport.

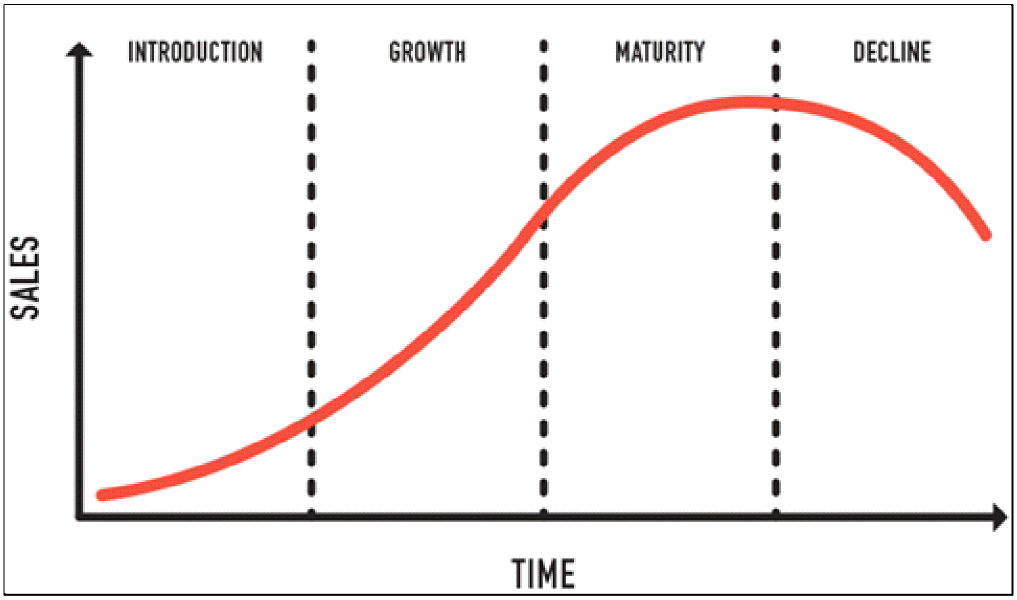
Product

- A product is anything that can be offered to a market for attention.
- Product means the goods and services combination the company offers to the targeted market.
- An actual product consists of six main characteristics, that is:
    - Quality.
    - Brand name.
    - Packaging.
    - Design.
    - Features.
    - Product cycle.

Product Life Cycle

- This was derived from the organic metaphor that all living things pass through many stages, that is, from birth to death.
- Product life cycle concept states that all products in their commercial life pass through many stages, that is:
    - Research and development.
    - Introduction.
    - Growth.
    - Maturity.
    - Decline.
- Figure 8.1 shows a product life cycle

Figure 8.1: Product Life Cycle



1. **Research or Product Development Phase**
   - Research and development of the product.
   - High costs.
   - Preparation of marketing plan prior to launch.
2. **Introduction Phase**
   - It is when a product is introduced into the market.
   - Product can be regarded as a risk because of the certainty that consumers will purchase the product in the right volume and at the right time.
   - New products will require an effective public relations, heavy advertisement and sales promotion.
   - The main purpose of advertising is to create consumer awareness.
   - At this stage, costs are very high because of heavy promotions.
   - The organization can use penetration pricing and price skimming.
   - The product is purchased by innovators.
   - Growth in sales revenue but high unit production costs (because of low volumes), coupled with high promotion expenditure, mean the product is likely to be profitable at this stage.
3. **Growth**

- If the product is effectively promoted and well-received in the market, sales will grow effectively.
- Several changes in the marketing strategy occur at the growth stage.
- The main objective of advertising is to educate consumers on specific benefits of the product rather than to create brand loyalty.
- Customer loyalty is now being created.
- Demand will increase rapidly and sometimes may exceed the production capacity of the firm.
- It is the stage where profits reach their peak stage.
- A higher level of sales volumes enables the firm to benefit from economies of scale.
- Profits grow as sales rise and costs fall.
- The product penetrates the markets.
- The product is bought by early adopters.

4. **Maturity**

- It is the stage when a product is well-established in the market with a fair market share.
- Sales may continue to rise but at a slow rate and prices tend to show a downward trend.
- Advertisement and sales promotions may be targeted at special areas of interest.
- The number of competitors may decrease or decline as some firms start leaving the industry for diversifications, takeovers and alternative merges.
- The product is bought by the majority at this stage.
- Brand preference is a crucial factor for continuing success.
- Packaging therefore plays a significant role in the marketing effort.

5. **Decline Stage**

- Marketing saturation occurs at the decline stage and demand disappears completely because of the strong competitive warfare evidenced by severe promotions and chickening out by less successful competitors.
- This stage is also characterized by a rise in concentration of competitors

as they form alliances in the hope to remain viable.

- The major marketing strategies which can be used by the organization are packaging improvements, product rejuvenation and price reductions.
- The firm seeks to cut its losses, either by cutting its costs or by eliminating the product.

Extension

- Extension strategies aim to rejuvenate the product to prolong its life.
- Common strategies include changes in:
    - Product.
    - Packaging.
    - The way it is promoted.
    - The channel of distributors.

Advantages of the Product Life Cycle

- It gives managers the ability to forecast product directions and plan for timely execution of relevant competitive moves.
- Helps as an explanation tool in facilitating an understanding of past and future sales.
- Used as a part of ongoing strategies validating process since it reflects non-market trends.
- It helps in planning long-term offensive marketing strategy.
- Helps the managers in eliminating dead products.
- Helps the managers to determine the spreading expenditure budget for each product, for example, products at the introduction stage require a heavy promotional spending.
- It assists the company in the planning process.
- It helps to launch different strategies to use at each different stage.
- It allows companies to take more productive approach to maximize profits and sales.

Disadvantages of the Product Life Cycle

- Not all products follow the same cycle, that is, some goes straight to decline from the introduction.

- It is difficult to predict how long a product takes at one stage.
- It is difficult when dealing with brands or services.
- It is more theoretical rather than practical.
- Some products suffer from fads and fashion.

New Product Development

By new product we mean:

- A new innovative product distinct from anything else in existence.
- A significant adoption of an existing product.
- An imitative of “me too” product.
- A stimulated adoption in which the customer perceives a difference from an existing products.

New Product Development Process

- Idea generation – this involves coming up with the ideas of new products. The ideas come from the firms’ market research, technological forecasting and from research and development projects.
- Evaluation – before an idea is developed into a product, it is necessary to evaluate the product in terms of marketability and profitability.
- Screening – the process of judging whether it is worthwhile proceeding with the product development is known as screening.
- Questions that should be answered include:
    - Does the product meet a defined customer’s need?
    - In which segment(s) can it be sold?
    - What position will it occupy in the market?
    - Does the firm possess the resources, skills and expertise to develop, produce and market the product?
    - What is the investment required to develop the product?
- Development – after screening process, new product ideas are developed into product concepts in which the market, the benefits of the product and its position in relation to rivals is tested by means of consumer research. The idea is converted into a prototype and is subjected to laboratory tests and other technical evaluations. The

development process converts the prototype into a sellable product.

Test Marketing

Commercialization/Launch

Reasons why new products are developed:

- To replace products that have reached the decline stage.
- To utilize spare capacity.
- To maintain and increase sales revenue of growth rate.
- To fight competition.
- To spread risks through diversification.
- To move on with technology.
- To meet consumer changing needs.

Problems of New Products

- They are costly to develop.
- They are difficulty to managers.
- They can tarnish the image of the firm if they fail to work properly.

Why New Products Fail To Take Off

- Inadequate market research.
- Misleading market research findings.
- Defects in the products.
- Activities of competitors.
- Insufficient or inappropriate marketing efforts.
- Poor timing for the launch.
- Distribution problems.
- Inadequate sales force.
- Unexpected high costs.

Types of Products or Goods

1. Consumer Goods

- These are goods produced and are ready for use by the end user.
- They are sold for final consumption, for example, bread, eggs, milk, fish etc.
- They refer to any tangible commodity produced and subsequently purchased to satisfy current needs and wants of the buyer.

2. Convenient Goods

- These are goods a consumer buys with minimum search effort, for example, drink, cigarettes, sweets etc.

3. Shopping Goods

- These are goods on which the buyer spends much time on choosing before making a final purchasing decision, for example, clothes, furniture and shoes.

4. Specialty Goods

- Have unique characteristics which a significant group of buyers can make special effort to purchase them.

5. Producer/Capital Goods

- These are goods manufactured and used in further manufacturing of other goods.
- Refers to tools and raw materials used to produce other goods and thus satisfy human needs indirectly.

6. Durable Goods

- These are goods that have a longer life span.
- They are goods which last longer.

Product Packaging

- Packaging is used to protect the product in order for the product to maintain/retain its freshness until they are finally used by the consumers.
- Packaging gives the product an individual identity.
- In marketing, we say packaging is a 'silent salesman' meaning that it protects what it sells and sells what it protects.
- It allows customers to easily identify the product.
- It is used as a marketing tool and for it to be effective it should be very

attractive.

- The package must identify the product through its shape, size, symbol, for example, Surf washing powder is identified by the blue color and Duck toilet cleaner is identified by the shape of the duck neck.
- A pack acts like a media by carrying information on ingredients, expiry date, promotional message and user instructions.

Advantages of Packaging

- It identifies the producer of the product.
- It protects the product.
- It maintains and retains the freshness of the product until it is finally used.
- It adds value to the product.
- The product will be self-selling.
- It enables the producers to differentiate their products from other competitors.
- It guarantees the quality of the product.
- It can be used to extend the life of the product either by revitalizing interest in the product itself, for example, new cover design.
- Packaging can be used as a theme in advertising.

Disadvantages of Packaging

- Some of the materials used in packaging may cause injuries which may harm or tarnish the firm's image.
- It causes land pollution.
- It increases the cost of the product thereby raising prices.

Product Branding

- A brand is a name, sign, design, logo or a combination of these intended to identify the products of the seller or to differentiate them from those competitors, for example, Nokia, LG, Samsung.
- A successful brand can deliver four levels of meanings and these are attributes, benefits, personality and values as well-engineered, well-built, durable, high prestige, fast and expensive cars.

Characteristics of Most Successful Brands

- Must be distinctive.
- Must be easy to pronounce, for example, Lux.
- Easy to remember, for example, OMO, LG.
- It must suggest quality, for example, Mercedes Benz.
- It must be internationally acceptable/recognized, meaning it should not be limited.
- Should be capable of being legally protected.
- Reduce the amount of persuasive selling effort.

Types of Brands

- Individual brands.
- Family brands.
- Divisional brands – in some cases, the brand is attached to a division of a large organization.
- Distributor's brands – the best examples of these are supermarkets' own brands. For the retailer, the own brand is an attempt to create loyalty to the shop rather than the product. It enables them to assert greater control over the production function with goods made to their specification.

Advantages of Branding

- It provides the product with an identity and aids identification by the customer.
- It is a short hand summary of all information customers hold about the product.
- It provides a sense of security, reassurance about the quality of the goods inside the package. This arises out of familiarity with the brand.
- It adds value to the product, making it more appealing.
- It is intended to help create and sustain the quality of customers.
- Brand loyalty comes about as a result of customers' continuing satisfaction.

Product Positioning

- It involves defining the location of a product relative to other products in the market and then promote it in such a way to reinforce/change its position.
- It is a process whereby the organization creates an image of the product in the mind of the consumer so that the image will find a space.
- The first step in product positioning is analysis of the market to discover the key attributes of the product.
- This process is subjective and concerns the way in which the product is perceived by customers relative to other products.

Methods/Approaches of Product Positioning

There are 4 methods that can be used in product positioning:

- **Positioning by attributes (features).**

  For example, Mercedes Benz can be positioned as middle aged, fast and safety car. Food can be positioned as nutritious and appetizing.

- **Positioning by quality or price.**

  Some products are charged high prices as a guarantee of quality, for example, Volvo.

- **Positioning by benefits/usage/application.**

  Firms communicate to individuals the benefits of using the product by positioning, for example, Colgate gives white teeth and better breath.

- **Positioning by usage.**

  For example, shop at OK where everyone is a winner.

Advantages of Product Positioning

- It gives competitive advantage.
- It may result in customer loyalty.
- A firm will be able to attain its marketing objectives.

Disadvantages of Product Positioning

- Long process which require highly skilled personnel.
- It is time-consuming.

- It is too complex.

Pricing

- It refers to attaching a monetary value to a product.
- It also refers to the amount the product is expected to be worth.
- It is a process of attaching value to a product.

The Role of Pricing/Pricing Objectives

- Profit maximization – for more privately-owned organizations, profit remains an order riding objective. In economic theory of firms, profits are maximized when marginal costs are equal to marginal revenue.
- To achieve a target level of profits – some firms may just seek to obtain a certain level of profits rather than the maximum level of profits.
- To increase the market share – some firms seek to increase their market share even to the extent of sacrificing short term profits, for example, use of penetration pricing strategy where low prices are charged even if it is below the cost of production.
- Sales revenue maximization – some firms may set prices at a low range so as to maximize sales especially if they seek an early recovery of cash.
- To fulfill social responsibility – pricing is a vital component of the marketing mix. Pricing can be used to add value to a product. Pricing also guarantees the quality of the product. Some marketers say that buying the cheapest is not always the best policy but you have to buy a quality product.
- Profit margin – this is pricing to maximize profit on each unit sold. This objective is seen in skimming based on the assumption that buyers are still prepared to purchase the goods despite the high price, for example, demand is inelastic.
- Risk minimization – firms in the short run may set prices to minimize risks and maximize survival.
- To fail competition – prices may be set to meet competition or to drive out competition, for example, use of penetration pricing.

Pricing Strategies

1. Customer-Oriented Pricing

- This is pricing based on demand for the product and customers perception on the value rather than the costs of production.

1.1. Penetration Pricing Strategy

- It is where relatively low prices are set and strong promotion takes place in order to achieve high volume of sales.
- By introducing the product at a low price, the firm can penetrate deep into the market.
- As volume increases the price is raised.
- This strategy can only be used in market segments where consumers are price sensitive.
- It can also be used in a market with stiff competition.

Advantages of Penetration Pricing Strategy

- Low prices help fight competition.
- It allows for growth of market share due to increased volume of sales.

Disadvantages of Penetration Pricing Strategy

- It is only suitable when the firm possess the capacity for high sales volumes and when a low price generates sufficient sales to compensate for low profit margins.
- If the product has a short life cycle, penetration does not provide sufficient time to cover research and development costs.
- Due to low prices, customers might position the product as of low quality.

1.2. Skimming Pricing Strategy

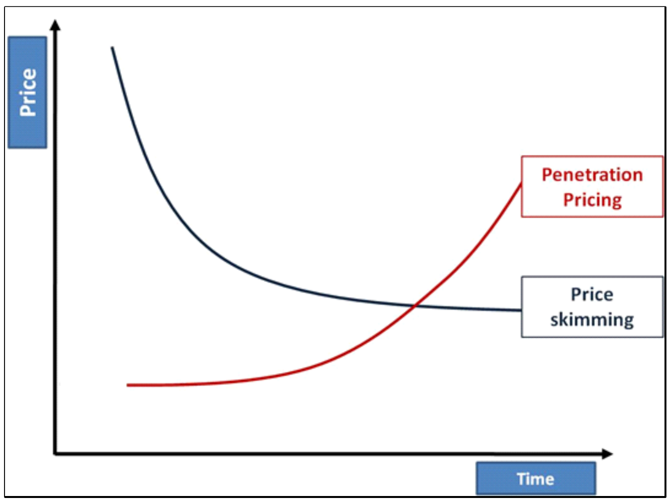
- This is whereby firms change high prices for a product at early stages and then reduce it with time.
- As the product becomes more acceptable and volume of sales increases the firm will be able to benefit from economies of scale and can therefore afford to reduce prices.
- It is usually used when firms are selling a highly differentiated product with many unique features.
- This can be used in market segments where consumers are not price sensitive (inelastic) and are of high quality.

Advantages of Skimming Pricing Strategy

- It allows for early recovery of research and development costs.
- A high profit margin on each unit sold reduces the need to sell a large volume.
- It helps in product pos XSitioning as high prices are usually associated with quality.

Disadvantages of Skimming Pricing Strategy

- It can lead to product failure as it can suffer from competition.
- If consumers are aware of the firm's strategy, they can delay purchases waiting for the times when the product becomes cheaper.



1.3. Perceived Value Pricing

- It is used in markets where demand is known to be inelastic.
- It is when the price will be chosen to position the product in the market as quality is informally assessed by the price charged.
- It is important to charge a price that is consistent with the image of the product.

1.4. Price Discrimination

- If the market is segmented, it is possible to charge different prices to different segments of the market.
- The price discriminator will charge higher price in a segment where demand is inelastic but reduce the price for the segment where demand is elastic.

2. Cost-Based Pricing

- There are variations on the theme of cost-based pricing, but in essence, it involves the addition of a profit element to the cost of production.
- The basic idea is that firms will assess their costs per unit and then add an amount on top of the calculated costs.

2.1. Markup Pricing

- It is usually used by retailers who add a percentage markup on the prices charged by suppliers or wholesalers.
- The size of the markup depends usually upon a combination of factors such as level of demand for the product, age and stage of the product in the life cycle and number of suppliers.

2.2. Target Pricing

- It is whereby a company decides upon a price that would give a required rate of return at a certain level of output.

2.3. Full Cost/Absorption Cost Pricing

- It is whereby a company attempts to calculate a unit cost for the product and then add an agreed profit margin.

Disadvantages of Full Cost Pricing

- It ignores demand and the price elasticity of demand.
- It ignores the competitive situation.
- Can result in underpricing or overpricing.

2.4. Marginal Pricing

- It is a pricing method based on variable costs only and ignores fixed costs.
- This is mainly used in service industries which suffer from daily fluctuations.

3. Competitor Oriented Pricing

- The prices charged are neither related to costs of production nor to customers' demand but to the price charged by competitors.
- Most of the marketing managers charge prices which are slightly above or below the prices charged by competitors.
- Where there is stiff competition, some firms may engage in price wars in

a bid to survive in the market.

3.1. Destroyer Pricing

- It is a pricing strategy whereby a firm embarks on aggressive price cutting so as to eradicate rivals.
- **N.B.:** Penetration pricing can also be mentioned in context of competition -oriented pricing.

4. Psychological Pricing

- It is a pricing strategy used by an organization to capture the minds of consumers, for example, $4.99 instead of $5.00.
- Customers may be tempted that the prices are reduced yet they are not.

5. Loss Leading Pricing

- This is a strategy whereby other products are sold at a loss so as to tempt customers into the shop knowing that profits would be recovered on the other items in the shop.

6. Economic Pricing

- It is whereby very low prices are charged for the products in order to cover advertising and manufacturing costs.
- Some of these products may be sold as loss leaders.
- It is used in the dog stage.

Pricing Policies

Single Pricing Policy	Flexible pricing policy
This involves the charging of the same price for the same product in different market.	This involves the charging of different prices for the same product in different markets.

Communication Mix

- It consists of a blend of techniques used to communicate the products available to the consumers.
- It is a combination of ways in which a business communicates with its customers about its products.
- It is a group of methods used to inform customers.

Aspects of the Communication Mix or Promotional Strategies

- Advertising.
- Personal selling.
- Sales promotions.
- Public relations.
- Publicity.
- Direct mailing.
- Merchandising.

Factors to be considered when choosing a Promotional Mix

- Nature of the product.
- Market expenditure budget.
- The availability of options.
- Nature of the market and its customers.
- The product life cycle – the level of sales promotion employed will depend on which stage the product is at in its life cycle.

Marketing Expenditure Budget

- It is the amount of money a business allocates on marketing activities such as promotion.
- It is specified amount of money set aside to promote the organization's product.
- It is created to anticipate the essential costs associated in maintaining the product and brand name.

How to Determine a Promotional Budget

- Objective and task method – this is when a company sets its budget based on what it wants to achieve on promotion.
- Competitive parity method – it is setting a budget to match competitor outlets.
- Percentage of sales method – the budget is set at a certain percentage of current and forecasting sales.
- Affordable method – it is based on the level of affordability. This is because a company cannot spend more on advertising expenses than the profit it makes.

Advertising

- It refers to any form of promotion of goods and services by an identified sponsor to a target and audience with the objective of persuading and informing the customers about the product available.
- It refers to all forms of promotion of goods and services.
- It is non-persona, one way communication to promote the sale of goods and services via paid-for advertisements in the media.

Types of Advertising

1. Informative Advertising

- Communicating customer value, telling the market about a new product, explaining how the product works and suggesting new uses of a product.
- It is also used to inform the market of price changes etc.

2. Persuasive Advertising

- This is used to create brand preference, encouraging customers to shift to your brand, persuading customers to purchase now and convincing customers to tell others about the brand.

3. Reminder Advertising

- This is used to maintain customer relationships, reminding customers that the product may be needed in the near future, reminding customers where to buy the product and keeping the brand in customers' minds during the off-seasons.

4. Generic Advertising/Collective Advertising

- It is used by a number of producers in the same industry who jointly advertise a product in general without using brand names.
- No competition among producers.

Advertising Budget

- This is the money and other resources allocated to a product or a company's advertising program.

Factors to Consider when Preparing an Advertising Budget

- The stage of the product in the product life cycle, for example, products at introduction typically need large advertising budget.

- Market share firms with low market share usually require a large advertising budget to cover up.
- Competitor firms with many competitors need a large advertising budget to match or do better than competitors.
- Advertising cluster – in high advertising clusters, the firm must advertise its products heavily to be noticed high above the noise in the market.
- Undifferentiated products – those selling products that resemble other brands require heavy advertising budgets to set them apart.

Advertising Media

Media	Advantages	Disadvantages
• Television	Good mass-marketing coverage.	High absolute costs.
	Low cost per exposure	High clutter.
	Combines sight, sound and motion.	Fleeting exposure.
	Appealing to the senses.	Less audience selectively.
		Short life.
		Poor reproduction quality.
• Newspaper	Flexibility.	Short life.
	Timeless.	Poor reproduction quality.
	Good local market coverage.	Some people do not like reading.
	Broad acceptability.	Small pass along audience.
• Direct Mail	High audience selectively.	Relatively high costs per exposure
	Allows personalization.	Junk mail image.
	Flexibility.	
	No competition with the same medium.	
• Magazines	High geographic and demographic selectivity.	Long purchase lead time.
	Credibility and prestige.	High costs.
	High quality reproduction.	No guarantee of position.
	Good pass along readership.	
• Radio	Good local acceptance.	Audio only.
	Cheaper than television.	Fleeting exposure.
	High geographical and demographic selectivity.	Low attention.
	Low costs.	

Factors to be Considered when Making a Choice on the Advertising Media

- The reach of the media.
- The selectivity of media.
- The relative costs of advertising.
- The impact of the media.
- Type of the product.
- The performance of the advertisement.
- Size of the market.
- Cost of advertising.
- Effectiveness of the medium.
- Urgency.
- Targeted group.
- Nature of the goods.

Advantages of Advertising

- It informs customers about the products available, prices of the product where to get the products and how to get them.
- It allows consumers to make more informed choices.
- It can be used to fight competition.
- It guarantees the quality of the product.
- It acts as an aid to product identification.
- It increases profits.
- It increases sales.
- It persuades customers to buy the product.
- It creates brand loyalty.
- By helping reduce sales fluctuations, it assists in planning production.

Disadvantages of Advertising

- It raises costs and therefore prices.
- It is a waste of resources.
- It raises the price without adding value to the product.

- It persuades people to consume unnecessary and unwanted goods and services.
- It is often used as a way of maintaining monopoly power preventing the entry of new firms.
- It can be misleading.
- Advertising stimulates wants that cannot be satisfied.
- The economies of scale are not passed on.

Sales Promotions

- These are short-term incentives used by the organization so that customers would be able to buy their products.
- Like advertising, it is a form of one day communication but unlike advertising, it does not involve a paid medium.
- It is employed in a supportive role to the other techniques of communicating with customers.
- It is a method of:
    - Developing the product/brand image.
    - Enhancing the promotional activities undertaken by distributors.
    - Reinforcing advertising and selling messages.
    - Aiding recognition.
    - Attracting attention.
    - Encouraging consumers to try the products.

Examples of Sales Promotions Tools

- Samples.
- Coupons.
- Cash refunds.
- Demonstrations.
- Point of purchase displays.
- Contests.
- Premiums.

Sales promotions are used in order to:

- Encourage purchases (first and repeat purchases).
- Introduce new products.
- Challenge competition.
- Boast sales of a product.
- Communicate with customers as an alternative to media advertising.

Disadvantages of Sales Promotions

- It can encourage customers to be cherry pickers which means they only buy products through offers leading to the erosion of brand image.
- It does not bring preference and loyalty.
- It can demean the product's image if used carelessly. Therefore, some workers think of sales promotions as a tool of breaking brand loyalty and advertising as a tool of building brand loyalty.

Public Relations (PR)

- This involves building good relations with the company's various publics by obtaining favorable publicity, building a good corporate image and handling or heading off favorable rumors, stories and events.
- The public relations department performs the following:
  - Press relations or press agency.
  - Product publicity – publishing specific products.
  - Lobbying – building and maintaining national relation with legislation and government.
  - Investor relations.

Advantages of Public Relations

- Public relations have a strong impact at lower cost than advertising.
- The company does not pay for the space or time on media.
- It has more credibility than advertising.

Disadvantages of Public Relations

- To a greater extent, it has been mismanaged, limited and its use is scattered leading to it being referred to as a marketing stepchild.

Personal Selling

- This is personal presentations by the firm's sales force for the purpose of making sales and building customer relationships.
- Operating at the point of sale, it pushes the product by emphasizing its uses and advantages.
- It involves two way communication.
- Sales staff can engage in:
  - Obtaining orders.
  - Offering advice and guidance.
  - Handling complaints.
  - Establishing creditworthiness.
  - Dissemination of information.
  - Giving talks and presentations.

Direct Marketing

- Direct connections with carefully targeted individual consumers both obtain an immediate response and cultivate lasting customer relationships.
- This includes the use of direct mail, the telephone, direct response, television, email, the internet.

Advantages of Direct Marketing

- For buyers, it is convenient, easy and private.
- It is interactive and immediate.
- For sellers, it is a powerful tool for building customer relationships.
- It offers sellers a low cost, efficient and speedy alternative for reaching their markets.

Place

Channel of distribution

- Refers to all the stages in an organization through which a product must pass between the producer and the end user.
- The length of the channel depends on the number of intermediaries.

- The intermediaries can be agents, wholesalers, retailers.

Agents

- An agent works on behalf of another firm to perform certain specified services.

