NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: BHM 725

COURSE TITLE: INTRODUCTION TO BUSINESS

COURSE DEVELOPMENT

BHM 725

INTRODUCTION TO BUSINESS

COURSE GUIDE

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CONTENTS

1.0 INTRODUCTION

BHM 725: Introduction to Business is a semester coursework of two credit units. It is available to all learners in the Postgraduate Diploma (Business Administration) programme of the School of Management Sciences. The course is basically concerned with introducing you into the world of business theory and practice.

The course guide tells you what you will learn in this course, the course aims and objectives, and the materials and support that you require to make your study very successful.

Also, this course guide contains information on assessment which consists of the
Tutor-Marked Assignments and the Final Examination.

2.0 COURSE CONTENTS

The course contents include: The Nature of Business; Basic Forms of Business Ownership; The Environment of Business; Types of Businesses; Management in the Business Enterprise; Finance in Business; Marketing in Business; Marketing in Business; Accounting in Business; Communication in Business; Entrepreneurship and the Business Enterprise; Control and Regulation of Business; Legal Issues in Business: Law of Contract; Legal Issues in Business: Sale of Goods; Business Social Responsibility; and Business Ethic

3.0 COURSE AIMS

This course is aimed exposing you to the complex world of business theory and practice. Business can be said to be an economic activity which is related with continuous and regular production and distribution of goods and services for satisfying human wants. It is an economic system in which goods and services are exchanged for one another or money, on the basis of their perceived worth. Every business requires some form of investment and a sufficient number of customers to whom its output can be sold at profit on a consistent basis.
The business enterprise performs the following functions:

- Marketing;
- Production;
- Finance;
- Accounting; and
- Personnel.

4.0 OBJECTIVES

On the successful completion of this course, you will be able to:

- define business;
- highlight the features/characteristics of business;
- discuss the beneficiaries of business;
- say what a business enterprise mean;
- enumerate and explain the objectives of a business enterprise;
- explain the structure of a business enterprise;
- discuss the stakeholders in the business enterprise;
- list the distinguishing features of each of the three basic forms of business organizations – Sole Proprietorship, Partnership, and Limited Liability Company;
- define a Company in law;
- enumerate the strengths and weaknesses of the three basic legal forms of business organizations;
- define business environment;
- discuss the nature of business environment;
- explain environmental scanning;
- define types of businesses;
- explain the features of the types of businesses;
- define management;
- differentiate between efficiency and effectiveness;
- state the role of management in business;
- define and state the role of a manager;
- describe the concept management structure;
- discuss hierarchy of authority;
- define and explain the concept management objectives;
- define and discuss process management;
- Explain the role of the financial manager in a business organization;
- Discuss the functions of financial management;
- Explain why businesses need funds;
- Enumerate and explain the sources of short-term and long-term financing;
- state the place of marketing in today's business;
- state reasons why accounting is needed in business;
- explain the role of communication in business;
- distinguish between the entrepreneur and the manager;
- discuss the roles of government regulatory institutions in the control and regulation of businesses in Nigeria;
- tell what a contract is, its characteristics and types;
- determine what constitute violation of a contract;
- give remedies to the violation of a contract;
- distinguish between sales and other contracts;
- discuss the future of business social responsibility in Nigeria;
- apply the principles of ethics in dealing with complex business problems involving conflicting interests.

5.0 COURSE MATERIALS

The main components of the course are:

- The Course Guide
- Study Units
- References and Further Readings
- Assignment Guide

6.0 STUDY UNITS

There are fifteen (15) units in this course, and they are grouped into four (4) modules as follows:

Module 1

Unit 1 The Nature of Business
Unit 2 Basic Forms of Business Ownership
Unit 3 The Environment of Business
Unit 4 Types of Businesses

Module 2

Unit 1 Management in the Business Enterprise
Unit 2 Finance in Business
Unit 3 Marketing in Business
Unit 4 Accounting in Business

Module 3

Unit 1 Communication in Business
Unit 2 Entrepreneurship and the Business Enterprise
Unit 3 Control and Regulation of Business

Module 4

Unit 1 Legal Issues in Business: Law of Contract
Unit 2 Legal Issues in Business: Sale of Goods
Unit 3 Business Social Responsibility
Unit 4 Business Ethics

Each study unit is made up of the introduction, objectives, main content, exercises (for self assessment), conclusion, summary, tutor-marked assignment questions, and references/ further reading. This will take at least two hours. You are expected to study the materials carefully and attempt the exercises. You are also expected to consult the textbooks under References/Further

Reading, for additional information. Practice the tutor-marked assignment questions as well. The textbooks under References/Further Reading include the following:

Boone, Louis and Kurtz, David (2001). *Contemporary Business, 9th Edition*. New York: Dreden Press.

Brown, Betty I. and Clon, John E. (1997). *Introduction to Business: Our Business and Economic World.* New York: McGraw Hill Inc.

Inegbenebor, A. U. and Osaze, Esosa Bob (Ed.) (1999). *Introduction to Business: A Functional Approach*. Lagos: Malthouse Press Limited.

Mescon, Michael H., Bovee, Courtland L., and Thill, John V. (2002). *Business Today*. Upper Saddle River, New Jersey: Prentice Hall.

Miller, Roger LeRoy and Farese Lois Schneider (1992). *Understanding Business: A World of Opportunities.* New York: West Publishing Company.

7.0 ASSESSMENT

The assessment for this course will be in two parts:

* Tutor-Marked Assignments (TMAS)
* Final Examination

7.1 Tutor-Marked Assignments

The Tutor-Marked Assignments form the basis for Continuous Assessment for this course. The NOUN will decide on the form these assignments as well as schedule when they are to be done as appropriate.

You are expected to utilize the information gathered from the study material and the references in attempting the assignments. The assignments will account for 30% of the total course mark.

7.2 Final Examination

The final examination in the course will attract the remaining 70% of the total course grade. You are advised to note that all areas of the course will be assessed during the examination.

8.0 SUMMARY

The world of business is complex. On the successful completion of this course you would have been well exposed to face business challenges.
The National Open University of Nigeria wishes you the best of luck!!!

COURSE DEVELOPMENT

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MODULE 1

UNIT 1 – THE NATURE OF BUSINESS

CONTENTS

1.0 INTRODUCTION

In any organized society, several institutions exist to serve the needs of the people in that society. Government creates several institutions to enable it carry out its function of providing law and order, security of life and property, regulation and control of the activities of individuals and groups in the society, development of infrastructure and promotion of the economic, social and cultural welfare of the nation. Institutions are also established to serve the needs of the people for goods and services. Such institutions provide these goods and services to people with the aim of making profit for their owners. These institutions are non-governmental in many societies, but there are quite a number of societies where government also engages in providing these goods and services. Also, there exist non-profit and non-governmental institutions which are established in to render certain services which neither government nor profit-oriented organizations render. Amongst others, they are usually concerned with educational, cultural, religious, human rights, and environmental issues.

Institutions or organizations whose primary objective is profit-making are generally known as business enterprises, and those will be the focus of this introductory unit. We shall attempt to answer the following questions:

- What is business?
- What are the features/characteristics of business?
- Who benefits from business?
- What is a business enterprise?
- What are the objectives of the business enterprise?
- How is the business enterprise structured?
- Who are the stakeholders in the business enterprise?

2.0 OBJECTIVES

After a careful study of this Unit, you should be able to:

- define business;
- highlight the features/characteristics of business;
- discuss the beneficiaries of business;
- say what a business enterprise mean;
- enumerate and explain the objectives of a business enterprise;
- explain the structure of a business enterprise; and
- discuss the stakeholders in the business enterprise.

3.0 MAIN CONTENT

3.1 DEFINITION OF BUSINESS

Business can be said to be an economic activity which is related with continuous and regular production and distribution of goods and services for satisfying human wants. Let us consider a few definitions:

- Brown and Clon (1997) define business as "The activities of an individual or group of individuals in producing and distributing goods and services to customers."
- Stephenson defines business as "The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants."
- According to Dicksee, "Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted."
- Lewis Henry defines business as "Human activity directed towards producing or acquiring wealth through buying and selling of goods."

Thus, the term 'business' means continuous production and distribution of goods and services with the aim of earning profits under certain market conditions. It is an economic system in which goods and services are exchanged for one another or money, on the basis of their perceived worth. Every business requires some form of investment and a sufficient number of customers to whom its output can be sold at profit on a consistent basis.

It is important to recognize that the term 'business' can be used loosely. It may be used to describe a wide variety of activities or transactions that an individual or group may engage in. When business is defined as a commercial activity engaged in as a means of livelihood, a trade, a profession, occupation or a particular field of endeavour, it is obvious that the term can be applied as a general term for most human activities. Specifically, however, business is defined as any lawful human activity which involves the production and distribution of goods or the rendering of services for the purpose of making a profit.

3.2 FEATURES/CHARACTERISTICS OF BUSINESS

Here, let us highlight the features or characteristics of business as follows:
(i) Directly or indirectly concerned with the exchange of goods and services for money or money's worth.
(ii) Deals in numerous transactions.
(iii) Profit is the main objective.
(iv) Business skills are required for economic success.
(v) Business is subject to risks and uncertainties.
(vi) Business involves a buyer and a seller.
(vii) Business is connected with production of goods and services (industrial activity)
(viii) Business activity may be concerned with marketing or distribution of goods (commercial activity).

SELF ASSESSMENT EXERCISE 1

1. In your own words, define 'Business'.
2. Highlight the essential features of business.

3.3 BENEFICIARIES OF BUSINESS

The following benefit from business activities:

(i) Business Owners

Apart from the profit that accrue to business owners (which is an opportunity to invest more and generate more income), business owners have the satisfaction of being their own bosses.

(ii) Employees

Workers are paid salaries and enjoy other benefits relating to loans, health care, vacation bonuses and retirement/compensation plans. Therefore, it means they (workers) earn income that enables them attend to their personal needs as well as the upkeep of their families. They are enabled to choose what to buy, and have the opportunity of making savings. Also, employees benefit from business training opportunities, in addition to gaining great experience on the job. At the right time, they can establish businesses of their own.

(iii) Government

Business pays, and government collects taxes to function as well as provides basic amenities to the general public.

(iv) General Society

The society benefits immensely from the activities of business under corporate social responsibility. Schools are built and equipped, access roads constructed, electricity provided, and so on.

3.4 MEANING OF BUSINESS ENTERPRISE

A business enterprise is an organization engaged in the trade of goods, services, or both to consumers. Miller and Farese (1992) refer to business enterprise as "any business organization set up to exchange goods, services, and money in order to make a profit." It can be said to be a decision-making unit concerned with serving certain needs through the production and distribution of goods and rendering services at a profit for the owners.

The distinguishing feature of business enterprises in relation to other institutions of society is profit. For example, a government-owned medical laboratory may produce vaccines for controlling certain animal diseases, but this activity is usually not carried out for the purpose of making a profit. Similarly, a non-profit and non-government organization may render services without the aim of making a profit.

3.5 OBJECTIVES OF THE BUSINESS ENTERPRISE

Our definition of the business enterprise stresses that the primary objective of business is to make profit by identifying and effectively serving the needs of customers. Profit is the primary motive for establishing a business enterprise. It is a reward for investing one's savings in a venture despite the fact that the future outcome of the venture is uncertain. This implies that profit is a reward for assuming the risk of establishing a business enterprise.

Profit serves other functions. It is the principal source of growth and continued existence of the business enterprise. Through re-investment of profit, the business enterprise can be expanded. Profit also serves as a measure of performance. It is an index by which the performance of one enterprise can be compared with that of another or the performance of the same enterprise can be evaluated over time. Consequently, profit is an incentive for people to work harder and more efficiently.

However, there are secondary objectives of business which are related to, and dependent on the profitability objective. They include the following:

(i) Growth Objective

The expansion of the business enterprise is one of the objectives of business. This may take the form of increased sales turnover, market share, number of people employed, capital employed, and so on.

(ii) Innovation

Innovation is an important means of striving to satisfy the needs of customers better than competitors. It involves introduction of new products, new method of handling distribution, etc.

(iii) Productivity

It is particularly important to the business enterprise that productivity is improved. Productivity is the ratio of output to input in a given period of time. It is the extent to which a business enterprise is able to utilize a given set of resources to achieve the highest possible value of output. Productivity may be measured over time in terms of output by employee, output per unit of capital invested or output per unit of the most critical resource used.

(iv) Employee Satisfaction

Business enterprises seek to enhance the satisfaction of employees as a means of optimizing their contribution to the growth and competitiveness of the enterprise.

(v) Shareholder Satisfaction

To guarantee continued support of investors, business enterprises seek to improve the returns to shareholders while at the same time reducing their risk.

(vi) Public Image

A positive public image for the enterprise enables it to obtain the resources it needs on favourable terms. Thus, the business enterprise strives in various ways to improve its image as a good corporate citizen involved in the production and distribution of high quality products. It also strives to project itself as an enterprise which is concerned about its employees and the community in which it operates.

SELF ASSESSMENT EXERCISE 2

1. What do you mean by ‘business enterprise?

2. Discuss the objectives of the business enterprise.

3.6 STRUCTURE OF THE BUSINESS ENTERPRISE

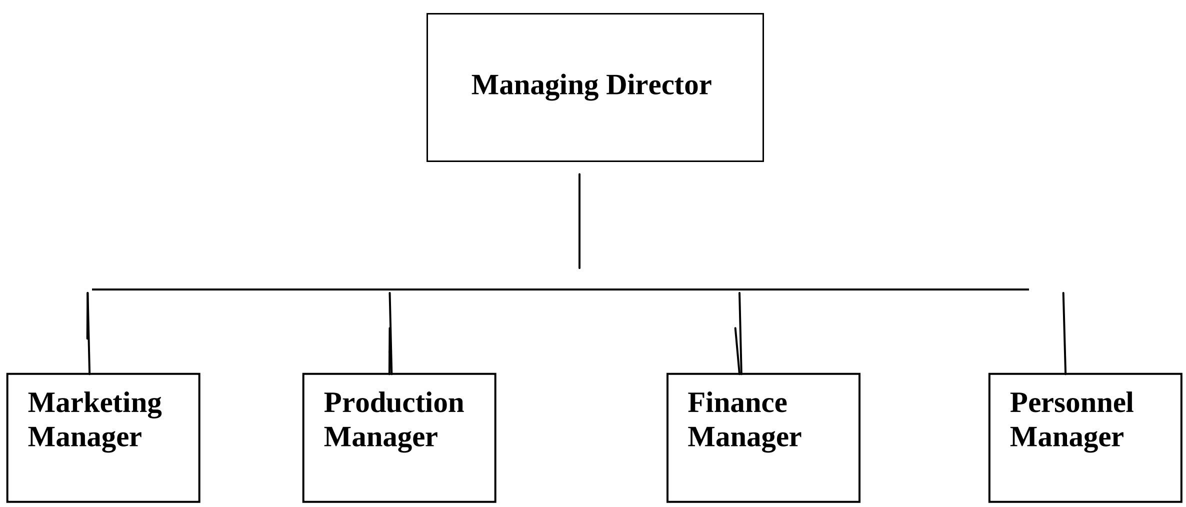
The production and distribution of goods and services involve a large number of activities. The structure of a business enterprise is the pattern of grouping and allocation of these activities to people as well as the distribution of authority among them in order to achieve the objectives of the enterprise. The activities can be grouped in a large number of ways. Most often, they are grouped according to the basic functions serve. These functions are:

- Marketing;
- Production;
- Finance;
- Accounting; and
- Personnel.

Marketing includes activities involved in ascertaining the needs of customers, developing suitable goods to meet the needs, and distribution of the goods to customers. Production function incorporates all activities through which raw materials are procured, and converted into needed products. Finance involves activities needed to obtain the required funds, allocate and control the utilization of the funds. Under accounting, all activities by which financial transactions are recorded, summarized, analyzed and interpreted for business decision-making, are included. Personnel function encompasses all activities by which human resources are procured and utilized in the business enterprise.

The distribution of authority among people performing various functions in the enterprise is also another aspect of the structure of the business enterprise. As with all human institutions, authority is unevenly distributed. Some people are given more authority than others. However, the basis of distribution of authority is the responsibility that a person has for people, money, materials and information needed to produce and distribute goods and services. The higher the responsibility that a person has in the business enterprise, the more the authority that is assigned to such a person so that she or he can carry out the responsibilities assigned to her/him. Hence, there is a hierarchy of authority in the business enterprise as shown in the following diagram:

Figure 1



Structure of a Business Enterprise

The diagram shows that the person with the highest level of authority in this business enterprise is the Managing Director. The managers in charge of the functional areas each have the same level of authority over activities assigned to them, but their authority is higher than that of their subordinates.

3.7 STAKEHOLDERS OF THE BUSINESS ENTERPRISE

Stakeholders are persons or group of persons who have committed something in the business enterprise and, therefore, have expectations from it. We can also refer to stakeholders as all those involved in, affected by, or able to influence the business enterprise, and they include the following:

- Owners, shareholders, and creditors
- Customers and consumers
- Employees and agents
- Suppliers
- Competitors
- Media and advocacy groups
- Government
- Families
- Communities
- Society

4.0 CONCLUSION

Relative to other institutions, a business enterprise is regarded as such if it is established to serve certain needs through the production and distribution of goods and rendering of services at profit for the owners.

5.0 SUMMARY

In this Unit, we have been able to:

- define the term ‘business’ and to highlight its characteristics;
- enumerate and discuss the beneficiaries of business to include the owners, employees, government, and the general public;
- define an enterprise as “any business organization set up to exchange goods, services, and money in order to make a profit;
- discuss the objectives of the business enterprise, as well as its structure;
- enumerate the stakeholders of the business enterprise.

6.0 TUTOR-MARKED ASSIGNMENT

1. Enumerate and explain the stake holders of the business enterprise.
2. With the aid of a diagram, describe the structure of a business enterprise you are familiar with. Explain the authority relationships between the key positions in the enterprise.

7.0 REFERENCES/FURTHER READING

Boone, Louis and Kurtz, David (2001). *Contemporary Business, 9th Edition*. New York: Dreden Press.

Brown, Betty I. and Clon, John E. (1997). *Introduction to Business: Our Business and Economic World.* New York: McGraw Hill Inc.

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UNIT 2 – BASIC FORMS OF BUSINESS OWNERSHIP

CONTENTS

1.0 INTRODUCTION

One of the first decisions that must be made when a new business is to be started is the form in which it will operate. There are three legal forms of business organizations. These are the Sole proprietorship, Partnership, and Limited Liability Company. Each of these has its own distinguishing features/characteristics, as well as merits and demerits. It is necessary to understand the differences among these three forms. The knowledge of their strengths and weaknesses is very important in our exposition on Business. And these will be the focus of this unit.

2.0 OBJECTIVES

After studying this Unit, you should be able to:

- list the distinguishing features of each of the three basic forms of business organizations – Sole Proprietorship, Partnership, and Limited Liability Company;
- define a Company in law;
- enumerate the strengths and weaknesses of the three basic legal forms of business organizations.

3.0 MAIN CONTENT

3.1 SOLE PROPRIETORSHIP

A Sole proprietorship or one – man business, as the name implies, is a business concern owned by one person who often is also engaged actively in the running of the business. The sole owner subscribes to all of the equity capital of the business which in most cases are raised from personal savings or soft loans obtained from relations and friends. All incomes also accrue to the owner.

Other characteristics/features of one – man business include the following:

- (i) A sole proprietorship has no distinct legal entity. Even when it is registered by the Corporate Affairs Commission under the Companies and Allied Matters Act, as required by the law, the owner and the business cannot be separated;
- (ii) The owner has freedom to deal with the organization's assets without any restrictions imposed by law;
- (iii) Because of the limited amount of assets which a sole proprietorship business controls, it is often small and can be recognized easily;
- (iv) Its capacity to borrow (especially from banks) is limited by the asset base;
- (v) It has very high risk because of the inseparability of the owner with the business;
- (vi) The business outfit often goes by the name of the owner, and operates within a confined location, usually, not more than two branches;
- (vii) The structure is fairly simplistic in nature.

3.2 PARTNERSHIP

A partnership is generally defined as a legal relationship between two or more persons where each person contributes something in order to carry on a lawful business with a view of profit which is to be shared between the partners in a proportion agreed upon by them. Therefore, for a partnership to exist:

- the association must be engaged in a business which may be a trade or a profession;
- the trade or the profession must be carried on together, jointly, for the benefit of all the partners; and
- there must be an intention to earn a profit.

The above description, therefore, distinguishes a partnership from a political, religious, social, or philanthropic club or association. A partnership agreement, which need not necessarily be in written form (although it is advisable or wiser that any agreements between the partners be reduced to writing as this will tend to lead to fewer possibilities of misunderstandings and disagreements between partners), will govern the relationships between the partners, including:

- name of organization, the type of business, and duration;
- capital to be introduced by partners;
- sharing of profits between parties, including salaries since not all the partners may be employed by the partnership on a full-time basis. Such salaries will be normal operating expenses;
- drawings by partners;
- arrangements for dissolution, or on the death or retirement of partners;
- settling of disputes;
- preparation and audit of accounts.

At this juncture, it is necessary to note that, although the partnership agreement creates a legal relationship between the partners, the partnership itself is not a legal entity.

We can highlight the essential features of a partnership as follows:

(i) Partnership is not separated from the partners.
(ii) Setting-up cost is low and it is easy to form.
(iii) Life of partnership is limited because it is a legal entity.
(iv) Regarding liability, the partners must risk all their personal assets, even those not invested in the business, for under the partnership each partner is for the business' debts.
(v) Partners share in the profits of the business according to their individual financial contribution to the business.
(vi) The death of a partner can dissolve the partnership.

SELF-ASSESSMENT EXERCISE 1

Distinguish between a sole proprietorship business and a partnership. In which ways are they similar, if any?

3.3 LIMITED LIABILITY COMPANY

A limited liability company (or company) may be defined as an artificial creature, invisible, intangible, and existing only in contemplation of law. As a legal (artificial) person, it is separate from the owners. It can enter into a contract, sue and be sued in its name, can affiliate with another company, and open subsidiaries. Nestle, UAC, PZ, and First Bank are few examples of big Nigerian companies.

A company is legally formed by meeting the conditions stipulated in the Companies and Allied Matters Act (Decree), 1990. The promoters must apply for registration at the Corporate Affairs Commission together with both a Memorandum and Articles of Association.

The Memorandum of Association must contain the following information:

- name of the company, with the term "Limited" as the last word of the name;

- objects for which the company is formed;
- amount of the share capital with which the company proposes to be registered and the division into shares of a fixed amount;
- address of the registered office of the company; and
- a statement to the effect that the ‘liability’ of the members or shareholders is ‘limited’.

The Articles of Association, on the other hand, setting out the regulations for internal organization, and contains provisions relating to:

- proceedings at meetings;
- alteration of capital;
- appointment of directors;
- borrowing powers of directors;
- transfer or transmission of shares;
- winding-up procedure, etc.

The Memorandum and Articles of Association, duly stamped for stamp duties and fees, and accompanied by certain other forms, are lodged with the Registrar-General, who if everything is in order, issues a Certificate of Incorporation. At that point, a Limited Liability Company is formed, and those who signed the memorandum are its “foundation members”.

From the foregoing, let us highlight the following distinguishing features of a company as follows:

- Separate legal entity, which is not affected by changes in its ownership;
- Can own assets and incur liabilities in its own right;
- Can sue or be sued in its own name;
- Has perpetual succession – does not cease to exist upon the death of any or all of the owners;
- Liability of owners/shareholders is limited to the amount paid for shares allocated;
- Has the right to borrow on its own account;
- External audit is compulsory;
- Profits are subject to Company Income Tax;
- Statutory annual returns to the Corporate Affairs Commission.

3.4 COMPANIES AND PARTNERSHIPS CONTRASTED

Let us attempt to outline the distinguishing features/characteristics of Limited Liability companies and partnerships as follows:

S/N	COMPANIES	S/N	PARTNERSHIPS
1.	Separate legal entity which is not affected by changes in its membership.	1.	No separate legal entity – not a juristic person.
2.	Shareholders have limited liability for debts – limited to the amount he agreed to pay for shares allotted.	2.	The liability of each member for debts of the firm is unlimited. Partners are jointly and severally liable for debts.
3.	Rights of management are delegated to the directors.	3.	Every member can partake in the management of the business.
4.	Powers and duties of directors are spelt out in the Articles of Association and can be varied by passing a special resolution of the company in a general meeting.	4.	The rights of partners themselves are governed by the partnership agreement which can be varied.
5.	The authorized capital is fixed by the Memorandum of Association.	5.	Capital is contributed by the partners by agreement. The amount, which is not fixed, can be increased by undrawn profits or reduced by losses and withdrawals.
6.	Shares are freely transferable in public companies; in private companies, shares are transferable subject to restrictions imposed by the Articles of Association.	6.	The share in a partnership cannot be transferred except by the consent of all partners.
7.	Audit is compulsory, and copies of accounts are filed with the Corporate Affairs Commission (CAC) annually.	7.	Audit is not compulsory; copies of accounts are not filed with the Corporate Affairs Commission.
8.	Profits are distributed in the form of dividend.	8.	Profits are distributed as per agreed ratios; drawings may be made by mutual agreement for accruing profits.
9.	Profits are subject to Company Income Tax.	9.	Profits are subject to Personal Income Tax; partnership is not taxed.
10.	Unlimited life.	10.	Partnerships have limited life.

SELF-ASSESSMENT 2

Define a Company and explain how it is different from a Partnership.

3.5 STRENGTHS AND WEAKNESSES OF THE BASIC FORMS OF BUSINESS ORGANIZATIONS

Let us highlight the strengths and weaknesses of the basic forms of business organizations – Sole proprietorship, Partnership, Limited Liability Company – in a tabular format as shown below:

Sole Proprietorship	Partnership	Company
Strengths • Owner receives all profits(as well as losses) • Low organizational costs • Income included and taxed on proprietor's personal tax returns • Independence • Secrecy • Ease of dissolution	• Can raise more funds than sole proprietorship • Borrowing powers enhanced by more owners • More available brain power and managerial skills • Income included and taxed on partners' tax returns	• Owners have limited liability, which guarantees that they lose more than they invested • Can achieve large size due to sale of stock • Ownership(stock) is readily transferable • Long life of firm • Can hire professional managers • Has better access to financing • Receives certain tax Advantages
Weaknesses • Owner has unlimited liability-total wealth can be taken to satisfy debt • Limited fund-raising power tends to inhibit growth • Proprietor must be jack-of-all trades • Difficult to give employees long-term career opportunities • Lacks continuity when proprietor dies – life of the business is limited to the life of the individual who created it	• Owners have unlimited liability and may have to settle debts of other partners • Partnership is dissolved when a partner dies • Difficult to liquidate or transfer partnership	• Taxes generally higher, because corporate income is taxed and dividends paid to owners are also taxed • More expensive to organise than other business forms • Subject to greater government regulation • Lacks secrecy, because stock holders must receive financial reports

4.0 CONCLUSION

The form a business enterprise takes depends on various factors, among which are the nature of the commodities to be produced, the way in which capital is to be raised, and most importantly, the probable size of the new enterprise. Although the sole proprietorship and partnership are the oldest forms of business ownership, Limited Liability Company is the most influential.

5.0 SUMMARY

In this unit, we have been able to consider that:

- the three basic legal forms of business organizations are the Sole proprietorship (one – man business), Partnership, and Limited Liability Company;
- these forms of business organizations have their distinguishing features, as well as their strengths and weaknesses;
- while the one-man business and the partnership may die following the death the owner/one of the partners, the life of the Company is not affected by the death of the founders;
- proprietors/partners have unlimited liability – their personal assets/wealth can be used to satisfy debt;
- shareholders' liabilities in a company are limited to the value of their investments in the company.

6.0 TUTOR – MARKED ASSIGNMENT

1. Evaluate the strengths and weaknesses of the basic forms of business organizations.

7.0 REFERENCES/FURTHER READING

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UNIT 3 THE ENVIRONMENT OF BUSINESS

CONTENTS

1.0 INTRODUCTION

Business does not operate in a vacuum. Generally, business operates in a multifaceted environment which is of itself subject to a large measure of change. The relationship between business and its environment is one of mutuality; that is, the environment exerts pressure on business while business, in turn, influences various aspects of its environment. Business also depends n its environment for the supply of all its input and at the same time to absorb its output.

The environment provides opportunities or alternative avenues for investment which the business manager can exploit to his/her advantage. The business environment may also constitute a threat to business if changes in it are unfavourable to business operations. If the business must survive in the long run, it must be capable of responding and adapting to environmental conditions from time to time as these environmental factors are dynamic in nature. Therefore, the business manager must make his/her plans, take decisions and execute them within the limits imposed by the environment. Therefore, this Unit will discuss the environmental factors or forces that influence the conduct of business in Nigeria and elsewhere.

2.0 OBJECTIVES

After a careful study of this Unit, you should be able to:

- define business environment;
- discuss the nature of business environment; and

- explain environmental scanning.

3.0 MAIN CONTENT

3.1 MEANING OF BUSINESS ENVIRONMENT

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

3.2 NATURE OF THE BUSINESS ENVIRONMENT

Basically, the business environment can be categorized into three categories: micro, macro and international environment.

The micro-environment consists of elements whose decisions and activities have immediate impact on the operations of the business enterprise. These elements include consumers or users, trade unions, competitors, creditors, government regulatory agencies, marketing intermediaries, suppliers, investors, and the community. The micro-environment is also called task environment or operating environment. The business enterprise cannot survive without taking into cognizance the activities of these groups.

The macro-environment consists of those external forces over which the firm has no control. They include economic, socio-cultural, political, legal, technological and physical environment.

The international environment refers to all those elements or forces outside the national boundaries but which are capable of having effect on the decisions and operations of the business enterprise.

These three categories of the business environment exert pressure on the business enterprise simultaneously. They also interact and affect one another.

3.2.1 MICRO ENVIRONMENT

(i) Government Regulatory Agencies

There are several government agencies which regulate the activities of business. Their policies and practices have a profound influence on business. Such government policies may affect the conduct of business of the firm. For example, the banning of imported wheat by the Nigerians government some years back adversely affected the bakery industry in Nigeria. Besides, it forced many flour producers who depended on the imported wheat for production to fold up. However, the same policies gave many flour mills the opportunity of processing other locally produced grains such as sorghum and maize.

(ii) Trade Unions
The agitation by trade unions for better conditions of service and higher wages also affects the operations of the firm. This is because of the fact that their activities may bring production to a halt, thereby seriously affecting the profit of the business enterprise.

(iii) Competitors
The activities of companies that produce similar products or services can also affect the performance of the business enterprise. This is because they may either offer lower price or produce higher quality products with the aim of securing a larger market share. Likewise, the activities of competitors can opportunities to a business enterprise, by discovering and closing the gap in the supply of certain type of product.

(iv) Consumers
The consumers on their own expect the firm to produce goods and services that can satisfy their needs. Where alternatives are available, consumers usually prefer the goods and services of firms that are able better to meet their needs. Thus, the behaviour of consumers has direct impact on the sales of the business enterprise. That is, consumers' perception of a firm's products or services may either bring success or failure to the business enterprise.

(v) Marketing Intermediaries
These are wholesalers and retailers that distribute the products of the firm. Intermediaries are independent businesses that are selected by a business enterprise to distribute its products. In some cases, they also distribute competitors' products. Therefore, in order to use them effectively, a business enterprise must create a conducive atmosphere for them to operate. However, being independent business units, the manner in which they operate their businesses have direct implications for the business enterprise.

(vi) Investors
Investors supply various forms of long-term finance to the business enterprise. In a sole proprietorship, the investors are mainly the owners of the business. In a limited liability company, they are shareholders or debenture holders.

(vii) Creditors
Creditors provide the business enterprise with short-term funds. They may be bankers who provide overdraft facilities or trade creditors who supply goods and services on credit basis. Creditors depend on the business firm to meet its obligations to them in accordance with the agreed terms.

(viii) Suppliers
These provide various inputs to the business enterprise. Such inputs include raw materials and semi-finished goods. The firm must ensure that they maintain good relationship with the suppliers in order to guarantee constant supply of these raw materials. This is the only way in which the production line can be kept going on a continuous basis.

(ix) The Community
The community is defined as the geographical area in which the business enterprise is located or with which it frequently interacts in the course of its operations. The business enterprise depends on the community as a source of certain inputs such as land, labour, energy, and other raw materials. The community may also be an outlet for the disposal of the goods and services of the business enterprise. Ever community has unique characteristics in terms of social conditions, availability of infrastructural facilities and expectations. Business enterprises consider these factors in choosing their location because the conditions in one community may be more favourable to business operations than others.

SELF-ASSESSMENT EXERCISE 1
1. What do you understand by the concept of business environment?
2. Discuss the elements of micro-environment.

3.2.2 MACRO ENVIRONMENT

(i) Economic Environment
The economic environment is defined by elements such as the Gross Domestic Product (GDP), capacity utilization rate, government fiscal and monetary policies, interest rate, unemployment rate, exchange rate, inflation rate, etc. These elements operate simultaneously to define the economic conditions which all business enterprises face. Business managers are usually concerned with the changes that are occurring in these elements and the direction of the change.

- **Gross Domestic Product**

This is a measure of the value of output of goods and services in a country during a given year. GDP is an index of the gross performance of the economy during a given time period. While the absolute value of GDP is important, it is the growth rate of it that business managers focus on to indicate the well-being of the economy.

- **Capacity Utilization Rate**

This is an indicator of the extent to which the installed capacity of firms has been used during a given time period. For example, if an oil mill is capable of processing one million tons of palm fruits annually but actually processes 500,000 tons; its capacity utilization is actually 50%. The shortfall may be due to lack of palm fruits, lack of spare parts, power failure or other constraints. Capacity utilization rate indicates the efficiency of the economy in which the business enterprise operates.

- **Government Fiscal and Monetary Policies**

Government fiscal policy is the level of government expenditure, debt management, and tax structure during a given time period while monetary policy is the changes in the stock of money, interest rate and credit policy during a period. Fiscal and monetary policies are instruments in the hands of government and the Central Bank to guide and control the economy. For example, by increasing government expenditure or by varying the interest rate, output can be stimulated. The nature of fiscal and monetary policies as well as their effectiveness in achieving the desired objectives is of interest to business firms in their planning efforts. Given the objectives of policy and the seriousness of government in executing the programme, firms are able to forecast the economic environment and plan for it.

- **Interest Rate**

This is an important element of the economic environment. Interest rate can be defined as the price paid to borrow capital. Since many business enterprises depend substantially on borrowed funds, the level of interest rate and changes in it affects their cost of operations.

- **Unemployment Rate**

This is another indicator of the health of the economy. When the level of unemployment is high, business enterprises are in a better position to select more suitable employees from the pool available. The wage-rate may be lower because the supply of labour is higher than its demand while trade unions are at a disadvantage in bargaining for better conditions of work. On the other hand, a high level of unemployment means low aggregate of purchasing power and hence low sales for all businesses in the economy.

- **Exchange Rate**

Exchange rate is the price of domestic currency for a unit of foreign currency. Business enterprises import most of their equipment, spare parts and raw materials. The prevailing exchange rate, therefore, determines their cost of operations. The exchange rate is also important to those enterprises that export goods and services because their revenue increases when the exchange rate increases. However, exchange rate stability is of great importance to business enterprises. When the exchange rate is stable, business managers can easily forecast their cost of operations and take appropriate decisions. Business planning is often difficult when the exchange rate is unstable.

- **Inflation Rate**

Inflation is defined as a general rise in the prices of goods and services in an economy. The rate of inflation affects the purchasing power of consumers and hence the sales performance of business enterprises. Since business enterprises also purchase goods and services in the course of their operations, their cost of production tends to increase as production rate increases.

(ii) Socio-cultural Environment

The socio-cultural environment of business is the complex social and cultural conditions prevailing in the society in which the business enterprise operates. These social and cultural conditions are generally dynamic but unique to a given society. We can describe the socio-cultural environment of a society by examining the nature of the people, the groups they form and the institutions they have created for themselves. In particular, we examine the values, beliefs, attitudes, customs, and norms which regulate the behaviour of the people. We also examine the composition of the society in terms of their religious and ethnic grouping, and social class structure. The nature of these groups and the relationship between them determine the extent to which harmony exists in the society.

The institutions that are created reflect the values, beliefs, norms and customs of the people. They help to facilitate the administration of the rules of social behaviour among the people. Examples are various traditional institutions such as traditional rulership and chieftaincy institution, family, age-grade, and governance by elders. Modern institutions include schools, churches and mosques, and the mass media.

(iii) Political Environment

The political arrangements in a country are important to the citizens and business entities of that society. The pivotal organ of the political arrangement is government. The primary purpose of government is to ensure maintenance of law and order, defense against external aggression, security of lives and property and provision of basic infrastructure. These minimum conditions must exist in a society for meaningful economic activities to take place.

In addition to the above, government has the responsibility of making policies, laws and regulations which are expected to accelerate the social and economic development of the society and improve the well-being of its citizens. The Federal Government of Nigeria has been making far-reaching policies and decisions. Examples of policies and decisions of government include:

- Indigenization policy of the 1970s;
- Control of strategic industries by government in the 1970s – banking, iron and steel, energy, fertilizer industries;
- Foreign Exchange Control Regulations;
- Deregulation of the economy;
- Privatization and Commercialization policies.

Several laws and regulations have also been made by government which affects every aspect of business operations. Therefore, it is natural for business enterprises to be interested in the decisions or policies that are made, how they are made and why, who makes them, the ideological basis of decisions, the scope and stability of decisions, etc. In some cases, business enterprises attempt to influence the decision-making processes so that the outcome is favourable to their operations. By analyzing governmental decision-making in a country, business enterprises are able to anticipate the direction of public policy and adjust their operations accordingly. They would be in a position to determine whether the political conditions prevailing are favourable or not to investment in the economy.

(iv) Legal Environment

The legal environment of business consists of the laws, regulations and procedures which business enterprises are expected to comply with in the course of their operations. As a corporate citizen, every company is expected to respect and obey the laws of the land as well as maintain ethical behaviour.

Every aspect of the operations of a business organization is regulated by law. Such laws or regulations may make it possible for business to operate in an unfettered atmosphere or they may constitute a major handicap to successful performance. To ensure that business organizations comply with the law, they are required to obtain licenses or permits from the relevant government agencies. The major legislation which regulates the affairs of business organizations in Nigeria is the Companies and Allied Matters Decree of 1990 (with various amendments). This law, primarily, provides for the registration of private and public companies, preparation, auditing and filing of annual accounts with the Corporate Affairs Commission.

All business organizations have a responsibility to pay tax. The various types of taxes include the income tax, value-added tax, capital gains tax, education tax, as well as import and excise duties. However, eligibility for the various taxes, the rate of taxes, the conditions for relief or exemption, etc., are specified in the various tax legislations of the Federal Government. State and Local governments may also collect certain taxes or rates allowed by the constitution.

Labour legislations provide for the national minimum wage that may be paid to employees, the regulation of the contract of employment, relationship between employers and the union of their employees, the prohibition of the employment of infants, employee compensation in case of injury, etc. Patent laws, copyrights and trade mark laws enable companies to enjoy exclusive use of inventions, creations, symbols, names, etc.

Business organizations that are involved in the production and distribution of processed food, drugs, cosmetics, bottled water, and chemicals must register them with the National Agency for Foods and Drugs Administration and Control (NAFDAC). The purpose is to protect the consuming public against the use or consumption of unsafe and poor quality products.

From the foregoing, business enterprises are subject to a large number of regulations by Federal, State and Local governments. These regulations change from time to time. The implication is that business managers must be familiar with existing laws and regulations and must continue to update themselves with changes that take place.

(v) Business Ethics

Ethics go beyond the law. They are standards of behaviour which, though not required by law, are expected of a good citizen (including corporate) of a nation. Ethics define for the individuals what is morally right or wrong. Business ethics require business managers to answer moral questions such as:

- Is it right to inflate the price of a contract just to be able to maximize profit?
- Is it right to use substandard materials?
- Is it right to deny a female employee an opportunity for technical training?
- Is it right to create a monopoly situation through unfair means?

Business ethics, therefore, reflect the standard of morality in a society. Hence, what is acceptable in one society may be unacceptable in another.

(vi) Technological Environment

Technology is the application of scientific knowledge and the use of mechanical arts to practical tasks in industry. Technology is not limited to the use of machines as is often erroneously believed. The concept of technology is applicable to any method used to carry out a task. However, technology may be considered crude if the underlying scientific knowledge is little. On the other hand, it is considered advanced if the scientific base is high. The technological environment at a point in time is the state of the application of scientific principles and mechanical arts to various tasks in the society.

3.2.3 INTERNATIONAL ENVIRONMENT

Where the business enterprise depends on imported inputs or exports some of its outputs, it must of necessity be concerned about the conditions outside the national boundaries in which it is located. The international environment of business refers to all those elements in the international scene which are capable of having effect on the decisions and operations of a business enterprise.

The ability of the business enterprise to maintain a steady flow of its imported inputs depends on the economic, social, political and technological changes in the country from which the inputs are sourced. Similarly, the prevailing conditions in the country to which it exports its products critically affect its performance.

Several factors make it necessary for managers of business enterprise in Nigeria to continuously monitor the state of the international environment and the changes in it. They include the following:

- Business enterprises in Nigeria are heavily dependent on imported raw materials for their operations. They also depend a great deal on imported technology.
- Foreign investment accounts for a substantial proportion of the capital of many enterprises in Nigeria.
- Liberalisation of the Nigeria economy.

SELF-ASSESSMENT EXERCISE 2

1. Enumerate and explain the elements of the economic environment.
2. Explain the international environment.

3.3 ENVIRONMENTAL SCANNING

The environmental factors identified so far in this unit are not all equally important to the survival and growth of the business enterprise. Nevertheless, enterprise managers are expected to establish a system by which they can monitor the nature and direction of changes in the environmental factors and determine the action they must take to ensure a satisfactory performance.

At any point in time, there are key factors which affect or are likely to affect the operations of an enterprise. The first step in monitoring the environment is to identify these factors. There are various processes by which managers monitor the key elements of interest as well as the general environment. One process is a general and continuous surveillance of the environment. Without any particular problem in mind, managers read newspapers, magazines, journal articles, listen to the radio and television, in order to be informed about the developments in the society. They participate in the activities of organizations such as the Manufacturers Association of Nigeria (MAN), and exchange views with colleagues in the industry. They also attend workshops, seminars and conferences where issues affecting business are discussed. Through these processes, managers are generally informed about changes taking place in the environment.
When managers are faced with a specific problem and they require information about the environment to make decisions, they may engage in a systematic study. This processed is more

focused on the problem at hand than a general environmental surveillance. A systematic study involves a definition of the problem, identification of the key factors that may be useful in analysing the problem, measurement of the key factors, evaluation and selection of a preferred course of action to solve the problem.

4.0 CONCLUSION

The purpose of environmental scanning is for managers to be able to determine the current state or conditions in the environment and predict changes that are likely to take place in the future. This way, managers build up a capability to deal with threats that may emanate from the environment or take advantage of the opportunities available.

5.0 SUMMARY

In this Unit, we have been able to consider that:

- for the firm to succeed, it must take its environment into account in making its decisions;
- the business environment can be categorized into three categories: micro, macro and international environment;
- the three categories of the business environment exert pressure on the business enterprise simultaneously;
- the purpose of environmental scanning is for managers to be able to determine the current state or conditions in the environment and predict changes that are likely to take place in the future.

6.0 TUTOR-MARKED ASSIGNMENT

1. How does the economic environment affect the conduct of business?
2. Explain the difference between the micro- and macro-environment of business.

7.0 REFERENCES/FURTHER READING

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UNIT 4 TYPES OF BUSINESSES

CONTENTS

1.0 INTRODUCTION

In Unit 2 of this Module, the basic forms of business ownership - the Sole proprietorship, Partnership, and Limited Liability Company – were considered. In this Unit, we shall look at the various types of businesses that you can decide to enter into. Types of businesses are the distinct business activities that one can enter into with the aim of satisfying customers, and we shall discuss five of them.

2.0 OBJECTIVES

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

- define types of businesses;
- explain the features of the types of businesses.

3.0 MAIN CONTENT

3.1 PRODUCER

A producer is that person who is involved in producing goods and services for distribution. Producers are more involved in producing goods that we can refer to as raw materials.

You take an example of:

- Farmer: he is a producer, involved in producing yam, beans, cassava, eggs.
- Mining: He digs for minerals like gold, diamond etc
- Fishing: He goes into the sea and catches fishes for sale to others for consumption or for producing other products.
- Forestry business: Bringing in timbers into the market to sell to builders etc.

All these people are involved in gathering products in their original forms, from natural resources such as land and water.

3.2 PROCESSOR

Processing businesses add value to products of the producer in order to sell it to another buyer.

Thus, businesses that change products from their original forms into more finished forms are processors. Consider the following examples:

- **Paper Mills:** They get raw materials from woods, waste paper and produce exercise books, tissue papers.
- **Oil Refineries:** Crude oil is gotten from the ground and refined into petrol, diesel, jelly, etc.
- **Steel:** Raw materials are gotten from various locations and they are turned into steel and steel is produced into another product.

- Consider yam that is turned into yam flour; cassava turned into garri.

All businesses operating in this fashion are referred to as processors.

3.3 MANUFACTURE

Manufacturers could combine the activities of producers and processors together to get a finished product. Dangote, for instance, may have a sugar cane farm that produces sugar cane. Dangote may process the sugar cane into granulated sugar. Here, he is a processor. A situation where the sugar is cubed and packaged makes Dangote a manufacturer, and combining all the characteristics of a producer, processor and a manufacturer.

A manufacturer, therefore, turns raw or processed goods into finished goods. Finished goods are those products that are produced and ready for the market.

Other examples of manufacturers are bakers; automobile factories (make cars out of processed goods like steel, aluminum, glass, plastics).

Manufacturers are involved in producing:

- Consumer goods;
- Consumables (food, drink, cigarettes);
- Consumer durables (radios, domestic appliances, televisions and cars).

SELF ASSESSMENT EXERCISE 1

1. Who is a manufacturer?

3.4 INTERMEDIARY

The function of intermediaries is for them to transport and distribute goods.

An intermediary is a business that moves goods from one business to another.

These intermediaries are mostly wholesalers and retailers.

- **A Wholesaler:** Is that business man that buys goods from a manufacturer in large quantity and resell to retailers in a smaller quantity.

Wholesaler performs the following functions:

- Buying
- Selling
- Dividing or bulk breaking
- Transportation
- Ware housing
- Financing
- Risk bearing
- Market information
- Management services and advice

A retailer is that business that buys goods from a wholesale and resell them directly to the final consumer.

Retailers like wholesales perform the function of wholesalers but added are:

- Breaking the bulk
- Give credit to customer
- Located close to customer

These and more are the functions of retailers.
The producer takes decision on either to sell directly or through an intermediary.

There are four main methods:

i. Direct from the producer to the customers- Is the system mostly used by mail order companies.
ii. The traditional method is through a wholesale to a retailer outlets and then to the consumer.
iii. Many companies deal directly with retailers, particularly, large retail chain.

iv. Manufacturers that produce goods for tradesmen usually distribute them via a specialist merchant

One important aspect of intermediation business is transportation.

As a manufacturer you decide on the best method of transporting goods. This will depend on:

- The distance involved
- Types of goods
- Urgency
- Cost
- The customer

Because of these factors, you have to choose any of these modes of transportation:
Air Transport
- It is faster than most methods
- Used for goods that are needed urgently
- The disadvantage is air disaster is always fatal

Road Transport

- More flexible
- Used for advertising
- Cost- if driver travels a long distance

Rail Transport

- Carries heavy goods at a time
- Less accident
- Not flexible

3.5 SERVICE BUSINESSES

Service businesses provide services instead of goods to consumers. The goods that service industry sells are intangible, which you cannot touch.
Examples of service businesses include:

- Movie theatres
- Car wash
- Airlines
- Lawn care
- Vehicle repairs
- Medicals

Service industries are operated to provide:

(i) Assistance for Business – Airlines, hotels, banks

(ii) Insurance is another service area that is required to reduce the risk of trading. It covers all standard risk like theft, fire, goods on transit.

(iii) Communication is another service area that aid business. It helps because up-to- date information is required. This information can be accessed through computers, satellite links and fax machines.

4.0 CONCLUSION

A business group may combine the entire features of the types of businesses or may be involved in almost all the types of business. Dangote, for instance, is found in all these classes of businesses - production, processing, manufacturing, intermediating and service delivery. These activities if well managed help in customer satisfaction.

5.0 SUMMARY

In this Unit, we have been able to:

- explain that types of businesses are the distinct business activities that one can enter into with the aim of satisfying customers;
- discuss five types of businesses - production, processing, manufacturing, intermediating and service delivery.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the intermediation function of wholesalers and discuss four methods a producer can get through to a customer.

7.0 REFERENCES/FURTHER READING

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MODULE 2

UNIT 1 MANAGEMENT IN THE BUSINESS ENTERPRISE

CONTENTS

1.0 INTRODUCTION

Management means different things to different people. It is a term used to describe the process whereby resources of all kinds are utilized for the purpose of achieving objectives in any social system. Management may also be used to refer to a body of people who have primary responsibility to ensure that the efforts of a group are harnessed and directed toward the achievement of predetermined objectives.

In this unit, we shall discuss the concept of management in the business enterprise.

2.0 OBJECTIVES

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

- define management;
- differentiate between efficiency and effectiveness;
- state the role of management in business;
- define and state the role of a manager;
- describe the concept management structure;
- discuss hierarchy of authority;
- define and explain the concept management objectives;
- define and discuss process management.

3.0 MAIN CONTENT

3.1 MANAGEMENT DEFINED

When we examine the different ways management is defined, it is clear that certain key words or terms are common among all the definitions. We find terms such as objectives or goals, human resources, material resources and financial resources. Thus, management can be defined as an organized effort aimed at achieving set objectives or goals through the efficient utilization of material, financial and human resources. That management is an organized effort means that it involves more than one person. A popular notion of management is that it is the art of getting things done through and with other people. Management is concerned with those processes by which the objectives of the enterprise are determined and accomplished. Also given that resources are scarce, management involves the use of certain skills and techniques to achieve goal effectively.

3.1.1 Concept of Efficiency and Effectiveness

In the discussion above, we have used the concept of efficiency. It is necessary to define this concept and distinguish it from a related one known as effectiveness.