Wholesalers

- A wholesaler buys goods for resale to someone other than the eventual consumer. Wholesalers supply goods to retailers or to manufacturing firms who will use the goods in the production process.
- The traditional function of a wholesaler is to break down bulk consignments into smaller quantities suitable for individual retailers.

Functions of Wholesalers

- Breaking bulk.
- They provide storage facilities.
- They even out irregular flows of goods.
- By taking goods off their hands, wholesalers improve the manufacturer's cash flows.
- Wholesalers also shoulder some of the marketing risks of the producer.
- Wholesalers can provide credit facilities and other services to retailers.

Retailers

- The retailer buys goods from the wholesalers for sale to the public in shops and other retail outlets.

Retailers provide:

- A variety of goods from which a choice can be made.
- A convenient service.
- Information and advice to consumers.
- Delivery of goods where appropriate.
- Credit where appropriate.
- Packing.
- Market information for manufacturers.

Channel Routes

1. **Direct Marketing (from producer to consumer)**

   - Apart from industrial markets, this route can be employed by specialist mail order manufacturers and factory farm shops.

2. **Manufacturer → Retailer → Consumer**

   - The rise of large supermarket chains has reduced the importance of the independent wholesaler. The retail chains are able to deal directly with the manufacturers and undertake their own wholesale functions.

   Reasons for the Elimination of the Wholesaler

   - Bulk buying by large scale retailers such as hypermarkets and departmental stores with adequate capital, own capital and warehouses.
   - It is cheaper to buy from the manufacturer.
   - Some goods are fragile and they need special handling.
   - Some goods are perishables and require speed.
   - Some manufacturers have opened their retail shops, for example, Bata.

3. **Manufacturer → Wholesaler → Retailer → Consumer**

   - This is the traditional channel in consumers' goods markets. Small retailers depend on wholesalers for suppliers.

4. **Manufacturer → Agent → Wholesaler → Retailer → Consumer**

   - Agents are usually common in the import-export market.

5. **Manufacturer → Agent → Consumer**

   - In this route, the manufacturer uses the services of an agent to sell the goods direct to the public. The agent acts on behalf of the manufacturer who in turn exercises considerable control over the agents' activities.

Intensive Distribution

- A producer that wishes to ensure the maximum possible number of stockists for its goods is said to be pursuing an intensive system of marketing.

Selective Distribution

- If the producer deliberately restricts the number of stockists, it is said to be selective.
- It can be called exclusive if the policy is to restrict sales to a single retailer in each area.

Factors to Consider when Selecting a Distribution Channel

1. Product Factors

1.1. Unit value

- If the product is such that the markup is low and the unit cost of the product is too high to be able to withstand a long distribution channel, the producers may want to distribute the product directly to consumers.

1.2. Nature of the product

- When the product is perishable, subject to frequent fashion change, the manufacturers tend to use short channels.

1.3. The technical nature of the product

- When a product requires a great deal of pre-sale and post-sale services then direct selling would be more effective than depending on wholesalers.

2. Market Factors

2.1. Number of potential customer

- When an industrial market consists of a small number of potential customers, the manufacturer may use his own sales force to sale directly to the industrial users.

2.2. Geographical concentration of the market

- Manufacturers of industrial products usually supply factories and workshops directly because they tend to be concentrated in a few geographical areas.

2.3. Order size

- Large food manufacturers would sell directly to retailers because the large order size and huge volume of business make the method of distribution economical.

3. Company Factors

3.1. Financial strength

- A business with adequate finance can maintain its own sales force, train it adequately and sell directly to the consumers.
- A financially weak firm would have to depend on the middleman for their services.

3.2. Market ability of the management

- When the management of a company has developed its own marketing abilities, it can direct its own marketing activities rather than depend on the middleman.

3.3. Desire to control

- Some producers feel that they can achieve more by promotion, better control of the quality and retail prices of their goods than if they use a middleman.

Marketing Strategy

- This is the marketing logic by which the business unit hopes to achieve its marketing objectives.
- It is a coordinated plan of action to identify, anticipate and satisfy consumer demand and achieving the company's objectives.

Marketing Tactics

- Refers to tools and techniques by which the marketing department will seek to achieve its objective, hence, advertising, sales promotion, personal selling and publicity are regarded as tactics or activities within the overall strategy.

Marketing Plan

- It is a plan which focuses on a particular product or strategies and programs for achieving product objectives in the market.

Differences between a Marketing Strategy and Marketing Tactic

Marketing Strategy	Marketing Tactic
These are broad statements of action to be taken to achieve the business objectives.	These are the methods used by the organization to achieve its short-term objectives.
These are all the methods used to achieve long-term marketing objectives.	Comprise of detailed statements of what is to be achieved.

Strategic Tools

The Boston Matrix by Boston Consulting Group (B.C.G)

- This is a grid showing the market share of a product plotted on the horizontal axis with the market growth on the vertical axis.
- Products within a firm's product mix can be classified in terms of four groups.
- Market growth rate provides a measure of market attractiveness.
- Relative market share serves as a measure of company strength in the market.
- It shows the generation of cash within the organization.

High Market Growth	**Low Market Growth**	
Market Penetration	Product Development	**High Market Share**
Market Development	Diversification	**Low Market Share**

Question Marks/Problem Child/Wild Cat

- These are products with a small market share but with high growth rate.
- A new product starts from this quadrant and their future is uncertain.
- To increase the market share, cash injection coupled with a planned and coordinated marketing effort is essential.
- There is low market share because the product is new in the market.
- If related to the product life cycle, these products are in the introduction stage.

Stars

- These are products with high market share and growth and the products have been graduated from being question marks.
- When a product becomes a star, many customers are now aware of the product's availability leading to a high demand and increase in market share.
- The promotional expenditure also needs to be reduced.
- This matches with the growth rate on the product life cycle.

Cash Cows

- It is a product with a low growth rate but high market share as a result of high level of stars.
- When a product is a cash cow, it has graduated from being a star and these are products and business units which generate more cash in the organization used to pay company bills and support dogs, stars and question marks which are cash hungry.

Dogs

- These are products with low market share and low growth rate.
- The market share will be declining as a result of reduction in sales and demand caused by demand changes and poor quality.
- The continuous survival of dogs is funded by the cash cows.
- The organization will choose either to eliminate or to extend the life cycle of such products.
- These products can be sold as loss leaders.
- They are like an old dog which can neither bark nor bite.

Importance of the Boston Matrix

- It helps the organization to identify products which need massive promotional strategies, for example, question marks and dogs.
- It analyzes products in relation to their stages in the product life cycle.
- It gives the organization the platform on which to make decisions about the product.
- It can be used as a tool for product positioning.
- It can be used to show the generation of cash in the organization.
- It can be used as a forecast with the need to develop another new product so as to replace dogs.
- It can be used as a pointer of diversification if most of the products in the portfolio are failing.
- It can be used as a marketing strategy.
- It helps a firm maintain a balanced product mix.

Limitations of the Boston Matrix

- It is more theoretical than practical.
- It cannot work in association but it needs to be supported with the product life cycle to show the changes in market share and growth.
- It demands high level of expertise.
- Some products do not follow the matrix because of a number of reasons.
- Products do not reach a maximum demand as reflected by the cash cows.

Ansoff Matrix

- Product is the cornerstone of all business strategies.

Existing Product	**New Product**	
Market Penetration	Product Development	**Existing Market**
Market Development	Diversification	**New Market**

1. **Market Penetration**

- This involves the selling of an existing product to an existing market.

2. **Market Development**

- This involves the selling of an existing product to a new market.
- This involves exporting and geographical expansion.

3. **Product Development**

- This involves selling a new product to an existing market.
- This involves packaging improvements, rebranding and product

rejuvenation.

4. **Diversification**

- This involves the selling of a new product to a new market.
- This involves processes such as mergers, takeovers, joint ventures and business acquisitions.

Porter's Generic Strategies

- According to Michael Porter, there are three generic strategies which can be used by an organization to out-compete the competitors and these are product differentiation, price/cost leadership and focus market (niche market).
  - **Price/cost leadership** – the firm's objective is to achieve lower costs production in all aspects so that it offers products at lower prices than their competitors.
  - **Product differentiation –** it is the offering of highly differentiated products with unique features.
  - **Focus (niche) market –** the organization focus its effort on serving few market segments rather than going after the whole market.

Porter's Five Competitive Forces

- Jockeying rivalry.
- Threat of substitutes.
- Threat of new entrants.
- Bargaining power of buyers.
- Bargaining power of suppliers.

Product Differentiation

- It is the way sellers try to make their product look different from each other.
- It is enhanced by pricing and advertising.
- It can be real or imaginary.

Product Mix

- A product line is a group of products that are closely related in that they have similar characteristics, similar uses or are sold to the same type of customers.

- The product mix of a particular business is a combination of all its product lines.
- It is the sum of all the different products with model and size variations.

Target Marketing

- It is when the firm decides to serve a set of buyers sharing common needs or characteristics.
- Target marketing provides goods to a specific group of people, for example, women in a city, kids in the area or working class men.
- Because buyers have unique needs and wants, a seller could patiently view each buyer as a separate target market.
- A target market is a group of consumers most likely to use a company's product. These consumers have similar interests or hobbies, beliefs and usage patterns.

Advantages of Target Marketing

- Marketers can better match marketing strategies with core customers.
- It takes a considerable amount of time to identify and target customers.
- It leads to identification of niche markets.
- It allows the organization to be highly competitive.
- The firm will be able to develop the products which meet the customers' requirements.

Disadvantages of Target Marketing

- It is expensive; companies spend a lot of money through primary research.
- It is time-consuming; target marketing requires more time to identify a target audience.
- It may result in omission of other customers.
- There are ethical considerations to consider with target marketing. It may be exploitative to some degree, for example, a small beer company may target less educated, poor people with large sized bottles.

Mass Marketing (Undifferentiated Marketing)

- This is a marketing coverage strategy in which a firm decides to ignore market segments differences and go after the whole market with one offer.
- It can mean advertising or promotion of products to a large number of customers.
- It ignores the existence of segments and offers a single mix to the heterogeneous market.

Advantages of Mass Marketing

- Maximizes income.
- Allows brands to be used to their full value.
- It focuses on high sales and low costs.
- It is easier to organize and control rather than setting products to suit different segments.
- It facilitates choice maximization.
- It eliminates shortages thereby customer loyalty.
- Reduces production cost per unit.

Disadvantages of Mass Marketing

- There is limited market orientation of goods to the market.
- High development costs of the product as it will be sold to different customers.
- High levels of competition.
- Failure might lead to wastages of resources and loss of sales.

Niche Marketing (Concentrated Marketing)

- A market coverage strategy in which a firm goes after a large share of one or a few segments or niches.
- A particular segment is targeted.

Advantages of Niche Marketing

- Less competition as they are small and attract less competitors.
- Brand loyalty increases.
- It increases business income.

- It helps a firm achieve strong market position because of its greater knowledge of customer needs.
- It can market effectively by fine tuning its products' prices.
- It can also market efficiently, targeting its products, prices, channels and communication programs towards consumers. It can serve best and profitability.
- Costs reduction strategies.

Disadvantages of Niche Marketing

- If the segment turns sour, the firm suffers greatly.
- Large competitors may decide to enter the same segment with greater resources.
- The firm may fail to properly segment the market.
- Large prices which is complex and require exports.

Market Segmentation

- It is dividing a market into smaller groups with distinct needs, characteristics or behaviors, which might require separate products or marketing mixes.
- It means dividing the heterogeneous market into subsets or customers that are homogenous or have similar characteristics.
- Market segmentation works best if the markets are sustainable.
- These include demographic, geographic, psychological and behavioral variables.

Geographic Segmentation

- This is dividing a market into different geographic units such as nations, religions, cities or neighborhoods.
- It assumes that people in different geographical locations portray or have different needs and wants.
- For example, people in the Chimanimani rocky areas require hard surfaced shoes compared to those in the flat areas.

Demographic Segmentation

- This is dividing a market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, generation and nationality, that is, population characteristics.

Gender Segmentation

- This is dividing a market into different groups based on gender. This has long been used in clothing, cosmetics, magazines and toiletries.

Income Segmentation

- This has been long used in automobiles, clothing, cosmetics, financial services and travel.
- Many companies target affluent consumers with luxury goods and convenient services.
- Firms can create the dollar stores for low income earners.

Psychological Segmentation

- This is dividing a market into different groups based on social class, lifestyle or personality characteristics.
- These are to do with social classes, lifestyle and personality.
- Social classes can be divided into different types of groups such as higher managerial, for example, directors, middle managerial, for example, managers and lower class.
    - Lifestyle – achievers, strivers, survivors.
    - Personality – compulsive, gregarious, authoritarian, ambitious.

Behavioral Segmentation

- This is dividing a market into different groups based on consumer knowledge, attitude, use or response to a product.

Occasional Segmentation

- This is dividing a market into different groups according to occasions.
- When buyers get the idea to buy, they actually make their purchases for use of the purchased product, for example, eggs are most consumed at breakfast.

Benefit Sought Segmentation

- This is dividing the market into groups according to different benefits that consumers seek from the product.

- This requires finding the major benefits people look for in the product class, the kinds of people who look for each benefit and major brands that deliver each benefit.

N.B.: Targeting segments: The firm can use:

- Undifferentiated marketing.
- Differentiated segmenting.
- Concentrated marketing.
- Micro marketing.

Advantages of Market Segmentation

- It reduces product failure. It helps the organization in designing an appropriate marketing mix for the group of consumers and the organization will have an assumption that the product is going to be accepted.
- It reduces costs involved in marketing products. This means instead of designing a marketing mix for the whole population, financial resources can be channeled towards a selected group of consumers rather than to the whole population.
- It helps the organization to keep in touch with any changes in consumer preferences. The company is able to design an appropriate marketing mix. This helps to design marketing strategies or tactics that meet a specific group of consumers.
- It enables the organization to minimize resource wastage. By segmenting, the market resources are used accordingly depending on the segments that the organization is dealing with, for example, a business can direct resources to one segment only, instead of making the product available to everyone.
- It helps in improving the corporate image of the organization. This means by segmenting the market, the business is able to satisfy consumer needs and wants by developing an appropriate product.
- It increases the organizational competitive advantage over its rivals. It is a competitive strategy which can be used to fight competition from rivals through segmentation.
- Business can define their markets precisely and design goods that focus on targeted groups of consumers.

- It helps increase brand loyalty. The brands of the company are preferred more than the brands of rivals.
- Small firms that may not be able to compete in the whole market are able to specialize in one or two segments.
- Products are tailored to meet demands, that is, it is easy to estimate demands of a particular segment than the whole market.
- It facilitates the identification of other marketing opportunities.

Disadvantages of Market Segmentation

- Market segmentation depends on the nature of the research and the skills that are used to collect data. This means that the results of market segmentation may not be effective if the research process was not properly done.
- It is a time consuming process because it requires a lot of time to divide the markets.
- Some factors which can be considered such as preferences are dynamic (changes) and this means segmentation can be affected to the extent that it might be useless.
- Market segmentation means spending a lot of resources and this may increase production and operational costs.
- It results in a complicated production system, for example, there will be the need to buy different types of machines and to employ different workers to meet different consumer characteristics.
- It may result in a change of organizational culture and this may result in demotivation.
- It requires highly skilled and specialized research experts and these are expensive to employ and they are not always available.
- It involves a lot of work from data collection, analysis, and evaluation up to segmentation of the market.
- Promotional costs may be higher as different strategies may be required for different segments.
- By focusing on one or two segments, there is a danger that more resources are required to develop differentiated products and excessive specialization may lead to problems if consumers in those segments change their purchasing habits.

Criteria for Effective Segmentation/Requirements for Effective Segmentation

- **Measurable –** the size, purchasing power and profiles of the segment should be measurable.
- **Accessible –** the segment should be effectively reached and served.
- **Substantial –** the segments should be large or profitable enough to serve.
- Differentiable – the segments are distinguished to create groups.
- **Actionable –** effective programs can be designed for attracting and serving the segments.

Forecasting

- It is the systematic process of making future predictions of a given variable.
- It involves estimating how a given variable is likely to behave in near future.
- In marketing, variables which are forecasted to their behavior include sales, profits, levels of the tastes and preferences, demand etc.
- It is an approach to determine what the future will look like.

Methods of Forecasting (Forecasting Techniques)

- These are divided into qualitative and quantitate forecasting.

1. Qualitative Forecasting

- These cannot be easily converted into numerical terms.
- They depend on human judgment and experience and are used when data is scarce.
- When a new product is introduced the timeframe is so long that data is of limited use.

1.1. Personal Insight

- It is a qualitative method that depends on mental reasoning of the researcher. This involves estimating or assuming how a given variable will behave in the future using personal judgment.
- Forecasting is done by one person and it depends on that one person.
- The major advantage of using personal insight is that it results in quick forecasting which means marketing decisions are quickly implemented.

- It is also less expensive.
- However, this can be less accurate given that only one person's judgment is considered as enough to predict the behavior of a particular variable.
- Also the results produced are less reliable as judgment varies from one person to another

1.2. Panel Consensus

- It is a forecasting method whereby a panel of experts discuss issues to arrive at an agreed forecast.
- This has higher accuracy over personal insight as it involves pooling of knowledge and ideas.
- All members in a panel give their personal judgments or they freely participate in discussions.
- All judgments are considered and discussed until on agreement is reached.
- More accurate information or decisions are made given that more people are involved.
- High quality marketing decisions are likely to be made.
- However, it may result in poor marketing decisions given that predictions are made on the basis of mental judgment and there is an element of subjectivity.
- It reduces in slow forecasting process which delays implementation of marketing decisions because arguments are likely to drag more time.
- Poor quality decisions are likely to be made because of individuals who are likely to dominate panel discussions and who are likely to be opinion leaders.

1.3. Market Survey

- It is a qualitative forecasting method in which forecasting decisions are made on the basis of data collected through surveys.
- The researcher can first carry out interviews or surveys in which questions are asked to the targeted market or any source of information needed, for example, consumers.
- From the data that has been collected through surveys or interviews, the research problem is identified.

- They are mainly used when the research problem is more complicated.
- This is considered qualitative as the absence of adequate data, human judgment is needed.
- The accuracy of the resulting forecast depends on the:
    - Representation of the samples.
    - Quality of the questions asked.
    - Reliability of replies.
    - Quality of analysis and the resulting conclusions.

1.4. Delphi Method

- It is a qualitative method of forecasting in which the future behavior of the given variable is predicted by using personal judgment from a group of experts.
- It is similar to panel consensus because a group of members are involved in making estimates about how a variable will behave.
- Expert researchers are asked questions one by one and the views are collected so that predictions about the future behavior or variables are done.
- However, respondent experts are independently asked questions and their views are collected at different times and forecasting is then done.

Advantages of Delphi Method

- High quality information is collected since the Delphi method involves many research experts. This can improve quality of forecasting decisions.
- It reduces effects of individual dominance associated with panel consensus. This means the answers given by one respondent are not affected by the presence of others as in the case of panel consensus.
- More accurate and more reliable forecasting decisions.

Disadvantages of Delphi Method

- It means forecasting decisions take long time to be implemented because there is need to get various views from different respondents.
- It is very costly as compared to other methods of qualitative forecasting.
- It requires more important and knowledgeable expert researchers who are costly and difficult to find.

- The fact that there is need to make a final conclusion about forecasting on the basis of views produced may introduce subjectivity/bias.

1.5. Historical Analogue

- It is a qualitative method of forecasting in which history is very important in determining the future.
- Forecasting decisions are made by looking at the history.
- History may provide guidelines on how a certain variable is likely to behave or occur, for example, when predicting how sales of a product will behave in the near future.
- We may first look at how the product and a similar product have been performing.
- The historical analogue can be based on analyzing the historical performance of a product on the product life cycle, for example if a product from the past year was on the growth stage then we are likely to predict that its sales are likely to maintain a level of sales position meaning that sales are likely to be constant at a certain position.

Advantages of Historical Analogue

- It is the cheapest and easiest method of forecasting available to the marketing manager because it does not require cultivation of financial resources.
- It saves time compared to other methods such as Delphi method.
- At times, historical behavior of a variable may provide a guideline to the future behavior of a variable.

Disadvantages of Historical Analogue

- Most of the time history does not shape the future, for example, the conditions under which that variable behaved will obviously be different from future conditions in which the behavior of a variable will occur.
- Miscalculated forecasting decisions are likely to be made since historical information used may not be applicable.

2. Quantitative Forecasting Methods

2.1. Casual Method (Experiment)

- This is a forecasting method in which a cause and effect relationship is used as a basis for forecasting the behavior of a given variable in the near future.

- It involves examining the effects one variable has over another, for example, determine the effect of price on the level of sales.
- When the cause is manipulated/adjusted, the effects on the variable are used as the basis of predicting behavior of the variable in particular.
- It also involves test marketing in which products are introduced on a smaller scale with the idea of testing reactions to new products.
- Consumer reactions are used as basis to predict how a variable is going to behave over time.

Advantages of Causal Method

- It reduces chances of product failure such that new products are most likely to be successful depending on the reaction of consumers.
- The 'cause and effect' method of forecasting provides an explanation as to why a variable will behave in a certain way, for example, an increase in sales can be attributed to a decrease in price.
- More information is likely to be obtained which is usually quantitative and forecasting is done objectively because there is elimination of human judgment.
- More accurate forecasting decisions are likely to be made because forecasting decisions are based on quantitative facts and reactions of target consumers.

Disadvantages of Causal Method

- It is a costly method to undertake when forecasting behavior of a variable and this means more financial resources are needed to fund the process.
- It is a time-consuming quantitative technique as much time is needed for the forecasting process to be successful.
- It may result in biased forecasting decisions as accuracy of data depends on the researcher, sources of information, change in customer taste and preferences.
- It involves a lot of work meaning that it is a laborious process.

2.2. Time Series Analysis

- It is a systematic quantitative process that involves the use of past data to make a prediction about the behavior of a given variable.

- It involves recording data that has been received for a specific period.
- The data recorded is replaced by new data meaning that time series analysis involves decomposition of data according to certain requirements or factors.
- It is mostly used in prediction of the behavior of variables such as sales, profits and costs.
- It involves the process of calculating moving averages from the data that is being received.
- As new data is added on, an average is also calculated.
- A set of moving averages calculated is used in the process of extrapolation.
- Extrapolation is a process whereby trend resulting in moving averages is used as a basis to predict the variable product.

Advantages of Time Series Analysis

- It is quite an objective technique since it depends on the use of quantitative data which is measurable.
- Time series analysis is mostly used when the variable to be projected is very vital to the extent that mathematical calculations have to be made.
- There is elimination of human judgment or bias since quantitative facts determine the forecasts.
- Forecasting decisions are most likely to be accurate given that subjectivity caused by human judgment is eliminated.

Disadvantages of Time Series Analysis

- It involves a lot of mathematical computations which makes it more difficult.
- Some erroneous forecasting decisions are likely to be made because of the mathematical errors.
- Time series analysis is affected by factors such as inflation such that historical data used in calculation of the moving average may be less relevant when making predictions about the behavior of the variable.
- It ignores the use of quantitative facts such as consumer preferences which are vital in predicting behavior of the variable.
- It may not be applicable where the company deals with seasonal

products or where products sales or costs are difficult to predict.

Importance of Forecasting to an Organization

- Forecasting provides a sense of direction to a business which means it becomes much easier to run and control the organization as some confusion can be eliminated and all workers would work according to the forecast.
- It can be used as a performance assessment. Forecasted behavior can be measured against recorded performance, that is, expected performance on the ground.
- It is important in improving information flow meaning that forecasting is a collective process which involves every component or function of the organization and this increases the rate of interaction and exchange of information between various components of the organization.
- It improves morale and motivation of the subordinates. Subordinates are able to work very hard as they want to achieve expected targets in forecasting and this increases their commitment to work.
- Forecasting act as an aid to resource allocation. Resources are allocated according to what is forecasted and this helps in minimizing resource wastage in the organization.
- Forecasting enables efficient and effective resource utilization meaning that it prevents resources from being idle as forecasting decisions act as a guideline on how to use resources.
- It reduces the risk of product and company failure meaning that the organization will be able to control some internal factors as well as anticipating external factors.
- It is an instrumental tool in minimizing production costs and overall costs incurred in the day to day running of the business.
- It helps in workers being able to realize and achieve for themselves. It is able to allow individuals to be successful as they work towards achieving forecasted performance.

Limitations of Forecasting to an Organization

- History can be different from the future. Conditions under which forecasting was done can be totally different from conditions under which it is done therefore forecasting can be very uncertain about the future such that all what is done is about estimation.

- It is affected by external factors such as consumer preferences and state of the economy which are dynamic and this makes forecasting a useless tool as results have a high probability of being mistaken.
- The process involves human judgment which leads to the process being subjective.
- It involves a lot of mathematical errors which may be encountered when quantitative techniques are used and obtained in forecasting.
- It is always complicated to the extent that research experts are required and these experts are scarce and expensive to hire.
- It increases the lot of work on the carrying out of the process. This is because it involves a lot of processes and stages in order to get accurate results.
- It is time-consuming because it involves data collection analysis and interpretation which requires a lot of time.

Marketing Research

- It refers to a systematic marketing process which involves collection or gathering of data relating to markets or marketing issues, analysis of the data and evaluation of the data.
- Market research is all about information from the appropriate sources so that the correct type of product may be produced.
- It involves research into information such as the product, place, price, promotion and demand.

Methods of Research

1. Primary (Field Research)

- It is a research process or method that involves collection of information from the field.
- Information is gathered from the customers so it is firsthand information.
- Primary research involves the use of research methods such as experimental surveys, interviews, observations and questionnaires.
- Information is provided mainly by customers, other companies and government authorities.
- For primary research to be successful, the researcher should ask questions in relation to the purpose or objective of the research.

Advantages of Primary Research

- Firsthand information is gathered and there are high chances of getting correct information which will result in the provision of products that will satisfy consumers.
- Information collected is up to date and relevant and can be used to solve the problem of regency.
- It allows the company to gain a competitive advantage over rivals because information collected is more accurate and chances of getting misleading information are slim.
- It helps the organization to keep in touch with the changes in the consumer preferences. This means that the organization can easily satisfy consumers' needs and wants to avoid risk or product failure.

Disadvantages of Primary Research

- It needs to be complemented by secondary research. This means that data collected through primary research may not be adequate unless some secondary sources of information have been used.
- It is very expensive because a lot of capital resources are required to fund the research program and to make sure that correct information has been gathered.
- It is time-consuming compared to secondary research. This means that a lot of time is needed to prepare the research.
- Primary research does not always give accurate information.
- It creates work on the researcher compared to secondary research and therefore, it is laborious.
- Information sources are not always readily available and limited information may be gathered.