Efficiency and effectiveness are used to describe the performance management in the business enterprise or indeed, any organization. Efficiency is a ratio of output to input. It is expressed as follows:

$$\textit{Efficiency} = \frac{\textit{Output}}{\textit{Input}}$$

Output may he goods and services such as units- of items produced or amber of person served. Inputs are the resources used to produce the goods and services. Inputs may be stated as the number of man hours, quantity of raw materials or machine-hours utilized. Management generally desire to maximize the output for given number of inputs or minimize the inputs for a given level of output. Efficiency measures how well the resources available to the organization have been utilized to produce the desired output. Efficiency also means "doing things right", that is, the ability to get things done correctly.

Effectiveness is the extent to which certain objectives or goals have been attained For example, if a business enterprise sets tor itself the objective of making a sales turnover of #5 million by the end of a given year, its effectiveness is determined by the extent such an objective is actually realized at the end of the period. Effectiveness is "doing the right things", the ability to choose or select the right things to do.

SELF-ASSESSMENT EXERCISE 1

Differentiate between efficiency and effectiveness.

3.2 NEED FOR MANAGEMENT IN THE BUSINESS ENTERPRISE

Why do we need management in the business enterprise?

Management is the life-wire of any enterprise. It is the bond which holds the enterprise together as a unit.

(a) Management makes decisions on the type of business to undertake, the goals to be sought the resources to be used, the changes to be made to improve the performance of the enterprise.
(b) It ensures that the gears decided upon are achieved effectiveness.
(c) It negotiates and acquires the resources needed.
(d) It ensures that the resources obtained are allocated and used efficiently.
(e) There are always unforeseen events in the life of an enterprise. Management anticipates these events and deals with them.
(f) Management speaks on behalf of the enterprise and ensures that satisfactory relationships are established and maintained between the enterprise and the various stakeholders.

3.3 WHO IS A MANAGER?

People who have primary responsibility for the realization of the goals of the organization or business enterprise efficiently and effectively are referred to as manager. A manager is anyone in the organization who gets things done by working through and with other people. A manager decides on the targets to be achieved by his subordinated and how the task is to be executed. In different organizations, they may be referred to as Foreman, Supervisor, Head of Unit, Head of Section or Department, Head of Division or Chief Executive. Irrespective of the level of responsibility, a manager is one who is accountable for the work of other people.

3.4 MANAGEMENT STRUCTURE

The management structure is the basic framework within which the manger's decision-making behaviour occurs. The quality and nature of the decisions made are influenced by the nature of the structure. Indeed, the practice of management usually takes place within a system that has clear boundaries though this may not be visible but conceptual. The structure must be defined in such a way that it will be concerned with the grouping of activities in such manner ˉthat the objectives of the enterprise are attained, the assignment of these activities to appropriate departments and the provision for authority, delegation and coordination. Thus, the management structure, or the structure in which managers carry out the task of management is designed to ensure that all the-activities - within the structure or organization are grouped logically and authority granted to ˉthe right person to execute the right responsibility at the right time, in the right place to achieve the result This suggests that during the-process, conflict does not occur or is relegated to the background.

In general, there are two dimensions to the structure of organization. The first is called *Formal organization*, while the second, which exists within the first, is called *Informal organization.* The formal organization can simply be defined *as* the network of communication in an enterprise. It is the official channel through which communication passes. Thus, formal organization comes into being when persons are willing to communicate with one another and are willing to share a common purpose. Thus, the formal organization is designed to:

(i) Establish efficient and logical patterns of inter-relationships among members of the groups;

(ii) Secure advantages of specialization or divisions of labour whereby the optimum utilization of talents can be realized; and

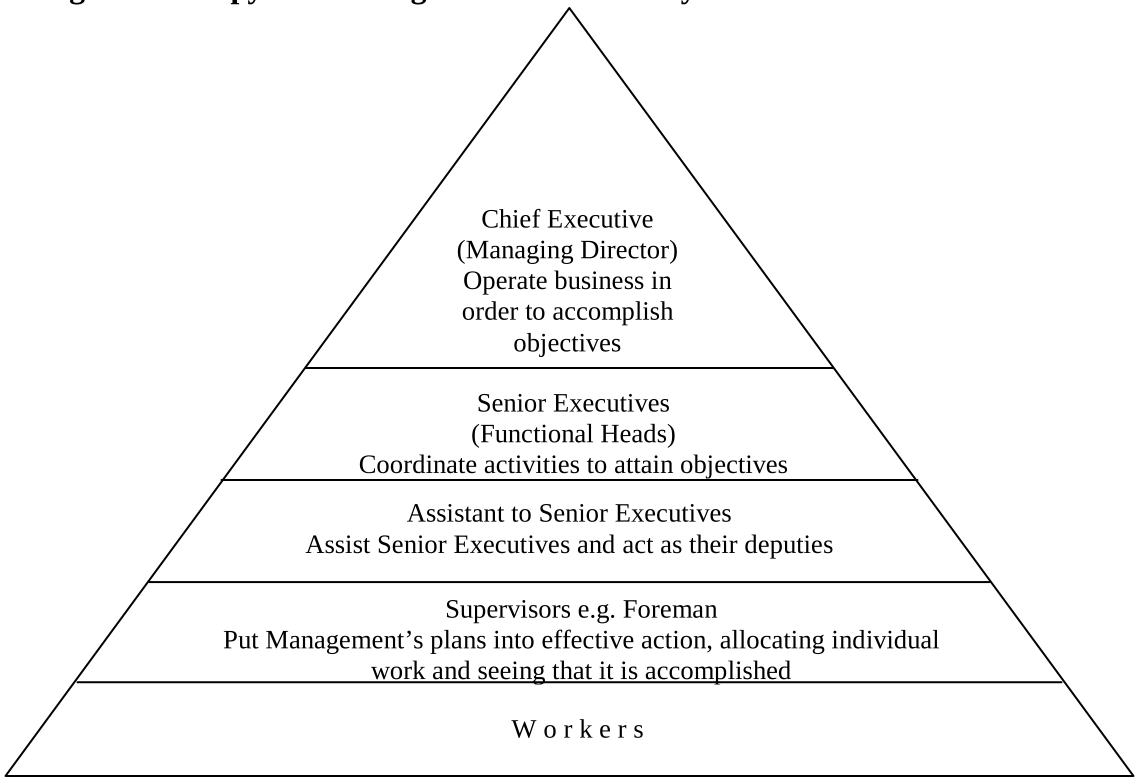
(iii) Co-ordinate activities of the component parts in order to facilitate the realization of the goals of the organization.

The informal organization is the aspect of the organization which is not consciously designed. It is the human group interaction that occurs spontaneously and naturally without conscious design. Whereas, the formal organization can be represented on the organizational chart or the hierarchy of authority, the informal organization cannot be represented in the organizational chart. Management determines the formal structure but the social desires, needs or wants of persons are expressed through the informal organization. Thus, the informal organization is important and should not be neglected by managers. This is because human beings working in the organizations form ideas, attitudes and have feelings towards the formal system. These could help or hinder the goals of the organization depending on how it is managed. Thus, managers must understand the informal system and be able to *use* the knowledge for prediction and control.

3.5 HIERARCHY OF AUTHORITY

The hierarchy or levels of authority in organizations vary greatly. The number of levels depends, among other things, upon the number and type of employees and their functions. Figure 2 shows the *Vertical* and *horizontal* dimensions of the structure of the organization (or the organizational hierarchy) in a simplified format.

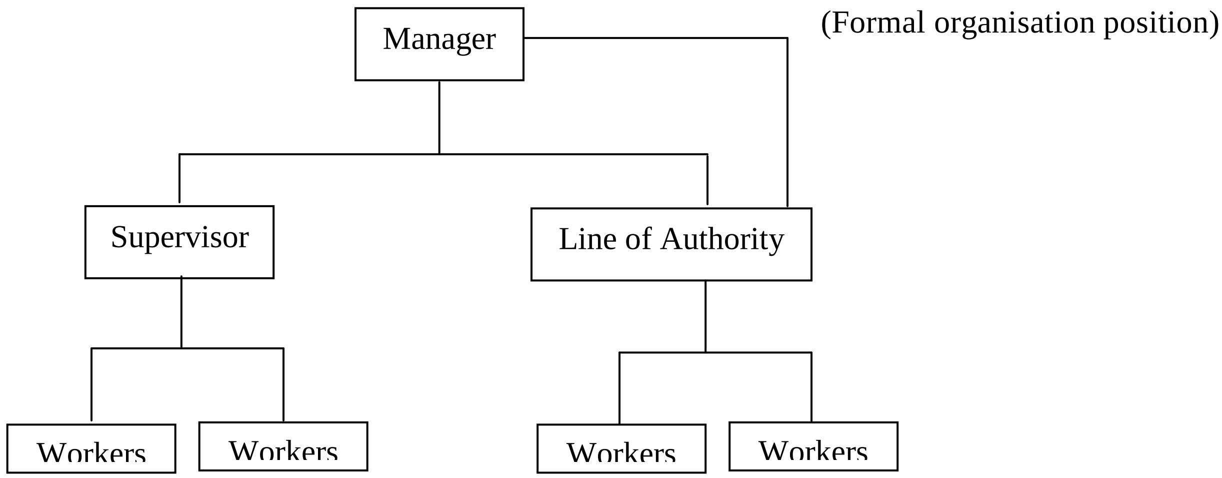
Figure 2: Organizational pyramid or organizational hierarchy



The triangular shape indicates that lower down, there are a greater number of employees. Towards the top, fewer workers are needed to carry out the managerial and administrative work required in the enterprise.

From the simple organizational pyramid, one can prepare different organizational charts depending on the type and size of the organization. The organizational chart is a map of positions in an organization (indicated by boxes) and the lines of authority between the positions shown as straight lines.
Figure 3 is a typical organizational chart. It includes formal organization positions (symbolized by boxes) and lines of authority (symbolized by straight, solid, connecting lines).

Figure 3: A typical organization chart



Organization chart is useful for the following reasons:

(i) It identifies the existence of certain positions.

(ii) It is useful in planning since different types of organization structure can be simulated on paper, thus aiding the manager's mental process.

(iii) It is a very useful model which can be used to introduce a new person to the organization or in explaining the working of an organization to interested outsiders (e.g. customers, suppliers and visitors).

(iv) In cases of re-organization of formal authority, charts are short-hand methods for identifying the changes.

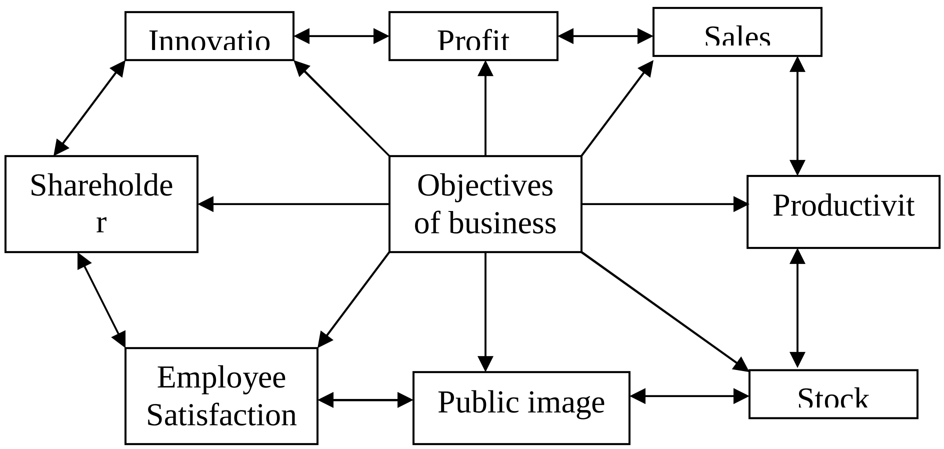
It must be noted that organizational structure differs from organization to organization depending on the size and the objectives of the business.

3.6 MANAGEMENT OBJECTIVES

Managers carry out different objectives within the organizational hierarchy. These objectives are the goals that state definite courses of actions to be followed in the planning and other management activities. From the enterprise's viewpoint, the goals to be attained should be clearly identified. A business objective implies clarity of actions on the part of managing executives. Objectives stated in vague terms have little or no managerial value because they are subject to varying interpretations and frequently result in confusion and frustration. Poorly conceived objective can lead workers to frustration because they will not know the results they are expected to achieve and will eventually lead to the collapse of the business.

It must be pointed out that business enterprises have multiple objectives which they seek to achieve. Also, the major objectives can be broken down into sub-objectives. These sub-objectives can then be assigned to groups of employees to perform. Figure 4 below shows the various major objectives of business and their inter-relationships:

Figure 4: Objectives of business enterprise



There are some well established business enterprises that will be able to pursue all these objectives, whereas some others will be able to 'pursue only a few. One objective which is vital to most business enterprises is the profit objective. No business can survive in the long run without malting enough profit. For the business to make enough profit, it must be able to sell its goods and/or services and carry enough stock (both raw materials and finished goods) so that the business will be able to meet the demands of their customers whenever the need arises On top of this, the business enterprise must consistently innovate by embracing new ideas and 'open to new experience. Also, the business must be able to meet the needs or shareholders who invest their saving in the business. Moreover the business should be able to satisfy the needs of the work force in order to get the best from them and project a good image to the public (social responsibility) by helping in solving some problems in the community in which the business enterprise is located. From the explanation, all the objectives shown in figure 3 are unique and inter-related and several business enterprises pursue them in varying degrees.

There is a very important role managers must play in the process of achieving business objectives. This aspect has been well developed by Peter Drucker who in 1995 developed the idea of Management by Objectives (MBO) in his book *The Practice of Management*. Management by Objectives is also called managing by results. It involves a process by which the manager and his/her subordinate jointly set a target which the subordinate is expected to achieve during a given period of time. Subsequently, the performance of the subordinate is reviewed for the purpose of appraisal.

The stages of MBO are (Appleby, R. C. 1981: 59 - 62):

(i) The *desired results* (objectives) set by management are clarified and defined.
(ii) *Performance standards* are set which must not conflict with main objectives of the

business.

(iii) The *organization structure* must be provided, within which the manager has the maximum freedom and flexibility to perform.

(iv) *Control information* must be supplied at suitable times so that the manager can take corrective action quickly.

(v) *Appraisal performance by* identifying areas where a manager needs help, and providing him with guidance.

(vi) *Motivating employees* by relating results achieved to rewards and promotion opportunities.

Some of the advantages of MBO are:

(i) The need to clarify objectives is stressed and suggestions for improvement are obtained from all management levels.

(ii) Each manager has a clear idea of the important areas of his work and standards required.

(iii) The performance of Staff can be assessed and their needs for improvement highlighted.

(iv) Greater-participation may improve morale and communication.

(v) Managers have to plan to achieve results which aria means of achieving growth and profit.

(vi) It makes individuals more aware of organizational goals.

Some of the disadvantages of MBO are:

(i) It takes some time to become effective.

(ii) Too much paper work and-difficulty in measuring key operations.

(iii) Some business enterprises tend to raise targets always. If these are too high, staff become frustrated.

(iv) Appraisals are sometimes made on personality traits rather than on performance.

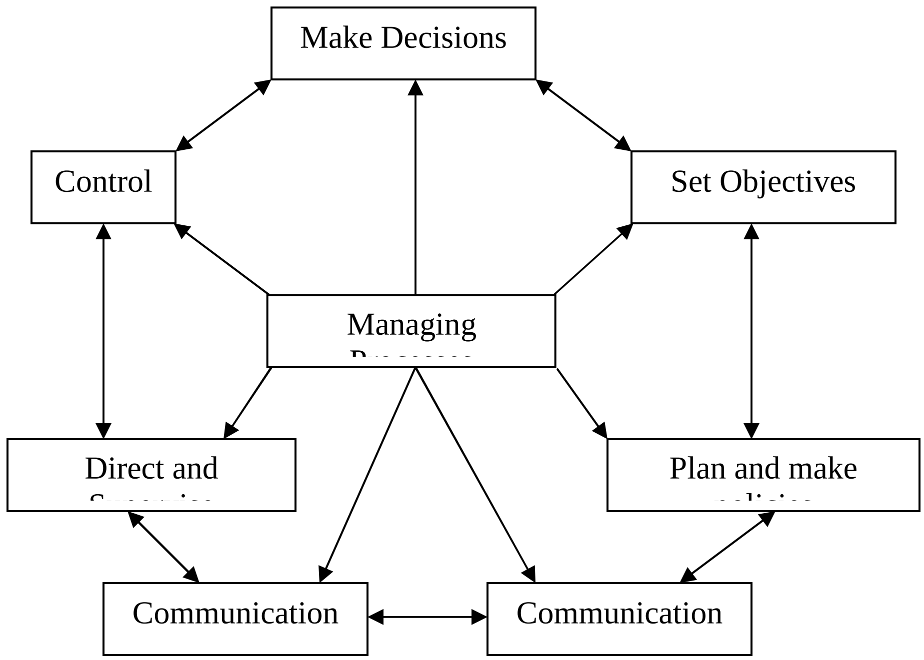
(v) Some companies have geared their salary administration to appraisal by results (easy target may be set to allow a promotion).

(vi) Some employees do not want to be held responsible and goals forced upon them lead to ill-feeling.

3.7 PROCESS OF MANAGING

The process of managing is principally concerned with how managers carry out their various activities. The process of management is not concerned with what managers actually do but how managers do their work and under what conditions they do it. It is ideal to start our discussion with figure 4.

Figure 5: Managing Process



Source: Massie, J.L. and Douglas J. (1973)

From figure 5, we discover that the managing processes help the manager to focus their attention on all the managerial functions as a group. It helps them to develop a guideline for action, to do their jobs well and set the necessary standard for managers to follow.

Thus, in managing, managers make decisions, set objectives, plan and make policies and organized and start. Also, they communicate, direct, supervise and control.

(i) Managers make decisions

A decision is a choice whereby a course of action is consciously chosen from available alternatives for the purpose of achieving a goal. This represents a course of behaviour about what must or what must not be done. The process helps plans, policies and objectives to be translated into concrete actions. Therefore, when managers make decisions, they direct human behaviour towards a future goal.

There are different types of decisions depending on the factors taken- at° consideration in the process of taking the decisions and the reasons for taking the decision. Thus, decision can be strategic, tactical, programmed and unprogrammed.

Strategic decision is designed to help the business to survive in an environment of uncertainties and competition. External factors or environmental actors usually *affect* strategic decisions. Strategic decision is also known as unprogrammed decision. It is long range in scope and includes investment decisions, product design decisions or locations' decisions. Tactical decision is usually taken at the local organizational level to handle economic issue with fewer alternatives than in strategic decisions. Routine or Programmed decisions are those decisions which are repetitive. In general, a good knowledge of objectives and policies is needed before decisions can be taken. Such decisions may be said to consist of the following steps:

(a) Define the problem to be solved;
(b) Find alternative solutions;
(c) Analyze and compare these alternatives;
(d) Select the alternative to be followed noting relevant factors;
(e) Make the decision enave by taking action at the right time to put the decision into effect.

(ii) Managers focus on objectives

Objectives are ideas and statements which give the direction and goal to behaviour and effort. Drucker (1979:59) says that "objectives are needed in every area where performance and results directly and vitally affect the survival and prosperity of the business". Focusing on objectives help the managers to provide realistic answers to these questions.

In focusing on objectives, managers can answer the questions "what are we doing and where are we going". It is planning that helps the managers to provide realistic answers to these questions.

Objectives can be general or specific and they usually require time before they can be achieved. Objectives bring together basic ideas and theories concerning what the business enterprise must accomplish if it wants to succeed. Objectives provide a basis for directing and guiding the enterprises and provide targets which enable efforts to be observed and aided. Also, objectives help to motivate people and provide a sense of being part of a team (team spirit) since everybody must contribute, to the achievement of the objectives of the business enterprise if the business is to succeed.

(iii) Managers plan and set policies

Managers anticipate what are likely to happen in the future and prepare themselves to take alternative courses of action that will help them to achieve their goals. With time, they use this to set guidelines for future decisions. It is from the guidelines for future decisions that policies actually flow and this can eventually become the standard practice.

Planning helps managers, to define their purposes and activities. It enables performance standards to be set and results can therefore be compared with the standard to enable managers to see how the organization is proceeding towards its goals. This suggests that planning is the linkage between objectives and results. Plans must be flexible to deal with a changing environment so that if circumstances bring about the need for changes, these can be effected without the plans being completely disrupted.

Policies aid planning because they, represent the official attitude of a business enterprise to a course of action or behaviour. They spell out the "do and don'ts". They spell out behaviour patterns which are acceptable and the extent to which an individual in the organization can use his or her discretion solving the problems of the organization.

There are some advantages of specific policies (Appleby, 1982:45)

(a) They are easy to refer to and absorb;
(b) Misunderstanding is reduced;
(c) New employees can easily be made aware of them during their induction;
(d) They are a good exercise for management, who must have thought about them seriously before writing them out.

Some of the major types of policies in the business enterprise which managers formulate include product policy which involves deciding on the type of product to make. This type of policy will affect the type of policies to be formulated in marketing, finance and research and even personnel policy (i.e. the type of workers to recruit for the production process, their training, etc).

Production policy will usually focus on the whole production process, job layout, what to make or buy and waste management, etc.

Marketing policy involves determining how the products or services will be distributed, pricing structures, credit policy, advertising, etc.

Purchasing policy involves what firms to buy from and to what extent and what are alternative sources of supply. Personnel policy is concerned with the method of training, remuneration, industrial relations etc.

(iv) Managers organize

Organizing is the process by which the individual roles required to accomplish the task of the enterprise are defined and grouped into departments to ensure that the departments work together for the achievement of the objectives of the enterprise. The flow of authority and communication are then established. There are various criteria by which the roles of the enterprise are grouped. The choice of the criteria depends on the task the enterprise is expected to accomplish, as well as its size. The roles may be grouped by function; that is, production, purchasing, personnel, marketing, finance and accounting etc. They may also be grouped by geography, process, customer or time depending on what is convenient and efficient for the enterprise. The process of grouping of roles is called departmentation.

Another important element of organizing is the extent to which authority is concentrated in the hands of top management or spread to lower levels of management. Authority is said to be centralized if most of decisions are taken by top management and only a few are taken at other levels of the hierarchy. On the other hand, authority is decentralized if middle and first-line management are able to take decisions affecting the operations of the departments while the most important decisions only are taken by top management. A related concept to decentralization is delegation. Delegation is the process by which one manager permits his/her subordinate to act or exercise authority over a function for which the manager is accountable. The authority to act remains with the manager but he/she use his/her discretion to allow his/her subordinate to exercise some of that authority. Therefore, to the extent that there is generalized delegation of authority in the enterprise, there is decentralization of authority.

(v) Managers staff

The objectives of the enterprise cannot be achieved until people are assigned to the roles established through the process of organizing. Such people must be capable of carrying out the functions allocated to them. Staffing is the process by which the roles or positions necessary to accomplish enterprise, objectives are filled with competent employees. Staffing involves recruitment, selection, placement, training and development, performance appraisal, compensation, motivation and discipline. Thus staff`mg involves all those processes needed to ensure that the appropriate people are engaged and utilized effectively for the achievement of the objectives of the enterprise.

(vi) Managers communicate

The communication process is an integral aspect of the business enterprise without which the organization may fail. In fact, managers communicate with subordinates, colleagues and superiors. This means that managers transmit beliefs, ideas, knowledge and behaviour to others for the purpose of achieving the desired result. The ultimate purpose of communication is to aid decision making. There are different types of communication. These are verbal and non-verbal. Verbal communication involves the use of spoken words or language. Non-verbal communication involves the use of symbols or signals or what psychologists call "body language". Non-verbal communication includes written communication which involves communication in writing. This is very common among managers. In communication, the choice of media is vital and it is appropriate to choose the most appropriate media.

For example:

(a) Face to face - for interviews, meetings, conferences;
(b) Oral - telephone, radio message, inter-communication systems; and
(c) Written - letters, queries, circulars books periodicals, manual reports, advertisements, etc.

For effective communication to take place, the barriers to communication must be reduced since they cannot be completely removed. In general, the following will make communication more effective:

(a) Clarity - the language used must be clear and concise.
(b) Attention should be paid by the person receiving the contents of the communication;
(c) Communication should flow in all directions in the business; and
(d) Feedback is an essential element in effective communication.

(vii) Managers direct and supervise

Managers guide and oversee the work of their subordinates in order to let them achieve the target, which have been set for them. This means that managers secure actual performance from the subordinates through their leadership role. Leadership occurs when a person induces another to work toward some predetermined objective. Leadership is a means of direction and leaders help a group (followers) to attain its objectives. Since the business enterprise involves people, leadership is one of the most important managerial processes.

There are different types of leadership styles – the authoritarian, the democratic and laissez faire. The authoritarian leaders rules with iron hand. He does not allow the subordinates to influence decisions. He uses fear of punishment, threat and coercion to get things done. On the other hand, the democratic leader uses persuasion as a means of reaching out to all followers. He considers the feelings of the followers and encourages them to contribute to decision making. The laissez-faire leader is someone who allows his followers to do their work without much direction.

In general, the type of leadership that a manager needs to adopt will have to depend on the type of objectives being pursued, the personal characteristics of the leader, the personal characteristics of the follower, the nature of the environment and the time factor among other conditions.

(viii) Managers control activities

In this process, the manager measures the performance of subordinates and takes corrective action to make sure that the objectives of the enterprise and the plans devised to attain them are accomplished economically.

Control involves certain inter-related steps which can be identified as follows:

(a) Setting standard;
(b) Measuring performance against standard;
(c) Feedback of information about what has actually taken place; that is, comparison of actual performance against standard;
(d) Correcting deviations from standard.

There are a number of principles for effective control:

(a) Control must be set according to the nature of the job to be performed.
(b) Deviations of actual performance from the standard set should be reported immediately.
(c) Those to effect the necessary corrections (of deviations from standards) must be clearly identified so that there twill be no buck passing.
(d) A system of control should not cost more than it is worth.
(e) Controls should be simple to understand and should indicate corrective action.

Examples of control include budgets. A budget is a plan for a given future period expressed in quantitative terms. Budgets can be stated in financial terms e.g. capital and revenue expenditure budgets, or in non-financial terms e.g. units of production. Non-budgetary controls include break-even charts and statistical data and reports.

In general, controlling provide the means for managers to consciously know what is going on in the business enterprise. this is because With a system of control put in place, people know what target they, are striving for, they know how they are doing in relationship with those targets and they know what changes, if any, are needed-to keep their performance at a satisfactory level expected of them in the business enterprise.

4.0 CONCLUSION

From the discussions above, we can draw the following general conclusions:

(i) Management is a process for achieving set goats through the utilization of different resources;
(ii) Management is concerned with the efficiency and effectiveness of the enterprise.
(iii) Managers are responsible for carrying out the management functions using different principles and techniques; and
(iv) Managers have many and interacting objectives in the business enterprise. organizing, staffing, communicating, directing, and controlling.

5.0 SUMMARY

In this unit, we have,

- defined management;
- differentiated between efficiency and effectiveness;
- stated the role of management in business;
- defined and stated the role of a manager;
- described the concept management structure;
- discussed hierarchy of authority;
- defined and explained the concept management objectives;
- defined and discussed process management.

6.0 TUTOR-MARKED ASSIGNMENT

1. What role does management play in the business enterprise?
2. With a diagram, explain what you understand by management hierarchy.

7.0 REFERENCES/FURTHER READING

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UNIT 2 FINANCE IN BUSINESS

CONTENTS

1.0 INTRODUCTION

All decisions made by a company are, in a sense, financial decisions. The purchase of equipment, the hiring of employees or the remodeling of a new store all involves the use of one of the scarcest resources an enterprise has – money. Every aspect of the business depends on financing, including production, marketing, and human resource management.

Capital means the funds needed to finance the operation of a business. The term 'capital' also includes all goods used to produce other goods, but when we refer to capital in this unit, we are talking about money – financial capital. When entrepreneurs open their own business, they usually need a substantial amount of financial capital. Once a business is established, the firm's capital must be managed effectively. Funds must be obtained and used so that the business' objectives can be accomplished. Poor financial management is one of the prime causes of business failure. Efficiency in production, dynamic sales delivery, top-notch human resource management – all of these activities take a distant second place to the skill needed for managing a company's finances. Indeed, money is the fuel that fires the business engine. In this unit, therefore, we shall discuss the place finance in the operation of a business.

2.0 OBJECTIVES

After a careful study of this Unit, you should be able to:

- Explain the role of the financial manager in a business organization;

- Discuss the functions of financial management;
- Explain why businesses need funds;
- Enumerate and explain the sources of short-term and long-term financing.

3.0 MAIN CONTENT

3.1 THE ROLE OF THE FINANCIAL MANAGER

A financial manager is any executive responsible for determining the most appropriate sources and uses of funds. In a small business, the person who manages the finances is often the owner. In a large firm, there are often many individuals involved in financial management. The financial manager is responsible for developing and implementing the firm's financial plan. The financial plan is a document that specifies the funds needed by a firm for a period of time and outlines the most appropriate uses of those funds.

The financial plan is based on forecasts of production and purchasing, as well as expected sales. In a smaller firm, the owner is usually responsible for the planning. In larger firms, the financial plan is the responsibility of a treasurer. Some companies have teams of specialists who perform financial analyses, and some corporate boards of directors also have finance committees. In the modern business world, the effectiveness of the financial managers has become critical to the organization's success.

3.1.1 GOALS OF THE FINANCIAL MANAGER

The success of any organization is measured in terms of survival and profits. The goal of the financial manager is to help the firm achieve these objectives. To do this, financial managers have several major goals, such as maintaining liquidity and earning a satisfactory profit.

Liquidity is the ease with which assets can be converted to cash. A business must be able to pay its bills when they are due. Ensuring that the firm has sufficient cash on hand is one of the financial manager's primary jobs and is essential to the firm's survival.

The cash flowing into the business comes from several sources, including investments by the owner(s) and loans. These funds are normally used to start a business or increase its size. The sale of goods or services is the main outside source of cash flowing into the business.

Cash flows out of the business for loan repayments, the purchase of equipment and supplies, operating expenses, or the owners' own use. Managing the cash flow of a business is using methods to speed the flow of cash into a business while carefully controlling the outflow of funds. The purpose of cash management is to ensure that the flow of funds is maintained. If too much cash flows out of business, the profitability or even the life of the business can be damaged.

3.1.2 FUNCTIONS OF FINANCIAL MANAGEMENT

The activities of organizations whether business or non-business, have finance as their centrepiece. The role of finance however reflects the objectives of an organization. Therefore, financial management is a reflection of the nature and objectives of the organization. Financial management is thus a very important aspect of finance although it is not easy to separate financial management from the rest of other finance activities (Myres, 1976). However, an attempt to limit the areas of financial management can be made if one agrees with the fact that financial management itself requires the simultaneous consideration of three key financial decisions (Christy and Roden, 1973), namely:

- <u>anticipation</u> of financial needs of the organization;
- <u>acquisition</u> of financial resources for the organization; and
- <u>allocation</u> of financial resources within the organization.

These three key financial decisions provide the basis for periodic financial analysis and interpretation of historical financial practices. The control measures which may be contemplated by management or re-orientation of management strategies in turn depend on the analysis and interpretation of historical financial data.

Financial management is, therefore, a dynamic and evolving art of making daily financial decisions and control in households, businesses, non-business organizations and government. It is a managerial activity which is concerned with planning, providing and controlling the financial resources at the disposal of an organization.

Thus, a financial manager continues to answer some basic questions like:

- What specific assets should the organization acquire?
- How much of funds should the organization commit?
- How can such funds be acquired?

Financial management system is, therefore, very important for adaptation in government, business and other organizations as it provides the theoretical concepts and analytical models and insights for making skillful financial decisions. However, the definition of financial management is influenced by its objectives. It can however, in general, be defined as the use of accounting knowledge, financial models, mathematical rules and some aspects of systems analysis and behavioural science for the specific purpose of assisting management in its function of financial planning, implementation and control.

The role of financial management in a simplified form is the synchronization of receipts and payments flows. Thus, payments must be planned against receipts in order that the firm may remain liquid to the extent desired by management. In other words, financial management involves the management of funds inflows and outflows efficiently and effectively in order to guarantee the firm adequate liquidity. This implies effective management of financial resources in order to achieve a firm's two most important objectives, namely: the maximization of profits or maximization of shareholder's wealth and the maintenance of adequate liquidity level.

3.2 WHY DO BUSINESSES NEED FUNDS?

Businesses need funds for various reasons. Some of the business expenses that small companies have include salaries and wages, utilities, rent, travel, maintenance, and insurance. Large companies have the same expenses on a much larger scale. The primary uses of corporate money are to pay bills, reduce liabilities, and distribute company profits to owners.

Recall that a major function of the financial manager is to manage assets – current assets and fixed assets. While current assets refer to cash or assets that can readily be converted to cash, fixed assets are the company's investment facilities and equipment. Fixed assets are expected to be the primary income-producing assets of the firm in the long term. Different factors come into play in the management of these two kinds of assets.

3.3 SOURCES OF FUNDS

Once a company has decided what types of investments it wants to make and how much it will take to finance these projects, the company must decide what types of financing best meet its needs. It has to be noted that it costs money to borrow money. Interest is the rent paid for the use of borrowed funds. The amount of interest charged varies with the type of borrowing and the length of time the borrower takes to pay the money back. The rate of interest is a major consideration for a business when it decides how to raise necessary funds. If too much interest is paid, the profitability of the business suffers.

Generally, funds for businesses come from two major sources: debt and equity. Debt capital is funds obtained through borrowing. Equity capital usually comes from the sale of stock in the company. Equity capital could also come from contributions from other investors.

Sources of funds available to financial managers can be divided into two broad areas: short-term funds and long-term funds. Short-term funds are used to finance supplies, payrolls, and are obtained for one year or less. Long-term funds are used to purchase buildings, land, long-lived machinery, and equipment. Good financial management requires that a funding source be matched to the intended use of the funds.

3.3.1 SHORT-TERM SOURCES

Short-term sources of funds represent current liabilities (funds owed). They represent short-term obligations. Since they are supposed to be settled by cash, they represent cash payments which must be settled as at when due. Examples of current liabilities and their sources are explained as follows.

- **Bank Overdraft**

  The source of overdraft is commercial banks, and they grant this to creditworthy firms. Funds could be advanced to such firms within a period ranging between one day and one year. These loans are supposed to be repaid on self-liquidating basis (paying from proceeds which accrue from normal course of business operations).

- **Account Payable**

  This can be referred to as trade credit. A firm can buy something on credit. Supplies could be made on credit, and they give rise to trade credits. The repayment period and terms of payment depend on the commercial and credit policies of the suppliers.

- **Bill Finance**

  In simple terms, a bill is a promissory note. But there are different types of bills and complexity exists in their meanings. In our case, a bill is a trade bill of exchange which could be domestic or foreign. If a bill of exchange (inland) is accepted from discounting operations, it could represent an important source of fund.

- **Deferred Tax Payment**

  Tax payment could be looked at from two perspectives:

  1. Self imposed (a firm will not pay when it is supposed to pay and that becomes a source);
  2. Late assessment.

- **Factoring**

  Debt could be factored. This is another source of short-term funds. Factoring involves handing over of account receivable or any other debt to factors for collection with or without recourse.

- **Hire Purchase Finance Arrangement**

  Firms that engage in selling on installment basis can make arrangement with hire purchase firms to make credit facilities available to customers. Alternatively, a firm may make hire purchase agreement with its customers. This may be known as block discounting. Thirdly, a hire purchase firm can buy the product directly from the manufacturer, and thereafter make direct arrangement with customers.

- **Stock Finance**

  Stocks could be used to raise short-term funds in a number of ways. They could be used as collaterals for secured loans from commercial or merchant banks. Raw materials could be financed en route by means of trade bills and/or warehouse receipt. This represents another type of secured loans on the value of stock of raw materials. The bill could become negotiable if endorsed by a reputable commercial house or bank, and could thereafter be sold outright or used as collateral for a loan.

SELF-ASSESSMENT EXERCISE 1

1. List and explain six short-term sources of funds for a firm.

3.3.2 LONG-TERM SOURCES

- **Common Stock**

  Equity shares, common stock and ordinary shares, all mean the same thing, but a stock is a group of shares, that is, a stock is made up of shares.

  Ordinary shares could be issued by firms which have been quoted on the stock exchange. Ordinary shares constitute the equity base of a firm, and represent ownership of the firm on pro-rata basis. This implies that an individual investment is a small proportion of total investment.

  Thus, each equity shareholder is entitled to a proportionate part of the firm's residual profit and asset. The capital contributed by the shareholders is, therefore, known as risk capital. But they have some compensation like voting rights.

- **Preference Shares**

  The next class of shares which ranks above equity shares are the preference shares. They are also known as preference stocks. Preference shares occupy an intermediate position between common stock and debenture stocks.

  Preference shareholders are entitled to fixed dividend payment as different from equity shareholders which are entitled to variable dividend payments. They are imperfect creditors because tax is paid before fixed dividend is paid to them; they are not creditors and they are not the owners of the firm. They do not normally have voting rights unless otherwise stipulated in the terms of the issue.

  There are various types of preference shares:

  (1) Cumulative preference shares
  (2) Participating Non-Cumulative shares
  (3) Participating Cumulative shares
  (4) Redeemable and irredeemable Preference shares
  (5) Convertible Preference shares

  1. Cumulative Preference Shares

  Preference shares could be cumulative or non-cumulative. Cumulative preference shares allow for dividend payment to be deferred if a firm does not make adequate profit to pay such dividend. Therefore, such firms are normally required to pay such dividends in arrears before dividend could be paid to common shareholders.

Non-cumulative preference shares do not allow for any form of deferment of dividend payment.

We can say that all preference shares are deemed to be cumulative unless otherwise stated in the terms of the issue.

2. Participating Non-Cumulative Preference Shares

This class of shareholders is entitled to a non-cumulative dividend at a fixed rate but without a right to participate in the residual profit of a firm after the equity shareholders has been paid.

3. Participating Cumulative Preference Shares

This class of shareholders is entitled to participate in the residual profit of a firm in addition to the cumulative fixed dividend rate (i.e. they combine the features of cumulative and participating).

4. Redeemable and Non-Redeemable/Irredeemable Preference Shares

Preference shares could be redeemable or irredeemable. Redeemable preference shares are normally redeemed after a fixed period of time. We can say that this class of preference shares has a definite maturity period while irredeemable preference shares do not have definite maturity period (but it could be sold at the security market – an artificial maturity period).

5. Convertible Preference Shares

Convertible preference shares convey upon the holders the right to convert these shares into equity shares in accordance with the terms of issues. This is an issue with speculative features. These shares are corporate fixed-income securities that the investor can choose to turn into a certain number of shares of the company's ordinary shares after a predetermined time span or on a specific date. The fixed income component offers a steady income stream and some protection of the investors' capital. However, the option to convert these securities into stock gives the investor the opportunity to gain from a rise in share price. It can be summarized that convertible preference shares give the assurance of a fixed rate of return plus the opportunity for capital appreciation.

- **Debenture Stocks**

These are corporate bonds.
Two categories of debentures are:

(i) All banks debentures

This involves one to one relationship between a bank and a firm, and lending is based on the assets.

(i) Debenture Stocks – Debenture stocks or corporate bonds are normally issued under a firm's seal. This represents the legal evidence of a firm's indebtedness. A debenture stock holder is a creditor to the firm, therefore, he is entitled to a fixed interest payment whether a firm makes profit or not. Debenture stock holders do not have any voting right and their interest in the firm is limited to the fixed interest payment no matter how successful the firm may be.

- **Lease Financing**

This is an important source of long-term funds. It may be used as a source of financing company expansion or for modernization of the productive apparatus of the firm. Thus, through leasing, a company may make use of equipment without actually owning it. The main objective of leasing is to put at the disposal of a firm a plant or any fixed asset which serve the productive need of such a firm. The firm, in making use of that equipment, is obliged to pay to the lessor adequate sum of money which constitutes cost on the part of the firm.

Three units are involved in lease and they are as follows:

- A company which has the aim of expanding its productive capacity and/or requires equipment for modernization;
- A supplier which specializes in manufacturing specialized equipment;
- A company which is in a position of buying equipment from the manufacturer or supplier and placing the equipment at the disposal of other companies for productive use.

4.0 CONCLUSION

All decisions made by a company are, in a sense, financial decisions. The purchase of equipment, the hiring of employees or the remodeling of a new store all involves the use of one of the scarcest resources an enterprise has – money. Every aspect of the business depends on financing, including production, marketing, and human resource management. Good financial management requires that a funding source be matched to the intended use of the funds.

5.0 SUMMARY

In this Unit, we have able to consider that:

- the financial manager is responsible for developing and implementing the firm's financial plan;
- financial management involves the management of funds inflows and outflows efficiently and effectively in order to guarantee the firm adequate liquidity;
- sources of funds available to financial managers can be divided into two broad areas: short-term funds and long-term funds. Short-term funds are used to finance supplies, payrolls, and are obtained for one year or less. Long-term funds are used to purchase buildings, land, long-lived machinery, and equipment.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the preference shares as source of long-financing available to a firm.
2. Why do businesses need funds?

7.0 REFERENCES/FURTHER READING

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UNIT 3 MARKETING IN BUSINESS

CONTENTS

1.0 INTRODUCTION

This unit provides you some insight into marketing as it affects the practice of business activities of today. Marketing in today's business has gone beyond merely providing goods and services for public to make money, instead the customers' needs and wants satisfaction is seen as the first objective for business existence and the provision of qualitative goods and services as the means to achieve the objective. The world's marketing environment is fast changing so much so that, any business firm that lags behind fizzles out. For any company to remain in business therefore, its marketing activities have to be closely coordinated and made compatible with one another and with all other activities of the company.

The company also has to adapt itself to delivering the desired satisfaction in the areas of qualitative and desired product or service development, right base price determination for the product or service, most effective distribution method that provides time and place utility, and the best ways to promote the product or service.

2.0 OBJECTIVES

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

- state the place of marketing in today's business;
- explain what marketing mix is;
- identify the various marketing variables;
- say what product planning involves;
- identify types of product;
- state the stages involved in product life cycle;
- explain how consumers are motivated;
- define marketing research and state the importance;
- explain distribution of goods and services.

3.0 MAIN CONTENT

3.1 Marketing Mix

Basically, marketing mix can be defined as the combination of marketing decisions that are used to market specific products over a specified time period. The term is used to describe the way a company continues or blends the four inputs or variables of marketing which are the product, price, place, and promotion to appeal to its target customers. These four ingredients are popularly called the four Ps of marketing and they are the controllable marketing variable because a company can control them to achieve its objectives in the target market.

3.1.1 Product

This is defined as "everything the customer receives that is of value in terms of a perceived want, need or problem". Product can also be defined as "anything that can be offered to a market for attention, acquisition, and consumption that might-satisfy a need or want" Kotler *et al* (2001). A product represents an array of various benefits, attributes, characteristics or satisfactions that are valuable according to your needs and desires. To manage the product attributes successfully, marketer must find an unsatisfied need or want and a unique way of satisfying such a need.

3.1.2 Price

Price is what is paid in exchange for the product (goods) received or service enjoyed. It is also defined as the kindness or money that has to be paid for a commodity or service. Kindness refers to a bartering situation where parties involved exchange goods and services. Price can have more than one meaning in non-businesses marketing. Thus, museums ask for donations, churches pass collection plates and politicians seek votes, these are included in the general concept of price.

In pricing, a company must determine the right base price (the minimum price it is prepared to receive in exchange for its products). It must then establish policies concerning discounts to be offered, freight (transport) payments and many other price-related variables.

3.1.3 Place

This is otherwise known as distribution which is a process of ensuring that product or service is available when and where it is required. Distribution provides time and place utility and sets the stage for possession utility since a product is of no use if it is not readily available at the time you need it.

3.1.4 Promotion

This is a marketing mix variable that is used to inform, remind and persuade the customers to make purchases of the company's products. It consists of such activities as; personal selling, advertising, sales promotion, and public relations/publicity. This together are called the promotional mix.

3.2 Product Planning

This involves all activities which enable producers and middlemen to determine what should shoot up the company's line of products.

Product planning takes into consideration the strength of the firm, the firm's market potential, the firms' sales potential and the profit possibilities of the product to determine whether product development is feasible.

The activities centering on product planning and development include decision making in the areas like:

(i) The product the company should make and the one it should buy.

(ii) Whether the company should expand or simplify its line.

(iii) The new uses available for each item.

(iv) The quality of the product for the intended use and in which market is it right?

(v) The fraud, package and label to be used for each product.

(vi) The style and design of the product and the size, colours and materials.

(vii) The quantities of each item to be produced and inventory controls to be established.

3.2.1 Types of Product

Products and services fall into two broad classes depending on the types of consumers using them:

1. Consumer products and;
2. Industrial products

Broadly defined, products also include other marketable entities such as experiences, organization, persons, places etc.

1. **Consumer Products:** These are those products bought by final consumers for personal consumption. Marketers usually classify these goods further based on how consumers go about buying them. Consumer products include convenience products, shopping products, specialty products and unsought products. They differ in the way they are bought and marketed.

i. Convenience Products- are products and services that consumers buy frequently, immediately and with less or minimum comparison and effort. Examples include soap, candy, newspapers and fast food. They are usually low-priced and placed in many locations for easy availability.

ii. Shopping products- are less frequently purchased consumer products and service that consumers compare carefully on suitability, price, quality, and style. Consumers spend more effort and time gathering information and comparing them. Examples are furniture, clothing, used car, major appliances, and hotel and motel services.

Marketers of this class of products distribute them through fewer outlets but provide deeper sales support to help customers in their comparison efforts.

iii. Specialty Products- are consumers' products that the customer really wants by, making special effort to get them. Specialty products are products that customers are willing to search for. They don't have to be expensive and may be once-in-a-lifetime purchases. Any branded product that consumers insist on by name is in this category.

iv. Unsought products- are consumer products that the consumer either does not know about or knows about but does not normally think of buying. Most major new innovations are unsought until the consumers don't search for products in this category and in fact, they probably won't buy the products if they see them unless advertising, personal selling, and other marketing efforts can show their value. There are two other types of unsought products, new unsought and regularly unsought products.

(a) New unsought products- are products offering really new ideas the potential customers don't know about yet (innovations). Information promotion can help convince customers to accept or even seek out the product.

(b) Regularly unsought products-are products (like encyclopedia and gravestone) that stay unsought but are bought forever. There may be a need but potential customers are not motivated to satisfy such need. Personal selling is very important for this class of product.

2. Industrial Products: These are products purchased for further processing or use in conducting a business. Thus, the difference between a consumer product and an industrial product is based on the purpose for which the product is bought. If you buy a tractor for use personally, the tractor is a consumer product but where the same tractor is purchased for use in an agricultural firm (commercial farm), it becomes an industrial product. The three groups of industrial products and services are:

(a) Materials and parts which include raw materials and manufactured materials and parts. Raw materials consist of farm products (wheat, livestock, vegetables, cotton, fruits) and natural products like fish, crude petroleum, lumber, and iron ore). Manufactured materials and parts consist of component materials (iron, wires, yarn, and cement) and component parts (castings, small motors, tires). Most manufactured materials and parts are sold directly to industrial users. Price and service are the major marketing factors, branding and advertising seem less important.

(b) Capital items are industrial products that aid in the buyer's production or operations, including installations and accessory equipment. Installations include major purchases like buildings (factories offices) and fixed equipment like generators, drill presses, large computer systems, elevators). Accessory equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (fax machines, desks). They have a shorter life than installations and simply aid in the production process.

(c) Supplies and services: Supplies include operating supplies like (hurricanes, pencils paper, coal) and repair, maintenance items like (paint, nails, brooms). Supplies are the convenience products of the industrial field, as they are usually purchased with minimum effort or comparison. Business services include maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, advertising). Such services are usually supplied under contract.

3.2.2 Product Life Cycle (PLC)

This is the course of a product's sales and profits over its lifetime. It involves five distinct stages:

i. Product development begins when the company finds and develops a new-product idea. During product development, sales are zero and the company's investment costs mounts.

ii. Introduction: Is a period of slow sales growth as the product is introduced in the market. Profits are nonexistent in this stage because of the heavy expenses of product introduction.

iii. Growth is a period of rapid market acceptance and increasing profits.

iv. Maturity is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers' Profits level off or decline because of increased marketing outlays to defend the product against competition.

v. Decline is the period when sales fall off and profits drop.

Not all products follow this product life cycle. Some products are introduced and die quickly; others stay in the mature stage for a long time. Some enter the decline stage and are then cycled back into the growth stage through strong promotion or repositioning.

The product life cycle concept can describe a product class (petrol-powered automobiles), a product form (minivans), or a grand (the Toyota). The product life cycle concept applies differently in each case. Product classes have the longest life cycles because their sales stay in the mature stage for a long time. Product forms, in contrast, tend to have the standard product life cycle shape. Product forms such as "cream doctorates," and the "dial telephone" passed through a regular history of information rapid growth, maturity, and decline

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3.2.3 Meeting Consumers' Needs

To sell products successfully, marketing exports must understand the needs of consumers. As a consumer, you spend your money to meet three basic needs: physical needs, social needs, and psychological needs. Physical needs include the necessities of life such as food, clothing, housing, transportation, the need for health, safety, and security. When you go to the doctor, purchase a life insurance policy, or put dead bolt locks on your doors, you are meeting physical needs. Social needs are the need to be loved and accepted by others. The desire to be attractive, especially to the opposite sex grows out of these needs.

Marketing specialists appeal to our social needs when they sell such items as skin care products and deodorant.

Psychological needs involve the need for approval and prestige. To meet psychological needs, people buy things that show they have accomplished something. One person might buy very expensive shoes. Another might go to a fashionable restaurant, what “basic needs” is a debatable issue.

Since people buy items to meet their need, a distinction is made between no discretionary and discretionary income.

Non discretionary income is used to buy items to meet basic needs. Discretionary income on the other hand is the income left over after the basic needs are met. Knowing this distinction enables the marketer to determine the marketing plan to use, for example, advertising; appealing to the emotions is more frequently used for marketing items purchased with discretionary income, rather than non-discretionary income.

3.2.4 Consumer Motivation

Two people cannot buy exactly the same goods and services to satisfy their needs. You buy one brand of toothpaste, and your best friend buys another brand. Both brands, however, meet the same need. Each of us has different motives for buying the products that we do buy.