Secondary (Desk Research)

- It involves gathering information from readily existing material.
- Information is collected from sources that already exist.
- It is the use of secondhand information. This is because it was collected from published sources such as newspapers, magazines, government publications, textbooks, balance sheets, statistical office etc.
- It means information is gathered from the desk as opposed to the field.

Advantages of Secondary Research

- Information sources already exist or are available which makes it easy to solve the market research problem.
- It is very cheap as compared to field research since information sources are readily available.
- It saves time as compared to field research since there is no need to gather information from the field.
- Desk research does not involve a lot of work compared to field research since they are few processes involved in gathering of information.

Disadvantages of Secondary Research

- Information used may be irrelevant because it was collected for a different purpose from our own research.
- Information used can be outdated and may not be appropriate to solve the research problem at present.
- Information gathered is secondhand and it may be difficult to satisfy human needs and wants since the information was collected from the sources different from consumers who are targeted.
- It needs to be complimented by field research.
- The researcher is not aware of the fundamental research methods used to collect the information.

Types of Data Collected/Types of Researchers

1. Qualitative Research

- This is in depth research into the motivations behind consumers' behavior or attitude. Consequently, it gives information on consumers' tastes and preferences and buying habits and although this is inevitably subjective, it provides insight to consumer behavior to complement the qualitative data.
- Qualitative data is non-quantifiable. It is data which cannot be expressed in numerical terms.

2. Quantitative Research

- Concentrate on factual information such as market share, probable level of sales at a given price and ways in which a market can be segmented. In essence, this relates to who buys the product and how much they will buy.

- Techniques of quantitative research include surveys (face to face), by post or telephone.
- Quantitative data is data that can be mathematically quantified or that can easily be expressed in numerical terms.
- Quantitative data is objective (free from bias) because it depends on measurements.
- It normally includes about the level of demand, the time consumers buy goods a day.

Differences between Qualitative and Quantitative Research	
Qualitative Research	**Quantitative Research**
Data is non-quantifiable.	Data can be expressed numerically.
Subjective.	Objective.
Requires interviews with special skills.	Few interviews special skills required.
Sample sizes usually small.	Sample sizes usually large.

The Research Process

Stage 1: Definition of the Problem

- Before launching a research project, it is necessary to clarify the type of information required, why it is required and what questions it is designed to answer.

Stage 2: Investigation of Secondary Sources of Data

- It is a mistake to equate marketing research with questionnaires completed in the high street. In fact, before a business collects primary data, it should first check secondary data.
- **N.B.:** Primary data is defined as the data that originates as a result of particular investigation.
- Secondary data involves the use and analysis of data collected for another purpose and found by means of desk research.

Stage 3: Selection of Primary Collective Data

- There are three basic techniques of field research data collection methods; surveys, observations and experiments.
- The task for the researcher is to choose the most appropriate method. In making this choice, considerations should be made to relative costs, time available, type of information required, type of people to be investigated

and the degree of accuracy required.

Stage 4: Decide on the Details of the Research Techniques

- Included in this stage would be the information of questionnaires and deciding on sampling methods.

Stage 5: Analysis, Interpretation and Evaluation of the Data

- After collecting the data, it is necessary to draw conclusions from it that can be of value in designing marketing strategies.

Stage 6: Recommendations for Action

- The final part of the research project consists of recommending the strategy to be pursued in relation to the product and marketing effort.
- A research is designed to provide answers to commercially important marketing questions.

Techniques for Field Research

1. Observations

- Rather than asking people about their behavior or their views, market researchers can observe how people behave.
- Observations take the form of audits (such as stock take), recording things and watching.
- Observers can be employed to watch the behavior in shops and how people use the product after purchase.

Advantages of Observations

- It allows the researcher to record behavior as it occurs and it does not rely on people's memories and previous reports of their behaviors.
- Observations provides very large amounts of data and because of the number of observations techniques, they can be used to provide validity checks on one another, that is, if different techniques lead to similar results then each individual method can be used with greater confidence.
- Observations also allow collection of data from certain groups who would not be able to give verbal reports of their behavior or feelings because they cannot speak, for example, infants or animals.
- Data collected using observations is not reliable.

Disadvantages of Observations

- People under observations sometimes try to create a particular impression if they know they are being observed.
- It is not always possible to predict when a certain activity is going to take place and therefore, a researcher cannot record behavior as it actually happens.
- It is only limited to certain situations, for example, you cannot obtain the life history of an individual through observations.
- It creates many unanswerable questions, for example, the reasons why a customer is acting the way he is.

2. Experiments

- Are used to test and assess the response of consumers to changes in marketing mix. This might involve changes in the product or packaging, advertising, price and distribution arrangements.

Test Marketing

- It is an experiment.
- It involves a limited launch of a product to test reaction, both to the product and the way in which it is marketed.

Advantages of Test Marketing

- It reduces marketing costs since it is tested on a small sample of the population.
- It allows the firm to know the likely reaction of customers before launching their products.

Disadvantages of Test Marketing

- Its accuracy depends on the choice of participants.
- There is also a difficulty of controlling random variables such as weather conditions or the mood of participants.

Advantages of Experiments

- It reduces the risk of product failure, for example, if the product is introduced to test consumer reaction and the consumers accept the product, then the company can go on to launch the product on a national sale (commercialization).
- More reliable data is gathered which is more objective since the

consumer reaction provides a guideline to the sources of the product.

- It is the only technique that explains why consumers behave in a certain way or why the product of company fails/succeed, for example, a product may fail as a result of price increases, lack of effective advertising etc.
- More abundant information may be gathered and the technique is less costly compared to observation.

Disadvantages of Experiments

- It requires employment, hiring highly experienced researchers who are good at carrying out field experiments. These researchers cannot be easily available and they are expensive to hire.
- Most of the information collected is mainly quantitative and therefore qualitative information can be ignored if experiments are not properly implemented.
- Experiments usually record information about what will happen and may not account for what has happened.
- The problem with experiments is to control other factors and this means we may not know what actually causes certain consumer behavior or what causes a change in the marketing of the product, for example, a decline in sales might have been caused by other factors like inflation.
- Experiments are also time-consuming meaning that in order to gather accurate data, there is need for more time to carry out field experiments.

3. Focus Groups

- This involves a group discussion in which people are free to express views and opinions on a selected subject.
- The technique is used as a means of determining both overt and subconscious attitude and motivations.
- This means the researcher becomes the leader of the group while consumers contribute their views and participate in provision of marketing data.
- The researcher selects a specific marketing topic, for example, issues about the product quality.
- The researcher also participates and contributes his opinions.

Advantages of Focus Groups

- A lot of data is collected since a focus group becomes a source of different views from consumer.
- There is elimination of bias given that the researcher is also a participant and collects information from the actual target source.
- They are very cheap to administer and easy to use when gathering data compared to other research techniques such as observation.
- The research gets actual and more reliable information from the consumer.

Disadvantages of Focus Groups

- It is time-consuming.
- It may result in high levels of conflicts between different consumers which may affect the results.
- It may result in limited views which may affect the reliability of information since there is no guarantee that each and every individual will participate.
- This can be ineffective as some consumers may not contribute their views because of shyness.
- The element of bias will not be eliminated since the researcher as a group leader, controls the discussions and will draw conclusions.
- It may be expensive for the organization because it requires refreshments and a well-furnished room.
- One customer may dominate the discussion and this may affect the results.
- It may be a source of demotivation to consumers whose ideas are not implemented.

5. Surveys

- It involves gathering of data by use of surveys questions.
- The researcher asks questions about a certain marketing problem and the consumer responds to the questions.
- The researcher has to record all the answers to the question asked.
- Surveys can be delivered in any of the following ways:
    - Personal interviewing.

- Telephone survey.
- Postal survey.
- Panel survey.
- Group interviewing.

5.1. Face To Face (Interview Survey)

- It is a face to face research in which the researcher collects the data directly from the target source of information.
- The researcher asks questions directly to the consumers who then provide immediate answers.
- It is more like a discussion which involves an interview between two people at one time, that is, interviewer and the interviewee.

Advantages of Face To Face

- Firsthand information is gathered since it is collected from the field.
- Immediate responses are obtained and this means it may be quick to implement.
- It is cheaper compared to telephone and postal surveys.
- The interviewee can ask for unclear areas to be clarified by the researcher if the questions are ambiguous.
- Quantitative information can be gathered which is important when making marketing decisions.
- Observation of reactions is possible.
- It is flexible.
- Visual materials can be used.

Disadvantages of Face To Face

- Biased information can be collected since the researcher can ask questions in a way that he will be expecting.
- Some interviewees have a tendency of exaggerating information asked in order to please the interviewer and get a positive expression.
- It is time-consuming if the researcher lacks skills to control the responses.
- Surveys at times limit the amount of quantifiable data to be collected.

- It is a laborious process since it takes time and is more demanding in terms of research technique.
- It is a difficult to sample a scattered population.

5.2. Postal Surveys

- It is when questions are asked and responded to by means of the post.
- The researcher collects data by preparing questions which are sent to the consumers by post.
- The researcher may send a self-addressed stamped envelope which may be used by the respondent.
- It is a survey method which is normally used by companies who have well-known consumers and those who buy gods on credit.

Advantages of Postal Surveys

- There is the elimination of the interviewer bias since the interviewer will be absent when the interviewee will be answering questions.
- There are higher chances of gathering accurate information since most people are comfortable with giving correct answers in the absence of the interviewer.
- It reduces the researcher's workload.
- It may reduce costs such as transport costs.
- More information is likely to be obtained given that the interviewer has freedom to give as much information as they can.
- Anonymity.
- Give respondents the time to check data.
- Reaches scattered populations.

Disadvantages of Postal Surveys

- There is a high degree of cheating/exaggeration since the interviewer will be alone.
- Some interviewees may not even respond to the questions.
- Too little information can be collected because it depends on the spaces provided.
- It might be difficult when dealing with unknown customers.

- Not all interviewers have time to respond to the questions posted.
- Expensive in terms of post.
- Low response rate.
- No control over respondent.

5.3. Telephone Surveys

- The interview is carried over the phone.
- The researcher asks questions to the interviewer through telephone and the interviewee gives an immediate feedback.
- This is normally carried out on radio or when the researcher has well-known customers.

Advantages of Telephone Surveys

- It is less time-consuming as compared to postal survey.
- There is immediate response from the interviewee and this quickens marketing decisions.
- Firsthand information is collected.
- It is very flexible and more convenient.
- Wide geographical spread.
- Less inhibited than the face to face surveys.
- Better response rate than postal surveys.
- Undemanding of respondents.

Disadvantages of Telephone Surveys

- It is more complicated to use that we might not reach the targets as their telephone numbers may not be available.
- Costly in terms of telephone bills.
- Telephone surveys may lead to the collection of false information since the interviewee has a high chance to lie given that the interviewer is absent.
- Some interviewees have a tendency of not responding to a telephone call, meaning that collection of information may be difficult.
- Telephones are affected by a number of factors such as electric power

cuts, bad weather etc. and this makes it difficult.

- Biased because it excludes those without phones.
- No visual stimuli.

5.4. Panel Surveys

- This is where the opinions and behavior of a representative group of people is obtained.

Advantages of Panel Surveys

- Members are cooperative.
- Panel members know procedures and time is saved.
- Trends over time can be reviewed.
- Appointments avoid the expense of retails.
- Control groups can be formed.

Disadvantages of Panel Surveys

- Panel members tend to be atypical.
- Panel sophistication develops.
- Panel surveys may lead to the collection of false information since the interviewees have high chances to lie given that the interviewer is absent.

5.5. Questionnaires

- It is a research method that involves the use of well-structured questions.
- It involves designing questions which will help in collection of data.
- The questions are normally arranged in order and there are spaces left for the interviewee to give some information.
- The interviewee is left alone to complete the questionnaire for assessment.

Advantages of Questionnaires

- There is elimination of the interviewer bias associated with direct questioning of the interviewee by the interviewer. This means that the researcher is unable to affect the response given by the interviewee.
- It allows more information to be collected since many questions are asked and enough spaces are provided for the respondent to give more

information.

- They are suitable when dealing with a large sample, meaning that the research becomes easier to administer.
- More reliable and relevant information can be gathered since questionnaires allow respondents to give information at their own pace.

Disadvantages of Questionnaires

- It is time-consuming and responses take a long time to be obtained and this delays marketing decisions.
- There is a high tendency of providing false information because data is provided in the absence of the interviewer.
- Not all people have the time to complete questionnaires.
- Much of the results obtained through use of questions depend on the nature of the research and the type of questions. This means that poor research and poor questions may compromise the results of the research.
- There is no room for question specification meaning that there is no room for respondents to ask further questions for clarification.
- Questionnaires face a problem of non-returns.

Characteristics of a Good Questionnaire

- It must be as short as possible to avoid confusion.
- It must be straight to the point.
- It should include open-ended and close-ended questions.
- Misleading questions should be avoided.

Sampling Market Research

- A sample is part of the population chosen to represent the population.
- It is a systematic process of collecting or selecting a representative from the total population with the belief that the representative will bear true characteristics of the whole population.
- It is a process of selecting variables from the population with the idea that the selected variables will give true information about all the variables of the population.
- Population refers to the total number of variables from which

representatives are chosen.

- It is a technique of selecting a portion of the population that you wish to study.

Differences between Sampling and a Sample

- Sampling is a process of selecting part of the population whereas a sample is a part of the population.

Advantages of Sampling

- It reduces costs of having to survey the whole population.
- It saves time.
- It requires fewer resources as compared to a census.
- It is more reliable as there is a concentration on fewer units.
- It is complicated than a census.

Disadvantages of Sampling

- **Sampling error –** a sample is always likely to differ from the population to some extent.
- **Substitution problem –** what can the investigator do when a certain element in a sample is not available for investigation.
- **Convenience vs. representativeness –** a good sample is one which is representative of the total population. The larger the sample, the more representative it is more likely to be. As convenience increases representativeness is likely to decrease.

Sampling methods are divided into two groups:

- Probability sampling.
- Non-Probability sampling.

1. Probability Sampling

- These are the techniques that are used to identify the representative sample from which the research data is collected.
- They are constructed that every member of the population has a known probability in the selection.
- It requires the use of a sampling frame, that is, a complete list or identification of the population.

1.1. Random Sampling Technique

- It is a probability sampling technique in which every variable in the population has some degree of being chosen or not.
- Each variable in the population has an equal chance of being selected or not being selected.
- Variables are selected on a haphazard process.
- It can be done by pulling names out of the hat or using a computer to generate random numbers.

Advantages of Random Sampling

- It is an easy method when gathering research data compared to other techniques such as stratified sampling.
- It reduces costing meaning that the research costs can be minimized instead of dealing with the whole population.
- It saves time.
- It reduces interviewer bias and research data is most likely to be reliable.

Disadvantages of Random Sampling

- It may not disclose true information about the true characteristics of the whole population since only a few individuals are chosen.
- Individuals left may be the ones with relevant data.
- With random sample, there can be some degree of bias if it is not properly implemented.
- Random sampling is very difficult to use while the population is very large to the extent that selecting a random sample is almost impossible.

1.2. Systematic Sampling

- This is a sampling technique in which the researcher determines the sample by first predetermining the starting point and then uses a systematic process to collect variables constituting a sample.
- Systematic sampling enables the researcher to have a starting point and then select every nth term in that order.

Advantages of Systematic Sampling

- It may reduce the level of interviewer bias since variables from which data is to be collected is chosen systematically or using a known method.

- It is a fast way of gathering data especially when dealing with large populations.
- It reduces costs incurred when researching from marketing data.
- It saves time needed to gather data.

Disadvantages of Systematic Sampling

- The element of subjectivity will never be eliminated given that the researcher already knows the variables which can be selected and the method can be twisted so that it will suit the researcher's expectations.
- Important information can be missed from variables skipped while selected variables might have less relevant information.
- It requires the use of sampling frames which may not be readily available.
- It is difficult to exactly know where to start, at what interval to select the variable.

1.3. Stratified Random Sampling Technique

- It is a sampling technique in which the population under study is divided into several stratus/classes.
- It involves dividing the population under study into subgroups according to different characteristics such as age, sex, status, income, location, and lifestyle etc.
- From these stratas established, variables are then randomly selected.
- Random samples from various categories provide research data.

Advantages of Stratified Sampling Technique

- More accurate information is collected compared to other techniques such as random sampling technique.
- It considers individual differences compared to random sampling and it gives more relevant information.
- Data collected is more reliable since uniformity in variables is taken into account.
- It reduces the level of human subjectivity since the population is first stratified and then random samples are collected from different stratas.

Disadvantages of Stratified Sampling

- It increases a workload as compared to random sampling.
- It is time-consuming because a lot of processes are involved so as to identify the samples.
- Like other probability sampling techniques, there is need to use a sampling frame and it may not be easily available.
- It may be more costly when compared to other techniques.

2. Non-Probability Sampling Techniques

- These are sampling techniques in which variables under study have no probability of being selected.
- Non-probability sampling involve the use of methods to select variables which will make a research sample.

2.1. Cluster Sampling Technique

- It is whereby the research samples are organized into clusters.
- It involves the use of sampling frames from which individuals making up clusters are selected.
- Individual variables are organized into clusters as they are identified from the sample frame list.

Advantages of Cluster Sampling

- It is normally used when the researcher does not have the entire set of variables making up a sampling frame.
- It is normally used with random sampling technique to increase accuracy of data collected.
- It can also be used when the population is dispersed or scattered.
- It minimizes research costs.
- It also reduces time wastages in research.

Disadvantages of Cluster Sampling

- It might be difficult to use in the absence of a sampling frame.
- It increases a lot of work to researchers, for example, there is need to randomly select variables from the sampling frame.
- It cannot be effective on its own but it needs to be incorporated with other random sampling techniques.

2.2. Quota Sampling

- It is when the population under study is divided into subgroups.
- The variables are grouped according to different characteristics such as age, sex, etc.
- The population is divided just as in stratified sampling.
- Individuals in the same group are then selected on a random basis but are selected using a known method.

Advantages of Quota Sampling

- It is more reliable, as more accurate information is collected.
- It covers the weaknesses faced in random sampling technique whereby individuals are selected on a random basis.
- It considers differences between variables in a population and therefore more relevant data is collected.

Disadvantages of Quota Sampling

- It is time-consuming since a number of processes are involved in determining the sample.
- It involves some elements of human judgment and this may introduce some bias in the research.
- It is very expensive compared to other techniques.
- It demands higher levels of mental reasoning and skills and therefore it requires highly experienced researchers.

2.3. Multistage Sampling Technique

- It is a sampling technique whereby variables are selected as many times as possible from different stages, for example, samples can be selected at rural level, provincial level, district level etc.
- Samples collected at various stages are then interviewed.
- It works in conjunction with cluster sampling technique.

Advantages of Multistage Sampling

- It provides more accurate data since samples are collected at many levels.
- Data collected will be more reliable and relevant.

- It can be used to counter the weaknesses of other methods of sampling.

Disadvantages of Multistage Sampling

- It is a more time-consuming method of sampling.
- It increases the amount of work involved when researching.
- It also include elements of human judgment since variables are selected using a known method.
- It includes cultivation of a lot of resources since samples are collected at many stages and this increases costs.

"Snowballing, judgmental, interval, sampling problem"

Interval Sampling

- It requires the selection of units/individuals in a sequence.
- This period sequence is based on a particular day of the month.

Judgmental Sampling

- This can only be used when the researcher fully knows which type of people are typical of the population in question.

Snowballing Sampling

- This technique involves two or more stages of sampling, for example, if researchers wanted to know most powerful members of a national trade union:
    - It might first ask all the executive members of a very large union to provide a list.
    - Each person on the initial list would also be asked to provide a list.
- As a result of this, a longer overall list will be drawn up.
- The list of the names is snowballing (growing).

Elasticity of Demand

- It is a numerical measure of responsiveness of one variable following a change in consumer behavior, other things being equal.
- It is the degree of responsiveness of quantity demanded to changes in market variables, for example, price, income etc.
- Demand can be in the form of price elasticity, income elasticity, cross

elasticity.

Elastic Demand

- This is when a small change in one variable causes a bigger change than proportionate change in quantity demanded.

Inelastic Demand

- A large change in one variable produces only a smaller change in quantity demanded.

Types of Elasticity of Demand

1. Price Elasticity of Demand

- Refers to the responsiveness of quantity demanded to changes in the price.
- It is calculated as follows:

Price elasticity of demand has five types namely:

1.1. Price Elastic Demand

- This occurs when the ratio calculated is greater than 1. This means that a less than proportionate change in price is followed by a higher than proportionate change in quantity demanded.

1.2. Price Inelastic Demand

- This occurs when the ratio calculated is less than 1. This means that a higher proportionate change in price is followed by a less than proportionate change on quantity demanded.

1.3. Unitary Demand

- This is when the ratio calculated is equal to 1. This is when proportionate change in price is equal to the proportionate change in quantity demanded.

1.4. Perfectly Elastic Demand

- It is a demand curve that is fixed at a certain price level. Elasticity of demand is equal to infinity. Buyers are prepared to buy all they can at the same price and none at any other price.

1.5. Perfectly Inelastic Demand

- This is when the ratio is equal to zero. Quantity demanded does not change as price changes. Changes in price have no effect on quantity demanded.

2. Income Elasticity of Demand

- Refers to the responsiveness of quantity demanded to changes in income.
- It is a measure of how a consumer varies his demand for a commodity when there is a change in his income.

- When the percentage change in quantity demanded is greater than the percentage change in income then the commodity is said to be income elastic, that is, the demand of the commodity increases at a faster rate than income.

Normal goods

- These are goods whose demand increases as income increases.
- If income elasticity of demand is positive, then the goods are normal goods.

Inferior goods

- These are goods whose demand decreases as income increases. Income elasticity will be negative.

3. Cross Elasticity of Demand

- It is the responsiveness of quantity demanded in respect to changes in price of another good.
- It is calculated as:

- It shows the relationship between substitutes and complements.
- Substitutes are goods that can be in place of another.
- Complements are goods that are jointly used, for example, car and fuel.

Factors Determining Elasticity of Demand

- Availability of substitutes.
- Portion of income spent on the product.
- Addiction.
- Nature of the product.
- Time period.

Importance of Elasticity of Demand

- Assist firms when making pricing decisions, for example, low prices in elastic markets.
- Facilitates price determination.
- To firms, it helps note competitors, for example, substitutes.
- It assists in planning.
- It can be used to evaluate the effect of government taxes on revenue.

Disadvantages of Elasticity of Demand

- It is based on estimated levels of demand and price changes.
- It can only make sense to people who know it.

IMPACT OF ICT ON MARKETING MANAGEMENT

- Technology has improved the ability to collect and organize marketing data, the channels the business can use to reach consumers, and the process of developing different types and formats of advertising assets.

- Businesses have more data, more marketing formats, and more online places to communicate with consumers (that is, social networks, blogs, search engines, YouTube videos, etc.).

- From the consumer side, marketing has become increasingly integrated into everyday life. From Facebook advertising to Google paid search results, the average consumer has an increasingly personalized and data -driven exposure to 'relevant' ad materials.

- Thanks to the enormous amount of information available, primarily from social networks and browsing behavior, consumers are also being impacted from a privacy point of view. From what we watch on TV to who our friends are to what career paths we are on, all of this information is being utilized thanks to social networks and browser cookies. This creates accurately catered ads, albeit alongside valid concerns of privacy.

- The Internet is changing the product and services available in a big way. In professional services, the Internet is allowing firms to develop new 'packaged' products – sometimes by providing integrated or related services such as financial and estate agents services. Using extranets means that certain clients can be provided with access to the firm's internal systems which both adds value and 'locks in' clients to your service. The expansion of the Internet is creating new issues in terms of contractual rights and copyright too – new service areas for lawyers.

- The Internet allows a lot of information to be obtained easily by customers. One side effect is that it is much easier to compare prices making price competition fiercer. The use of computer systems to reduce the time and effort involved in producing and delivering products and services means that suppliers can either increase their margins or offer the same services at a lower price. Commoditization is also occurring where people 'package' new products and services together and offer them, via technology, at a lower price (the high volume, low value approach). On-line payment (through credit cards) makes it more convenient to clients/customers and can make cash collection quicker and cheaper for suppliers – again increasing the possibility of price reductions. Yet the Internet can make it more difficult to offer discriminatory pricing (i.e. different prices for different customer groups).

- The developments in the power of databases means that direct marketing is really coming to the fore allowing new segments to be more easily identified and allowing segments-of-one to be profitably targeted. Permission marketing has been born but is still in its infancy. The Internet is also a great source of information – allowing you to keep up with your competitors' and clients' activities. On-line polls and surveys can yield a large amount of additional information about your clients. It also means that it is much more difficult to retain any form of differentiation when your services and approach are clear for all – including your competitors – to see. The Internet also allows you to reach a much wider geographical spread than was previously possible.

The Internet makes markets more even – allowing smaller players to compete with big players and overseas competitors to enter new markets with ease. Some argue that the Internet is just another channel which needs managing just the same as other channels (e.g. retail outlets, warehouses, direct mail etc.).

- Digital television and the broadcasting revolution (including web TV) makes mass advertising practical and affordable for much smaller companies than previously. There are all sorts of new advertising media now available – electronic posters, information kiosks, banner advertisements, on-line directory entries etc. Interaction and multimedia are challenging the creative treatments of advertising as well.

- Database technology aligned with digital printing of short runs of full color promotional materials has had a dramatic impact on direct mail. Email lists make it easier to have more regular and focused communications with key customers and clients. The use of call centers and computer assisted voice telephony are rewriting the books on customer service and fulfillment. Permission marketing is where customers provide information about their needs and preferences and agree to the supplier using this information for further marketing activities.

- Brochures and publications are now electronic, interactive and tailored to the specific needs and interests of smaller markets and even individuals. On the World Wide Web (WWW), the customer decides what information they require and in what order so some level of supplier control is lost. Desktop design and publishing is reducing the need for and cost of expensive designers and printers – sadly, good design is becoming rarer as more amateurs try their hands. Client communication programmes are much more easily maintained through the use of email and electronic communications – which also reduces the cost of postage. Media relations can be enhanced by providing background information and news releases on web sites. The Internet environment has generated a wide range of additional media which are hungry for good content.

- Those tasked with selling can use the internet to undertake fast research into prospects. Electronic presentations can be easily tailored and presented desk side or remotely (by email or teleconference). Databases have revolutionized client and contact management systems and field sales staff effectiveness and supervision.

- The use of 3D simulations and virtual reality means you no longer have to create a real exhibition space or show suites. Giveaways are often technology flavored (mousemats, screen savers, free software etc.).