There are three types of motives.

3.2.4.1 Rational Motives

Consumers with this motive are motivated to think logically about a purchase. When you compare the prices and quality of similar products, you are being rational.

3.2.4.2 Emotional Motives

Feelings or attitudes cause you to buy on impulse or to buy a product when logic tells you that you really cannot afford it. They also influence you to select a particular model, colour, or style of a product.

3.2.4.3 Patronage Motives

You may always go to the same hair stylist or drink the same brand of soft drink. Patronage motivation also causes you to be loyal to certain shops and companies. You may like to shop at one clothing store, even though it is farther away than another. Companies spend a great deal of money each year trying to win the loyalty of consumers to their products and services.

3.2.5 Market Research

This involves the gathering of information that business can use to determine what kind of goods or services to produce. Market researchers commonly, ask shoppers to take a few minutes to answer questions, taste a new food or watch a new commercial. So, they study people to find out what they want to buy and what they are buying. By using market research, forecasters predict how many goods or services a business man can expect to sell.

Market researchers also gather information from a wider group of people. To do this, they use demographics, which is the study of population. Where people live, how much income they have to spend, and what newspapers they like to read are just a few examples of information that market researchers collect.

Researchers gather such information from maps, local businesses, census reports and chambers of commerce, utility companies, and bus and rail lines. Please note some market research studies are elaborate and expensive while others can be quite simple and cheap.

3.3 Pricing

Price is the value that products and sellers place on goods or services. There are many factors involved in the pricing of a product or service. The price must cover the total costs of producing, shipping, and promoting the product, plus a profit.

In determining the total cost of a product, say popcorn, oil, popping the corn, boxes, and salaries of the workers are costs to be considered. Other costs could be fixed, costs that remain the same regardless of how much popcorn is produced which may include rent for workspace, cooking equipment, any executive salaries; variable costs change depending upon how much product produced. The costs of oil, popping corn, boxes, and salaries for people who are making and boxing the popcorn are included in the product’s total costs.

Break-even point is the point reached when the money from product sales equals the costs of making and distributing the product. After that point is reached, businesses begin to make a profit on the product.

The way a product is priced delivers certain messages to consumers. If two similar products range widely in price, the consumer may think that the higher priced product is of better quality. A very high price suggests exclusiveness. A very low price may suggest low quality, even though many low-priced products offer very good value for the money. Businesses must remember that their pricing strategy conveys an image of their product in the market place.

In many cases, sellers set the price recommended by the manufacturers, some sellers base their price on market research that has determined how much consumers are willing to pay for a particular product. A change in consumer's demand may affect the price the seller has set.

Price can be used as a competitive strategy; marketing specialists may try to lure consumers away from their favourite brands by offering nearly identical products at slightly lower prices. Marketing people also use pricing to make products more appealing. They might offer special sale prices on certain products.

3.4 Packaging

The way products are packaged strongly influences consumers as alot of thought goes into the packaging. Packaging must be attractive. If the product is a good, the package must explain clearly how to use it. It must prevent tempering and protect the contents from breaking or spilling. Some goods such as medications are packaged with special tops so that, small children cannot open them.

The labels on packages are advertisements for the product. Labels include the logos, which is the symbol of the manufacturer, and the brand name of the product. The label also may give directions for using the product and list the ingredients. Many food labels provide nutritional information as well.

3.5 Promotion

This includes all of the activities involved in selling product. It means telling consumers about a product and creating demand for it.

Advertising is paid promotion. Businesses and organizations use advertising to promote products and services and to generate ideas and educate the public. The people who purchase advertisements are sponsors and they advertise in many different ways. They use television commercials, categories, magazines and newspaper ads, billboards, direct mail, and even the products themselves. The makers of designer jeans and T-shirts display their logos and brand names in a prominent place on their products. Consumers advertise the product whenever they wear it.

Advertising firms are service business that design and produce advertisements. Advertising is a highly competitive business. Some advertisements, particularly television commercials, are very costly to make. A television commercials may cost N1 million to produce. It may cost another N500, 000 to purchase air time on television for the commercial. Although, television commercials cost a lot to make, they usually generate many millions of naira in product sales.

3.6 Distributing Goods and Services

The place decision that marketers have to take is how and where consumers will buy their goods and services. To make this decision, marketers must decide on their channel of distribution which includes all the people who direct products to consumers. Because these people work at getting the product from the producer to the final user, they are called intermediaries. They include:

i. Distributors who are intermediaries that represent a single manufacturer in a specific geographical area. Cosmetics, cars, furniture, and shoes are sold through distributors.

ii. Wholesalers are another kind of intermediaries. They receive large shiponents of products from many different producers. They break the shipments into smaller batches for resale. A company that makes canned peas may sell a truckload of its peas to a wholesaler. The wholesaler, in turn, will sell a few cases of peas to each of several local supermarkets.

iii. Retailers who sell goods directly to the consumer, the final stop in the channel of distribution. When you buy something in a supermarket, drugstore, or department store, you are dealing with a retailer.

4.0 CONCLUSION

For marketing activities to take place, decisions have to be reached concerning the product type needed to satisfy the needs of prospects, the price affordable by them, the best way to distribute such products or services and the corresponding promotional efforts that will sensitize people of the product or service availability and perceived satisfaction packaging is also seen as a silent salesperson for products as it gives a first-hand information about products whether on display or on offer.

5.0 SUMMARY

The marketing mix consists of product, price, place and promotion. Market planning entails decision on whether to produce consumer or industrial goods and services and considering the life cycle of the product. Producers of goods and services must understand the psychological needs, rational, emotional and patronage motives of consumers for buying goods and services. It was also gathered that market research helps producers determine what people need and want to only, products are priced, packaged and promoted to persuade customers to try them.

6.0 TUTOR-MARKED ASSIGNMENT

1. Differentiate between shopping and specialty products.
2. With relevant examples, discuss the marketing mix.

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UNIT 4 ACCOUNTING IN BUSINESS

CONTENTS

1.0 INTRODUCTION

This unit tries to see what accounting is, its roles in a business concerns like the one-man business or corporate organization. Books like ledger, journal, cash book, balance sheet are used regularly when relating accounting information.

2.0 OBJECTIVES

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

- define accounting;
- differentiate between the various books of accounts;
- state reasons why accounting is needed in business;
- define balance sheet, trading, profit and loss account and trial balance.

3.0 MAIN CONTENT

3.1 Definition of Accounting

Accounting is generally regarded as the language of business, as used in describing the transactions entered into, by business transactions and also the result of such transaction. Accounting data in the contemporary society is the systematic formulation and communication of economic data related to all types of business and government activities. The most important function of accounting data is to provide information which will enable all that have anything to do with a business concern know the result or activities of the business. Although accounting records are empirical in nature as they show the results of the past activities of establishment. If one assumes that the factors that shaped the past are likely to continue to shape the future, the accounting records also have a predictive value. This is the major assumption that makes the interpretation of accounts a worthwhile exercise.

Financial accounting is the art of identifying, recording, analyzing, summarizing, and finalizing business transactions and interpretation of result because money, fund, capital, finance, investment, dividend policy and profit and loses in business needs to be accounted for and properly managed. This is therefore based on accounting equation which states that:-

CAPITAL + LIABILITIES = ASSETS

The capital is the total amount supplied by owner of the business or owners' equity or net worth; while liabilities consist of money owing on goods supplied to the firm, and for expenses and loans given to the firm.

Assets include the resources possessed by the firm. Assets consist of properties of all kinds; such as building, machinery, stocks of goods, motor vehicles, also, benefits such as debts owing by customers and amount of money in the bank account. The accounting equation is assessed in a financial position statement called the BALANCE SHEET.

Accounts have to obey the principles of double entry system in recording transactions so as to make sure that the total naira amount of its most equals the total naira amounts of credits. The RULE is (In every debit entry, there must be a corresponding credit entry and vice-visa). There, it shows that our account must balance.

Henceforth, in recording any transaction, always debit the receiver and credit the giver.

The following diagram shows the application of this rule to each class of accounts.

CASH ACCOUNTS PERSONAL ACCOUNTS REAL ACOUNTS

CASH ACCOUNTS		PERSONAL ACCOUNTS		REAL ACOUNTS	
Debit	Credit	Debit	Credit	Debit	Credit
Receipts	Payment	Receiver	Giver	Property Acquired	Property Realized

NOMINAL ACCOUNTS

Debit	Credit
Expenses & Loses	Incomes & Gains

3.2 Books of Accounts

The books used in accounting are the following; (a) Ledger (b) Journal; and (c) Cash books.

3.2.1 Ledger

The principal book of accounts is the LEDGER which contains a permanent record in a classified form, of all the transactions of trader. The ledger accounts are a means of accumulating in one place, all information above changes in specific assets, liabilities and owner's equity. No entry can come inside the ledger without going through the journal or the subsidiary book. Hence, the journal is an instruction to the ledger. This will help to prevent fraud. A ledger is ruled as:

DB **CR**

Date	**Particulars**	**Folio No**	**Date**	**Particulars**	**Folio No**

From the above, the ledger is divided into two namely:

1) Debit Column and (2) Credit Column. A page of a ledger is referred to as Folio. A folio can contain many accounts and many accounts are contained in a folio.

The classification of entries into appropriate ledger accounts demands extreme accuracy on the part of the book keeper, but provided a few simple rules are observed; the work presents no difficulties which cannot be easily overcome.

Thus, the whole of a trader's transaction with another person, recorded in a ledger account, bearing that person's name.

LEDGER ACCOUNTS

Ledger account is divided into Personal and Impersonal.

PERSONAL is divided into:

- Debtors-persons who owe money
- Creditors- persons to whom you owe money

IMPERSONAL is divided into:

- Real - Such as land, plant and machinery, furniture and fitting, Lorries and car etc Debit the account if receive (receiving value) but credit the account if giving value

For example ledger account for asset cash provides a record of the cash receipts, cash payments, and the current cash balance. Maintaining a cash account, the internal management can keep track of amount of cash available for meeting payrolls and for making current bases of assets or services. The record of cash is also found useful, planning future operations and advance planning of applications for loans. The development of the annual budget requires estimating average; the expected receipts and payments of cash, those estimates cash flow are naturally based to some extend on the ledger accounts using past cash receipts and payments.

3.2.1 Journal

A journal is a subsidiary book, a book of prime entry as book of original entry where, we record our financial transactions in chronological order or as they occur. The journals are day-to-day record of the business wherein both aspects of all transactions are recorded in chronological order.

To the internal management thus, the journal is found useful in the following ways:

a) Shows all information about a transaction in one place and also provides an explanation of the transaction.

b) Provides a chronological record of the entire event in the life of a business.

c) Helps to prevent errors and irregularities.

3.2.1.1 Reasons for Using Journal

(1) It removes dependence on the brain because, transactions are recorded as they are made.

(2) Omission is totally reduced or removed to the barest minimum.

(3) It encourages the use of staff in areas that they are best suited (specialization).

(4) Errors, irregularities and fraud are reduced to the barest minimum because; the journal provides enough explanation of the entries and details the necessary supporting evidence.

(5) Some transactions are of a complicated nature and without the journal the entries may be difficult, if not impossible, to understand.

(6) If a book-keeper left a firm, the absence of a journal could leave many items unexplained.

3.2.1.2 Uses of Journals

a) The purchase and sales of fixed asset on credit,
b) Correction of errors.
c) Opening entries
d) Other transfers

3.2.1.3 Types of Journal

There are about five types of journal, namely:

(1)Sales, (2) Purchase (3) Return inwards, (4) Return outwards and (5) Journal proper or principal journal. All the above mentioned types of journal are all books of prime entry. The journal in its usual form is divided by vertical lines into 5 columns in which you can enter, in respect of each item, namely:

(1) Date (2) the particulars or the Narrative (3) the name of accounts to be debited (4) the name of accounts to be credited and (5) The reference (folio).

3.3 Cash Account

Cash account or cash book is a part of ledger. Cash account is a book in which particulars of all monies received or paid are recorded. Cash account thus fulfills the functions of both a ledger account and a journal.

Cash receipts are values coming in; hence, amounts of cash received centered on the debit side of the cash account and posted to the credit side of the appropriate ledger accounts.

Cash payments are values going out: such transactions must therefore be recorded on the credit side of his cash book and posted to the debit side of the ledger account of the persons or things receiving the value. The cashbook is merely the cash account and the bank account might be together in one book. The cash book is ruled so that the debit column account and the credit columns of the cash and bank accounts placed alongside each others.

3.4 Accounting Terms

BALANCE: Trial balance is not an account itself and it is not part and parcel of the double entry system. It only tests the arithmetic accuracy of the entries or postings in the ledger thus, helping to show debit and credit balances on the ledger accounts.

TRAINING, PROFIT AND LOSS ACCOUNT: Is drawn by management to compare the result obtained with the result expected because, the sole aim-of business venture is making profit.

BALANCE SHEET: The balance sheet is a snap short picture of a business, owning its financial position at a point in time and if properly interpreted, can provide the management with a good deal of useful information as regards strengths and weakness of the business as a whole and its individual sections as well.

3.5 Roles of Accounts in Business or Why do we Prepare Account

At this junction, having known the various accounts available to any business venture, we will like to consider the role of accounting data in internal performance evaluation. An organization can be looked at in the following functions performed:

1) **Profit Determination:** Once a profit can be determined, you will be able to know how much one can spend out of profit without consuming capital and how much that can be set aside for ploughing back or reinvested into the business. Also, he will want to know the actual profits compared with the profits he had hope to make.

2) **Credit Dealing:** It helps in knowing one's debtors and creditors. This is made possible from the available transactions (data) that has been recorded during the period.

3) **Determination of Solvency Level:** that is the capacity to pay debts of the business enterprise. This also provides needed information as a basis for making business decisions that will enable management guide the company on a profitable and solvent course. Management therefore, need the assurance that the accounting data received are accurate and dependable through the development of internal control unit and that, all the following will be measures, taken by the organization:

(i) For the purpose of protecting its resources against fraud, waste and inefficiency;

(ii) Ensuring accuracy and reliability in accounting and operating data;

(iii) Securing compliance with company's politics;

(iv) Evaluating the level of performance in all divisions of the company.

The prospect for the solvency level are affected by an enterprise's ability to generate enough cash to meet its obligation when due and its other cash operating needs to reinvest in income operation and to pay cash dividends. Accounting data provides information for predicting comparing and evaluating enterprise earning power.

4) **It Helps Management as a Control Measure:** financial accounting is found useful in business development because it helps management as a control measure. It aids control, it avoids pilferage of stock through the use of stock bin-cards, store requisition card, ushers, vouchers etc.

5) **Budget Planning:** Another role of accounting data is the internal performance valuation of an organization's budgeting vis-à-vis: - planning and control of daily operations of business activities for the future. Management needs specialized information for long and short range planning and for major decisions such as, the introduction of new product(s) or the closing of older plant, arrangement or not to arrange short term borrowing to finance operations. They use the best available quantifiable information to make the organization function in most effective and efficient manner possible.

6) Furthermore, financial accounting in Nigeria business environment aids planning by giving direction to the organization so that, one can tailor ones actions towards achieving the set goal, establish objectives for the organization; helps the business enterprise to manage uncertainty thus, paving way in making certain assumptions of the future occurrences, and also helps in strengthening and unifying the organization.

7) Helps to know the financial position of a business as at a given time.

8) Serves as a tool to find out the efficiency of the management.

9) Serves as a bed-rock of decision making process for willing entrepreneur or investor.

10) Supplies information in judging management ability to utilize enterprise resources in the most effective way.

11) It also provides factual and interpretive information to satisfy user's needs.

12) Gives a true and fair view of all transactions which may be useful to security analyst, stock exchange and managers of other companies, analyzing the position of the company in the light of circumstances and policies; proper valuation of assets and adequate provision can be made for any loss or diminution in the value thereof.

13) It enables the company to rationalize their expansion, diversification, retrenchment, Mergers and acquisition.

4.0 CONCLUSION

Accounting follows double entry system where debit is equal to credit. In accounting capital plus liabilities is equal to assets.

We have three books of account which include:

- Ledger
- Journal
- Cash account

Accounting helps business in determining:

- Profit
- How to manage a business
- Credit planning and a host of others

All these records are presented in trading profit and loss account and balance sheet.

5.0 SUMMARY

We have been able to see how corresponding entry helps in accounting for a business concern.

Information can be collected from journal, ledger and cash account to help in business plans which include profit making, future investment, and a host of others.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss briefly the role of accounting in business.

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MODULE 3

UNIT 1 COMMUNICATION IN BUSINESS

CONTENTS

1.0 INTRODUCTION

This unit introduces you to the study of communication in business, it deals with the strategies and skills needed for effective communication in business and organizations. The quest for a new information and communication order as a matter of fact brought to the fore, the need for businesses to make a scientific study of communication and its processes within their immediate environments and its contribution to international business relations. As a result, communication studies have, within the last decade, become the focus of attention of many business and organization. The universal nature of communication has led to countless definitions of the term by different authorities.

2.0 OBJECTIVES

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

- define the term communication
- explain the types of communication
- differentiate between the communication types
- highlight the qualities of a good communication
- state the barriers to good communication
- use telephone effectively to make and answer calls
- identify the techniques involved in making and answering telephone calls.

3.0 MAIN CONTENT

3.1 WHAT IS COMMUNICATION?

Communication affects every sphere of human endavour. It informs all of your actions because, it is occasioned by your need to interact with your fellow-men. It manifests itself in symbolic, verbal forms. Animals and trees also communicate, but it is your ability to create symbols, ascribe meanings and interpret massages that elevates you above the status of the lower animals and gives form and character to your existence.

Communication is a means by which power is acquired, exercised and sustained. It is the medium through which relationships are established, extended and maintained. It provides a means by which people in business, politics and the professions act and interact, exchange information and ideas, develop plans, proposals and politics, make decisions and manage men and materials. In business and industry, communication helps to orient workers to one another and to the goals of the organization, and it is the means by which such goals can be pursued, attained, sustained and improved.

It is the lubricant that keeps the machinery of the organization functioning; it is the means through which roles are identified and assigned; it is the life-blood of any business. To organize is to communicate. Thus, no business or organization can survive without communication. Dance and Larson (1976) listed 126 published definitions of communication, but there are still others. Let us examine some of these.

1. Communication is any means by which a thought is transferred from one person to another (Chappell and Read, 1984).
2. Communication is the process by which one person (or a group) shares and imparts information to another person (or group) so that both people (and groups) clearly understand one another Udall and Udall, 1979:5).

3. Communication is not just the giving of information, it is the giving of understandable information and receiving and understanding the message. Communication is the transferring of a message to another party so that it can be understood and acted upon (Eyre, 1983:1).

4. The communication process involves all acts of transmitting messages to channels which link people, to the languages and symbolic codes which are used to transmit messages, the means by which messages are received and stored, and the rules, customs, and conventions which define and regulate human relationships and events (Frank Uatoajah, 1985:2).

5. At all levels in the business among and between executives, managers, staff, personnel, supervisors and foremen and employees, the communication process is continuously in action, conveying information, ideas, attitudes and feelings among individuals and among groups of individuals (Chruden & Sherman, 1978:325).

3.2 THE PROCESS OF COMMUNICATION

This is also known as communication models. You may also see diagrams and explanations on how communication is carried out. The most influential of these models and discussions is that of Shannon and Weaver, two mathematicians. It is known as the Shannon Weaver Model of communication.

Gold Haber (1983) observes that we can talk about a process because, the phenomenon of creating and exchanging messages is on going, ever-changing and continuous. What it really means is that the communication process involves actions, reactions, and interactions. Let us see what each of these terms means.

3.2.1 Actions

This refers to the initiative you take (as a sender) to share information, observations, or opinions with others. You may do so by speaking or writing, drawing or gesturing.

3.2.2 Reactions

This is a response to the action taken by you (sender). In other words, the person addressed (the receiver) responds to your initiative of starting the communication. Depending upon the type of response given, we are able to determine whether or not the receiver is willing to be a party to the communication encounter.

3.2.3 Interaction

This has to do with the exchange of messages between you the senders and receivers. If the receiver is willing to participate, he sends his response to the initiator. The response may be verbal or non-verbal; that is, he may write it, speak, or merely carry out an appropriate action. An interaction can involve two or more persons provided those who take part in the encounter share common experiences, codes or symbols. There will then be a see-saw of continuous exchange among them as long as there is information to share, or ideas and thoughts to put across.

A practical example of the communication process:

You are an industrialist and your company manufactures Garment using imported cotton. Suddenly the government announces a ban on imported cotton and urges manufacturers to find local alternatives. Just as you are thinking about the serious implications of this action, a friend tells you about Fantua Cotton Farms Limited. You write a letter to enquiring about their line of business and what they could do for you. They reply, giving details of the range of products and their price list. You then place an order. The goods are sent, you are satisfied and you write back to thank them and to effect payment, they acknowledge. You have now become their stable customer and have continued to be involved in the business transactions as long as the natural goodwill lasts.

This is the form of exchange, the flow of information desired, and the satisfaction that can characterize a smooth flow of communication. It is this flow that makes people describes communication as a process. This flow is also called the model of communication.

3.3 TYPES OF COMMUNICATION

Human communication falls into two broad categories, Verbal and non-Verbal. Verbal communication may take the form of written or oral form.

3.3.1 Written Communication

This is the translation of oral messages into alphabetic symbols. These symbols are then organized together to convey ideas, messages or information between those who participate in the communication encounter. The process of learning to write and to organize your thought in writing begins from childhood and continues into adulthood. Learning to write, what we want to say and reading what others have written is a life-long pre-occupation of all serious minded literate people. Once you have learnt to read and write, you could pick up a biro, a pencil, or any writing instrument to record your message. It is also of major importance in the business world because, faulty and imprecise written messages can lead to business losses, such as loss of time, corporate image, potential customers and profits.

Written communication is normally used in the following situations:

i. For personal and business letters.
ii. In queries (normally used to discipline erring staff).
iii. In reports.
iv. For circulars and memos.
v. In essays, compositions and all forms of creative writing.
vi. For questionnaires and forms designed for collecting information.
vii. In telegrams and telexes.

3.3.2 Oral Communication

This is a form of verbal communication in which your speech organs are used to produce sounds. It is different from the written form where you make use of your muscles to produce symbols (letters of the alphabet and words).

Oral communication is used in interpersonal, intrapersonal and group communication situations.

3.3.2.1 Intrapersonal Communication

It is a process of information transfer, which goes on within you as an individual. You know very well that ideas and thoughts are not transmitted as soon as they are generated in you. Rather, each idea or thought that develops is first weighted, tossed here and there, then you decide how best to put it before you allow it to escape from within you. This process is necessary to ensure effective and suitable construction of messages.

At times, during the process of tossing ideas up and down in your mind, you unconsciously verbalize (say aloud) what is going on within you. In such situation, no particular receiver is intended. But if somebody happens to be around then, and he learns you muttering, he might accuse you of talking to yourself.

3.3.2.2 Interpersonal Communication

Otherwise known as “face –to-face communications” it is the exchange of ideas and information between two people – you and your friends, you and your boss in the office or you and your tutor. In this case, you do not keep your ideas to yourself. You share them directly with someone else, face-to-face or by telephone or other gadgets of communication. Interpersonal communication dominates our activities at home, in the school, in the clinic, in the market, and almost everywhere. In business, Industry and similar organizations, interpersonal communication helps to break the barrier of formal relationships, generate warmth and create harmony, essential for increased productivity. It is therefore a very significant form of communication. This form of communication has a singular advantage of immediate response.

3.3.2.3 Group Communication

When three or more persons come together accidentally, or by design, to work towards a specific goal, a group is formed. Group communication; therefore, involve the exchange of ideas and information among members of a group. Groups exist in several areas of our lives-at school, at home, in the office, in the club, etc. other examples of groups include members of a class, or a social organization, and people who belong to the same political party. Members within a given group share ideas and information with one another, and this enables them to accomplish the tasks they set themselves. As a result, if you are a member of any of the groups mentioned above, you will take part in group communication. The group decides collectively who should lead, how to raise money, what tasks to undertake and how to carry out the tasks undertaken. In this kind of situation, the mode of communication is peculiar to the group and essential to its survival. You engage in one or other of the three forms of oral communication discussed in the course of your daily activities whether in lectures, interviews and meetings.

Oral communication then can be described as concentric in nature. We begin with our own internal dialogues; move on to sharing our thoughts with someone else, then with the group.

3.4 QUALITIES OF A GOOD COMMUNICATOR

Already, a lot has been said on the art of oral communication and to wrap it up, every communicator should aim at the following for a successful outing:

a. **Ability to Maintain a Balanced Communication Flow:** A good communicator is one who is able to maintain a moderate and balanced flow of communication as too much and inadequate flow adversely affects communication.

b. **Ability to Manage Interference:** The effectiveness of a communicator lies on his capability in keeping under control, to the barest minimum, interferences like noise, ridiculous gesticulations, inaudible presentation and so on which hamper communication effectiveness.

c. **Reality:** A communicator could either be given a topic or asked to choose one. Once a topic has been received, regardless of its source, it must be considered as very important. The communicator therefore should ensure that it is ideal, realistic to the purpose of the gathering and the target listeners or simple that the topic is authentic.

d. **Sensitivity:** Certain moves should be made by the communicator to demonstrate how much he cares for the topic and audience. Such moves are being thorough in his search for data and ensuring a complete design with a logical outline, in addition to being responsive or sensitive to the purpose of the presentation.

e. **Timing:** A good communicator is one conscious of the timing of communication message as it is only when message is sent at the right time that the desired result can be obtained.

f. **Ability to Select the Right Channel is Another Quality:** A good communicator should have the ability to select the might channel. Inappropriate channel selection brings about obstacles in message delivery and comprehension.

g. Another quality is the ability of a communicator to articulate ideas and combine words in the right order.