Chapter 9

QUESTIONS: PRODUCTION/OPERATIONS MANAGEMENT

- Explain the production function. [3]
- Explain any four factors of production. [12]
- Explain the three stages of production. [6]
- State any five methods of production. [5]
- Explain any two methods of production. [4]
- How useful is batch production to a manufacturer? [6]
- Discuss the factors to be considered when choosing the method of production. [15]
- What is meant by the following terms:
    - Project production. [2]
    - Batch production. [2]
    - Job production. [2]
    - Flow production. [2]

- What factors should a manufacturer consider when switching from batch to flow [4]
  production?
- Evaluate the methods of production available to a manufacturer. [25]
- What is meant by the term lean production? [4]
- Explain any three aspects of lean production. [6]
- How useful is lean production to a manufacturer? [8]
- Define the term work study. [2]
- Explain any two aspects of work study. [6]
- Evaluate the usefulness of method study to a manufacturer. [6]
- State any two aspects of work measurement. [2]
- Of what importance is the work study program useful to a manufacturer? [6]
- Using examples, distinguish fixed costs and variable costs. [4]
- Discuss the importance of cost information to a firm in the manufacturing [13]
  industry.
- Outline any three costing techniques. [3]
- Differentiate absorption costing and marginal costing. [4]
- How useful is absorption costing as a costing technique? [6]
- Under what circumstances may marginal costing be applied? [5]

- Define the following terms:
  - Margin of safety.
    [2]
  - Breakeven point.
    [2]
- Evaluate the usefulness of the breakeven analysis as a decision making tool. [25]
- Explain any two methods of plant layout.
  [4]
- Discuss the factors determining the location of a firm.
  [15]
- Evaluate the methods which can be used by a firm to improve productivity. [25]
- Define the term quality.
  [2]
- Evaluate the usefulness of the quality control technique that can be used by a firm [25]
  in the manufacturing sector.
- Evaluate the usefulness of work measurement.
  [6]
- How useful is total quality management as a quality control technique?
  [12]
- Define the following terms:
  - Productivity.
    [3]
  - Efficiency.
    [3]
  - Effectiveness.
    [3]
- Distinguish effectiveness and efficiency.
  [3]
- Discuss the different techniques that a firm can use in inventory/stock [25]
  management.

- Stock usually takes three forms. Which are they? [3]
- Define the term inventory. [2]
- Under what circumstances may just in time technique be appropriate? [4]
- The just in time method of stock management is not compatible with few [15] production. Discuss.
- What is meant by the following terms:
    - Economic order quantity. [2]
    - Economic order point. [2]
    - Buffer stock. [2]
    - Lead time. [2]
- Using a diagram, explain how a manufacturing firm can use critical path analysis [25] in decision making.
- How useful is critical path analysis as a decision making tool? [25]
- Define the following:
    - Critical path. [2]
    - Dummy. [2]
    - Float activity. [2]
    - Proceeding event. [2]
- Explain any three types of float activities. [6]

- Quality guarantees business success. Discuss. [15]

PRODUCTION/OPERATION MANAGEMENT

Production refers to the conversion or transmission of raw materials into semi-finished and finished goods. It refers to the processes in which inputs are integrated through various processes in order to obtain output. Production is the responsibility of the production manager or department where the various processes are connected together to achieve the desired output.

Production Function

Inputs	Processes	Outputs
Information	Conversion	Goods and services
Capital	Transformation	
Labor and raw materials		

Factors of Production

There are four factors of production:

- **Land –** This is the site where production is taking place, it may be on the land or in water. The reward for land is rent.
- **Labor –** It refers to human skills/physical effort used in production. The reward for labor is salary or wages.
- **Capital –** It is the amount of money needed to start a business. The reward for capital is interest.

- **Entrepreneurship/Enterprise –** These are skills required to be used in a business. The reward is profit/interest.

Methods/Forms/Types of Production

- There are five main methods of production which are project, batch, jobbing, flow or continuous and line production.

Batch Production

- It is a production process in which products are produced in totally different batches.
- It involves production of different types, version of the same product, for example, freezits, paint.
- The same product is differentiated into two or more products.
- The process allows one product to be differentiated according to color, weight and size.
- Batch production involves use of machinery which is able to adapt to the production of different batches.
- Machines are laid down according to order of production and goods are produced according to demand.
- Batch production can be used in the production of sugar, bread and freezits.
- If a company is producing bread, different batches, for example, white, brown and whole wheat.
- There is need to clean up the equipment before another batch because different batches will go through similar processes of production.
- Batch production is intermitted in nature meaning that one batch is to be completed before the next batch.

Advantages of Batch Production

- It results in the provision of a variety of goods since consumers are supplied with different batches of goods.
- It is most suitable when producing goods and it is difficult to produce a single unit at a time, for example, it is impossible to produce one loaf of bread at a time.
- Batch production results in an increase in customer goodwill which builds the corporate image, for example, the organization, because

products are provided according to different tastes and preferences.

- It is a less expensive production process as compared to other production processes because batch production makes use of simple machinery and requires little capital to establish.
- There are less costs to the organization in terms of warehousing because batch production requires that goods produced should match the level of demand and there is no need to hold maximum raw materials.

Disadvantages of Batch Production

- It might be costly to the firm since there is need to install warehousing and security mechanisms because of stocks.
- The changes in consumer preferences might cost the organization as it still holds large stocks of unfashionable goods.
- There is need for machines and labor to be flexible so that a variety of products can be accommodated.
- There is loss of economies of scale meaning that batch production results in increased unit costs of production due to purchasing of raw materials in smaller batches.
- Some resources will be lying idle or unutilized when shifting one batch to another resulting in loss of production.
- It is a laborious process meaning that during periods of change, there is need to clean the equipment and machinery before starting another batch.
- It consumes more production time meaning that most of the time is wasted when making preparations for different batches during change of ovens and maintenance of equipment and machinery.
- It requires that managers must hold work in progress to reduce stock cut costs and this might increase warehousing costs.

Project Production

- It is a large scale production technique that involved a unique total work package which will be completed in phases within a specified period of time.
- The method involves establishing projects such as building and construction of roads.
- A project is a total work package that combines the efforts of different

researchers that should be coordinated to obtain the conducted objective.

- It involves planning and qualitative techniques such as network analysis.
- Workers must work within the stipulated post boundary so as to meet the budget or target.
- Workers must satisfy the customers' specifications and then deliver the project.
- Raw materials are transported to the site where the product is assembled.
- It involves sub contraction of activities making up a project to facilitate completion of a project within the required time.

Advantages of Project Production

- The whole project can be broken down into various components and the firm would concentrate on major components, thereby increasing effectiveness and reducing costs.
- It is likely to produce the product that meets the customers' specifications since the customer would specify the nature of project and approve it at each and every stage.
- It gives variety to employees since projects offer different challenges to employees.
- It involves low transportation costs given that raw materials are transported to the site and there is no need for distribution.
- It is the best method suitable when establishing large projects such as buildings, roads and dams.
- The organization will incur less warehousing costs in comparison to other production methods.
- It may result in the creation of employment to the community where the project is implemented; once the project starts, works are required from within the area.
- It results in full and wise utilization of resources due to the use of qualitative techniques such as critical path analysis (network analysis).

Disadvantages of Project Production

- It may result in project syndrome, that is, the difficulty in which a project can be completed. Projects are said to disband and employees will fear for their job security since they might be dismissed when the project is completed and this may delay the completion of the project resulting in poor results.

- It is associated with a passive marketing strategy. The organization will wait until the customer comes again.
- It involves a lot of sunk costs for machines designed for particular use.
- It is very expensive especially when implementing a big and complementing project. This means production requires a lot of capital and other resources.
- It requires experienced project managers who should design and control implementations and they are very expensive to hire.
- Project production is a very complicated process which is very difficult to run and control.

Job Production/Jobbing

- It is a method used in provision of goods that are designed according to order and customers' specifications.
- It involves the provision of goods according to customer requirements such that an item is only designed when demand has risen.
- Goods are produced under the roof of the workshop and simple tools and equipment are used.
- This method allows one item to be produced at a time as required by the customer.
- Goods are not produced in advance but the producer will wait until demand has risen.
- Order of work is also defined and workers required have relative skills such that they are able to adapt to different customer requirements.
- Goods produced through this method can be furniture items such as tables and chairs, and clothes.
- It is small scale in nature and it does not produce for stock so there is no need for an organization to have a storage warehouse.

Advantages of Job Production

- There is a greater chance of meeting the customer requirements since the customer is given an opportunity to prescribe the quality of the product since the customer assesses each and every stage.

- It is financially cheaper. It does not require human resources twenty-four hours.
- It results in little or no stock holding costs since it is designed not to produce for stock.
- It requires use of simple machinery and equipment to run and control.
- It results in gaining of customer goodwill given that goods are produced according to customer specifications and the organization will be able to gain a corporate image.
- There is efficient utilization of resources given that goods are only produced when required by the customers.
- It is most suitable where consumers only require a single item which must be designed in a relatively different manner.

Disadvantages of Job Production

- It has a risk of running out of stock since it does not have warehouse for its products and this affects the reputation of the firm resulting in loss of customers.
- It is associated with a passive marketing strategy.
- It requires a diversity of resources, that is, machinery must be multitasked and labor must be multi-skilled so as to effectively deal with the customer specifications.
- It might be difficult to implement in certain situations, for example, where the customers' specifications maybe unrealistic.

Continuous/Flow Production

- It is a continuous production method that produces a standard product.
- It is a production process that involves the provision of liquid goods.
- Goods are produced on a continuous basis such that the production system never stops to operate.
- The production flows meaning that goods are produced on a twenty-four hour basis.
- Flow production allows goods to be produced on a non-stop basis.
- Goods produced through this method include steel products and fuel, for example, in Zimbabwe flow production is used at ZISCO.

- It requires the use of heavy machinery and equipment.
- There is need to continuously produce goods to meet the high demand for products and therefore raw materials must be sufficiently available to avoid work stoppages.
- Flow production requires that the demand for the product must be continuous so that when the product is produced, it is simultaneously purchased.
- It requires an accurate measurement of demand and reliable source of raw materials.

Advantages of Flow Production

- It results in an increased output.
- It achieves maximum utilization of resources since there are no production stoppages.
- The firm does not incur storage costs because it does not produce for stock.
- It ensures a strong and reliable relationship between the firm and the supplier.
- It is the only method used when producing liquid goods and other concrete products such as steel and fuel.
- It results in the provision of high quality products as compared to other methods because most of the work is done by machinery.

Disadvantages of Flow Production

- It results in greater maintenance of machines which may be very expensive for the firm.
- It requires a reliable supply of raw materials to avoid production stoppage.
- There is need for an organization to continuously train its workers so that they can be able to produce a standard product.
- It increases warehousing costs since there is need to keep work in progress.
- It is capital intensive and very expensive because it requires the implementation of heavy duty machinery and equipment, therefore, difficult to establish.

- It is suitable for the provision of goods that are demanded day-to-day meaning that it is most applicable when dealing with goods with high demand.
- It cannot be used where raw materials are scarce because the process will be disturbed.

Line Production

- It is the production technique in which a company specializes in the provision of one line of goods.
- It involves the provision of a simple product or a range of products.
- Machinery is arranged according to order of production or flow of work.
- Workers required are specialized.
- One item is produced by a group of workers who contribute in their areas of specialization.
- Line production requires that a product must be produced starting from one end to the other.
- In Zimbabwe, line production is used by Willowvale Mazda Motor Industries in provision of Mazda cars.
- Goods produced using this method are complicated items such as machinery, cars and other equipment.

Advantages of Line Production

- It results in the provision of high quality products because of specialists labor force.
- There are economies of scale enjoyed as goods are produced meaning that cost decreases with mass production.
- There is high productivity because line production encourages mass production through group work.
- It is highly suitable when producing complicated items which cannot be produced by a single person.
- Line production facilitates maximum utilization of resources that it reduces wastages and other unnecessary costs.

Disadvantages of Line Production

- It may result in higher level of conflicts or poor industrial relations because a mistake committed by one worker demotivates another worker.

- It requires specialist labor force which is very expensive to hire.
- It may be a source of demotivation because workers will not be able to assess their performance.
- It leads to boredom and monotony meaning that workers are not highly committed.
- Some methods such as flow production require more workers for shift work.
- Reliability of suppliers – some methods such as flow production may require raw materials to be available all the time, so there is need to build a good relationship with suppliers.
- Qualifications of the staff – staff should be highly qualified to carry out the production process.

Lean Production

- It is a Japanese technique which was developed from reduction and quality maximization in the organization.
- Lean production involves a series of techniques or aspects such as:
  - Just in time technique.
  - Stock control.
  - Quality circle.
  - Employees' empowerment.
  - Total quality management.
  - Teamwork.
  - Work study.

Work Study

- It is a generic term for a series of analytical techniques used to determine the most efficient use of labor in relation to other inputs in the production process.
- It was developed from the work of Fredrick Taylor (scientific management).

Aims of Work Study

- To improve employee's performance.
- To increase efficiency, productivity and profitability.
- To improve planning by provision of targeted time and procedures.
- To provide the basis of incentives pay schemes such as piece rate.
- To improve the flow of work.
- To improve utilization of equipment, material and space.

Aspects of Work Study

- There are two main aspects of work study which are:
    - Method study.
    - Work measurement.

Measure Study

- It is a systematic process of recording and evaluating the ways of doing work for both existing and proposed ones as a way of developing easier and more efficient methods thereby reducing costs.
- The implication is that there is a best method of performing a task and this can only be discovered through scientific approach.

Advantages of Method Study

- It increases organizational efficiency.
- It enables the organization to increase the level of profits.
- It can be used in reduction of costs.

Disadvantages of Method Study

- It is time-consuming and laborious.
- It is expensive.

Work Measurement

- It is the application of techniques to establish the time a qualified worker took to carry out a particular job.
- It is done to provide information for preparing work schedules, for example, flexible and compressed work weeks.

Aspects of Work Measurement

- **Standard time –** it is the total time in which a job can be completed at standard performance by a trained individual under normal circumstances.
- **Standard performance –** it is the output a competent worker will naturally achieve during average working period.

Advantages of Work Study

- It increases worker performance.
- It may result in high level of productivity and profitability.
- It may increase the level of motivation thus reducing the level of labor turnover.
- It improves timing by the provision of targeted time products.
- Work study can be used as a base of incentives pay scheme.

Disadvantages of Work Study

- If not properly used, it may be a source of demotivation when the task becomes too simple because there are some workers who are motivated by challenging tasks.
- Work study is usually done by work study offices and requires highly skilled personnel and sometimes this kind of workforce may not be readily available.
- Work study is a technique which is time-consuming and laborious.

Production Control

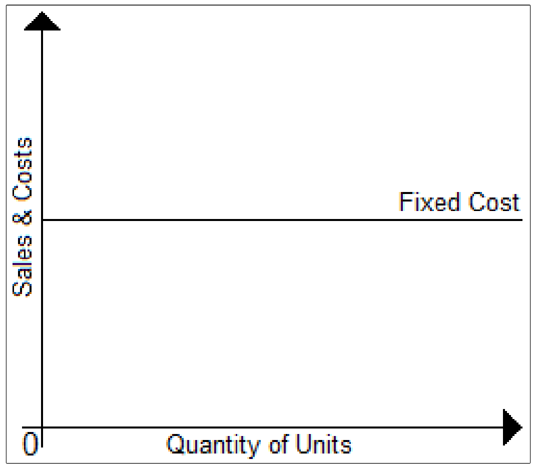
- Production planning is concerned with controlling the major activities and processes or whether the product satisfies the customer.
- It is a major tool for the manager because it enables the organization to reduce costs.
- The manager's aim of production control is to find the method and strategies of lowering down the cost.
- Production managers need to understand the behavior of the cost.
- Cost can be divided into three groups and these are:

a. Fixed Costs

- These can also be called indirect costs.

- These are costs which do not change or which do not vary with the level of output.
- It can be illustrated as follows:

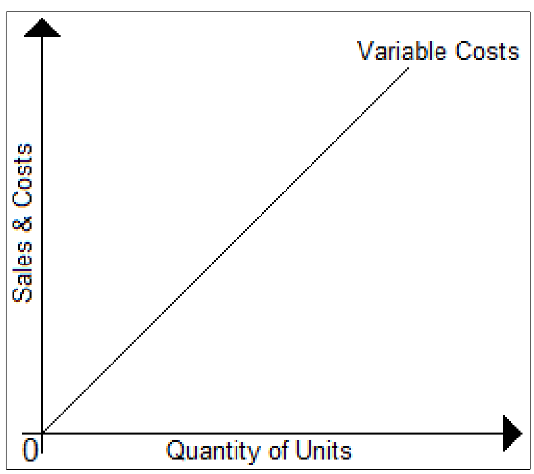
Fixed-Cost Chart



b. Variable Costs

- These can be called direct costs.
- They vary with the level of output.
- It can be illustrated as follows.

Variable-Cost Chart

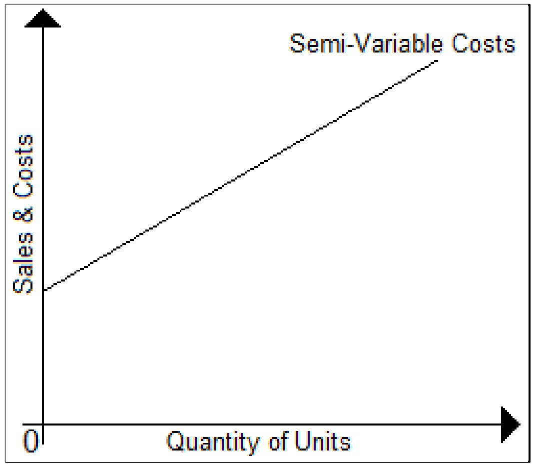


c. Semi Variable Costs

- These are costs with both features of fixed and variable costs.

- It can be illustrated as follows:

Semi-Variable Costs Chart



Importance of Cost Information

- To select an appropriate sharing strategy.
- To determine the stability of the organization.
- For budgeting purposes. This requires forecasting and planning for the future.
- For controlling purposes.
- For choosing the least costing techniques.

Costing Techniques

- It is the process of ascertaining the value of expenditure incurred in producing a unit of production output. It is a method of determining how much the firm has incurred in producing each unit of output. There are 3 costing techniques which are:
    - Absorption costing.
    - Marginal costing.
    - Standard costing.

Absorption Costing

- This can also be referred to as a total.
- It considers or absorbs all the costing incurred by the firm in production.

- It aggregates both fixed and variables costs in ascertaining the unit cost of production.

Advantages of Absorption Costing

- It absorbs all the costs incurred by the firm and this enables the organization to reduce underpricing.
- It does not endeavor to categories or divide cost into fixed and variable cost hence less expensive.
- It can be used for income purposes and in published financial reports.

Disadvantages of Absorption Costing

- It gives the firm less flexibility in pricing once the unit of products is established using absorption costing. The firm should always sell its products at a price that is slightly above the total unit cost.
- Fluctuation demand – under circumstances where demand fluctuates according to peak and off peak periods, the firm needs to avoid such fluctuations.

Marginal Costing

- It is a costing technique that only considers the variable components of the costs, for example, direct labor.
- It can also be called 'contribution costing' by the virtue of its emphasis of the contribution.

Advantages of Marginal Costing

- It is used to decide the pricing policy and this enables the business to establish a competitive advantage over other businesses and to safeguard its market position from its competitors.
- It enhances the accuracy of decision making resulting in rational decisions such as whether to continue or discontinue in production.
- It is less complex because it considers costs incurred in production and disregards subjective costs.

Disadvantages of Marginal Costing

- If it is extended to marginal cost pricing, it may result in the covering of costs through underpricing since it considers variable costs rather than total costs.

- Marginal costing draws a distinction between variable and fixed costs.
- This may become a difficult process due to the fact that some costs have both elements of fixed and variable costs.

Circumstances where Marginal Costing may be Applied

- **Make or buy decision –** the firm decides whether to produce for itself or to buy from other producers.
- **Acceptance of a Special Order –** in the normal course of the business, customers may approach the firm and make an order at a price that is below the normal price.
- **Other customers –** a business should consider a possible response from existing customers.
- **Scarcity of Inputs/Factors of Production**
- **Stiff competition –** in a competitive environment where such tactics as cutthroat pricing can be applied, the business can be forced to mark its price below the marginal cost of production.

Standard Costing

- It is a costing technique that involves setting up of standards of which the actual costs will be calculated using the variance analysis.

Advantages of Standard Costing

- It increases the level of motivation since clear targets are set.
- It is flexible and it serves management in planning and control.
- It provides a guide to pricing decision.

Disadvantages of Standard Costing

- Standards must be examined and modified continuously as conditions change and that can be costly to the organization.
- This is difficult to establish and maintain the minimum standards for the components of a project.
- Initial investments are required to establish a standard cost.
- System is both time-consuming and expensive.

Break-Even Analysis

- It is a production technique used to determine the minimum production output raised in order for the firm to generate adequate amount of revenue to cover total costs.

- The concept aims to obtain the optimum output that will enable the firm to make neither profits nor losses.
- The break-even point is the point at which total costs are equal to total revenue.
- It is obtained at a point where total costs curve and total revenue curve cross each other.

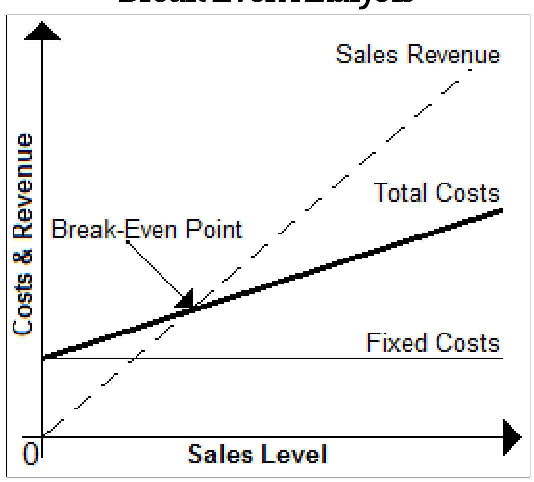
Break-even is based on the following assumptions:

- Price is constant per output level.
- Fixed costs are constant for all output.
- Costs can be easily classified into fixed and variable costs.
- Total revenue and total costs curves take the linear form.

Marginal of Safety

- It is a distance between the breakeven output and full capacity.
- It measures the safety or the risk of the business in its operations.
- The closer the business to the break-even point, the greater the risk since any slight reduction might put the business into the loss region.

Break-Even Analysis



Where:
Contribution per Unit = Selling Price – Variable Cost.

Advantages of the Break-Even Analysis

- It enables the business to obtain the level of output which it's breaking so as to obtain the desired level of profits.
- It enables managers to be conscious about costs so that they can find strategies of minimizing costs so as to determine the level of profit.
- The margin of safety also helps managers to measure the degrees of richness of the firm's output at full capacity.

Disadvantages of the Break-Even Analysis

- The concept assumes that costs can be easily divided into two, that is, fixed and variable costs but in reality, it is difficult because costs can take some characteristics of fixed and variable costs at the same time.
- The break-even analysis assumes a constant price function which is not realistic in this world.
- The concept assumes that total costs and total revenue functions are linear which enables the firm to get only one break-even point but in reality total cost and revenue functions might take a curved linear function and bring about more break-even points.

Diagram

Other Production Decisions

1. Large Scale Operation

- The larger the firm, the more likely that it can afford specialized departments and or personnel.
- Specialized departments might include research and development, marketing, finance and others.

Advantages of Large Scale Operation

- It helps the organization to obtain economies of scale to increase profits.
- The organization will be able to access credit finance from financial institutions due to the availability of collateral security.
- Quality will be increased because of the ability to attract skilled personnel.

Disadvantages of Large Scale Operation

- It might lead to reduced competition because some firms may abuse and form monopolies.
- Growing large may result in slow decision making.
- It is accused of being personal because there is no contact between managers and workers which might lead to employees demotivation.
- It may result in overtrading.

Application Technology/Automation

- It is whereby all production/operation systems use a production process which involves the use of machinery.
- Technology is used to convert inputs and outputs.

Advantages of Automation

- It creates better working conditions.
- There is better manager-employee ratio which makes supervision easier.
- It improves the quality of the product.
- It increases the level of productivity.
- It reduces the unit costs of production.
- It reduces labor costs.

Disadvantages of Automation

- It may result in job losses to unskilled employees.
- It causes deskilling.
- In some cases, it might lead to redeployment and retraining of workers which may affect the organization negatively.
- It may result in increased fixed costs so as to source such machines which might be very expensive for the business.
- Machines may cause injuries to the workforce.

Location of the Plan

- Plant location decisions affect overall costs, employee morale and other elements of the firm.

- .
- Location of the plant depends on the type of industry or the nature of manufacturing.
- Some of the factors considered in a business when relocating are:
    - Infrastructure.
    - Permanent supply of raw materials.
    - Power availability.
    - Level of competition.
    - Market accessibility.

Quality Control

- Quality is the degree of appropriateness of a product and its ability to satisfy a certain need.
- Quality control is a technique aiming at checking if products are being manufactured to conform to purpose.

Quality Philosophy

- Quality is secondary to profits, that is, there is no relationship between quality and profits.
- Higher quality means higher costs.
- The major aim of quality control is to minimize quality defects.
- Quality control is a problem of quality controllers in the organization.
- Most quality problems are a result of poor workmanship.
- Quality control problems must be identified and reduced.

New Philosophy

- Quality is the best way to ensure profits.
- Higher quality means low costs.
- Zero quality defects.
- Everyone is a quality controller (total quality management).
- Most quality problems are a result of poor management.

Quality Control Techniques

1. Quality Circles

- It is a group of workers from different departments who meet at prescribed times or intervals in order to discuss issues related to quality.
- It is made up of at least six workers and above.
- Workers in the group participate in discussions and contribute.
- Measures which can be used to improve quality.
- Individuals constituting quality circles contribute in identifying problems of poor quality and solutions to the problems.

Advantages of Quality Circles

- Quality circles increase the level of employee morale and motivation since there is workers participation.
- It leads to the improvement in quality of products.
- They contribute in the minimization of costs incurred in production as workers find solutions to the problems.
- Quality circles foster the existence of good relations among employees.
- Quality circles create effective communication in the organization as different departments are involved.

Disadvantages of Quality Circles

- They may consume discussion time meaning it is time-consuming.
- Quality circles may be expensive to run as they may increase costs since they need to be motivated financially.
- Quality circles require some resources, meaning for quality circles to continue to exist managers must supply group members with necessary resources.
- Quality circles may be a source of demotivation to workers whose ideas are neglected.

Quality Assurance

- It is a quality control technique whereby quality is guaranteed before production of goods.
- Quality of goods is improved by screening raw materials, machinery and other necessary production inputs.

- Only inputs that meet the expected standards in terms of quality are channeled into the production system.
- Defective inputs are eliminated to make sure high quality raw materials are used.
- Quality assurance enables the organization to improve quality through productive approach.

Advantages of Quality Assurance

- High quality products are produced meaning that screening of raw materials assures the provision of high quality.
- It ensures that resources are wisely utilized therefore efficient and effective resources allocation.
- Unnecessary costs are kept minimum levels.
- The idea is that inspecting inputs ensures that work in progress is of expected quality.

Disadvantages of Quality Assurance

- Quality assurance requires other complementary techniques.
- It cannot be used on its own because it focuses on inputs alone.
- It is a time-consuming process.
- Quality assurance requires a change of organizational culture. In other words it fosters a culture quality.
- The method is difficult to apply in situations where a company is operating on a large scale basis where it produces high volumes of output.
- It increases workload on subordinates meaning that besides performing their tasks workers also need to accept the task of inspecting quality.

Total Quality Management (TQM)

- It believes that quality is everyone’s responsibility in an organization.
- It is a technique with the purpose of ensuring high quality output.
- Total quality management says quality starts with the consumers.
- Total quality management assures that quality can be improved on a gradual basis.

- The main idea is that everyone in the organization is to participate in the improvement of the quality of goods from management to the low level workers.

Advantages of Total Quality Management

- It results in the production of high quality output meaning high quality products are produced leading to improved customer satisfaction.
- It is good in building the corporate image of the organization.
- It improves communication flow within the organization. This is because there is involvement of all departments.
- Total quality management can also be used to improve employees' morale and motivation.
- It results in reduced costs through encouraging efficient and effective resource utilization.

Disadvantages of Total Quality Management

- The change in terms of quality takes a long period of time meaning that the total quality management takes a long time to improve quality.
- Total quality management requires total change in organizational culture which might result in resistance to change.
- Total quality management is difficult to implement in situations where there is poor industrial relations.
- Total quality management is very much laborious and time-consuming.
- Total quality management is more of an organization policy rather than a technique to quality control.

Zero Defects

- It is a quality controlling technique that simply focuses on the output relative to quality.
- Zero defects means zero tolerance to any faulty or defective product.
- It involves inspecting the inputs in order to eliminate anything below standard.
- Zero defects approach enables managers to set an expected output level that workers must achieve.
- If workers achieve the expected output, they can be given some rewards

and this motivates workers.

Advantages of Zero Defects

- It leads to improvement of quality of goods received by the customer.
- It is a motivational tool because financial rewards are paid to the workers.
- Zero defects approach increases workers commitment meaning that problems associated with absenteeism and labor turnover are reduced.
- It leads to increased customer satisfaction since high quality products are always distributed.

Disadvantages of Zero Defects

- It is very expensive for the firm meaning that the provision of financial rewards can lead to excess cash outflows.
- It is very difficult to inspect each and every output meaning that there are also high chances of defective products.
- It is unrealistic to imagine the production of 100% output without any faulty products.
- Zero defects approach usually works where there are strategies to make sure that quality is not compromised.
- It also requires complimentary techniques to monitor inputs and work in progress to make sure that quality is guaranteed.

Quality Standards

- It involves the use of quality standard as a methodology of improving of the product.
- The organization adopts the expected quality standards and work towards meeting the standards for its products.
- This method is adopted by organizations producing food items and other products that affect the health of the consumers, for example, in Zimbabwe, we have the Standards Association of Zimbabwe (SAZ).
- If the products are approved by the SAZ, the company gets a certificate and its products are said to be of high quality.
- These quality standards are usually monitored globally by International Standards Association (ISO 9000).

Advantages of Quality Standards

- It helps the organization to produce products of higher quality standards.
- Quality standards are important in boosting customer loyalty.
- It enables the organization to enjoy external benefits, for example, if the company achieves expected quality standards.

Disadvantages of Quality Standards

- Quality standards increase costs to the organization meaning that for quality to be improved, there is need to cultivate a lot of capital.
- Some quality standards are too unrealistic and may be difficult to achieve and this may be a source of demotivation to the workforce.

Production Engineering

- It is a quality management technique that involves implementation of engineering strategy.
- It involves the employment of specialized engineers who are well-trained, experienced and highly educated in working with the machinery and equipment.
- Specialist engineers are responsible for the installation of the equipment.
- The idea is to help in the provision of higher quality products by ensuring that machinery and equipment are effectively functioning.

Advantages of Production Engineering

- It leads to the provision of high quality products.
- Production engineering ensures that effective and efficient machines are used.
- It facilitates wise use of resources, for example, proper installation and use of equipment helps to minimize resource wastages.
- It minimizes rewarding costs.

Disadvantages of Production Engineering

- Engineers are very expensive to hire therefore the firm experiences high labor costs.
- It is very difficult and expensive to establish because it requires a lot of capital and other resources.
- It requires other complimentary techniques so that high quality products

are produced.

- The method is not easily available to small organizations because of lack of capital.

Benchmarking

- It is a quality control method that involves improving quality by making use of quality standards established and the organization works towards achieving the standards using different strategies.
- It means the established standards act as a benchmark.
- It involves a comparison of the performance of the organization.

Advantages of Benchmarking

- It increases the morale and motivation of the subordinates.
- Workers increase their efforts in order to meet set standards.
- It reduces the gap between performance and standards, meaning that benchmarks help in improving the overall performance.
- It helps in improving the image of the organization.

Disadvantages of Benchmarking

- It might be difficult to apply practically since it involves research into other organizations' strategies.
- The problem is that competitors may not describe their competitive strategies.
- Benchmarking may require a change in culture of the organization and this may be resisted.
- It might be a source of demotivation if some workers fail to achieve the set standards.
- It requires the cultivation of a lot of time in order to improve quality.
- Benchmarking cannot be used in isolation but must be used with other methods.

Continuous Improvement (Kaizen)

- It is an approach to waste minimization that emphasizes on making gradual changes in the minimization of wastages and quality maximization.

- The technique involves everyone in the organization to participate in reducing wastages.
- Continuous improvement requires managers who are supportive to workers.

Advantages of Kaizen Approach

- It increases worker morale and motivation due to the presence of participation.
- It improves the quality of the products.
- It enables the organization to maximize profits and sales.
- There is minimum resource wastage.
- The organization can become highly competitive.

Disadvantages of Kaizen Approach

- It is time-consuming since it involves everyone's participation.
- It is expensive since it requires strong financial support.
- It may result in high levels of conflicts.
- It is laborious.
- It cannot be used on its own but needs to be combined with other techniques.

PRODUCTIVITY

Productivity refers to the total output divided by the total inputs used. It is therefore output per each unit of resource used. Productivity measures the relation between the output produced and the inputs used.

Efficiency

- Refers to the measure of how inputs have been utilized relative to how those inputs have been planned to be used.
- It measures the variance between the actual input used and the planned input.
- Therefore:

Effectiveness

- It is the ability to which the organization has achieved its objectives.
- It is a measure of how actual output is different from the planned or expected output.
- Therefore:

Stock Control/Inventory Management

- Stock refers to the items of raw materials, work in progress and finished goods by the company at a particular time.
- Stock is classified in 3 forms:
    - Raw materials.
    - Work in progress.
    - Finished goods.

Stock Control

- It refers to an integrated approach constituting a number of techniques which are used to monitor and control the movement of stock in and out of the business.
- Stock control involves a series of techniques such as:
    - Just in time.
    - Two loin method.
    - Stock control chart.
    - Economic order quantity.

- Pareto rule.
- Material requirement planning.

Just In Time

- It involves ordering raw materials exactly when they are required for production.
- Raw materials are scheduled to arrive just in time when they are required for production in smaller loads.
- This means that wastages from obsolescence and damages are minimized.
- Wastages from overproduction are also reduced because goods produced only match the demand.

Circumstances under which Just In Time Method may be Necessary

- Just In Time may be appropriate in organizations with highly motivated workforce, strong financial support and effective communication, teamwork, worker involvement and participation, reliable as well as supportive.

Advantages of Just In Time

- It helps in facilitating best utilization of resources meaning that it contributes to minimization of resource wastages.
- It is also a motivational technique in the sense that it encourages worker participation and contribution in decision making.
- It contributes to the provision of high quality products.
- It helps in reducing re-working costs and other unnecessary costs associated with bulky buying.
- It is beneficial in the sense that raw materials are ordered in smaller loads hence easy to manage.
- Warehousing costs are minimized since it is a zero defect inventory method.

Disadvantages of Just In Time

- A situation of more frequent purchases as goods are ordered in smaller loads.
- Just In Time requires a well-motivated workforce which is trained and

experienced such that the system continues without disruptions.

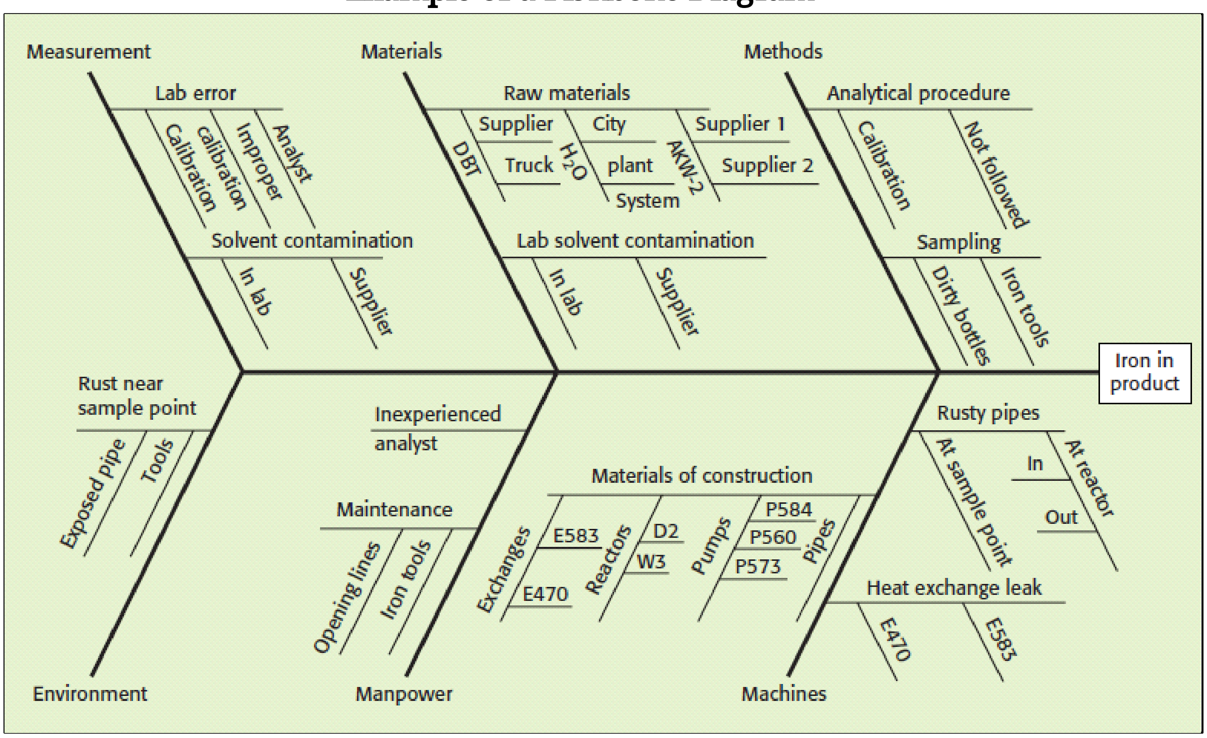
- Economies of bulky buying are lost because goods are ordered in smallest loads.
- The system does not work well if there is no reliable supplier.
- It might also contribute to wastage of resources and time because time will be spent on ordering and transporting raw materials.
- It is difficult to meet unexpected rise in demand.

The Maintenance of Stock

Fishbone Diagram

- It is a diagram that helps to make a pictorial illustration on the causes/problems resulting from the machinery, material and methods of production.
- It helps managers to diagnose the problems resulting from the method, material, money, manpower and machinery.

Example of a Fishbone Diagram



Advantages of Fishbone Diagram

- It leads to an increase of worker morale and motivation given that workers participate and are considered as important this means that there is a sense of belongingness.

- It facilitates the existence of good industrial relations between the manager and their subordinates.
- It facilitates the existence of discipline in the organization meaning that it provides workers and managers with a sense of direction.
- It facilitates efficient and effective resource utilization meaning that wastage is minimized.

Disadvantages of Fishbone Diagram

- It is a time-consuming technique.
- It is a technique which is quiet, complicated and can be difficult to implement and sustain over a long period of time.
- It increases costs to the organization because there is need to gather data, analyze and find solutions.
- For it to be successful there is need for a motivated workforce and mangers must be supportive and when these conditions are not available, the system may be difficult to implement.

Economic Order Quantity (EOQ)

- It is the order quantity that minimizes total inventory that is holding costs and ordering costs.
- It is one of the oldest classical production scheduling models.
- The framework used to determine the order quantity is known as the 'Wilson Economic Order Model'.
- It was developed by Ford W. Harris and was further redesigned by Wilson.
- Economic order quantity can also be applied when demand for a product is constant over the years.
- There is fixed cost for each order placed regardless of the number of units ordered.
- There is also a cost for each unit held in storage known as stock holding costs.

Assumptions of the Economic Order Quantity

- The ordering costs are constant.
- The rate of demand is known and spread evenly through the year.

- The lead time is fixed.
- Lead time is the time interval between placing an order and receiving that order.
- The purchase price of the item is constant and there is no discount available.
- The replacement is made instantly meaning that the whole batch is delivered at once.

Where:

- **C** = purchase price/unit production cost,
- **Q** = order quantity,
- **Q^*** = optimum order quantity,
- **D** = annual demand quantity,
- **K** = fixed cost per order,
- **H** = annual holding costa per unit.

Ordering Costs

- This is the cost of placing orders.

Holding Costs

- This is the average quantity on stock.

Advantages of Economic Order Quantity

- It is less expensive compared to other stock control techniques.
- It is the only stock control technique which is used to minimize total inventory.
- It reduces costs to the organization.
- The organization will be able to meet unexpected demand increase because of the fact that they keep stock.
- The organization may not be affected by the problems associated with stock shortages.

Disadvantages of Economic Order Quantity

- The model assumes that ordering cost is constant of which this may not be true.

- It assumes that the rate of demand is known to be constant throughout the year but in reality, demand may not be constant.
- It works well when the lead time is fixed of which the lead time may not be fixed due to transport problems.
- It is difficult to maintain the price of a product.
- It only works when one single product is involved and if there is more than one product it will be difficult to use.
- It involves a lot of mathematical computations which is difficult, complex to calculate.

Material Requirement Planning (Computer Based Stock Management)

- Material Requirement Planning is a computer-based production planning and involves control system.
- It is concerned with the production, scheduling and inventory control.
- It is a material control system that attempts to keep adequate level to ensure that the materials are available when needed.
- It is applicable in situations of variety items with complex bills of materials.
- Material Requirement Planning is not useful to organizations which use job production and continuous production.

Objectives of Material Requirement Planning

- To ensure the availability of materials, components and products for planned production and for customer delivery.
- To maintain the lowest possible level of inventory.
- To plan manufacturing industries, delivery schedules and purchasing activities.

Advantages of Material Requirement Planning

- It can be used in the reduction of stock cut costs because it ensures the availability of raw materials for planned production.
- It maintains the lowest possible level of inventory thereby reducing stock holding costs.
- It is the only stock controlling technique which is used in situations of variety items with complex bills of materials.

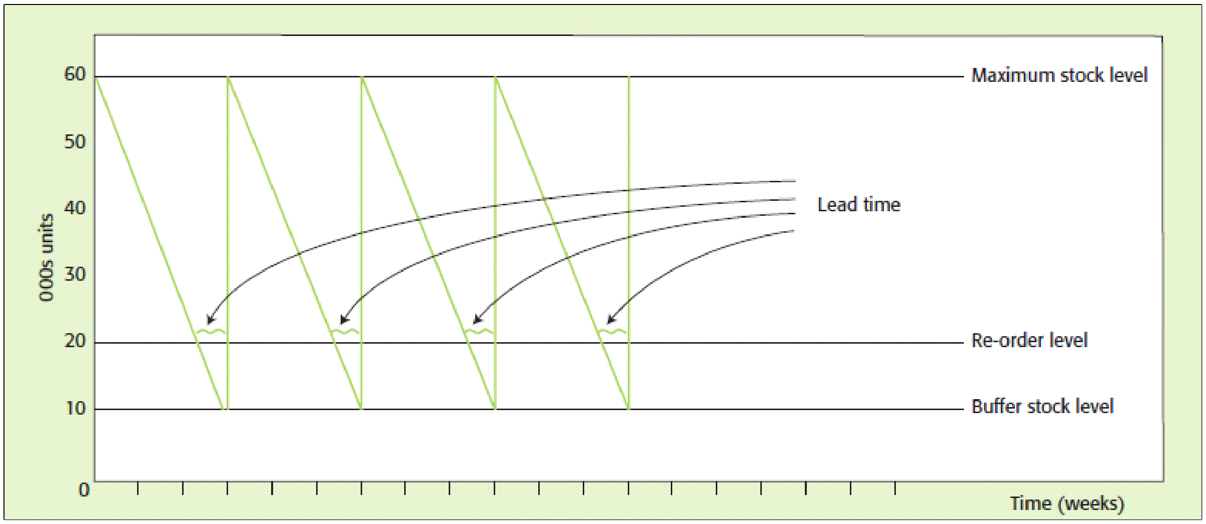
Disadvantages of Material Requirement Planning

- It results in a dependent syndrome hence workers lack innovation.
- There are many pressures to increase lead time in a Material Requirement Planning and this may result in high levels of unemployment.
- It may suffer from system failure.
- It increases costs to the organization.
- Material Requirement Planning expects the lead time to be constant regardless of how much work has been released into the production system and this can create problems when production levels are at or near capacity.

Stock Control Chart

- It is a stock controlling technique that involves the use of charts which show the amount of stock in terms of order of goods and utilization of goods by the customer.
- Stock control charts allow the organization to determine or to make a decision on when, how and what to produce.
- It specifies the amount of goods that a company should order and the time of delivery.
- It also shows the reorder level meaning that it specifies the point at which the business can place a new order.
- The stock control chart also specifies the amount of recent stocks that should be kept to prevent stock-outs.
- The business does not wait for stock to deplete so they reserve the stock level.
- On the chart, the straight horizontal line illustrates the level of stock while the slanting line shows the utilization of stock.
- It specifies that the minimum and maximum stock levels a business can hold at any particular time.

Stock Control Chart



Advantages of Stock Control Chart

- It makes it easier to run and control stock simply because stock control charts specify the amount and the time when the quality of raw materials should be ordered.
- It makes it easy for the business to make necessary arrangements because it specifies the amount of the lead time. This refers to the time interval between placing an order and receiving the order.
- It helps the business to avoid stock-outs given that raw materials are re-ordered when stock has declined and a reserve stock is kept to cater for any unexpected demand increases.
- It helps the company to efficiently and effectively utilize resources through minimization of resources wastage.
- It is a technique which is most suitable for large businesses that operate on a larger scale.

Disadvantages of Stock Control Chart

- It requires some research meaning that it is a costly technique.
- A stock control chart requires continuous motivation and evaluation meaning that it is a more laborious technique.
- It can result in an increase in warehousing costs such as insurance costs, damages and obsolescence.
- It requires experienced production managers and stock contribution which are very expensive to hire or employ.

- Stock control chart is difficult to implement in an unstable economic environment where it might be difficult to determine the quantity to order, time and delivery of stock.
- It is difficult to estimate the lead time.

Two Bin Method

- The two bin system is a very simple controlling technique.
- It is very easy to understand and practically applied provided warehouses are available.
- It facilitates stock rotation and is a safeguard to the business for the risk of obsolescence of stocks.
- The two bin system requires that the organization fills the two bins when ordering raw materials.
- After the first bin has been filled then the second bin will be utilized.
- In other words, the two bin system controls stock by rotating warehouses.

Advantages of Two Bin Method

- The two bin method is a very simple stock controlling technique.
- It is very easy to understand and practically applied provided warehouses are available.
- It facilitates stock rotation and this safeguards the business from the risk of possible obsolescence as stocks are rotated.
- It prevents stock cut costs since raw materials are ordered in bulk and two warehouses are filled with stock which rotates.
- It results in enjoyment of economies of producing because two bin method requires that raw materials must be ordered in bulk.

Disadvantages of Two Bin Method

- It increases warehousing costs. Storage costs are relatively high given that all the two warehouses must be filled with stock.
- Insurance costs are relatively high and the value of loss will be very high.
- It might force the business to suffer possible obsolescence even if stock is rotated because some stock can be affected by technology changes.
- Damages can also be high because of bulk orders and stock ages. This increases unnecessary costs as compared to other techniques.

Pareto Rule Efficiency/Trivial

- It is a stock management technique which is based on reasoning.
- It states that all companies categorize their stocks into two groups.
- 80% of the stock is less important while 20% of total stock is more important.
- 80% of the total stock contributes 20% of the revenue and profits while 20% of the total stock contributes to 80% of revenue and profits.
- So the organization must carefully monitor the 20% of its total stock.

Advantages of Pareto Rule Efficiency

- It acts as a complimentary strategy to other stock controlling techniques such as stock control chart meaning that it helps in the implementation of other techniques.
- It also helps to reduce damage, obsolescence and warehousing costs.
- It helps in minimizing unnecessary costs because it requires that the organization gives attention to more important stock.

Disadvantages of Pareto Rule Efficiency

- It does not specifically state what should actually be done to control the movement of stock into and out of the organization.
- It also results in negligence meaning that the organization can end up neglecting the unimportant stock which may be very important.
- The organization can run the risk of producing poor quality products given that some less important stock may not be given attention.
- The Pareto rule cannot be practically used on its own but it must be combined with other techniques such as Just In Time, Stock control charts.

Critical Path Analysis (Network Analysis)

- It refers to a general term that defines a number of quantitative techniques that are used in project monitoring and implementation.
- Network analysis is implemented when undertaking project production process.

Project

- It is a collection of interrelated activities designed to achieve a common purpose.
- A project includes a number of activities that are combined through production process to establish infrastructure as products, for example, roads.
- It also helps in allocation of resources and determining total time required to complete a project.

Advantages of Network Analysis

- It facilitates the planning and coordination of large projects.
- It can be used by an organization to identify critical activities that determine the total duration.
- The organization will be able to identify activities that are likely to cause delays and take action on these problems.
- The organization may be able to determine when resources and components are required.
- It can be used to effectively plan on the use of resources.
- It can be used to reduce and eliminate idleness.
- It illustrates task relationship.
- It can be used to pinpoint problem areas.

Disadvantages of Network Analysis

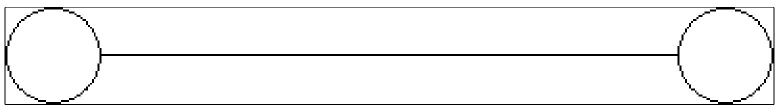
- The organization may be highly uncertain of the future of the project.
- Resources and labor cannot be easily switched from one activity to another.
- Network diagrams are difficult to draw, to use and to understand.
- Critical path analysis can be affected by subjective time estimates and these estimates are prone to be less reliable.

Drawing a Network Diagram

- A network diagram is a graphical or a pictorial illustration of the sequential arrangement of activities making up a project and the resources consumed by each activity.

Rules of Network Drawing

- They are drawn from left to right.
- All activities in the schedule of a project must fit into the diagram.
- Horizontal lines on the diagram represent key activities.
- Activities are labeled using letters.
- Circles represent starting events or finishing events and these are called nodes.



- Resources or time used by an activity are shown below by the horizontal line.

Diagram

- Nodes are numbered according to order of drawing.

Diagram

- No succeeding activity will start before the preceding activity has been completed.

Diagram

- A preceding activity is an activity that comes first before another activity starts, for example, A comes first before B.

Example

Activity	**Preceding activity**
A	-
B	A
C	A
D	B
E	C
F	D
G	E, F

Diagram

Identifying Critical Path Analysis

- It is the most important path on a network diagram.

- It is made up of important activities which should never be delayed because if there is delay, the project becomes difficult to complete.
- Critical path analysis determines the minimum time required to complete the project.

Float

- It is the amount of time that an activity in the no critical path can be delayed without affecting the project completion.

Dummy Activities

- A dummy activity is an activity that neither consumes time nor resources.
- It is an imaginary activity on the network diagram which is shown by the dotted line.

Diagram

Float Activity

- Float refers to the amount of stock that exists from no critical activities.
- It is the time an activity can be delayed without delaying the completion of the project.

Types of Float Activities

1. Total float

- It is the amount of time a path of activities can be delayed without affecting the overall project completion.

2. Free Float

- It is the amount of time an activity can be delayed without affecting the commencement of the next activity.

3. Independent Float

- It is the amount of time an activity can be delayed when preceding activity has been completed as late as possible.

Example 2

November 2012

Activity **Preceding activity**

A	-
B	A
C	A
D	A
E	B
F	D
G	B,C,F
H	E

Draw a network diagram using the above information.

Answer

Diagram

IMPACT OF ICT ON PRODUCTION/OPERATIONS MANAGEMENT

- Computer use, internet access and web presence in production is associated with significantly higher output and sales per employee (labor productivity).
-

Chapter 10

QUESTIONS: FINANCE AND ACCOUNTING

FINANCE AND ACCOUNTING

Finance is the money or money equivalents that are required to run a business. It is the capital needed to fund for the firm's activities.

Accounting is a process of identifying, measuring and communicating economic information to permit informed decisions by users. It is a systematic recording of business transactions so that the state of the business is fully revealed.

Reasons why Businesses require Finance

- Startup capital – finance is required to establish a business, that is, purchase of startup equipment etc.
- Growth – it is needed in the case where a business wishes to expand, for example, through takeovers, mergers or internal growth.
- Working capital needs finance to fund the day to day activities of the business.
- Research and development – finance is needed for development of new products and research into new markets
- Capital expenditure – businesses need finance to fund the purchase of fixed assets.

- Finance is needed in order to deal with increasing orders from customers.

Role of Accounting and Finance Department

- This function deals with the money aspect of the business.
- The accounting function deals with:
    - The recording of transactions.
    - Keeping details of events of the business.
    - Calculation of profits, liquidity levels and return on investments.

The finance function involves making decisions about:

- Methods of raising finance.
- Cash flows.
- Debt control.
- Expenditure.

Types of Expenditure

1. Capital Expenditure

- This is spending of money on items which last for a long period of time, for example, machinery and equipment.
- Money may be spent on acquiring or improving fixed assets.
- Improving or adding value to existing assets may extend the useful life of the assets.
- For example, purchasing plant and equipment, transporting fixed assets into the business involving import duty, improvements costs etc.