3.5 BARRIERS TO GOOD COMMUNICATION

This can be defined as blockages that obstruct the flow of information. Many atimes, a well-intended message does not achieve its purpose. This is because of several factors, which include the speaker, the receiver and the environment in which the communication takes place. Some of these barriers include:

- **Timing**

On your part as the speaker, ineffective timing of the communicated message could be a barrier to its being accepted. It is totally unacceptable to call a group of workers during the peak hour (when they are feeling overworked and under severe pressure) and intimate them of management's decision to cut wages. This can lead to a riot.

- **Channel Selection**

Inappropriate channel selection could also lead to communication barrier. Some messages are best related in a face–to-face situation while some are better written. It is left to the selector to choose the appropriate one. For example, a reprimand given orally could have a more positive effect than the one formally typed out like query. Also, a confidential thing is best expressed in a face-to-face situation which is better than to write out formal reports or statistical analysis. A wrong selection easily leads to obstacles.

- **Feedback**

This is supposed to aid the progress and success of communication. The discerning speaker can use feedback to adjust his message if it is not getting the desired effect or use it to intensify the message if the effect it is producing is positive.

- **Geographic Distance**

Distance between an organization's headquarters and its divisions could be a barrier if it is too far. Messages can take a long time in reaching the divisions and when they do receive the message, implementation may be late.

Lack of Proper Consultation

If a person is affected by a decision, the person ought to have been consulted before such a decision is made public. If this is not done, the intention could be misunderstood.

Personality and Ego Conflicts

These can lead to a block in communication because the parties would just be seeing their personal differences instead of the message. The bias underneath would colour the message and disport it. Of course, this generates misunderstanding.

Communication Load

If the flow of communication is too much, it can be a barrier to communication as there would be overload which would lead to conflicting signals. Also, if the communication taking place in an organization is too little, the organization cannot function properly.

There are other barriers to good communication that one can get from the speaker and the listener. On the part of the speaker, these barriers tend to distract the attention of the listener and draw him away from the substance of the communication to unimportant things. An example of these is noise, Ridiculous gesticulations, too much loudness, inaudible presentation, inappropriate dressing. All this distract one from communication.

3.6 TELEPHONING

The telephone is a system used for talking to somebody over a distance using a wire. The telephone is unarguably one of the most important technological developments ever. It has eliminated great distances and has immensely contributed in making the world we live in today to be a "global hamlet". The person who operates the telephone is a telephone operator and telephone diplomacy is concerned with the knowledge as skills of operating the telephone.

The telephone operator (mostly the secretary) needs to cultivate good telephone diplomacy. This is because he/she is perhaps the organizations' most regular public relations person. Many organizations have lost patronage and good will due to the awkwardness of their telephone operator.

3.6.1 Techniques of Making Telephone Calls

The techniques involved in making telephone calls include:

- Ensure you have the number you want to call ready. If you are in doubt, consult the telephone directory.
- Conceptualize what you want to say in mind. This is even more so for very important calls. It is embarrassing to be inarticulate.
- Familiarize yourself with the telephone tones.

- When the call goes through, greet the receiver, introduce yourself and say whom you wish to speak with e.g. “Good morning, this is Mr. Bello of Zagayi Pharmacy, Minna. I wish to speak with the Human Resources manager.
- Apologies for mistakes, e.g., if you are connected with the wrong number, say “I am sorry, I have the wrong number”.
- Speak directly into the mouthpiece.
- Your voice should be neither too loud nor too faint .You should maintain the golden medium.
- Don’t talk too fast, because you may not be understood and don’t be too slow either, because you may bore your listener.
- If you want some information from the other person and it may take time, ask if you could call back later.
- When you want to end the call, thank the person at the other end, particularly if it is an official call.
- Always update your personal directory.

3.6.2 Techniques of Answering Telephone Calls

The techniques include:

- Be prompt in answering. It is courteous and efficient.
- Introduce yourself or your organization if you are representing an organization. It is a good tradition for secretaries to say something like “Good morning sir, this is **TONUAD PUBLISHERS LTD**, Lagos”.
- Talk clearly and fondly
- Be friendly and pleasant without daring, playful and unserious.
- Be prepared with writing materials in case the caller wants to leave some messages. Callers should not be kept waiting.
- If an incoming call has to be transferred to another extension, announce the callers name and request to the new extension so that he / she does not have to repeat himself/herself.
- If there is a disconnection, replace the receivers so that the caller can re-establish connection
- Be attentive and take messages courteously.
- If someone calls a person who could be of help more than you, e.g. “Mr. Tunde Bello is not around, do I connect you with Mr. Koce whom I believe can help?”
- Ask only necessary question, and politely too. E.g., “When Mr. Koce comes back, whom should I tell him called?”
- The caller should be allowed to signal the end of the conversations unless it is necessary for you to do so. And if you must end it, do it courteously. E.g., “Thank you for calling Mallam Shehu, goodbye”.

4.0 CONCLUSION

Communication is the exchange of words between or among people in a way or manner that produces understanding. You also learnt that communication can either be spoken or written. Good and effective communication is not sustainable in a noisy environment and where the sender and the receiver of message are relatively too far from each other.

5.0 SUMMARY

Although what constitute good and poor communication factors may be dear, organizations today are aware of the power of effective communication system in projecting the image of their businesses. They are aware of the role communication plays as the activator of their contacts especially as the world's business environment becomes globalized. Poor information system sends danger signal to their business exploit while carefully organized system brings about good interrelationship among organizations

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss five ways you can make yourself a good communicator.
2. Enumerate and discuss the barriers to good communication.

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UNIT 2 ENTREPRENEURSHIP AND THE BUSINESS ENTERPRISE

CONTENTS

1.0 INTRODUCTION

Most young graduates of tertiary institutions look forward to the day they would start a career in one of the established organizations in business or public service. If it ever crosses their mind, they hope that someday when they retire, they might establish a business of their own. It was possible to think in this manner up till the eighties because job opportunities existed in multinational organizations and government establishments. The preoccupation of educational institutions was the production of manpower capable of functioning in large organizations. The late eighties and nineties witnessed serious economic and social changes in Nigeria. Not only did employment opportunities in government and large business corporations shrink, major reorganizations or restructuring of these organizations left many people without employment. Unemployment of educated manpower became a visible problem in the economy as graduates often had to wait for a long time before securing their first jobs.

To tackle the unemployment problem, public policy focused on the development of small and medium scale enterprises (SME) and entrepreneurship development. The goal was to stimulate individuals to use their creative talents to spot market opportunities and establish businesses in which they are their own bosses. Today, starting and owning one's own business is no longer perceived **as** activities for those who are culturally, socially or educationally disadvantaged but as at attractive route to success, wealth, independence and fame. Many professionals and executives in business and government establishments are now taking early retirements and staking their benefits and savings in business ventures.

2.0 OBJECTIVES

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

- define entrepreneurship;
- list the types of entrepreneur;
- enumerate the functions of entrepreneur;
- describe the characteristics of entrepreneurs;
- describe how to select a business enterprise; and
- state the differences between the entrepreneur and the manager.

3.0 MAIN CONTENTS

3.1 DEFINITIONS OF ENTREPRENEURSHIP

To tackle the unemployment problem, public policy focused on the development of small and medium scale enterprises (SME) and entrepreneurship development. The goal was to stimulate individuals to use their creative talents to spot market opportunities and establish businesses in which they are their own bosses. Today, starting and owning one's own business is no longer perceived **as** activities for those who are culturally, socially or educationally disadvantaged but as at attractive route to success, wealth, independence and fame. Many professionals and executives in business and government establishments are now taking early retirements and staking their benefits and savings in business ventures.

What is an entrepreneur? What is entrepreneurship?

There are many definitions of these concepts. According to one definition, an entrepreneur is an agent (individual or collective) who champions a novel combination of productive resources as the means of achieving an economic end. Another definition states that an entrepreneur is an individual who perceives needs, conceives goods or services to satisfy the needs, organizes the factors of production and creates and markets the products. Yet another definition states that entrepreneurs are people who perceive profitable opportunities, are willing to take risks in pursuing them and have the ability to organize the needed resources to start and operate a business. These definitions indicate that entrepreneurs are single individuals or a group of people who gather resources for the purpose of exploiting a market opportunity in order to make a profit for themselves. It is not always that an entrepreneurial pursuit will result in profit. Sometimes loss is incurred but the entrepreneur is willing to take the risk, bring his or her energy and talents to bear on the business and work assiduously to earn a profit. Generally, entrepreneurs form new enterprises. However, their creativity and innovativeness can be utilized to change the fortunes of an existing enterprise.

The process of performing the roles of the entrepreneur is called entrepreneurship. This may simply be defined as the willingness and ability of an individual (or a group of individuals) to seek out investment opportunities, especially through innovation, establish and run the enterprise successfully. Thus, entrepreneurship incorporates not only the process of enterprise creation but also the process of managing it effectively.

It is not all those who become entrepreneurs that actually desired to do so from the outset. Some, indeed the majority, become entrepreneurs because they failed to secure or to retain a satisfactory regular employment. Others become entrepreneurs because they failed to make significant progress in their careers. In effect, these people were pushed into entrepreneurship. A large number of people however, become entrepreneurs out of an inner urge to do something new, a burning desire to actualise an idea, a desire for autonomy or to be self-directed, a desire to earn higher income coupled with the prestige that comes with wealth. These are some of the attractions which motivate certain people to engage in entrepreneurship in spite of the inherent possibilities of failure.

3.2 TYPES OF ENTREPRENEURS

Broadly, there are two different types of entrepreneurs. It is possible to see these different types in relation to the category of enterprise they operate.

Craftsmen Entrepreneur **Opportunistic Entrepreneur**

Self-employed operator	Micro Enterprise	Small-scale enterprise	Medium-scale enterprise	Large-scale enterprise

The different types of enterprises can be arranged as shown above. At one extreme end are self-employed people who earn some income by working for themselves. The capital they utilize is very small and hence their scale of operation is small. They are usually engaged in activities such as petty trade, repair services, food processing, tailoring and similar trades. They constitute the bulk of the informal sector of the economy.

Next to this are entrepreneurs who operate micro enterprises. Micro enterprises are different from the self-employment establishments because they utilize proportionately more capital, have a fixed location, are generally registered with the appropriate authorities and may have some paid non-family employees. After micro enterprises are small scale, medium scale and large scale enterprises.

We can group entrepreneurs into two broad categories. These are craftsman entrepreneurs and opportunistic entrepreneurs.

Craftsman entrepreneur: This type of entrepreneur generally establishes self-employment establishments, micro enterprises and small-scale enterprises. They are technically oriented following from a background of vocational training or technical education. Their job experience is usually predominantly technical with little or no exposure to management and managerial techniques. Their oral and written communication ability is limited. Craftsman entrepreneurs usually lack the ability or inclination to expand the enterprise beyond what they feel able to control personally. Most craftsman entrepreneurs do not have long-term orientation regarding their firms, and so, do not make adequate plans for continuity of the business.

Opportunistic entrepreneur: This refers to entrepreneurs who are willing and able to change the mode of their operations in response to changes in their environment. That is, opportunistic entrepreneurs can adapt their products, market niche, facilities, methods of operation to suit the prevailing conditions in the external environment.

The opportunistic entrepreneur is characterized by a broadly-based formal education, varied work experience which embraces technical and managerial functions and an orientation towards management. He or she has adequate oral and written communication skills. This type of entrepreneur is familiar with various management techniques which enable him or her to expand the business enterprise and is able to plan for growth and continuity of the business.

A craftsman entrepreneur is unlikely to establish a large business but an opportunistic entrepreneur can begin as a self-employed operator and gradually expand the business to become large scale.

3.3 FUNCTIONS OF ENTREPRENEUR

Opportunistic entrepreneur: This refers to entrepreneurs who are willing and able to change the mode of their operations in response to changes in their environment. That is, opportunistic entrepreneurs can adapt their products, market niche, facilities, methods of operation to suit the prevailing conditions in the external environment.

Entrepreneurs perform a variety of functions. The functions are:

(a) Perception of market opportunities Sourcing of resources
(b) Launching the business enterprise
(c) Managing the enterprise
(d) Risk bearing
(e) Innovation.

Perception of market opportunities:
A business opportunity exists if individuals, households or organizations have needs which can be satisfied with certain products or services at a price which the consumers or users are willing to pay. The primary function of the entrepreneur is to spot and evaluate such opportunities. The process of identifying a market opportunity may be intuitive or through a systematic observation and analysis of trends in the environment.

Sourcing of resources:
The resources needed to launch the business enterprise are long- term funds to purchase fixed assets, working capital, key personnel, a suitable location and site, and information. The responsibility of the entrepreneur is to assemble these resources and ensure their availability at the appropriate time to implement the business idea. Sourcing resources requires that the entrepreneur has high confidence with respect to the potential of his her business plans and is able to ensure that this confidence, optimism and enthusiasm are shared by potential investors in the business enterprise.

Launching the business enterprise:
This includes various promotional activities such as choosing a business name, an entrepreneurial team, registration of the business enterprise, obtaining various permits and licenses; formulating a business plan and formally commencing trading activities.

Managing the enterprise:
This is one of the important functions of the entrepreneur. Managing the business begins with the entrepreneur stating his or her idea of the primary reasons for the existence of the enterprise as well as the

products or services it will render. Managing the enterprise involves planning, organising, coordinating and controlling the production, staffing, financing, and selling activities of the enterprise.

Risk bearing: Having launched the business enterprise, there are bound to be unanticipated events, crises, and difficulties arising from changes in the external environment. For example, the demand for the product or services may be far less than anticipated; suppliers of raw materials may raise their prices higher than expected; installation of production facilities may be delayed; key personnel may decline risking their careers in the enterprise etc. While the entrepreneur must persevere and continue to take measures to solve these problems, there is always a risk of business failure and loss of the capital invested. The entrepreneur bears this risk.

Innovation: The success of the enterprise is determined by the extent to which it serves the needs of its consumers better than other competitors. Innovation is the process by which the entrepreneur evolves new and better products or services, develops new methods of production which results in improved quality and lower costs, new methods of distributing or pricing the products or service and new ways of presenting the products to consumers. Innovation may also involve developing a new source by supplier of the raw materials or a new market for the finished products. Innovation provides the enterprise with a competitive edge over competitors and enables the enterprise to generate high profit for the owners of the enterprise.

SELF-ASSESSMENT EXERCISE 1

Enumerate and discuss the functions of an entrepreneur.

3.4 CHARACTERISTICS OF ENTREPRENEURS

Entrepreneurs are not all alike. One entrepreneur is different from the other in many ways – social background, education, life experiences, behaviour or idiosyncrasies. In spite-of these differences, some personal qualities and behaviours can be identified which characterize successful entrepreneurs.

The following characteristics are generally found among successful entrepreneurs:

(a) Drive and energy (physical and mental): This is the capacity to work for long, sometimes odd hours, over a period of time.

(b) Self confidence: Entrepreneurs believe strongly in themselves and their ability to achieve goals they have set for themselves. They also believe that it is they, rather than others, who can shape their personal destinies.

(c) Long-term involvement: The involvement of entrepreneurs in business is a long term commitment. They are not in business for quick money. They want to build a business that will endure for a long time.

(a) Perseverance and persistent problem solving: Entrepreneurs are not intimidated by difficult situations. At the same time, they are not foolhardy as they quickly recognize unsolvable problems which they then abandon. They tackle difficult situations with determination and zeal.

(b) Goal setting: Entrepreneurs are goal and action oriented. They are doers. They have clear, measurable, challenging and attainable goals all the time. This enables them to set their, priorities and to focus on their priority goals when roles conflict.

(c) Moderate risk taking: Entrepreneurs take moderate but challenging risks. They are aware of their strengths and weaknesses and they take risks where they have reasonable chance of success based on their knowledge, skills and experience.

(d) Dealing with failure: To entrepreneurs, failure in a specific venture or project is normal but a learning opportunity. They recognize that serious setbacks and difficulties will come but successful entrepreneurs convert them to opportunities rather than defeat.

(e) Use of feedback: As high achievers and in order to have a sense of personal achievement, entrepreneurs want to know how well they are doing. They seek and use feedback so that they can take corrective action where necessary.

(f) Initiative and personal responsibility: Entrepreneurs are independent and highly self-reliant. They take personal responsibility for the success or failure of their business ventures.

Possession or acquisition of these characteristics is, of course, not a sufficient condition for success in a business venture. In addition to having these characteristics, establishing and running a business successfully requires total commitment of energy and time to the business, possession, of appropriate knowledge, skill and experience relevant to the particular line of business and ability to change or adapt to new competitive situations.

3.5 SELECTING A BUSINESS ENTERPRISE

The entrepreneur may have more than one business idea and therefore needs to choose the one to implement. Many business enterprises fail because the entrepreneur did not actually consider the peculiar skills and other factors required to succeed in the line of business. Some factors to consider in selecting a business venture are as follows:

(a) ***Personal capabilities:*** As mentioned above, there are certain core skills, knowledge and experience that are required to succeed in a particular line of business. The entrepreneur needs to determine these skills, knowledge and experience and ascertain that he or she possesses them before selecting such line of business. In other words, the entrepreneur should have a good knowledge of the business and as well have the personal characteristics required to succeed in the business.

(b) ***Personal Interest:*** Establishing and running a business venture demands a great deal of the time and energy of the entrepreneur. For the entrepreneur to sustain this devotion to the enterprise, he or she should be able to derive satisfaction from the work he or she is doing. The personal satisfaction derived from the work also enables him or her to persevere in solving the myriad of problems encountered in the business.

(c) ***Support of the family:*** Just as the personal interest of the entrepreneur is important in selecting a business venture, the interest and support of the family members of the entrepreneur is equally important. Without the keen interest and support of family member's, the interest of the entrepreneur will eventually be eroded. The willingness of members of the family to make sacrifices especially at the initial stages of the formation of the enterprise is critically important. Similarly, their willingness to share the aspirations and frustrations of the entrepreneur helps substantially to lighten the burden and to keep up the spirit of enterprise.

(d) ***Ability to raise the required capital:*** Every business venture requires a certain minimum amount of capital to operate efficiently. The entrepreneur must be able to raise this sum from various sources. In particular, they should be able to have a personal stake in the business by investing their personal savings or the savings of relations. This is because having a personal stake encourages other investors to investors in the business.

(e) ***Size of the market:*** This is of utmost importance. The entrepreneur must consider if a market exists for the product or service and how large that market is. A market may exist for a product or service but it may be too small for the scale of operation envisaged by the entrepreneur. Hence the market must be large enough to yield a satisfactory profit for the entrepreneur.

3.6 DIFFERENCES BETWEEN THE ENTREPRENEUR AND THE MANAGER

Compare the definitions and functions of the entrepreneur with those of the manager. Are there differences? You will notice that in some business enterprises, the entrepreneur also performs the functions of the manager. Similarly, managers in some large business organisations assume the roles of the entrepreneur. Carefully examine the figure in the next page.

Combination of Entrepreneurial and Managerial Skills in the Business Enterprise

Craftsmen Entrepreneur **Opportunistic Entrepreneur**

Entrepreneur Skills				Managerial Skills

Self-employed Operator	Micro enterprise	Small-scale enterprise	Medium-scale enterprise	Large-scale enterprise

The figure indicates that "one-man" businesses depend solely on the entrepreneurial skills of the owner to succeed. Micro enterprises and small-scale enterprises depend substantially on entrepreneurial skills but also require a significant dose of managerial skills to succeed. Medium scale and large scale enterprises require proportionately more managerial skills than entrepreneurial skills to perform well. Can you explain why the different types of enterprises have different combinations of entrepreneurial and managerial skills?

There are however significant differences between the entrepreneur and the manager in the business enterprise.

(a) Both the entrepreneur and the manager make decisions but the most critical decisions in the business enterprise are made by the entrepreneur. Issues that pertain to the survival of the enterprise require the drive and bold moves of the entrepreneur while relatively routine matters such as efficiency of operations are handled by managers. For example, decisions regarding the goals of the enterprise or the acquisition of key resources are made by the entrepreneur. Decisions made by the entrepreneur are usually bold and proactive compared to those made by the manager.

(b) Time orientation: From the examples given above, it is clear that entrepreneur usually have long term orientation regarding the business enterprise. Managers have shorter term concerns such as annual, quarterly or monthly budget performances.

(c) Entrepreneurs take moderate risks: Managers on the other hand are risk averse. In an attempt to avoid making mistakes and incur the loss of rewards associated with failure, managers hardly take risks.

(d) The hallmark of entrepreneurs is creativity and innovation. They seek new and better ways of doing things. Managers are hardly creative and are slow with regard to innovation. They often desire stability and efficiency of operations rather than change.

(e) The incentives to entrepreneurs are independence (or autonomy), profit and capital gain. They have no career path within the business organization along which to move. The major incentives to the manager are executive rewards such as promotion, status and professional excellence. Hence the existence of clear career paths in the business organization is considered important by the manager.

(f) Managers are employees in the business enterprise. They occupy specific positions in the organizational hierarchy. For example, they may be Production Managers, Sales Managers etc. In the case of the entrepreneur, he or she is the ultimate employer. They usually occupy the position of chairman/chief Executive in the business enterprise.

4.0 CONCLUSION

There are different definitions of entrepreneurs just as there are different authors or experts. However, these definitions indicate that entrepreneurs are single individuals or a group of people who gather resources for the purpose of exploiting a market opportunity in order to make a profit for themselves. It is not always that an entrepreneurial pursuit will result in profit. Sometimes loss is incurred but the entrepreneur is willing to take the risk, bring his or her energy and talents to bear on the business and work assiduously to earn a profit. Generally, entrepreneurs form new enterprises. The process of performing the roles of the entrepreneur is called entrepreneurship.

Broadly speaking there are two types of entrepreneurs namely: craftsman and opportunistic. The craftsman type of entrepreneur generally establishes self-employment establishments, micro enterprises and small-scale enterprises. The opportunistic entrepreneurs are those willing and able to change the mode of their operations in response to changes in their environment.

Entrepreneurs perform a variety of functions. The functions are:

- Perception of market opportunities Sourcing of resources
- Launching the business enterprise
- Managing the enterprise
- Risk bearing
- Innovation.

The following characteristics are generally found among successful entrepreneurs:

(a) Drive and energy (physical and mental);
(b) Self confidence;
(c) Long-term involvement;
(d) Perseverance and persistent problem solving;
(e) Goal setting;
(f) Moderate risk taking;
(g) Dealing with failure;
(h) Use of feedback;
(i) Initiative and personal responsibility.

Some factors to consider in selecting a business venture are as follows:

(a) Personal capabilities;
(b) Personal Interest;
(c) Support of the family;
(d) Ability to raise the required capital;
(e) Size of the market.

The differences between the entrepreneur and the manager in the business enterprise revolve around the following:

(a) Both the entrepreneur and the manager make decisions but the most critical decisions in the business enterprise are made by the entrepreneur;
(b) Time orientation;
(c) Entrepreneurs take moderate risks;
(d) The hallmark of entrepreneurs is creativity and innovation. Managers are hardly creative and are slow with regard to innovation;
(e) The incentives to entrepreneurs are independence (or autonomy), profit and capital gain. The major incentives to the manager are executive rewards such as promotion, status and professional excellence;
(f) Managers are employees in the business enterprise. In the case of the entrepreneur, he or she is the ultimate employer.

5.0 SUMMARY

In this unit, we have

- defined entrepreneurship;
- listed the types of entrepreneur;
- enumerated the functions of entrepreneur;
- described the characteristics of entrepreneurs;
- described how to select a business enterprise; and
- stated the differences between the entrepreneur and the manager.

6.0 TUTOR-MARKED ASSIGNMENT

1. Why do you think entrepreneurship is important in a developing economy?
2. List and explain five characteristics of successful entrepreneurs. Explain why these characteristics are important.

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UNIT 3 CONTROL AND REGULATION OF BUSINESS

CONTENTS

1.0 INTRODUCTION

The regulation and control of business is invested by law on different agencies of government In some cases, different agencies of government **regulate** and control different aspects of a business enterprise. Therefore, knowing where to obtain permits, licenses or information about existing regulations governing a particular type of business can be a major problem to managers.

A simple approach that may be adopted in solving this problem is to identify the industrial sector to which the business enterprise in question belongs. The agency of government (or Ministry) that Corresponds with that sector is Rely to have primary responsibility for regulating and controlling that business sector. For example, hospitals, pharmaceutical business enterprises or medical laboratory services are generally regulated by the Ministry of Health while an agricultural business would be regulated by the Ministry of Agriculture and Natural Resources. Similarly, the banking sector falls within the purview of the Ministry of Finance and the Central Bank of Nigeria.