2. Revenue Expenditure

- This is money spent to cover the daily costs of the running of the business, for example, purchasing of goods for resale, wages, petty cash, telephone, repairs and fuel.

Classification of Sources of Finance

Debt vs. Equity Finance

- **Debt Finance –** is the total amount owed by a business and has to be repaid with interest, for example, loans, debentures.

- **Equity finance –** is the amount of money belonging to or provided by risk -taking owners of the business. The sale of equity stake in a business involves surrender of a share of both future and decision making, for example, ordinary shares.

Differences between Loan and Equity Finance	
Share Capital	**Loan Capital**
Represents ownership.	Represents debt.
Confers membership.	Creditor not a member.
Dividends are part of the earnings of the firm.	Interest is an expense
Confers voting rights	Creditor has no right to participate.
Dividends are paid at the board's discretion.	Has priority on dividends.
No power to force liquidation.	Cab force liquidation.
Have no maturity date.	Loan must be repaid.
Likely to create low gearing.	Highly geared.

Internal vs. External Sources of Finance

Internal Finance

- It is finance from the firm's own assets and retained profits.

Retained Earnings

- These are profits that are not shared as dividends but ploughed back into the business. This is a permanent source of finance and internal.

Advantages of Retained Profits (as a Source of Income)

- It is a permanent source of finance. There is no repayment.
- It is a cheap source of income, there is no interest charges.
- It does not divide ownership as no share of business is split.
- It does not increase the liability of the firm.
- This facilitates more internal growth.

Disadvantages of Retained Profits (as a Source of Income)

- It is only applicable when the business is making profits.
- Conflicts may arise between the shareholders and managers over the amount of money to retain in the business.
- It takes time to raise more funds for projects as one year's retained profit

may not be sufficient.

External Source

- This is finance by outsides, for example, banks, governments etc.

Differences between External and Internal Finance	
External Finance	**Internal Finance**
Provided by outsiders.	Raised from the firm's assets and retained profits.
For example, bans government.	For example, retained profits.

Short-Term Sources of Finance

- This is the finance for periods of up to 3 years, for example, loans, bank overdrafts, trade credit, debt factoring.

1. Bank Overdraft

- This is when the business' bank allows the firm to withdraw more money out of the account than they have in it.
- This is a flexible form of finance. It is unsecured, renewable and interest is charged only on the negative balance outstanding each day.

Advantages of a Bank Overdraft

- Interest is charged only on the negative balance outstanding.

Disadvantages of a Bank Overdraft

- Overdrafts are technically payable on demand.
- Interest rates reflect current market rates rather than being fixed in advance.

2. Trade Credit

- This is the delayed payment for materials.
- The supplier provides goods without receiving immediate cash.
- The seller encourages prompt payment by means of discounts.

Advantages of Trade Credit

- This is an interest-free loan.
- It has few legal terms as compared to a bank overdraft.

3. Debt Factoring

- When a firm experiences problems or customers delay payments, the firm may sell the debts to a debt factoring company.
- The factor is prepared to purchase debt at a discount.
- The factor pays the firm and then collects from the debtors.

Advantages of Debt Factoring

- The firm can receive cash immediately from the factor.
- This avoids bad debts.
- It does not increase the liabilities of the firm.
- It improves the liquidity of the firm.
- It can generate finance for petty day-to-day activities.

Disadvantages of Debt Factoring

- The factor gives the firm money after removing a discount.
- This cannot be suitable for financing large projects.
- This can tarnish the company's image.
- It can sour the relationship between the firm and the customer.

4. Sale of Assets

- This is when the firm sells for cash either stocks or fixed assets. This can be done by lowering the price.

Advantages of Sale of Assets

- It is easier than hire purchase and loans.
- No commitment to interest payments.
- Helps the firm to get rid of idle assets.
- Helps avoid overstocking of goods.

Disadvantages of Sale of Assets

- The assets might be of use in the future.
- In the case of stocks, they can be sold at a low price or lower than costs to clear stocks.
- Some assets can work as collateral.

5. Short-Term Loan

- A loan is a fixed sum of money lent for a period not more than three years on average.

Medium Sources of Finance

- These are sources of finance that cover a period of between three to ten years of finance, for example, hire purchase, bank loan, lease, sale and lease back.

1. Hire Purchase

- It is a method of purchasing goods on credit and payments being made in installments.
- The financier remains the legal owner of the asset until the hirer exercises his or her option to purchase at the end of the repayment period.
- The hirer pays a deposit then pays the rates in equal installments.

Advantages of Hire Purchase

- Payment is phased over a long period of time.
- The firm can use the asset while paying for it.
- Money generated from the use of the asset can be used to pay the installments.
- The asset is under guarantee during this period.
- Buying on hire purchase prevents the firm from having a big/huge expenditure per account.
- Suitable for larger projects and durables.

Disadvantages of Hire Purchase

- The seller repossesses the goods if the firm fails to pay within the stipulated period.
- Goods bought on hire purchase are expensive than those bought on cash basis.

2. Leasing

- This is similar to a hire purchase but does not involve the payment of a deposit.

- Leasing involves the acquisition of an asset but ownership does not pass to the user.
- A lease is a means of financing the use of an asset rather than its purchase.

Advantages of Leasing

- It minimizes initial outlay.
- Maintenance is provided with the package.
- The equipment can claim tax against lease payments.
- It is a form of pay as you use.

Disadvantages of Leasing

- All payments are outgoings.
- Payment is greater in the long run.
- The lease might place limitations on use or compel the use of a specified complementary product.
- The user does not benefit from residual value when the equipment is upgraded.
- The assets under lease cannot be used as collateral for loans.
- The firm does not own the asset.

3. Sale and Leaseback

- This involves the sale of an asset by the business such as a building to finance the company. The sale is made to a building to finance the company that makes the asset available for use to the business on a leased basis.

Advantages of Sale and Leasebacks

- It releases capital for use in the business.
- It can be used to finance huge projects.
- It does not increase the long-term debts of the company.
- The firm can continue to use the asset under lease.

Disadvantages of Sale and Leaseback

- The business no longer owns the property and rent must be paid.

- Lease payments are cash outflows.
- Over time the lease payments will exceed the amount of the sale.

Long-Term Debt Finance

- These are sources of finance that take up to ten years or more.
- Long-term sources of finance usually take form of debt finance and equity finance.

Long-Term Debt Finance

- This is a loan finance.
- There is a legal obligation to pay interest and the capital amount when the time is due.
- Interest must be paid to avoid legal action.
- This is usually secured against specific assets and this reduces control over them.
- Examples include debentures, bank mortgages.

N.B.: With debt finance:

- Debt finance takes preference in liquidation.
- Interest is an expense and must be paid before dividends.
- The rate of interest is either fixed or tied to the current base rate.
- Interest payments are tax-deductible.
- It may be secured against specific assets.

1. Debentures (Bonds or Loan Stock)

- A long-term loan secured to a company that takes the form of a marketable security.
- Unlike equity shares, they confer no right of ownership.
- Like shares, they can be issued at a different price to the nominal value on which the interest rate is fixed.
- Debentures are secured against specific assets or fixed as a charge on all assets.

Advantages of Debentures

- They do not confer voting rights.
- Interest on debentures is a tax-allowance experience.
- The interest on debentures is eroded in times of rising inflation.
- They do not have control over the company.
- Debt capital is cheaper than equity capital.

Disadvantages of Debentures

- Interest must be paid whether the company has made a profit or loss.
- Companies that are heavily financed by debentures are vulnerable to takeovers.
- Debentures increase the gearing.
- Debentures will have to be paid back at the date of maturity. This might affect the liquidity of the firm at that time.

2. Mortgages

- This is a long-term loan secured on property.
- It is finance to purchase assets obtained from the commercial banks, insurance houses and buildings.

3. Long-Term Bank Loans

- These take up to twenty years.
- Banks will normally want the loan secured against assets and will insist that the business maintain an adequate level of liquidity to cover interest payments.

Differences between Short-Term and Long-Term Finance	
Short-Term	**Long-Term**
Finance for periods up to three years.	Finance for periods up to twenty years.
For example, bank overdrafts, trade credit.	For example, debentures, long-term loans, shares.

Differences between Medium and Long-Term Finance	
Medium-Term	**Long-Term**
Covers periods between three to ten years.	Covers period of up to ten years.
For example, lease, loan, hire purchase.	For example, mortgages, debentures.

Differences between Medium and Short-Term Finance	
Medium-Term	**Short-Term**
Covers periods between three to ten years.	Covers period of up to three years.
For example, lease, loan, hire purchase.	For example, bank overdraft, trade credit, loan.

Factors which Affect the Choice of Source of Finance

1. Type and Size of the Business

- In small firms, most of the capital is provided by the owner, for example, sole traders whereas large firms usually depend on shares, debentures and long-term loans.

2. Costs

- Obtaining loans is not for free. Loans may become expensive during period of using interest rates.
- Internal finances have opportunity cost.
- Therefore, a source with low costs is needed most.

3. The Need to Control the Business

- Share issue can be used by limited companies selling shares to the public.
- Issue of shares dilutes ownership unless it is a right issue. For firms who desire to retain control sale of shares might not be appropriate.

4. Amount Required

- Some sources like credits, retained profits and borrowings from friends and relatives cannot finance huge projects but some sources such as mortgages, shares, are used for large sums of money hence, if a firm requires more money, it is likely to consider medium to long-term sources.

5. Gearing

- This is the extent to which a firm is financed by debt capital. For a firm that is already highly geared, there is a chance of choosing equity finance and if it is low the firm can go on and use loan finances.

6. Current Financial Position

- If a business has cash flow problems and is making losses, then internal sources will not help but it can turn to short-term sources.

7. Purpose of Source of Finance

- This determines the amount required.

8. Repayment period

- It can be long and a firm can choose depending on its objective.

Equity Finance

- This is when companies issue shares to finance the business.
- The amount that can be raised in this way is limited to the authorized capital of the business.
- The shares take the form of ordinary and preference shares.
- It represents ownership.

Ordinary Shares

- These are true risk capital.
- As owners, equity shareholders possess voting rights and can participate in decision making.
- They come last in terms of both dividends and share in proceeds of sale of assets when liquidating.

Preference Shares

- These clearly involve low degree of risk.
- They have a fixed share of dividend and have flexibility over ordinary shareholders.

N.B.: The return on shareholders' investment takes the form of:

- An annual dividend paid out of profits.
- A capital gain when shares are sold for a price higher than that of which they were purchased.

Differences between Ordinary and Preference Shareholders	
Ordinary Shareholders	**Preferences Shareholders**
Confer to voting rights.	Have no right to vote unless there are some dividends in arrears.
Get a variable rate of dividend.	Get a fixed rate of dividend.
They are more risky as an investment.	Less risky investment
In the case of liquidation, they are the	In case of liquidation, they have

last repaid.	preference over ordinary shares.

Methods of Issuing Shares

- In private companies, shares can be issued privately with no appeal to the public but companies take a number of ways.

1. Offer of Sale

- This is when the company sells shares to an issuing house or merchant bank that in turn offers them to the public at a higher price.

2. Public Issue

- The offer is made directly by the company rather than through an issuing house at a much higher price.

3. Placing

- The shares are sold privately to clients of the issuing houses that handle the issue. This is most commonly used for smaller issues.

4. Tender

- The investing public is invited to submit bids with the shares being sold to the highest bidder.
- Market prices will ensure that all the shares are being sold, although the price is uncertain.

5. Rights Issue

- Existing shareholders are given an option to buy additional shares at a favourable price. This is seen as an inexpensive way of raising finances but the company is forgoing the higher premiums that would have been available in the open market.

6. Bonus Issue

- These are issued freely to shareholders. This does not raise additional finance but it is a capitalization of accumulated reserves.

Value of Shares

- Shares have a nominal or face value that does not alter.
- The market share will fluctuate with changes in the demand and supply of shares.

- The market value is also affected by:
    - The profitability of the company.
    - Market expectations.
    - Interest rate.
    - A takeover bid.
    - Economic factors.

Advantages of Debt Finance

- There is no division of ownership.
- Loans will be repaid hence there is no permanent increase in the liability.
- Tenders cannot vote hence they cannot interfere in internal affairs.
- Interest charges are an expense for tax.

Venture Capital

- This involves the sale of equity or a share in a business to venture capital fund, another business organization or a wealth individual.
- The venture capitalist buys an equity share in an unquoted company with high growth potential.
- This involves risk in that the venture capitalist is the part owner of the company.
- The venture capitalists do not invest permanently but seek to invest in a growing business that is expected to provide substantial capital gain over a period of time.
- **N.B.:**
    - The management of a company can purchase the business with funds provided by a venture capitalist – management buyout.
    - A team outside management can purchase a business with funds provided by a venture capitalist – management buy in.

Advantages of Venture Capital

- The business is not committed to meeting regular interest payments.
- The equity will reduce the growth of the firm.

- The venture capitalist will provide management advice to strengthen the business.

Disadvantages of Venture Capital

- It means giving up a share of control.
- It is costly as venture capitalist will be looking for high rates of return.

Management and Financial Accounting

Management Accounting

- It is concerned with internal reporting to managers of an enterprise. It emphasizes the control and decision making rather than the stewardship aspects of accounting.

The main functions of management accounting are:

- To classify and calculate costs of production.
- To provide estimates of future expenses and revenue – budget.
- To identify inefficiencies in the organisations.
- To control costs and manage the cash.
- To seek opportunities.

Financial Accounting

- It is part of accounting that is concerned with external reporting to shareholders, government reporting to shareholders, government and other interested parties.
- Managers act as stewards of the financial and physical resources entrusted to them.

Differences between Financial and Management Accounting	
Financial Accounting	**Management Accounting**
External reporting.	Internal reporting.
There is need to comply with the regulations or standards.	There is no need to comply with regulations or standards.
It relates to the stewardship of financial resources.	It is future and present oriented.
It is past-related.	It is future and present oriented.
They need to be published.	They are not published.
It is a must to be produced.	It is produced on request.
Involves the preparation of final	Involve preparation of the internal

accounts, for example, balance sheets	accounts, for example, budgets

Costs

Purpose of Costing

- To calculate the profitability of a particular venture.
- To provide information of pricing decisions.
- To control expenditure.
- To appraise alternative courses of action.

Three Techniques of Costing

- Full and absorption costing.
- Marginal costing.
- Standard costing.

Break-Even Analysis

- It is a production technique used to determine the minimum production output required in order for the firm to generate adequate amount of revenue to cover the total costs.
- The concept aims to obtain the point at which total costs (TC) are equal to total revenue (TR) in production.
- It is obtained at a point where TC curve and TR cross each other.

It is based on the following assumptions:

- All costs are divided into fixed and variable costs.
- Fixed costs will remain constant at all levels of output whilst variable costs will vary proportionately.
- Unit variable cost will remain constant at all levels of activity.
- The factor affecting cost and revenue is volume.
- Technology, production methods and efficiency remain unchanged.
- There are no stock level changes and the stocks are valued at marginal costs only.
- A single product or constant sales mix.

Diagram

Margin of Safety

- It is the difference between activity level and the break-even point.
- It shows the amount by which actual activity fall short of the expected activity before a loss is incurred.

Fixed Cost

- These are costs that do not change as output changes.

Variable Cost

- These are costs which vary directly with output.

Advantages of Break-Even Analysis

- It helps to achieve a target profit.
- It shows the level of output where profits are maximized.
- Helps firms in making pricing decisions, for example, to increase sales volume it is necessary to reduce prices.
- Helps firms to understand the behavior of costs, for example, as output rises beyond a certain point, costs rise disproportionately.
- It is a distinct and simple way of calculating profit.
- It helps the firm to avoid losses.

Where:

-**Contribution per Unit =** Sales – Variable Costs.

Disadvantages of Break-Even Analysis

- Fixed costs are likely to change at different levels of activity. Perhaps it would be more accurate to represent fixed costs as step costs.
- Neither variable costs nor sales revenue are likely to be linear. Discounts, overtime payments can contribute to non-linearity.
- It is difficult to calculate.
- The break-even point assumes a price constant function which is not realistic.
- It may be difficult to calculate.

- The BEP assumes a price constant function which is not realistic.
- It may be difficult to divide or separate fixed costs from variable costs because some costs take characteristics of fixed and variable costs at the same time, that is, semi-variable costs.

Budgeting

- A budget is a quantitative expression of a plan for a defined period of time.
- It is an estimation of the revenue and the expenses over a specified period of time.
- It is the way an organization attempts to anticipate the future and see if the future is planned for.
- It can also be defined as a financial or quantitative statement prepared and approved prior to a defined period of time.

Budgetary Control

- It refers to how well managers utilize budgets to monitor and control costs and operations in a given organization.
- It can also be defined as a system of management control in which actual income and spending are controlled.
- It is a management process to help ensure that a budget is achieved by instituting a systematic budget approval process by coordinating the efforts of all involved parties and operations and by analyzing variances and providing appropriate feedback.

Characteristics of Budgets

- Budgets are prepared and agreed in advance.
- They cover a specific period of time.
- They are expressed either in financial terms or in real terms (physical quantities).
- They relate either to a firm as a whole or to a part of the firm such as finance, marketing, or operations department.

Usefulness of Budgets

Functions/Advantages of Budgets

- It can be used to assist the planning (facilitates planning).

- It can be used to communicate plans within the organization (aids communication).
- It can be used to control and evaluate business performance (business performance evaluation).
- Budgeting facilitates coordination within the organization (coordinates department).
- Responsibilities may also be clarified when using budgets thereby reducing conflicts within the organization.
- Effective budgeting improves the level of communication at different levels of the organization.
- Budgeting can be used to control expenditure.
- Scarce or limited resources are used in the most efficient and profitable way.
- Forces managers to do better forecasting.
- Budgets facilitate management by exception with deviation reported and investigated.
- Budgeting may be a source of motivation if a bottom-up approach is used.
- Moreover, middle management may be highly motivated if given freedom within the budget.
- Promotes forward thinking.
- Shows employees an overall picture of the direction of the organization which can motivate staff.
- Provide a framework for delegation.

N.B.: Most importantly budgets are an early warning system.

They highlight where investigations and appropriate corrective actions are necessary.

However, those benefits do not come problem-free, but they have their limitations.

Limitations of Budgets

- Budgeting consumes time and uses more resources and this may have a negative impact to an organization.

- The value of the budget depends on the quality of the information given by members.
- It may be a source of demotivation when participation is not part of the process or if a top-down approach is being used. This may affect the quality of the budget.
- Management becomes over-dependent on the budget and may neglect the process of management.
- Problems may be transferred from one year to another.
- Managers may overestimate costs.
- Inflation and other uncertainties may cause problems in the system.
- It is difficult to reconcile personal goals and corporate objectives.
- Dysfunctional decisions may arise and this may result in conflicts and affects the quality of the budget.
- Staff time devoted to budgets carry a real opportunity cost. This is because the time workers give to budgets means they are available to carry out other responsibilities.
- Errors and inaccuracies will always remain since it is impossible to predict the future.
- Major external events such as rising energy prices or the global recession may distort the whole process.
- Budgets involve and affect people, they may cause conflicts. There may be difficult choices where limited funds are spent. Some departments with tight budgets could feel constrained.

Definition of Terms

Budgetary control – It is a comparison of actual performance with the budget to that if necessary corrective action is taken.

Cost centre – It is a segment of the organization where costs are allocated.

Plan – It is a detailed account of future action to be taken.

Profit centre – It is the segment of the organization for which costs and revenue are calculated.

Variance – It is the deviation of the actual results from budgeted or standard results.

Investment centre – It is a segment of the organization where costs, revenue and profits are calculated and investment decisions are made.

Types of Budgets

1. Fixed Budget/Static Budget

- It is a budget that does not change or flex when sales or some other activities decrease or increase.
- It is a budget that is concerned or based on a single level of activity.
- It is prepared for a financial year which is not subject to change even if there are changes in the market conditions.
- It is mainly used when the economic environment is stable. This also means that such factors like inflation, prices, and government policies will change much.
- There is no need to flex the budget.

Advantages of Fixed Budget

- Keep costs down.
- Measure performance of the business.
- Suitable in stable environment.
- Easy to prepare.
- Easy to implement and follow.

Disadvantages of Fixed Budget

- Lacks flexibility – if a company identifies underperforming areas, it can allocate additional resources.
- Difficult to use in highly dynamic environment.

2. Flexible Budget

- It is a budget that adjusts or flexes for change in the volume of activity.
- It calculates different expenditure levels for variable costs depending upon actual revenue changes.

Advantages of Fixed Budget

- Allows the business to adapt the budget to changes in the business environment.

- It gives adjustments for predictions.
- The business may easily adapt to change.

Disadvantages of Fixed Budget

- Requires continuous monitoring. This is time-consuming.
- May suffer from inaccurate adjustments.
- Requires relevant information. This means it may be affected by lack of information.
- Highly complex, for example, categories' costs.

Incremental Budgets

- This is a budget prepared using a previous period's budget or actual performance as a basic with incremental amount added for the new budget period.
- The allocation of resources is based upon allocations from previous periods.
- This approach is not recommended as it fails to take into account changing circumstances.
- Moreover, it encourages spending up to the budget to ensure a reasonable allocation in the next budget.
- It uses a spend-it or lose-it mentality.

Advantages of Incremental Budgets

- Assume activities and methods of working will continue in the same way.
- No incentive for developing new idea.
- No incentive to reduce costs.
- Encourages spending up to the budget so that the budget is maintained next year.
- The budget may become out-of-date and no longer relate to the level of activity being carried out.
- The priority for resources may have changed since the budgets were set originally.
- There may be budgetary slack built into the budget which is never reviewed. Managers might have overestimated their requirements in the

past in order to obtain a budget which is easier to work to and which allows them to achieve favorable results.

4. Zero Based Budgets

- These are budgets prepared on the principle that each item included in the budget must be justified by the benefits which will accrue before it is included in the budget.
- These budgets start from scratch and not from previous budgets.
- Involves preparing a budget from scratch with zero base.
- It avoids the defects of perpetuating previous ineffective and inaccuracy of old budgets.
- The figure can be adjusted for inflation.

Advantages of Zero Based Budgets

- Accuracy – This helps in costs reduction as it gives an ideal picture of costs against the desired performance.
- Efficiency – Helps in efficient allocation of resources (department wise) as it does not look at the historical numbers but looks at the actual number.
- Reduction in redundant activities – It leads to the identification of opportunities and more cost effective ways of doing things by removing all the unproductive or redundant activities.
- Budget inflation – since every line of item is to be justified, zero based budgeting overcomes the weaknesses of incremental budgeting of budget inflation.

Shareholders' Ratios

- These are of particular interest to prospective investors in a business.
- These enable investors to make an assessment of the return on their investments.
- Buying shares in a company has two kinds of financial return:
    - **Capital gains –** can be made by share price rising.
    - **Annual dividends –** paid by companies to shareholders unless profits are too low or losses are being made.

- Shareholders' ratios include dividend yield, dividend cover, earnings per share and price-earnings ratio.

a. Dividend Yield Ratio

- This measures the rate of return a shareholder gets at a current share price.
- It is calculated as:

Example 1

	No. of Shares	Ordinary Share Dividend	Dividend Per Share	Share Price	Ratio
$6A^1$	21 000 000	140 000 000	0.15	1.50	
$6A^3$	140 000 000	200 000 000	0.7	10	

- Shareholders in $6A^1$ are earning a higher return on their investment than if they had bought shares in $6A^3$.
- Potential shareholders might be attracted to buy shares in a company with a higher dividend yield.

b. Dividend Per Share

- It shows the dividends received for each share.
- It is calculated as:
- A high dividend yield may be so because share price has recently fallen due to stock market concerns about long term prospects of the company.
- If the share price rises perhaps due to improved prospects of the business, then with unchanged dividends, the dividend yield will fall.

c. Dividend Cover

- This is the number of times the ordinary share dividend could be paid out of current profits.
- The higher the ratio, the more able is the company to pay its proposed dividends, leaving a considerable margin of reinvesting profits back into the business.

- It is calculated as:

Example 2

	Dividends	Profit after Tax and Interest	Ratio
$6A^1$	21 000 000	30 000 000	
$6A^3$	140 000 000	400 000 000	

- $6A^3$ has a higher dividend cover than $6A^1$.

d. Price-Earnings Ratio

- It provides a measure of profitability of shares in terms of capital value and earnings.
- A higher ratio suggests that investors are expecting higher earnings growth in the future compared with companies with a low ratio.
- A result of 1 would mean investors have very little confidence with the future earning power of the company.
- It is calculated as:
-
- This is the amount of profits earned per share.
- The result shows how much investors are willing to pay for each $1 of eanings.

Capital Structure Ratios

a. Gearing Ratio

- The measures the degree to which the capital of a business is financed by debt capital.
- It represents the proportion of the company's total capital that has prior claim to profits over those of ordinary shares.
- It concerns the balance between fixed interest finance and equity finance or balance between loan and share capital.

- It is calculated as:

or,

- Fixed cost capital include debentures, preference shares, long term loans, and any other capital carrying a right to a fixed return.
- Total capital include shareholders' equity (ordinary shares + all reserves) and non-current liabilities (long term loans and preference shares).

Measurement of Gearing

Level of Capital Gearing	Ratio
Highly geared	Greater than 50%
Neutral	Equal to 50%
Low geared	Less than 50%

Ways of Reducing/Improving Gearing

- Issuing new ordinary shares
- Redeeming preference shares and debentures
- Retaining profits
- Converting preference and debentures

How to Increase Gearing

- Issuing debentures and preference shares
- Redeeming ordinary shares

Advantages of a Highly Geared Company

- Interest payments are tax allowable
- Debt finance confers no voting rights
- In terms of raising profits ordinary shares benefit tremendously in a highly geared company because all the profits remaining after paying debentures interest and preference dividends belong to a few ordinary shares.

- Debentures and preference shares are cheaper than ordinary shares because the return is fixed and it reduces real terms with inflation.
- It increases the opportunity for shareholders as they can increase their stakes in the business as well as control.
- There is no dilution of equity.

Disadvantages of a Highly Gearing Company

- There is greater commitment to paying interests.
- Chases away potential investors.
- Management may not be borrowing to invest or expand the business.
- The higher the gearing the lower the ability of the company to pay dividends and earn retained earnings because the firm will be more committed to interest paying for different types of fixed cost capital.

Benefits of being a Lowly Geared Company

- This is a safer business strategy.
- There is less commitment to interest payments.
- Likely to obtain loans from banks for banks fear lending to firms that are already highly in debt.

Disadvantages of being Lowly Geared

- There is dilution of equity likely.
- The directors could be missing some potentially profitable investment opportunities by their reluctance to increase debts.

b. Interest Cover

- This shows how many times interest payments are covered by operating profits.
- It is calculated as:

Advantages of Ratio Analysis

- It is more informative. It shows more hidden information than the figures/numbers which do not show anything.
- It can be used in assessment of credit risks.
- They can be used as predictions of insolvency.
- It can be used in the evaluation of the company's performance.
- It can be used for year to year comparisons.
- It can be used as a pointer of areas of weaknesses and strengths.
- It makes accounting information more meaningful.
- It makes accounting information easy to understand (interpretation of complex accounting figures).
- It helps to link the different accounting figures in the financial statements and determine the significant relationship between such figures.
- It helps to summarize data.

Limitations of Ratio Analysis

- Figures are affected by inflation or exchange rates (economic environment).
- They are subjected to bias since the financial statement can be window dressed.
- Inter-firm comparisons cannot be done since firms use different accounting policies and methods e.g. stock evaluation (FIFO, LIFO).
- Results of ratios depend on the quality of financial statements.
- Several formulas can be used for one ratio.
- Evaluation of a company is inclusive if the company has both positive and negative ratios.
- Inter-industry and cross-country comparisons may be difficult for large firms with several divisions facing different cost structures and legal frameworks.

Depreciation

- It is part of the cost of a non-current asset that is consumed during the period it is used by the business, for example, a motorcar purchased for $10 000 may be worth only $8 000 one year later because it is not as good as new after a year's use. The asset would have suffered a depreciation of ($10 000 - $8 000), that is, $2 000.

Causes of Depreciation

- Wearing out
- Consumption, exhaustion
- Effluxion of time
- Obsolescence

Methods of Calculating Differentiation

1. Straight Line Method

- A fixed sum is deducted per year from the value of the asset.
- The total amount of depreciation that an asset will suffer is estimated as the difference between what it costs and the estimated amount that would be received when it is sold or scrapped at the end of its useful life.
- The total depreciation is then spread evenly over the number of years of its expected life.
- It is calculated as:

Example

Mashoko Ltd purchases a machine costing $80 000. Its expected useful life is 5 years and will have a residual value of $10 000. Calculate the depreciation per year using the straight line method.

Solution

Advantages of Straight Line Method

- It is easy to calculate.
- It is consistent, since the same amount is charged daily.

Disadvantages of Straight Line Method

- It is unrealistic to assume that an asset depreciates by the same amount each year.
- There is no recognition of the rapid changes in technology which tend to make existing assets redundant.
- The repairs and maintenance costs of assets normally rise with age and reduce profitability of the firm.
- Its accuracy depends very much upon estimates.

2. Reducing Balance Method

- It assumes that an asset losses a high value when it is new than in subsequent years.
- It is calculated from the net book value (cost – depreciation).
- It assumes that an asset depreciates by the same percentage.

Example

A machine costs $20 000. It is expected to have a useful life of 5 years. Depreciation is to be calculated at the rate of 25% per annum on the reducing balance.

Calculation	20 000
Year 1 (25% × 20 000)	<u>(5 000)</u>
Net book value	15 000
Year 2 (25% × 15 000)	<u>(3 750)</u>
Net book value	11 250

Advantages of Reducing Balance Method

- It is more realistic than the straight line method.

- Depreciation is greatest in early years but reduces with asset's useful life.

Disadvantages of Reducing Balance Method

- It assumes that an asset depreciates at the same rate during their useful life which is not the case always.
- There is a problem of calculating the percentage to apply.
- It is also based on estimates hence the accuracy can be compromised.

Stock Valuation

The Importance of Valuing Stock in Accordance with Recognized Principles

- Opening and closing inventories are included in the trading sector or the income statement to calculate cost of sales and gross profit.
- Closing stock is included as a current asset in the balance.
- Stocks can either be valued at:
    - Cost price
    - At its selling price
    - At what it is considered to be worthy

The Basis of Stock Valuation

- Stock should be valued at the lower of cost / net realizable value.
- The valuation should be such that it does not recognise profits in advance.
- Net realizable value consists of the selling price less expenses necessary to sell the products.

Methods of Valuing Stocks

1. First In First Out (FIFO)

- The method is based on the assumption that the stocks that has been purchased / produced first are the first to be issued before recent purchases are sold.

Effects of FIFO in Terms of Rising Prices

- It maximizes the value of stocks.
- It maximizes the cost of sales.
- It maximizes gross profit and net profit.
- It attracts high taxes.

Effects of FIFO in Times of Falling Prices

- It minimizes the value of closing stock.
- It maximizes the value of cost of sales.
- It minimizes profits.

Advantages of the FIFO Method

- It reduces the risk of obsolescence and expiration.
- It is recognized internationally for valuing prices.
- It is realistic (issues are made in the order they were received).
- Values are based on the prices actually paid for the good.
- Valuation is based upon recent prices.
- It is simple to use.

Disadvantages of FIFO

- There is a risk of under-pricing.
- It attracts high taxes in times of rising prices.
- Identical items are changed differently.

2. Last In First Out

- This method assumes that the recent purchases of goods/the last ones to be produced are the first to be issued before old stocks are sold.

- This means that the value of closing stocks will be based on the cost price of old stocks.

Effects of LIFO in Times of Rising Prices

- It minimizes the value of closing stock.
- It maximizes the value or cost of sales.
- It minimizes profit.

Advantages of LIFO

- Value of closing stock is easy to calculate.
- It is based on prices paid to purchase stock.
- Issued at the most recent price.

Disadvantages of LIFO

- It is unrealistic because it assumes that recent stock is issued first.
- Closing stock is not valued at recent prices.
- Identical items issued at different prices because they are deemed to be made from different batches.

3. Average Weighted Cost (AVCO)

- Under this method, sales/issues are made at the average cost or units in hand.
- All costs is valued at a single representative average cost calculated as:
- It recognizes that all such items have an equal value.
- The method produces figures that are close to FIFO hence effects are similar to those of FIFO.

Advantages of AVCO

- Prices averaged out, thus recognizing that all items should be included in the calculation.

- It has the effect of smoothing out the cost of production and cost of sales.
- Profits of different periods can be realistically compared.
- The use of AVCO avoids the inequality of identical items being charged to different jobs at different prices.
- It recognizes that identical items purchased at different times and prices have identical values.
- Averaged prices used to value closing stock may be fairly close to the latest prices.

Disadvantages of AVCO

- The average price must be re-calculated after every purchase of new stock.
- The average price does not represent any price actually paid for stock.

Example of Methods of Stock Valuation

The table below relates to purchases and sales made by Jumo ltd which sells only one product.

2004		Quantity	Unit Cost	Unit Selling Price
Jan 1	Balance	5100	$25	
Jan 10	Units received	1490	$22	
Jan 30	Units received	3000		$40
Feb 3	Units received	2310	$30	
Feb 21	Units received	4000		$44
March 6	Units received	3800	$32	
March 15	Units received	700		$46
March 26	Units received	1090	$40	
March 30	Units received	450		$48

Question

Calculate the value of stock on March 31 based on:

- FIFO [3]

- LIFO [3]
- AVCO [5]

1. FIFO

	Date	Jan 1	Jan 10	Feb 3	March 6	March 26
	Price	$25	$28	$30	$32	$40
Issues	**Received Quantity**	5100	1490	2310	3800	1000
Jan 30		(3000)				
		2100				
Feb 21		(2100)	(1490)	(410)		
		-	-	1900		
March 15				(700)		
				1200		
March 30				(450)		
				450		

Therefore, closing stock = (750 × $30) + (3800 × $32) + (1000 × $40)

= **$184100**

2. LIFO

Date		Bal b/d Jan1	Jan 10	Feb 3	March 6	March 26
	Price	$25	$28	$30	$32	$40
	Received Quantity	5100	1490	2310	3800	1000
Jan 30	Issued	(1590)	(1490)			
		3590				
Feb 21	Issued	(1690)		(2310)		
		1900		-		
March 15	Issued				(700)	
					3100	
March 30						(450)
						550

Therefore, value of closing = (1900 × $25) + (3100 × $32) + (550 × $40)

= **168 700**

3. AVCO

Date		Receipts	Issues	No. of Units in	Average Cost per	Total Cost

				Stock	**Unit**	
2004 Jan 1	**Bal b/d**	5100 at $25		5100	$25	127500
		1490 at $28		6590	$25.68	169220
			3000 at $25.68	3590	$25.68	92180
		2310 at $30		5900	$27.37	16148
			4000 at $27.37	1900	$27.37	52500
		3800 at $32		5700	$30.46	173600
			700 at $30.46	5000	$30.46	152278
		1000 at $40		6000	$32.05	192278
			450 at $32.05	5550	32.05	177 856

Therefore, value of closing stock = **$177 856**

The Stock Exchange

- This is an organized market which brings together buyers and sellers of corporate and government securities.
- It is a market for buying and selling of shares, stocks and other second hand securities.

Functions of the Stock Exchange

- It controls the admission of new member.
- It settles disputes between members.
- It also establishes prices of shares depending on the level of supply and demand.
- It also educates members of the public on investment of shares.
- They display prices of securities and shares.
- It protects investors e.g. by avoiding fraud and establishing code of conduct.
- They compensate investors who may be defrauded by sellers.
- They also list and delist companies on the stock exchange.

- Approves shares of companies to be bought and sold.
- Allows companies and government to raise funds.
- It provides a means of valuing companies for takeovers and mergers because it is based on share prices.
  Note: A company listed on the stock exchange is referred to as a quoted company or listed company.

  Being listed on the stock exchange normally shows that a company has met the listing requirements of the Z.S.E.
- It provides a ready evaluation of the investors making it easy for shareholders who wish to dispose his/her shares.

Advantages of Quotation or Listing

- Quoted shares are readily marketable and acceptable when they are given a consideration in mergers and takeovers.
- Quotation may give companies a superior position and this may be important to customers who want to know the final new resources and trading patterns of the company.
- The market itself places a higher valuation on quoted companies and this may be an advantage to shareholders.
- The use of stock exchange as a source of new permanent capital may be more attractive than bank finance which may be withdrawn in the event of severe credit squeezed.

Disadvantages

- Shareholders who have control of the company often fear that a quotation will be to their disadvantage as shares are freely transferable which can dilute their control.
- The company is also vulnerable to a takeover bid. This is due to a free transaction of shares which can lead to another firm buying more than 50% of the shares.
- Going public can be expensive because it requires drafting of the prospectus, press publicity, the use of underwriters and auditors.

Financial Markets

- These are markets where financial instruments are traded.
- They can be divide into:
    - Capital markets.
    - Money markets.
- These are markets used to raise finance.

1. Capital Markets

- It is a collection of interrelated markets in which those who seek medium and long-term finance are brought into contact with those who wish to provide it.
- This market coordinates the forces of demand and supply on market forces for long-term supply.
- Financial markets institutions that make up the capital markets act as intermediaries and channels on savings of companies and individual borrowers.

Main Institutions in the Capital Markets

- Commercial banks
- Merchant banks
- Finance houses

Role or Functions of the Capital Markets

- A dynamic and vibrant capital market contribute for speed and economic growth and development.
- It mobilizes funds from people for further investment in the productive channels of the economy.
- It can be used in capital formation meaning that it is the net addition to the existing stock of capital in the economy.

- Provision of investment avenues, that is, the capital market raises resources for larger periods of time, thus it provides an investment avenue for people who wish to invest resources for a long period of time.
- It speeds up economic growth and development, that is, enhances production and productivity in the nation or economy as it makes funds available for long periods of time.
- It also helps increase productivity in the economy by generating employment and infrastructural development.
- It also helps in proper allocation of resources.
- It offers consultant services meaning that it guides and advise individuals on business.
- Continuous availability of funds, that is, buyers and sellers can easily buy and sell securities as stock as they are continuously available.

2. Money Markets

- This is a market for short-term finance.
- These are markets that trade securities or instruments with maturities of less than one year.
- It consists of organisations like banks, discount houses and finance houses.
- They are considered to be highly liquid and considered extraordinary and safe.
- These players which are found at the money market borrow and lend money for short periods of time.
- This enables money to be invested and money deficits can be funded that mature in less than one year.
- They offer low returns than most other securities.
- Instruments and securities offered or traded include treasury bills, commercial paper, Negotiable Certificates of Deposits (NCDs), and Bankers Acceptances (BAs).

- Excess can also be invested in money market securities.
- Securities traded are liquid, that is, can be easily converted into cash.

World Bank

- The aim of the World Bank is to fight properly by providing loans and advice to the developing nations.

International Monetary Fund

- The organisation regulates international financial cycle.
- It was formed to promote:
    - International monetary cooperation.
    - Exchange rate stability.
    - Orderly exchange arrangement.
    - To foster economic growth.
    - International trade.
    - Financial assistance to countries with B.O.P. deficiencies temporarily.

General Functions of the Financial Markets

- They allow borrowers and lenders to interact and permit transfer of finds from excess units to deficit units.
- They help in price determination. They provide vehicles by which prices are set both for new or existing stock of financial assets.
- They allow for information aggregation and coordination. They act as aggregators and collectors of information about financial asset values and flow of funds from lenders to borrowers.
- Risk sharing. They allow transfer of risk from those who undertake investments to those who provide for the investment.
- Liquidity. It provides holders of financial assets with a chance to resale or liquidate the assets.

- Efficiency. They reduce transactional costs.

The Financial Markets Work Best when:

- Investors are fully informed.
- Markets are free of fraud and manipulation.
- There is no threat of failure of one financial institution may lead to failure of others and possibly collapse in the organisation.
- There is no breakdown of management control at the company.

The Role of the Government in Financial Markets

The government intervenes in financial markets for the following:

- Information. In an unregulated market investors have no enough information to guide their investments which should not be based on rumors.
- Government enforces better rules to improve the efficiency of financial markets.
- To prevent the gains of cheating.
- To avoid the contagion effect were risk taken by one firm can harm other firms.
- To fight against fraud on market prices which discourage investors and harm the entire economy.
- So that the company can fully disclose information to the investors.

Primary Markets and Secondary Markets

- Focus under capital markets.

Primary Markets

- Markets where first hand instruments are sold and traded.
- Instruments traded for the first time.

Secondary Markets

- Markets where second hand instruments are traded or sold e.g. auctions.
- Instruments are traded for the second time.

IMPACT OF ICT ON FINANCE AND ACCOUNTING

- ICT can significantly reduce accounting costs. Redundant tasks can be centralized in one location through the use of information technology infrastructure. Economic efficiencies can be realized by migrating high-cost functions into an online environment. Businesses can also offer email support for customers that may have a lower cost than a live customer support call. Cost savings could also be found through outsourcing opportunities, remote work options and lower-cost communication options.

- The presence of computers, printers, scanners, faxes or other innovative equipment in finance and accounting offices eliminates the boring, tedious and difficult-to-handle use of manual documents and filing systems.

- Accounting software is now used to record and process accounting transactions within functional modules such as accounts payable, accounts receivable, payroll, and trial balance as part of the accounting information system. This (simple) accounting software can be acquired online.

- Information technology is used widely in accounting security. The use of identifications and passwords provide a strong control in accessing confidential information about the entity. Instead of binders and papers lying around, security is greatly enhanced with the proper computer programs. Using a program, accounting information can be encrypted in a way to prevent unauthorized use, making it quite safe. For instance, a lost, stolen or misplaced laptop or desktop computer can be tracked using the security software acquired by the business.

- The Internet provides vast sources of information that can be used by businesses in the accounting area. Through this, documents can be shared, research can be conducted and taxes in some countries can be filed online. The Point-of-Sale (POS) system is commonly used by malls and department stores. Internet helps in the payment procedure of customers through real-time connection of their credit card to their respective banks. The use of barcodes helps in improving the sales transaction time and automatically updating of the inventory records.

- Web hosting off-site or 'the cloud' is the latest trend with accounting applications. Instead of installing a program onto the business computer and saving data there, the program resides on a server in a different location. This cloud technology also uses the internet to connect and save their information or documents online. This can also be referred to as "working in the cloud". In this way, businesses can save money in software and hardware purchases by just signing up with a cloud services provider and use its programs and space to save data. Through this, there is no need to get a bigger hard-drive or worry about program versions. The other advantage of the cloud is that you have access to your information from anywhere. This new cloud technology is also associated with the improved security of accounting information. Information is not open to all netizens, the administrator can restrict access to the information.

Chapter 11

QUESTIONS: INFORMATION FOR DECISION MAKING

- Evaluate any four measures of control tendency.
  [20]

- Using a set of numerical values explain the meaning of the following terms:
  a. Mean
  [3]

  b. Median
  [3]

  c. Mode
  [3]

  d. Range
  [3]

- How useful is the mean and the mode in making stockholding decisions?
  [8]

- Evaluate the different methods that can be used by a firm in the manufacturing
  sector for data presentation.
  [25]

- Using illustrations, evaluate the usefulness of using decision tree diagram as a
  decision making tool.
  [25]

- In decision trees what does a square and a circle stand for?
  [2]

- Explain the meaning of blending technique in linear programming.
  [6]

- Of what importance is linear programming to a firm in the manufacturing sector? [10]

- Evaluate the relevance of cost benefit analysis to a manufacturing firm.
  [10]

- Explain any two types of decisions made by managers.
  [4]

- Illustrate a decision tree diagram.
  [3]

- Explain how a decision tree diagram is drawn.
  [6]

Information Technology

- Evaluate the usefulness of technological improvement to a car manufacturing
  sector.
  [25]

- How useful is the use of IT in organisations?
  [25]

- Define the following terms:
  a. Automation
  [2]

  b. Manufacturing technology
  [2]

  c. Office technology
  [2]

INFORMATION FOR DECISION MAKING

- This section emphasizes on the main sources of collecting and presenting statistical data frequently used in business.
- The use of simple decision making and planning techniques is also emphasized.

Presentation of Information

- After data has been collected, it needs to be presented in a form that communicates the information and enables conclusions to be drawn.
- As the purpose of the data is to aid in decision making and to report back the results (to facilitate control) it is necessary to choose a way of presenting data that is clear, accurate and appropriate.

Methods of Presenting Data

1. Tables

- This is when data is either summarised in columnar form or in rows depending on the form required by the user.
- Points to note when setting out a table of data:
  - Number each table for ease of reference.
  - Give it a short descriptive name.
  - Name each column (that is, vertical list of numbers) and name each row (horizontal list of numbers).
  - Generally avoid decimal points when dealing with people because they give a false impression of great precision.

- Give the source of data for ease of reference.

Example of Tabulated Data

Wonder Manufacturers Ltd.

Table 1: Number of Units Assembled by Each of 25 Newly-Trained Operators

21	35	61	79	20
21	39	30	80	70
22	40	22	60	100
23	50	23	50	90
20	90	70	100	20

Source: 25 Individual Worksheets

Applicability

- Most useful when:
  - Wide range of results need to be recorded.
  - The results need to be analyzed by statistical means and it is essential to have the numbers themselves.
  - It is generally more accurate to take results form a table than to interpret a graph or a chart.
  - There is a lot of text to include with the results, such as detailed heading for each column.
  - It backs visual impact of graphs and charts.

Advantages of Tables

- Facilitates the presentation of large quantity of statistical data.
- They save space and time of having to rewrite information that is common for many figures e.g. those items that accrued at the same time e.g. same day of the week can be grouped together.
- It backs visual impact of graphs and charts.
- They retain the originality of the data.

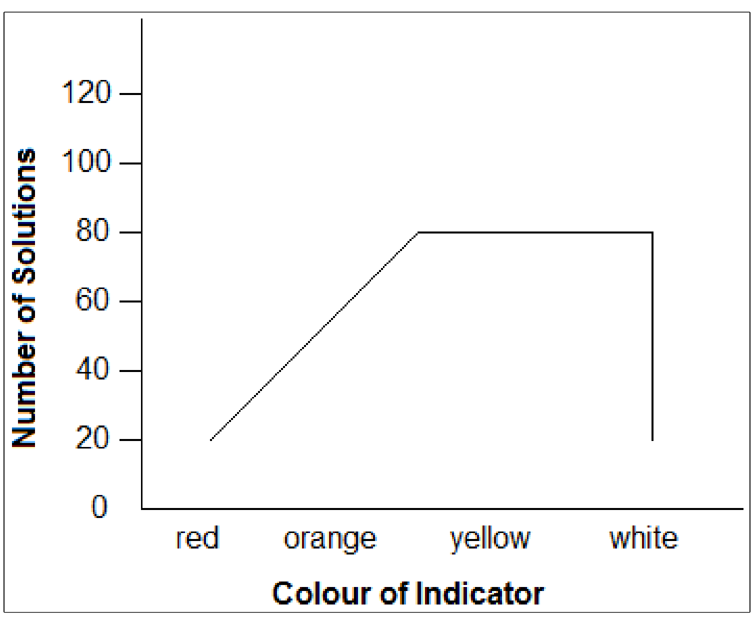
Disadvantages of Tables

- They lack visual impact of graphical presentation.

2. Line Graphs

- It is formed by joining the coordinates together.
- It is mostly used to show changes in a variable over time.
- It is a continuous line joining a number of points which reflect the changing relationship between two variables.
- **Note:** The graph should:
    - Be clearly labeled.
    - Have a descriptive title.
    - Have a source.
    - Have a scale.
    - Have what is on the x-axis and y-axis.

Example



Advantages of Line Graphs

- Suitable for clear presentation of rapidly changing figures.
- Used to show changes over time (trends).
- It can be used to make comparisons between two firms or variables.

Disadvantages of Line Graphs

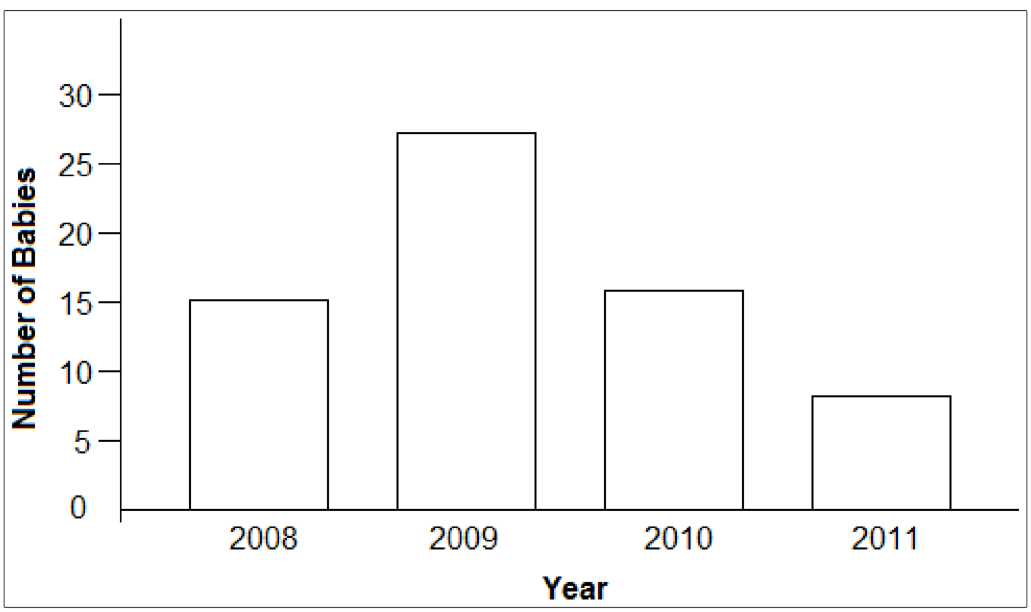
- They do not retain data originality as it is converted into lines on a graph.
- It needs further mathematical calculations to give a clear impression.

3. Bar Charts

- Those use bands of equal width but varying lengths or heights to represent relative values.
- The bars can either be vertical or horizontal.
- A bar chart has spaces between the bar.

Diagram

Number of New Born Babies Each Year



Advantages of Bar Charts

- They help summarize data.
- Useful when making comparisons.
- They can be presented in a number of ways, that is, multiple bars or component bars.

Disadvantages of Bar Charts

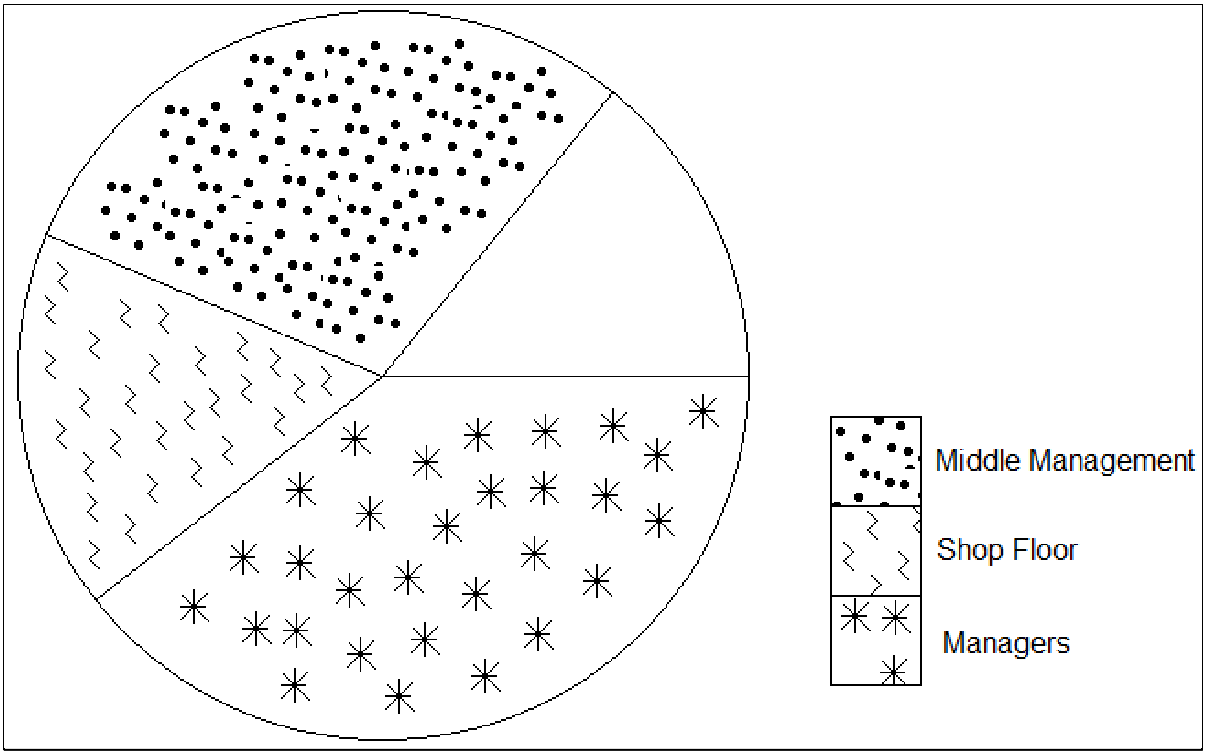
- They may be difficult to construct.
- They do not retain data originality as it is converted into bars.
- Difficult to use without a key and an explanation.