However, while catering, hotels and leisure services are the primary responsibility of the Ministry of Commerce and Tourism, some **aspects of the** business would be regulated by the Ministry of Health. This is to say that the core activity of a business enterprise can be used to identify **the primary regulatory** agency of the business even though other agencies may regulate other aspects of its activities.

By belonging to the Chamber of Commerce, Industry, Mines and Agriculture, the

Manufacturers Association, or other trade associations, managers of business enterprises can also learn about the institutions of government that regulate and control the business sector to which they belong.

The functions of some agencies however cut across business sectors. This chapter provides basic information on the role and functions of some of the agencies.

2.0 OBJECTIVES

At the end of this unit, you should be able to discuss the roles of the following government regulatory institutions in the control and regulation of businesses in Nigeria:

- Corporate Affairs Commission (CAC)
- Securities and Exchange Commission (SEC)
- The Nigerian Stock Exchange (NSE)
- The Industrial Development Coordinating Committee (IDCC)
- The National Agency for Food and Drug Administration aid Control (NAFDAC)
- Nigerian Export Promotion Council (NEPC)
- National Office for Technology Acquisition and Promotion (NOTAP)
- Standards Organisation of Nigeria (SON)
- Federal Environmental Protection Agency (FEPA)
- Raw Materials Research and Development Council (RMRDC)
- Industrial Development Centre (IDC)

3.0 MAIN CONTENT

3.1 CORPORATE AFFAIRS COMMISSION (CAC)

The Corporate Affairs Commission was established following die promulgation of the Companies and Allied Matters Decree (CAMD) of 1990. It opened Its registries for business in 1991. The head office of the Commission is situated in Abuja-and it-has-branch offices in some State Headquarters.

The role of the Corporate Affairs Commission under the Decree includes regulation and supervision of the formation, incorporation, management and winding-up of companies hi Nigeria.

The Commission ensures that those who desire to form a company adhere strictly to the provisions and requirements specified in the Companies and Allied Matters Decree of 1990. It ensures, for example, that the name of the company is one that is acceptable under the law and that the Memorandum and Articles of Association are properly prepared. In the process, the Commission ensures that only companies whose objectives, constitution and programmes are acceptable under the law are registered.

The Commission is responsible for registration of the business names of unincorporated companies. It is also responsible for the registration of incorporated trustees, debentures, mortgages and charges created by a company.

The Corporate Affairs Commission undertakes the incorporation of both private and public companies once it is satisfied that the conditions for incorporation have been complied with and the required documents

submitted.
The Commission supervises the management of companies. Incorporated companies are required to submit certain reports or decisions to the Commission for registration. Among these are:

(i) Changes in the Memorandum and Articles Of Association;
(ii) Allotment of Shares;
(iii) Statutory meetings, annual general meeting and extra-ordinary meetings;
(iv) Appointment of Directors, Auditors and Secretaries; and
(v) Annual Financial Returns.

With these documents available in the registry of the Corporate Affairs Commission, any member of the public may have access to information on the affairs of an incorporated company.

When a company is to be liquidated, the Commission must be so informed and those appointed to wind-up the affairs of the company must notify the CAC of their appointment for registration. The Commission generally supervises the winding-up procedure.

3.1.1 Registration of Business Name

Every business enterprise that is not incorporated is required to register the name of the business with Corporate Affairs Commission. The promoters of the business are required to submit the name of the business by completing the statutory form. The applicants must submit two passport photographs and pay the filing fee. If the name is found to be acceptable under the law, the business name is registered.

3.1.2 Incorporation of Private or Public Companies

This involves:

(i) Availability of an acceptable name. A name is acceptable provided such a name is not identical with an existing name; it does not contain "Chamber of Commerce"; it is not misleading and does not violate existing business regulations.

(ii) Printing of the Memorandum and Articles of Association.

(iii) Completion of Statutory Forms which are:

(a) CAC I - Declaration signed by a solicitor that the requirements of the Companies and Allied Matters Decree of 1990 have been complied with;

(b) CAC 2 - This shows the allotment of the shares of the company to members;

(c) CAC 6 - Indicates the registered office of the company;

(d) CAC 7 - This contains the particulars of all the Directors including names, nationality, addresses, occupation and dates of birth;

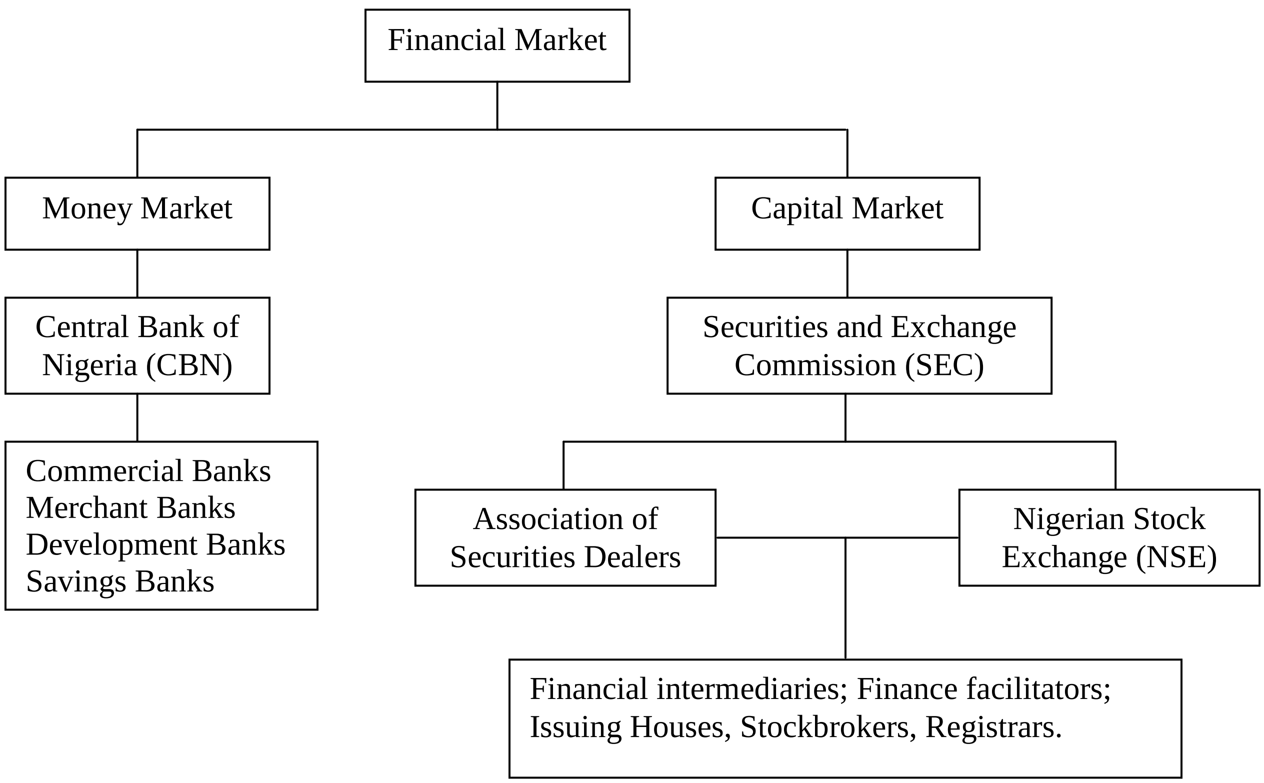
(e) CAC 7A -Contains the particulars of the Secretary of the company;
(f) Payment of Stamp Duty.

3.2 SECURITIES AND EXCHANGE COMMISSION (SEC)

Financial markets are the markets where financial securities are traded. Two basic markets make up the financial market – the money market and the capital market. The money market is a market where short-term securities are exchanged. The maturity of the securities is less than one year. The money market is controlled by the Central Bank of Nigeria. The operators in the money market are commercial banks, merchant banks, development banks and Savings banks.

The capital market is the market for long term securities, that is, those securities whose maturity exceed one year. The capital market is regulated and controlled by the Securities and Exchange Commission (SEC). The Securities and Exchange Commission is an off-shoot of the Capital Issues Commission set up to facilitate the indigenization process by ensuring an orderly transfer of shares at a fair price. Another institution in the capital market is the Stock Exchange which provides facilities for the exchange of securities. The main operators in the capital market are various financial intermediaries, finance facilitators, Issuing houses, Stockbrokers, and Registrars. The Structure of the Nigerian Financial Market is shown in the figure below.

Structure of Nigerian Financial Market



3.2.1 Functions of the Securities and Exchange Commission

The SEC was set up in 1979 to do the following:

(1) Regulate' and develop the Nigerian Capital Market.
(2) Regulate the registration of securities market operation and trading places.
(3) Stipulate the rules and regulations guiding all market operators.
(4) Enlighten the public of the role of the Capital Market.
(5) Determine the amount, and timing of the sale of shares to the public.
(6) Register all securities proposed to be offered for sale or for subscription by the public.
(7) Monitor, and carry out surveillance of the market to ensure order, fairness, and equitable trading activities.
(8) Register Stock Exchanges and their branches.
(9) Register all the participants in the market to ensure standards of conduct and professionalism Insecurities business.
(10) Act as regulatory apex organization and in exercise of its powers can delegate some powers to the Nigerian Stock Exchange (NSE).
(11) Protect the market against all forms of abuses arising from the practice of insider information.
(12) Create the necessary atmosphere for orderly growth and development of the Capital Market.

The basic objective of these functions is to protect the investing public and instill confidence in the Securities Market.

3.2.2 Concept of securities

Securities are marketable financial instruments with which business enterprises and other organisations can raise capital from the public. Some of these financial assets are: Ordinary Shares (equity stocks) Certificates, Preference Shares Certificates, Unit Trusts Certificates, Corporate Debenture Certificates, State Bonds, Federal Government Stocks, Warrants, and other financial instruments as may be determined by the market.

In Money Market, some of the financial instruments traded are Treasury bills, Commercial Papers, Local Purchase Orders (LPO's) etc.

3.3 THE NIGERIAN STOCK EXCHANGE

All over the world, the Stock Exchange is the most important institution in the Capital Market. The Nigerian Stock Exchange (NSE) is the heart of the Nigerian Capital Market.

Formation of NSE: In 1958, the Barback Committee was set up to look into the possibility of establishing a Stock market. The setting up of the Committee was necessary because of the following factors: The poor state of the financial system in Nigeria, Low rate of capital formation; inability to distinguish between the activities of emerging merchant banks and the commercial banks, and the large volume of idle cash in circulation outside the banking system.

The Committee recommended the creation of facilities for dealing in shares, the establishment of rules and regulations on transfer of shares, and the introduction of measures to encourage savings and the issue of government securities. The Lagos Stock Exchange was thus established in March, 1960. It started business on June 5, 1961. And it became known as the Nigerian Stock Exchange in 1975 with new and expanded rules governing listing.

Today, the Nigerian Stock Exchange has six trading floors, namely: lbadan, Onitsha, Port Harcourt, Kano, Lagos and Kaduna.

3.3.1 Functions of the Stock Exchange:

The Nigerian Stock Exchange is charged with the following functions:

(1) To provide facilities to the public for the purpose of purchase ***and*** sale of shares and stock of any kind.
(2) To control the quotation of shares and stocks of companies, governments and their agencies.
(3) To regulate dealings in the market.
(4) To set and standardize the fees charged or services in the market from time to time.
(5) To ensure that Stockbroking activities are in line with available resources to ensure mutual understanding among dealers.
(6) To cooperate with other corpora Stockbrokers of other countries.
(7) To investigate any irregularities, disputes among dealers and operators in the market, and to give appropriate award in such matters.
(8) To promote, support and propose regulations that would enhance the smooth running of the market.

3.3.2 The Future of the Nigerian Stock Exchange

The Nigerian Stock Exchange has witnessed a great deal of development. It has had to contend with increasing number of Stockbrokers, registrars, local and international dealers.

New problems and challenges are emerging. There are problems of unclaimed dividends and the consideration of whether there should be another Stock Exchange. There are future challenges that the present Stock Exchange has to contend with such as the issues of delisting of some firms, mergers and acquisition compliance with rules by operators, and insider abuse. All these are likely to be the challenges to the Nigerian Stock Exchange in the future.

3.4 THE INDUSTRIAL DEVELOPMENT COORDINATING COMMITTEE (IDCC)

One of the major problems which investors desiring to establish businesses in Nigeria encountered was the difficulty in obtaining the required permits and approvals from various Ministries and agenda of government. Apart from the fact that the Ministries and agencies to grant the necessary permits and approvals were many, they were often scattered in different locations. Application s had to be submitted to each Ministry or Department. Each demanded documents and information and took its time to process the application. As a result, establishing a business in Nigeria **was** often a frustrating experience, time consuming and expensive. To overcome these problems, the Industrial Development Coordinating Committee (IDCC) was established to create a one-stop approval agency and thereby ensure speedy decision making with respect to pre-investment approvals for the establishment of business enterprises in Nigeria.

The committee consists of seven Ministries - Industries, Science and Technology, finance, Commerce and Tourism, Internal Affairs, Agriculture and Employment Labour and Productivity. The Committee is located in the Ministry of Industries.

The functions of the Committee include:

(i) receiving applications for various approvals from investors;
(ii) channelling the applications to the appropriate agencies for their recommendations;
(iii) coordinating and granting the required approvals within sixty days of application;
(iv) approving technology transfer agreements, and
(v) advising on the administration of government industrial incentives and other policies related to industrial development of Nigeria.

With the establishment of the Industrial Development Coordinating Committee, several benefits accrued to investors and the economy. They are:

(i) Delays and frustrations in securing approvals for the establishment of businesses were removed;
(ii) Cost of establishing business was reduced by the replacement of multiple approval centres with one.
(iii) Duplicated and conflicting demands from approving agencies were - removed with the coordination and simplification of approval procedures by IDCC.
(iv) Investment climate in Nigeria was improved.

3.5 THE NATIONAL AGENCY FOR FOOD AND DRUG ADMINISTRATION AND CONTROL (NAFDAC)

This agency was established by Decree No. 15 of 1993. It took over the functions of control and regulation of food, drugs, cosmetics, medical devices, bottled water from the Department of Food and Drugs Administration (FDAC) of the Federal Ministry of Health. The primary responsibility of NAFDAC is to promote and protect public health by regulating the importation, manufacture, distribution, advertisement and sale of processed foods, drugs, cosmetics, medical devices, bottled or packaged water, and chemicals.

Some of the functions of NAFDAC which are directly relevant to business enterprises engaged in the importation, manufacture, distribution, advertisement and sale of food, drugs, cosmetics bottled water and chemicals are as follows:

(a) It undertakes the registration of products in the categories listed above. No business, enterprise is allowed to offer for sale to the public any regulated product until it has been registered with NAFDAC and the safety, efficacy and quality of the product assured.

(b) It determines the standard specifications, regulations and guidelines for the production, importation, distribution, advertisement and sale of food, drugs, cosmetics, medical devices, bottled water and chemicals.

(c) It ensures that all food, drugs, cosmetics etc. imported into the country meet prescribed standards of quality, safety and efficacy. It prevents the importation and use in Nigeria of unwholesome and substandard products.

(d) It ensures that all processed food, drugs, etc. manufactured in Nigeria meet international standards of safety, quality and efficacy. This implies that such products are free of all harmful materials. NAFDAC also ensures that the manufacturing practice adopted and raw materials used meet acceptable quality assurance standards.

(e) It undertakes the control and issues quality certification of food, drugs, cosmetics medical devices, battled water and ¯chemicals intended for export.

(f) It issues guidelines on approved and monitors the advertisement of food, drugs, cosmetics, medical devices, chemicals and bottled water.

The National Agency for Food, and Drug Administration and Control maintains laboratories and facilities for the execution of its functions.

3.6 NIGERIAN EXPORT PROMOTION COUNCIL (NEPC)

Every nation devices strategies to enhance export of its goods and service in order to earn the foreign exchange it needs to pay for its imports and meet other financial obligations While a country can create a conducive environment for export trade or expand export opportunities by entering into trade agreements with other countries, acme' export transactions are usually undertaken by business enterprises in a market economy.

Export business requires careful planning. Suitable foreign markets have to be identified and selected. The business enterprises must also have the capacity to produce goods or services that are of acceptable standard in the foreign market. Export business involves highly intricate procedures and documentation that are usually not found in 'business transaction within a country. As a result of these factors, business enterprises do not venture into export business even where it is clear that there are substantial profits to be made.

The Nigerian Export Promotion Council (NEPC) was set up in 1988 to assist companies that desire to enter export trade or to expand to other foreign markets. The Council has an educational role of providing general information to exporters on the processes of export transactions. It provides basic information on general issues such as the available export incentives, trade agreements with other countries the processes involved in selling abroad, and organizing for export. It also provides information on export financing methods and processes, pricing techniques, export procedure and shipping documentation.

The Nigerian Export Promotion Council provides facilities and assistance which reduce the cost of exporting to a company. It assists exporters in various export operations such as identification and assessment of markets, product design and quality standards, pricing, packaging and labelling products for export.

One of the functions of the Nigerian Export Promotion Council is to administer the Export Development Fund. This fund was set up by the government to assist private sector exporting companies to cover part of their initial expenses in participating in training courses, seminars and workshops in export promotion; advertising and publicity in foreign markets; export market research and studies; participation in trade missions, trade fairs in foreign countries, exhibition and trade promotions; and product design and consultancy.

The Council registers all exporters. Such exporters must be either a limited liability company or a cooperative society.

3.7 NATIONAL OFFICE FOR TECHNOLOGY ACQUISITION AND PROMOTION (NOTAP)

Business enterprises need technology to produce goods and services. The technology may be developed informally by the company or acquired from other companies within or outside the country. Technology that is acquired may come in different forms It may be in the form of:

(i) capital goods such as plant and machinery;
(ii) industrial Property rights in the form of patents, trademarks and brand;
(iii) unpatented process know-how which is often a closely guarded secret;
(iv) accumulated experience and skills possessed by companies that render consultancy Service and technical services.

To acquire technology, a company needs to carefully search and select one that is appropriate, negotiate the terms and conditions of acquisition and enter into format contractual agreement before the transfer of technology can take place. These processes as well as the execution of the contract are complicated. They are nevertheless important to the company and, the country into which the technology is to be imported. The National Office for Technology Acquisition and Promotion (NOTAP) was established by Decree 82 of 1992 for the purpose of facilitating the acquisition of technology required for the industrial and economic development of Nigeria. It was formerly known as the National Office of Industrial Property. The change became necessary in order to expand the scope of the body to include promotional and development functions in addition to its regulatory role.

The regulatory role of the National Office for Technology Acquisition and Promotion gives it the mandate to register every contract or agreement entered into by a person in Nigeria with another person outside Nigeria for the transfer of technology into the country. Agreements in this respect include those involving.

(i) the use of trademarks;

(ii) the right to use patented inventions;

(iii) the supply of technical expertise in the form of preparation of plans, diagrams, operating manuals, or any other form of technical assistance of any description whatsoever;

(iv) the supply of basic and detailed engineering;

(v) the supply of machinery and plant

(vi) the provision of operating staff or managerial assistance and the training of personnel. The aim of the National Office for Technology Acquisition and Promotion is to ensure that the tam and conditions of the agreement are equitable and in the national_ interest. In particular, NOTAP strives to ensure that the provisions of the agreement facilitate the effective acquisition, assimilation and adaptation of technological know-how, the use of local raw, materials, employment generation, increased value-added and increased Research and Development activities.

NOTAP provides advisory services in the selection of technology suppliers, preparation for negotiation for technology acquisition, pricing, drafting of agreements etc. It also monitors the execution of the agreement to ensure strict compliance with the terms and conditions.

The promotional and developmental responsibilities of NOTAP include:

(i) Establishing with Research Institutes to bring research result to industrialists who may wish to commercialize them;

(ii) Establishment of the Patent Information and Documentation Centre. This enables NOTAP to provide industrialists with technological information contained in patent documents.

(iii) Storage and dissemination of project profiles which make it less cumbersome and inexpensive to prepare business plans for desired projects;

(iv) Publication of Guidelines on Acquisition of Foreign Technology intended to create awareness of the procedures and practices in technology transfer, negotiation and acquisition.

3.8 STANDARD ORGANISATION OF NIGERIA (SON)

A large number of companies produce different products in Nigeria or import them from other countries. As may be expected, the quality of such products varies significantly. The Standards Organisation of Nigeria (SON) was established to ensure that products of Nigerian industries and those imported meet national and international standards. In particular, SON has responsibility to ensure that substandard *and* poor quality products are not distributed *for* use in Nigeria.

To achieve this goal, the SON has the following functions:

(1) Preparation of standards for products and processes to be adopted as approved standards in Nigeria.

(2) Conducting tests and ensuring compliance by industries of the standards approved by the Council of the

Standard Organisation of Nigeria.

(3) Ensuring that satisfactory quality control procedures are adopted for both locally manufactured and imported products.

(4) Investigating the quality of facilities, materials and products and establishing quality assurance systems.

(5) Certification of factories, laboratories and products which have met established quality standards.

(6) Monitoring and verification of measures and measuring instruments.

(7) Developing methods of testing materials, supplies and equipment.

(8) Registration and regulation of standard marks and specifications.

(9) Establishment and maintenance of laboratories to facilitate the monitoring-and enforcement or compliance with approved standards.

3.9 FEDERAL ENVIRONMENTAL PROTECTION AGENCY (FEPA)

The problem of environmental pollution and degradation has become a major global concern. Efforts to accelerate social and economic development often bring with it dislocation of the ecology, destruction of valuable natural resources, the production of toxic substances, industrial waste, air, water and land pollution and various other negative consequences. Business enterprises, especially those engaged in manufacturing activities, are major producers of waste materials capable of polluting the environment.

The Federal Environmental Protection Agency (FEPA) is the apex institution in Nigeria that is responsible for ensuring the development and sustenance of high quality environment. The agency was established by the Federal Government in 1988 soon after the incident of dumping of toxic waste of Italian origin in Koko, Delta State. As a parastatal, it was believed that FEPA would have a quicker and more effective response to problems. of environmental pollution and degradation than a Ministry could.

(i) The functions of FEPA include: formulation of policy on environmental issues and coordination with other agencies such as State and Local governments.

(ii) Prescription of standards and making regulations with respect to water quality, air quality, atmosphere protection. Ozone protection, control of hazardous substances, noise control and setting permissible limits of effluents or discharges from industries and facilities generating waste.

(iii) Monitoring and enforcement of standards, guidelines regulations and schemes designed to protect the environment.

(iv) Collaboration with State governments to establish State Environmental Protection Agencies (SEPA) and action plans for environmental protection.

The main strategies adopted by FEPA in carrying out its functions include:

(i) Raising the level of awareness of the public of the problems of the environment and the actions designed to restore and protect it.

(ii) Pollution Abatement in Industries and Facilities generating waste: This is one of the regulations made by FEPA. It imposes restrictions on the release of toxic substances and stipulates the requirements which industries and facilities generating waste must meet in monitoring pollution to ensure that permissible limits are not exceeded. The regulation also require establishments to develop contingency plans for handling unusual and accidental discharges, strategies for waste reduction and safety of workers.

(iii) National Effluent Limitation Regulation: These regulations make it mandatory for industrial establishments to install equipment or facilities capable of reducing or eliminating pollution arising from their production activities. The regulations provide for the treatment of effluents and specify the maximum limits of effluent parameters allowed to be 'discharged into the air, streams, rivers and other waterways, drains and ground.

(iv) Environmental Impact Assessment (ETA): Before embarking on a major industrial or development project likely to have negative impact on the environment, it is mandatory for the sponsors of such project to undertake a study to assess the projects impact on the environment. The environmental impact assessment must *be* done in accordance with the industry-by-industry guidelines prescribed by FEPA. The result of EIA is a major consideration by government in approving the project or for specifying programmes that must be put in place to reduce or eliminate the negative effects of the project.

(v) Industrial Compliance Monitoring: An important role of FEPA is monitoring compliance of industries and waste generating facilities with the guidelines and regulations on environmental protection. As part of effort to enforce compliance with regulations, FEPA undertakes registration of chemicals and pesticides, issues licenses and permits and controls the movement of hazardous/toxic wastes across regional and international boundaries.

3.10 RAW MATERIALS RESEARCH AND DEVELOPMENT COUNCIL (RMRDC)

Manufacturing industries in Nigeria depend substantially on imported raw materials Yet, Nigeria is endowed with abundant natural resources which remain unexplored and undeveloped. The purpose of establishing the Raw Materials Research and Development Council was to expedite industrial development and self-reliance through the development and utilization of local raw materials in industry. The Council was established by Decree No 39 of 1987 as a parastatal of the Federal Ministry of Science and Technology.

The mandate of the Raw Materials Research and Development Council is to formulate policy and- action programmes on raw material acquisition and exploitation in order to promote industrialisation based on locally available taw materials. In particular, the Council is required to address the strategic implication of raw material availability, depletion and conservation. The Council also has responsibility to promote publicity of research findings and other information on local sourcing of law materials needed by industry.

Most imported machinery are designed to utilize the raw materials that are available in the country or region in which the machinery is made. For example, most breweries are designed to use barley because that is the cereal available in the countries where the technology was developed. The Raw Materials Research and Development Council advises on the adaptation of imported machine" and processes so that they can utilize locally available raw material. The use of maize and sorghum in brewing beer is an example of the adaptation of imported machinery to utilize local raw materials.