4. Pie Charts

- Used to display data that need to be presented in such a way that the properties of the total are clearly shown.
- It is circle that is divided into sections with each section representing a proportion of the whole data.

Example of a Pie Chart

Wage Bill Paid to Different Employees of a Company



Source: HR of Jamal Hotel

Advantages of Pie Charts

- They are easy to interpret.
- They can show effective variations.
- They have the visual impact than tables.

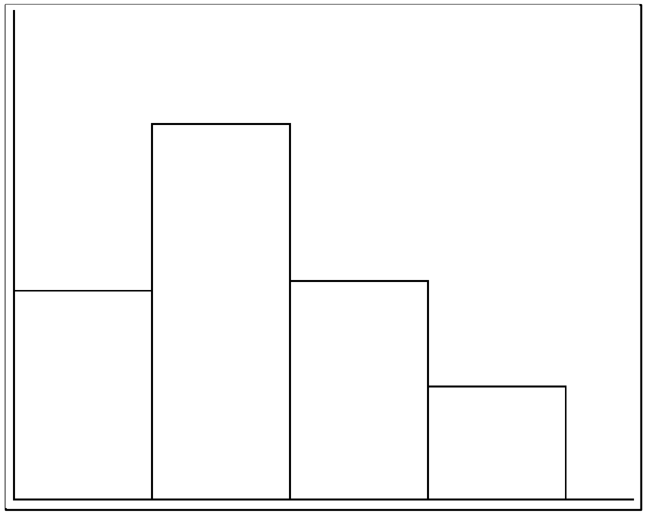
Disadvantages of Pie Charts

- They require mathematical calculation to determine the size of each section if they are to be accurate.

5. Histogram

- This is also known as the block diagram because it consists of columns that touch each other. The bars are continuous; there are no spaces between them.

Diagram



Advantages of Histograms

- These can be used to visually present frequency data when the range of data has been broken into class ranges.

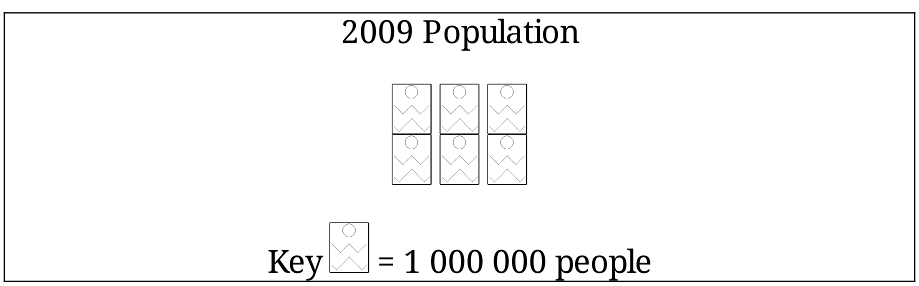
Disadvantages of Histograms

- It can be difficult to calculate and construct since it involves calculation of frequency densities.

6. Pictograms

- This is the use of pictures to represent data.

Example



Advantages of Pictograms

- The visual impact is strong.
- Useful when the user wants to attract the reader.

Disadvantages of Pictograms

- Only simple and limited data can be shown.

Decision Trees Analysis

- It is a decision making tool which involves assessment of given decisions relatively to alternatives available through the use of tree diagrams to select the best possible decision.

Decision Tree

- It is an aid to decision making in conditions of uncertainty.
- It considers all options available and make use of probabilities.

Examples of Types of Decisions that are Made using Decision Tree

- Whether or not to introduce a new product or continue with the existing product.
- Whether to launch a new advertising campaign.
- Whether to sell off assets for a known price or continue to use them in conditions of uncertainty.
- Whether or not to expand in one nation or another.

How to Construct a Decision Tree Diagram

Features:

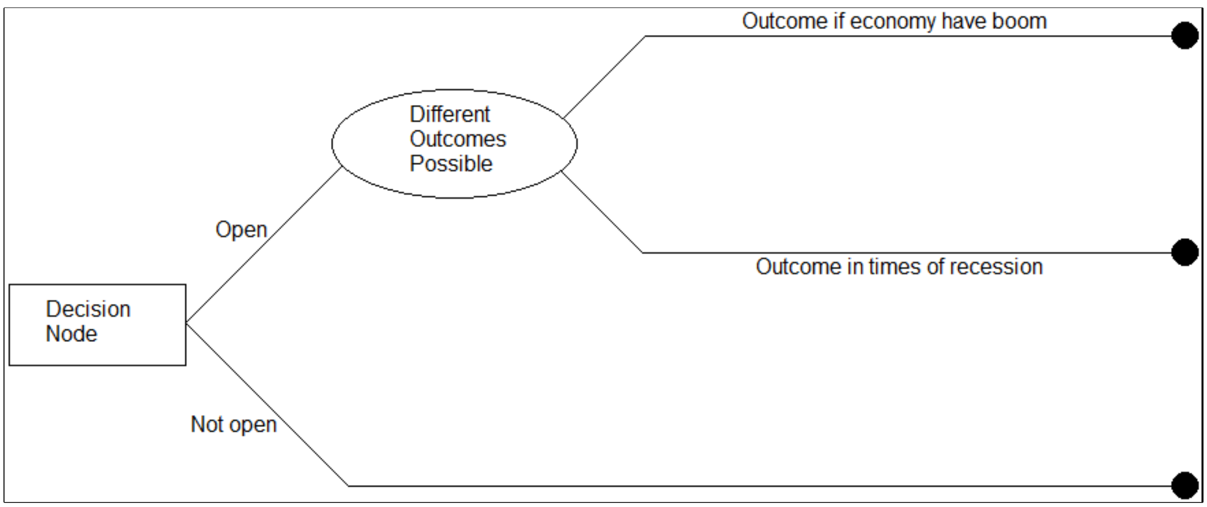
- **Squares**
    - This is the starting point of a decision tree diagram.
    - It represents points at which management decision have to be made.
    - They are known as nodes.
- **Branches**
    - Each branch of the tree represents an option e.g. whether to open or close a shop.

- They show also a range of consequences or outcome and the chances of them occurring.

- **Circles**
  - It shows that a range of outcomes may result from a decision.
  - It represents points at which one of a number of outcomes may occur.

- **Black dot**
  - Shows the finishing point of the sequence of events.

Example of a Decision Tree (Whether to Open a Factory or Not)



- A decision is made whether to open or not to open. Then if we open, we have different outcomes depending on the state of the economy, that is, boom and recession.

- To decide on which decision to take, in this case whether to open the factory or not it is necessary to calculate the expected value at each node.

Expected Value

- This is equal to the outcome multiplied by its probability.

- The rule is you multiply horizontally along each line, and then add up the resulting values.

Pay off

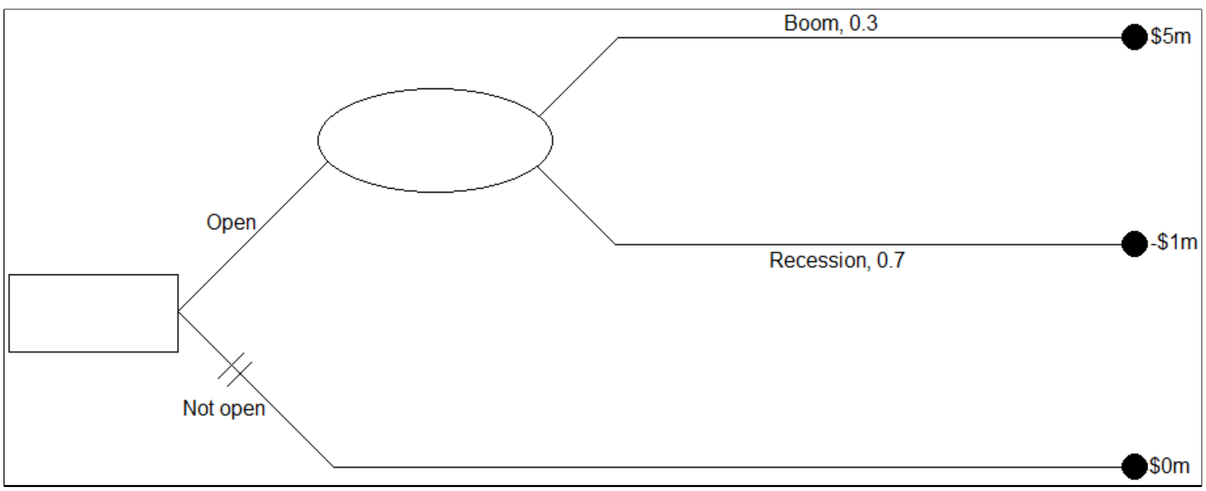
- This is the expected net cash inflows from the project.

Example

A firm wishes to open a new factory and considers the state of the economy. A decision not to open the factory gives a zero return. If the firm decides to open the factory, in a boom it will have an outcome of a profit of $5 000 000 and there is only a 0.3 probability of a boom. If there is a recession opening a factory will lead to a loss of $ 1 000 000. It is estimated that there is a 0.7 probability of a recession.

- Represent the information on a tree diagram and decide whether the firm should open the factory or not and why.

Solution



Open

- Expected value

Boom	=	$5m × 0.3	=	$ 1 500 000
Recession	=	-$1m × 0.7	=	(700 000)
				$ 800 000

Not Open = $0 × 1 = $0

- The expected value of the return on opening is $800000 which exceeds the return of not opening.

- The recommendation is therefore to open.

Example 2

A company has two projects A and B. The initial outlay for A is $180000 and for B it is $150000. The following information is available:

Project	**State of demand**	
	High	**Low**
A	200 000	150 000
B	300 000	150 000
Probability		
A	0.6	0.4
B	0.7	0.3

- Represent the above information on a decision making tree diagram.
- Which project should the company choose? Justify.

Solution

Expected Monetary Value for A = (0.6 × 200 000) + (0.4 × 150 000)
= 120 000 + 60 000
= $180 000

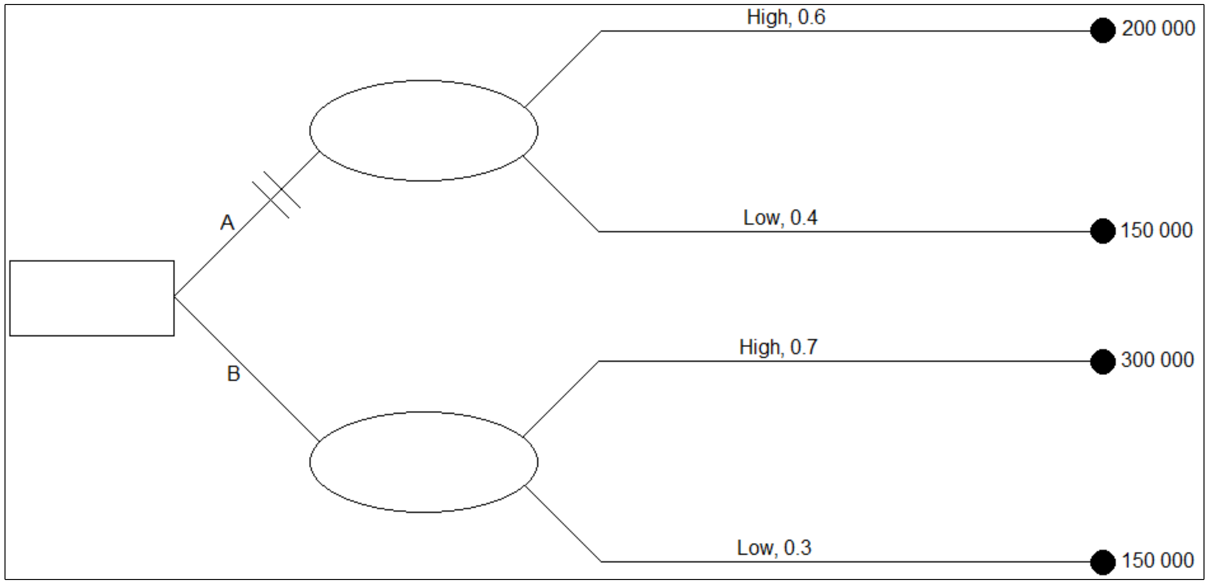
Therefore, pay off = $180 000 – $180 000
= **$0**

Expected Monetary Value for B = (0.7 × 300 000) + (0.3 × 150 000)
= 21 000 + 45 000
= $255 000

Therefore, pay off = 255 000 – 150 000
= **$105 000**

Note: Pay off = Expected Cash Inflows – Initial Capital Outlay

-



- The company should choose project B because it has the higher pay off of $105000 as compared to project A.

Advantages/Usefulness of the Decision Tree Diagrams

- It reduces the risk of project failure. Decision trees help in the assessment of risks associated with undertaking a project in a certain environment. Only projects with the highest outcomes are considered.

- It acts as a quick screening device which is important in choosing viable projects which provide better return on investment.

- They present a more logical way and reasonable way of selecting projects. It simplifies and makes it easy to select the best project from a number of alternatives available.

- Decision trees are most suitable when dealing with large investments e.g. when dealing with projects which require a lot of capital investments like purchasing a factory or building.

- The decision technique is quite motivational. This is because it a collective process in which workers participate and are consulted.

- It helps in efficient allocation of resources whereby more resources will be channeled to a project with a low risk of failure thus reducing costs in an organisation.

- It helps in timing of the introduction of the project by assessing the state of the economy. Decision trees provide a clue as to when to introduce a project.
- New ideas are thrown up.
- They encourage managers to quantify alternative courses of action.

Limitations of Decision Tree Diagrams

- The construction of decision trees is time consuming.
- Information is not always available e.g. the cash flow estimates.
- It increases the costs to the business associated with data collection and labour.
- It focuses more on quantitative factors thereby neglecting non-quantitative factors.
- Probabilities may lead to biased information.
- The calculations are based on estimates and they might not be accurate.

Measures of Central Tendency

- These summarize the attributes of the middle data set.
- The most commonly used measures are mode, mean, median, variance and the range.
- Central tendency is the average score from a class of variables.

i. Arithmetic Mean (Average)

- It is the sum of a group of items divided by the number of the items.
- It is calculated as: ;
- Where = total of the values,
- and n = number of the variables.

Advantages of Mean

- It is widely used for comparisons.
- There is only one mean for any data set so it may not be confusing.
- It is to calculate and understand.
- It makes use of all the data in the group.
- It can be determined even when nothing is known other than the quantity of items and the number of them.

Disadvantages of the Mean

- It may not represent any element in the given data set.
- It is affected by outliers.
- By including all the items of a group it compromises its accuracy.
- The result may not be a whole number which might be difficult to work with.

Example of Mean

Calculate the mean, given the following set of data:

5	6	7	8	10
21	13	14	6	7

Mean

2. Median

- It is the value that is found at the middle of the data.
- It is the value that splits an arranged data into two groups.
- In order to calculate the median, the data is arranged in ascending or descending order.
- The position of the median can be found by where n is the total number of items.

Example

Given 2 4 6 8 10 12 14 16 18, find the median.

term.

5th item

= 10

Example 2

Given 1 5 7 10 11 12, calculate the median

term

th term

= 3,5th term.

Note: Add the third and fourth term then divide by two to the median.

= **8.5**

Uses of the Median

- It could be used in wage recognition e.g. half hour union members earn less than $XXX per week.
- Often used in advertising e.g. the reliability records show that our products are always in the best performing 50% of all the brands.

Advantages of Median

- It is easy to understand, simply dividing a distribution into two equal parts and thereby conveying the information that the same proportion of items lies above or below the median value.
- Extreme items do not affect its value.
- It generally represented by an actual item (unlike the mean).
- It is possible to work out the median even if the value of all items are not known. As long as the middle items are known.

Disadvantages of Median

- It is usually not representative if worked out with only a few items.
- If the distribution is irregular, the actual location of the median may be indefinite.
- It is sometimes time consuming to arrange the data in necessary array.
- It is not possible to use the median to determine the total value of all the items e.g. number of items × median will not give the total data.

3. Mode

- It is the value that appears most frequently in a data set.
- Unlike the median and the mean, a decision maker can have more than one mode in a given data set.

Example

Given 1 12 5 12 6 7 12 9 1 12 12 11
Mode = 12 (that is occurs 5 times)

Uses of the Mode

- Results could be used for stock ordering purposes e.g. number of shoe size 12 should be ordered mostly.

Advantages of Mode

- It is simple to understand.
- Extreme items do not affect the value of the mode.
- It can be worked out even if only the middle items are known.
- Represented as a typical value.
- It is just observed.

Disadvantages of Mode

- An organisation can find it difficult to make decisions in situations where there are more than one modal variables.

- It cannot represent the whole elements in the given data set.
- Exact locations may be uncertain.
- The arrangement of data is time consuming.

Range

- It is the difference between the highest and lowest in a set of data.

Example

If the daily output varies from 210000 to 220000. Find the range.

Range = 220000 – 210000
= **10000**

Advantages of Range

- It is easy to calculate.
- Not affected by outliers.
- Easy to understand.

Disadvantages of Range

- It only takes into account two extremes. Both extremes may be very untypical, thus distorting the picture of the extreme variation.
- Leaves out other relevant information.

Cost Benefit Analysis

- When businesses are undertaking projects, they need to weigh costs against benefits towards the community.
- Cost benefit analysis is a collection of techniques which attempt to find an objective to measure the utility of a proposal based on a range of people's values and common money scale.
- For example, a business applying for permission to build a factory might argue for the following benefits:

    - Employment creation.
    - Boosting local authorities' revenues through tax payments.
    - Improving the appearance of the landscape.
- The locals might be concerned with the following costs:
    - Congested roads.
    - Pollution.
    - Evaluation of settlers.
- These must be put into monetary terms and evaluated in order to reach a desired and appropriate decision.
- With cost benefit analysis, social costs, private costs, private benefits and social benefits must be considered.

Social Costs

- These are costs incurred by the whole society.
- This is the external costs plus private costs.

External Costs

- These are costs incurred by the firm which affect the third parties, that is, people not directly involved in making the decision.
- External costs of a business include:
    - Environmental factors such as pollution from smoke, noise and chemicals.
    - Spoiling of the environment.
    - Global warming.
    - Damage from traffic.
    - Endangering species of wildlife.

External Benefits

- These are benefits that are enjoyed by the society as a result of the firm's activities.
- Examples include:
    - Employment opportunities.
    - Economic regeneration.
    - Training of local workers.
    - Improved living standards.

Private Costs

- These are costs to the firm or company responsible for the decision which is usually reflected in the production cost of the business and therefore its price.

Procedure for Cost Benefit Analysis

- Identifying all costs and benefits connected with an activity.
- Putting a financial value on the costs and benefits.
- Comparing the total cost with the total benefits.
- Finalize a decision.

Advantages of Cost Benefit Analysis

- It takes into account qualitative factors, that is, factors like pollution, unemployment, land damage, living standards are given a monetary value.
- It helps in planning. Given the costs and benefits of a project, management can plan on how to minimise costs or increase benefits before launching the project.
- It acts as a screening device of projects. Profitable projects have more total benefits than costs. When dealing with more than one project, one with the highest difference between total benefits and costs is selected.
- It determines the worthy of carrying out certain projects, that is, firms will

know the likely net benefits of their project.

- It considers ethical issues since it considers external benefits and costs of projects.

Disadvantages of Cost Benefit Analysis

- Some factors are difficult to express in money terms.
- It is based on estimated monetary values hence results may be biased.
- The process is time consuming as it involves a deeper analysis on costs and benefits.
- It is an assumption which may not be relevant.
- It is more quantitative and ignores qualitative information.

Linear Programming

- It is a technique which shows practical problems as a series of mathematical equations which can then be manipulated to find the optimum or best solution.
- It is used to determine how to produce the highest output, from a given set of machines and equipment, taking into account any constraints such as production time.
- It can be defined as a mathematical technique which can be employed by management to determine the optimal utilisation of limited resources.

Examples of situations where Linear Programming can be Used

- The manufacturer wants to adopt a production schedule and an inventory policy that will satisfy demand in the future periods. Ideally, the schedule and policy will enable the company to satisfy demand and at the same time minimise the total production costs of inventory.
- A marketing manager wants to determine how best to allocate a fixed advertising budget among alternative advert media e.g. radio, TV, newspapers. The manager would want to determine the media mix that maximizes the advertising efficiencies.

Techniques of Linear Programming

- Blending technique
- Extrapolation technique

Blending Technique

This is a graphical approach to linear programming which deals with resource allocation subject to give constraints.

Advantages of Linear Programming

- It helps in attracting the optimum use of productive resources. It does that by indicating how a decision maker can employ his productive factors effectively by selecting and distributing the resources.
- It improves the quality of decisions. The decision making approach of the user of this technique becomes more objective and less subjective. It eliminates guesswork.
- It provides possible and practical solutions since there might be other constraints operating outside the possible problem which must be taken into account.
- It helps in highlighting bottlenecks in which machines may not meet demand while others may remain idle for some time.
- It helps in the re-evaluation of a basic plan for changing conditions. If the conditions have changed when the planning is partly implemented to work at the remaining part of the plan.
- Helps calculate the amount of resources needed to produce a certain quantity of each product.
- It helps minimise costs and maximize profits.

Disadvantages of Linear Programming

- It treats all relationships among decision variables as linear, however, in general neither the objective functions nor the constraints in real life situations concerning businesses and individual problems are linearly related to the variables.

- While solving on L.P. model, there is no guarantee that we get integer value solutions. These solutions might make sense.
- It does not take into account the effect of time and uncertainty and therefore, the L.P. model should be defined in such a way that any change due to internal as well as external factors can be incorporated.
- Parameters appearing in the model are assumed to be constant but in real life situations, these are frequently neither known nor constants.
- L.P. deals only with a single objective whereas real life situations may present conflicting multiple objectives.

INFORMATION TECHNOLOGY

Information technology is a collective term for various technologies involved in the collection, storage, processing and dissemination of information by electronic means. For example, it includes the use of computers, telephones, transaction machines, fax machines.

Advantages of Information Technology

- Improved accuracy of information.
- Increased speed of data processing.
- Easier access to information resulting in better decision making.
- Increased volume of information.
- Increased productivity.
- It frees up the workforce to undertake work requiring skill and judgment.
- Greater consistency.

Disadvantages of Information Technology

- There are costs of installing and running the equipment.
- Cost of training staff.
- Redundancy costs incurred if any staff are being replaced by technology.
- The problem of security, confidentiality and compliance with the data protection act.
- Possible staff resistance.
- Health problems, for example, computers are not good for the eyes and the VDU can be harmful to unborn babies.

Computers

- All computers have two main parts – hardware (physical components) and software (the programming instructions that make the physical component work).

Hardware consists of the following

- **Input Devices –** Used to get data into the computer e.g. the keyboard, mouse and scanner.
- **Central Processing Unit –** This is the brain of the computer. It has the ability to fetch, decode and execute instructions.

- **Back-Up Data Storage –** They store data when the power is turned off.
- **Output Devices –** Make the processed data available to the user e.g. the printer and the visual display unit.

Software consists of:

- **Operating Systems –** The software that controls the allocation and usage of hardware such as memory, CPU time, disk space and peripheral devices. This is the foundation on which applications are built.
- **Applications Software –** Are programs designed to assist the performance of specific tasks such as word processing, spreadsheets and databases.
- The main applications are the following:
    - **Word Processing –** Allow you to key in text and solve it. Changes can be made to the text and it can be printed out.
    - **Database –** Allow you to store information in record format. The information can be saved, amended, sorted and searched.
    - **Spreadsheet Application –** Allow you to enter data into a grid and save the information. You can perform numerical calculations.
    - **Computer Art –** Allow you to draw shapes and use patterns.
    - **Stock Control Applications –** Allow you to set up stock control systems and enter information about stock held and save it. You can amend the information and print out stock lists and summary reports.
    - **Control Technology –** Allows you to use technology to control devices, such as robots and screen turtles to perform tasks.

Computers and Manufacturing

Computers are used in:

- Designing products.
- The manufacturing process.
- Production planning.

- Monitoring and control.

Computer-Aided Design (CAD)

- This application allows the designer to produce two and three dimensional designs on a computer screen where they can be quickly and easily modified. It can be used to stimulate performance to obviate the need to construct a prototype.

Advantages Include:

- It saves time in designing.
- It is easy to modify designs.
- Drawings can be rotated to view the design from different perspectives.
- It is possible to calculate financial stress as part of the design process.
- It leads to enhanced quality and consistency.

Computer-Aided Manufacturing (CAM)

- This involves the use of computers in a variety of manufacturing tasks beyond the use of robots on the production line.

Computer Integrated Manufacturing (CIM)

- Takes a stage further, with the use of computers to coordinate every aspect of production from design, through stock control to production scheduling and control. It involves:
  - C.A.D.
  - Flexible manufacturing systems or highly automated manufacturing systems that are computer controlled and capable of producing a family of products in a flexible manner.
  - Robots (artificial devices able to perform functions ordinarily carried out by human beings).
  - Numerically controlled machines that respond to programmed instructions.

The Benefits of Computer Integrated Manufacturing are:

- Increased productivity.
- Reduction in waiting times.
- Greater consistency.
- Greater flexibility.
- Improved coordination of all factory operations.
- Direct and flexible control of machine tools.
- Economies in operation by virtue of continuous use of equipment and the avoidance of bottlenecks.

The Internet

- It is the worldwide computer network that carries the World Wide Web, electronic mail and other services.
- The web is a large collection of information stored on a worldwide network of computers.

Opportunities of the Internet in Business

- Advertising the firm's products.
- Selling goods and services.
- Delivery of services, such as a distance-based training course or electronic newspapers.
- Recruitment of employees, by advertising vacancies.
- Communication in the form of e-mail.
- Information dissemination to customers, suppliers and the public.

Benefits of Using the Internet

- Provides cheap and efficient long-distance communication.
- Offers unlimited potential for personal networking.

- Offers a platform for business transactions.
- Has worldwide potential for marketing.
- Opens up worldwide sources of information.
- Is democratic and open.

Disadvantages of Using the Internet

- It still mainly carries information that organisations give away free of charge.
- It includes incomplete, trivial and illegal information.
- It can be slow, both to connect and to use.
- It can produce information overload.
- Employees can waste valuable time surfing the net.
- Security and trust are necessary.

Automation/Application Technology

- Process whereby a firm engages in the use of technologically advanced machineries, processes and equipment.

Manufacturing Technology

- This refers to tools used in the conversion of raw materials into finished and semi-finished goods.

Office Technology

- This refers to a set of devices used in the office such as computer, laptops, photocopiers, fax machines, telephones and printers.

******reliable, completeness, timeliness, auditability,