The Raw Material Research and Development Council generally promotes the use of local raw material by sponsoring research and development projects encouraging in-plant research and development activities, providing incentives to industrial establishments that succeed in bringing about innovation in the use of local raw materials and. organizing workshops and seminars to enlighten the public on new developments in total raw material utilization.

The RMRDC has undertaken several techno-economic surveys to provide up-to-date information on raw material availability, production and utilization in Nigeria.

3.11 INDUSTRIAL DEVELOPMENT CENTRE (IDC)

In every State of the Federation, an Industrial Development Centre is established
by the Federal Government to facilitate the delivery of extension services to small and medium scale enterprises in that state. The purpose is to assist this category of enterprises to overcome their technical and managerial problems.

The functions of the Industrial Development Centre (1DC) are as follows:

(i) Technical Services: The Industrial Development Centre assists small and medium scale enterprises in equipment selection, plant installation and bulk purchasing of raw materials and preparation of feasibility reports or business plans.

(ii) Training: One of the major functions of the Industrial Development Centres is the training of the owners and workers of small and medium scale enterprises. This includes technical training and management training. The IDC is expected to work closely with these enterprises in order to identify their training needs and design training programmes to meet the identified needs.

(iii) Loan: The IDC does not provide loans to small and medium scale enterprises. It collaborates with the State Government to appraise loan applications of entrepreneurs under the Small scale Industries 'credit Scheme. It also helps to supervise the scheme.

(iv) Consultancy Services: The Industrial Development Centre may also provide consultancy services to the proprietors and managers of small and medium scale enterprises. The Centres are expected to have workshop facilities for metal, automobile, wood, leather, ceramic, textile, electrical and electronic trades.

One of the problems of the Industrial Development Centres is lack of facilities. Even though they are expected to have workshops for most trades, the equipments are not there. On account of this, the services of the centres are grossly underutilized.

The patronage of the small and medium scale enterprises of the centre is minimal because the centres are unable to meet the specific needs of the enterprises.

4.0 CONCLUSION

We note from the unit that the regulation and control of business is vested by law on different agencies of government. We also note that in some cases, different agencies of government **regulate** and control different aspects of a business enterprise. It is against this background that knowing where to obtain permits, licenses or information about existing regulations governing a particular type of business can be a major problem to managers.

5.0 SUMMARY

In this unit, we have listed and discussed the roles of some of the government regulatory agencies in the control and regulation of businesses in Nigeria. These agencies include:

- Corporate Affairs Commission (CAC)
- Securities and Exchange Commission (SEC)
- The Nigerian Stock Exchange (NSE)
- The Industrial Development Coordinating Committee (IDCC)
- The National Agency for Food and Drug Administration aid Control (NAFDAC)
- Nigerian Export Promotion Council (NEPC)
- National Office for Technology Acquisition and Promotion (NOTAP)
- Standards Organisation of Nigeria (SON)
- Federal Environmental Protection Agency (FEPA)
- Raw Materials Research and Development Council (RMRDC)
- Industrial Development Centre (IDC)

6.0 TUTOR-MARKED ASSIGNMENT

1. Write short notes on the roles of any five of the government regulatory agencies.

7.0 REFERENCES/FURTHER READINGS

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MODULE 4

UNIT 1 LEGAL ISSUES IN BUSINESS: LAW OF CONTRACT

CONTENTS

7.0 References/Further Reading

1.0 INTRODUCTION

This unit will help you to find out what contracts are in business. If you are doing business, contract is a serious agreement between two parties. Different types of contracts exist, and you will learn what constitute a contract. If contracts are violated, you will know how to handle such.

2.0 OBJECTIVES

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

- tell what a contract is, its characteristics and types;
- determine what constitute violation of a contract;
- give remedies to the violation of a contract.

3.0 MAIN CONTENT

3.1 DEFINITION OF CONTRACT

Kurfi (2005) define a contract as a promise or a set of promises, for the breach of which the law gives a remedy or the performance of which the law recognizes as a duty.

Contract is classified into two:

- Contract under seal
- Simple contract

Contract under seal is a written form of contract that, is signed by both parties and sealed on it.

Simple contract is an informal contract. This contract may be written, oral or mere conduct of the parties.

3.2 CLASSIFICATION OF CONTRACT

Kurfi (2005) Identify nine classes of contract, they are:

3.2.1 Expressed contract

A contract is expressed when the parties manifest their agreement by words. Contract that is written, oral or under seal is called expressed contract.

3.2.2 An Implied Contract

It is implied by the act or conducts of the parties and it is sanctioned by the law.

3.2.3 Quasi-Contract

Quasi means something looking or resembling something. A Quasi contract can best be described by an example of a doctor who treats an accident patient brought in by a passerby. The doctor will recover his cost of services from the patient. In this case, it is to discourage one party from unjustly benefiting from a contract that was not expressed.

3.2.4 Bilateral Contract

A contract where two parties are making a mutual promise:

3.2.5 Unilateral Contract

It's a situation where an offer is made and acceptance is subject to legal obligation. For instance if you find my lost GSM Handset I will give you five hundred Naira (N500). If found, you are bound to give the finder N500.

3.2.6 Joint Contract

It's a contract where two or more people are involved and jointly bound to fulfill the obligation.

3.2.7 Joint and Several Contracts

It is a contract where by two or more people are not only equally bound together in a contract also individually bound.

3.2.8 Entire Contract

It is a contract where the contract in question must be hundred percent completed before, the contract sum is given in full.

3.2.9 Several Contracts

Contracts were the contract can be executed in pieces.

3.3 ESSENTIAL ELEMENT IN A CONTRACT

Kurfi (2005) says there must be seven conditions fulfilled in a contract before it can be enforceable. They are:-

3.3.1 Offer

Is a promise or a commitment to do or reframe from doing some specifying things in the future. An offer has also been defined as a proposition, made by one party called the offeror to another party called the offeree. Three conditions must be fulfilled for an offer to be legal.

- Offer must be definite and certain
- Proposition must come from the person, liable to be bound should the said terms be accepted.
- The offer must be communicated to the offeree.

The following are limitations to treat; as such, they do not amount to an offer:

- Exhibition of goods for sales in a shop
- Advertisement of sales in catalogue or mass media
- An auctioneers request for bids
- An invitation to tender
- Negotiating for sales of land and or other complicated contracts.

Offer can be terminated by:

- Rejection
- Counter offer
- Revocation
- Lapse of time.
- Occurrence- a non-occurrence of a condition
- Death

3.3.2 Acceptance

If an offer is made, a reply to it is refer to as acceptance. The acceptance must not attach any other condition to accept the offer, if not, it will be regarded as a counter offer.

Acceptance is genuine, if the following are present:

- You must display an intention to accept,
- You must communicate the acceptance to the oferror.

In term of communicating an offer, the following condition must prevail:

- Silence is not an acceptance
- In a special case you can wave an acceptance
- Communication will depend on the type of offer
- There are various rules under the post rules

3.3.3 Consideration

Kurfi (2005) define consideration as the price for which the promise is bought. All contracts must be supported by a consideration. A bare promise is not legally binding.

The following four rules governing consideration must be observed:

- It must be sufficient and need not to be adequate.
- It must move from the promisee though not necessarily to the promisor.
- Consideration may be executory or executed but must not be past.
- It must not be illegal; immoral or contrary to public policy

3.3.4 Intention to Create Legal Relation

In business any contract should have an intention to have a legal intention. If not it will not be a contract.

When there is an agreement that relates to commercial or business, it means, there is an intention to create legal relationship.

- Where the parties to a contract expressly exclude an intention to create legal relationship.
- Domestic, family or social affairs have no intention to create a legal relationship.

3.3.5 Legal Capacity of the Parties

To enter into any legal contract with anybody, you must access his capacity to do so.

The following may have a limited capacity.

- Infants
- Persons of musical mind or lunatic
- Drunkard persons
- Illiterate etc

3.3.6 Formalities Required by the Law

- Contract which must be under seal
- Contract which must be in writing
- Contract which must be evidence in working

3.3.7 Legality of the Object of the Contract

When if contract entered is illegal, the entire contract becomes null and void

A contract is illegal if any of the following happen:

- To Violation the law of the land

- If its contrary to public policy

SELF ASSESESMENT EXCERSISE 1

List five conditions of rejection of offer.

3.4 CONTRACTUAL TERMS

Terms vs. Representation.

Terms dictate the rights and obligations of the parties to the contract. Misrepresentations are statements that are not part of the contract and not binding on any of the party.

3.4.1 Condition and Warranties

Kurfi (2005) says condition is a very important contractual term if, breech the whole contract may be canceled.

If a warranty just like condition is breeched, damages might be paid. It does not lead to cancellation of contract.

3.5 VIOLATING ELEMENTS IN A CONTRACT

A contract may be null and void depending on any of the following reasons:

- Mistake- it could come as a different mistake from both parties, ignorance by two parties on a contract agreement.
- Misrepresentation
- Contract can be violated if there is misrepresentation .Because of that, buyers must be aware and the sellers must deal with the buyers in an utmost good faith.
- Undue difference: - A contract is valid when it is discovered that there was no special relationship between the parties.
- When if you enter into any contract with your master and you can't fulfill it, if a case is taken up it could be assume to have been agreed upon because of undue influence. Other examples are: - Lecturer and student, Doctor and patient e.t.c.
- Illegality
- Any contract that is not based on rule of law, is void and it cannot state the test of law

3.6 REMEDIES FOR BREACH OF CONTRACT

(i) Damages may be paid: - If it is established as to who breach the contract, either the buyer or the seller.

(ii) Quantum meruit (as much as he desires) it could be claimed in a variety of circumstances e.g.

- Where the defendant has abandoned or repudiated the contract.
- Contract done under a void contract.
- Where the parties have agreed to terminate the contract
- Where one party has obtained a benefit.

(iii) Specific Performance: Kurfi (2005) says it is a specific performance; it is an equitable remedy for breach of contract. It is a decree issued by the court ordering a defendant to perform a promise that he has made under the contract. It may be awarded in addition to or instead of damages.

(iv) Injunction: It is a decree by the court ordering a person to do or not to do a certain act.

3.7 PRIVITY OF CONTRACT

It means here that a person, who is not a party to a contract, cannot suffer or enjoy the burden of contract.

There are exceptions to these:

- Agent-an agent can be brought into a contract
- Assignment of contractual obligations
- Certain comments concerning land.
- Statutory exception.

3.8 DISCHARGE OF A CONTRACT

A contract may be discharged by the following way:

- Performance
- Express agreement
- Breach of contract
- Frustration

4.0 CONCLUSION

We have discussed contract, various types of contract, the essential of contract, whom you should and you should not enter into contract with. All will assist in doing business as you go along in establishing your own business.

5.0 SUMMARY

This unit gives you more or less a first aid when you have a problem with contract that you have entered into or you are about to enter into before any other action is taken. No business will ever progress without contract; this will assist in guiding your day- to -day activities in business so that you will not waste your finances on contracts that are not legal in the sight of law.

6.0 TUTOR-MARKED ASSIGNMENT

1. Highlight the violating elements in a contract.
2. What are the remedies for breach of contract?

7.0 REFERENCES/FURTHER READING

Kunfi, Aminu K. (2005). *Business Law in Nigeria.* Kano: Benchmark Publishers.

UNIT 2 LEGAL ISSUES IN BUSINESS: SALE OF GOODS

CONTENTS

1.0 INTRODUCTION

The issue of the sales of goods is one of the legal issues in business, the unit introduces specifically those agreements to sell, the importance of warranty to sales of goods .The unit also discuss those breach of contract in terms of sales and how they can be addressed.

2.0 OBJECTIVES

After a careful study of this unit, you should be able to:

- define sales and agreement;
- distinguish between sales and other contracts;
- discuss how to transfer title;
- explain what a breach of contract is and how it can be resolved.

3.0 MAIN CONTENT

3.1 SALES AND AGREEMENT TO SALE

Kurfi (2005) Define contract “as a contract where by the seller transfer or agreed to transfer the property to the buyer for money consideration, called price”.

If you are into a business and you have an item to sell or willing to sell, it either.

(i) When you transfer the title of the goods to a buyer this contract is called sales.
(ii) In a situation where an agreement is to pass on the possession of an item in a future date, with some conditions attached, it is called agreement to sales.

In a situation where the conditions are fulfilling, sales has taken place. If you sell and deliver well then, contract of sales has taken place and the first owner will seize to be the owner and the second party takes possession.

Goods that can be used for this sale are:

- Motor vehicles
- Ships
- Aero planes etc.

3.2 SALES AND OTHER CONTRACTS DISTINGUISHED

Contract of sales is different from the following:

3.2.1 Bailment

This is an agreement between two parties that goods should be delivered to another party or that goods should be transfer from second party to the third party based on the instruction given by the first party.

3.2.2 Hire Purchase

It is an agreement between two parties for the second party to have an item under some conditions, until such conditions are fulfill, the item is still that of the first party.

3.2.3 Exchange

It is a transfer of goods from one party to another. There may not be exchange of money.

It could lead to contract, if where price is partly involved and party of goods are settle with goods.

SELF ASSESSMENT EXERCISE 1

(1) Give good example of bailment.
(2) State a very good example of hire purchase.
(3) Have you ever exchange any good? State your experience.

3.3 CONDITIONS AND WARRANTY

These are terms commonly found in sales of goods.

- Conditions -is a term use that if not fulfill can cancel a contract.
- Warranty: It is a condition of sales that if discovered lead to a right of damage only or possible replacement.

Some conditions of warranty.

(i) Stipulation as to the Time

In a commercial contract, time of delivery is necessary especially where perishable items are involved. If the time stipulated is breach, it means that the contract has been breach, the injured party can ask for refund.

(ii) Undertaking as to Title

Once a contract of sales is entered into, it is agreed that:

- You have a right to sales, subject to any agency agreement or sale by the holder of power of attorney.
- There is implied warranty from the seller that the buyer will enjoy "a quite possession of the goods"
- Warranty as to freedom of encumbrances that the goods brought shall be free from any disturbances by the third party that was not declared by the seller.

(iii) Sales by Description

If your, sale goods are by description, the description should correspond to the description given, if not there will be a breach of contract.

(iv) Sales by Samples

It states that

- There is an implied condition that the bulk shall correspond with the sample or quality and quality.

- That the buyer should have an opportunity to compare the bulk with the sample.
- There is an assume condition that the goods shall be free from any defect rendering them unmarketable which will not be apparent in the sample.

SELF ASSESSMENT EXERCISE 2

Name five products that have warranty.

3.4 TRANSFER OF PROPERTY

Once goods are sold they are to be transferred especially from one party to another.

One of the reasons for doing this is to know the rights, duties or liabilities of the parties involved. Who is to pay for damages, destruction or loss of the goods because of these the difference between the following is necessary.

(1) Specific or Ascertain Goods

Kurfi (2005) says specific goods are goods identify and agreed upon at the time of the sale. Under this condition goods are to be transferred to the buyer at the time the parties intend it to be transferred.

In this contract intention of the parties must be known there are from way in knowing the intention of the parties.

Kurfi (2005) state the form of the condition thus.

Where there is an unconditional contract from the sale of specific goods in a deliverable stage the property in goods passes to the buyer when the contract is made and it is immaterial whether time of payment or of delivery or both postponed.

If a seller is bound to do something for the purpose of putting them into a deliverable state, the property does not pass until such thing is done and the buyer has nothing thereof.
If goods sold are to be weight or measured for the purpose of ascertain price, it must be done. If not, the buyer has nothing there of.

If all condition are fulfilled the goods must be pass on to there buyer. It is established that

- If the buyer signify approval
- If they do not singly approve

2. Unascertained Goods

Kurfi (2005) states that in unascertained goods are “where there is a contract for the sales of unascertained goods, no properly in the goods is transferred to the buyer unless and until the goods are ascertained.

3.5 TRANSFER OF TITLE

In business law, it is believed that “no one is legally capable of giving what he does not have. It means that you can’t sell what you do not have, where there is an agreement to sell, you should have the right to sell at the time when the property or goods is to pass.

It is only the owner of goods that has the right to transfer the title of such goods to another person. Sometime it may not always be so.
In such cases we have:

3.5.1 Sales by Agent

You can sell goods to another person with the consent of the original owner, you are now the agent. If you sell without his consent, he (the owner) can recover his goods.
“However, the owner is liable to compensate the purchaser for any improvement he had affected on the goods while they are on his possession”.

3.5.2 Estoppels

Kurfi (2005) Say a person by his conduct or acquisance allows others to believe in a state of things and they acted to his detriment. Such a person will be excluded or denied the state things.

He went further to say it is a situation whereby the owner of the goods by his conduct is precluded from denying the sellers authority to sell, and it applies in cases of agency by estoppels based upon the general representations made by the principal i.e. the seller has his authority to sell.

3.5.3 Sale under Special Power

Goods can be sold under some special common law or any statutory power e.g.

- Liquidator of a company
- Unpaid seller of goods

3.5.4 Sales in Market

Where goods are bought in a market place, you can buy from the market provided you buy in good faith.

3.5.5 Sale by a Factor

Kurfi (2005) a factor is a type of mercantile agent entrusted with a sale of goods for sale only, and it is allowed by law to sell in his own name.

3.6 PERFORMANCE OF CONTRACT OF SALE

This involves delivery of goods sold, either on behalf of the seller and their acceptances and payment of the price on behalf of the buyer.

- **Delivery:** Kurfi (2005) says it's the voluntary transfer of possession from one person to another, this transfer may be actual or constructive".
- Constructive delivery may be any of the following form
- By affirmation i.e. the third party acknowledges to the buyer he holds the goods on his behalf
- Transferring to the buyer
- Possession passes to the buyer without actual delivery
- Transfer of document of title

3.7 PLACE AND TIME OF DELIVERY OF GOODS

When an agreement is reach for delivery of goods, the time and place must be stated. If not stated, you deliver to his place of business, if he has more than one place of business, where the transaction took place, which is where to deliver.
In case where time is not stated, you will deliver at a reasonable time.

3.8 DELIVERY OF WRONG QUALITIES

It is expected that the seller, write delivery the exact goods agreed upon.
If the goods are less or more, the buyer has the right to accept or reject such goods.

3.9 BREACH OF CONTRACT OF SALE AND REMEDIES

Contract between a seller and a buyer may be breached. Disagreement may arise i.e. the form of refusal or rejection of goods and refusal to pay. In such situation the law will prevail.

- **Breach by the Seller**

The seller can breach a contract and you can react to such a breach in one of the following ways.

- Right to reject the goods
- You have the right to bring an action for damages as well as for specific performance.
- An action for money paid for the goods in the contract.

Breach by the buyer
The following remedies are available to him

- Failure to take delivery
- Failure to accept goods
- Failure to pay for the goods
- The seller has the right to resell

4.0 CONCLUSION

The business of sales has its legal implication for you as a buyer and the seller. Once you agree to sell and buy you are legally bound. In case of failure, you can face the law.

5.0 SUMMARY

Sales of good in business help in areas of sales of goods, and agreement to sales. Sale of goods is a general guide to business men so that they can be ethical in their day to day business of selling. Once you are at fault as a buyer or seller you will know which action and how to rectify such a problem.

6.0 TUTOR MARKED ASSIGNMENT

Discuss the following.

- Hire purchase
- Delivery of wrong quantity
- Warranty
- Sales by description

7.0 REFERENCES/FURTHER READING

Kunfi, Aminu K. (2005). *Business Law in Nigeria.* Kano: Benchmark Publishers.

UNIT 3 BUSINESS SOCIAL RESPONSIBILITY

CONTENTS

1.0 INTRODUCTION

Probably no question has received more attention by business, governments, politicians and people in general in the past few years than the question of what social responsibility of business is. The same question, originally aimed at business, is now being addressed with increasing frequency to government agencies and their leaders, non-profit and charitable organizations and even churches.

Various kinds of organizations have different missions that have been entrusted to them by society. The mission of business is the production and distribution of goods and services. The mission of a police department is protection of the safety and welfare of the people. We should not hold business managers, for example, responsible for solving all manner of social problems, any more than we should expect those responsible for a church to produce and distribute economic goods. There can hardly be any sense in making the job of business one of providing public school education that government is ordinarily expected to provide. But business, like *any* other type of organized enterprise, must interact with and live within, its environment.

To live within an environment is to take into account in our every action those elements of our surroundings which are important to us and to others. Managers know that they ma interact with, and live within, an existing environment. This means that they must take into account every element in their surroundings that is important to their success and important to other who may be affected by the action taken. This is what they must do, since the survival of their enterprises *depends* upon successful interaction with the critical elements of their environment.

But to live within an environment and be responsive to it does not mean that managers should merely assume a reactive posture in the face of stress. There is a positive aspect as well, that is, to pro-act. To respond require us to know what aspects-in our total environment have or will have a significant influence on our operations. Since any enterprise cannot be expected to react very quickly to unforeseen developments, it must practice was of anticipating them through forecasts. An alert company, for example, does not wait until its product is obsolete and sales have fallen off before coming out with a new or improved product. No enterprise should wait for problems to develop as a result of environmental forces before preparing to face them. Managers of business enterprises may not voluntarily respond to protect or improve the environment in which they operate. For example, business enterprises may, if left alone discharge their waste product in such a way that pollutes the environment. Society may therefore need to enact legislation to enforce proper discharge of waste from business enterprises. However, many managers in business and elsewhere have found it to their advantage to do something about pressing social problems. Many businesses have profited by recycling their waste. Some companies and individuals have made a profit by building low-cost apartments in areas surrounding universities in order to reduce accommodation problems for faculty and students. All of these are voluntary actions. Society however, through legislation, stipulates the minimum standard in certain critical areas, that all organizations are expected to attain. Legislation forces business enterprises to adopt a minimum acceptable standard of behaviour in relation to society.

2.0 OBJECTIVES

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

(i) define and explain the concept corporate social responsibility;
(ii) illustrate socially responsible behaviour of business enterprise;
(iii) enumerate specific social responsible activities;
(iv) define and discuss social audit;
(v) discuss the pressure groups;
(vi) define and explain the concept externalities;
(vii) describe how to deal with social costs;
(viii) discuss the future of social responsibility.

3.0 MAIN CONTENT

3.1 DEFINITION OF CORPORATE SOCIAL RESPONSIBILITY

The question to be answered with respect to corporate social responsibility is: Whit exactly are corporate social responsibilities and how far do they extend?

Raymond Bauer defines corporate social responsibility as business seriously considering the impact of the company's actions on society. This definition is quite broad, but it does provide us with a frame of reference which suggests that business responsibility to the society within which it exists goes beyond simply assuming the profit-maximizing, producing role. The weakness of this general definition is that it does not pin down what the term means, operationally, for management.

Keith Davis and Robert Blomstrom define social responsibility as follows:

> Social responsibility is the obligation of decision-makers to take actions which protect and improve the welfare of society as a whole along with their own interest.

The definition is somewhat more pointed in that it addresses two key parts of parts of social responsibility: protect and improve. To protect implies creating some positive benefits for society.

One other definition that will be set forth is that of McGuire, Joseph. McGuire asserts:

> The idea of social responsibilities presupposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond this obligations.

The attractiveness of this definition is that it acknowledges the primacy to economic objectives and the importance of legal obligations but also encompasses a view which more broadly conceives the firm's responsibilities.

Voluntary social action can be viewed at four levels: The first level is conformity to legal requirements in fulfilling the economic function of the business. A profit-maximizing manager would probably follow this course. The second level is going beyond legal requirements to meet public expectations of social responsibility, a position the trusteeship manager might take. The third level is anticipating new social demands and preparing in advance to meet them, a position the "quality of life" people-oriented manager would take. The fourth level is serving as a leader in setting new standards of business social performance. These four levels are illustrated below in the level of Corporate Social Responsibility.

1. Obeying the law
2. Meeting recognized public expectations
3. Anticipating new social demand
4. Leading the way.

SELF-ASSESSMENT EXERCISE 1

What do you understand by 'business social responsibility'?

3.2 ILLUSTRATIONS OF SOCIALLY RESPONSIBLE BEHAVIOUR OF BUSINESS ENTERPRISES

We have said that the concept of social responsibility spans through many sectors of the economy. Although the various enterprises within the sector have different missions, they still have to be socially responsible in order to survive. A cursory illustration of social responsibility activities in the following sectors will assist in understanding the concept better.

3.2.1 Mining sector

Prospecting for oil in any area normally has associated environmental problems or consequences. Oil production leads to environmental pollution and destruction of landscape. It leads to permanent despoliation of land, the risk of air and water pollution, destruction of fish ponds and other aquatic animals, land slides and in any other ecological problem like oil spillage.

Therefore, a company (oil producing company), will be socially responsible – through a continued policy of adequate compensation to individuals whose property are destroyed and to the oil producing areas for the destruction of their physical environment. To the extent that it pays adequate compensation, the company will have obeyed the law. It may also seek to meet public expectations by providing pipe-borne water, all season roads, schools, health facilities and most importantly, resettlement in other safe areas. It is advisable that the oil producing companies anticipate these needs and provide for them adequately before they are forced to do so.

3.2.2 Manufacturing sector

The austere times, courtesy of the structural adjustment programme, have aided, directly and / or indirectly, the production and marketing of sub-standard goods. Such goods or products are normally unsafe for consumption. Again, some companies are unable to produce to the legal specification and requirements as set out by the Standard Organisation of Nigeria (SON).

Therefore, a company will be socially responsible by producing and marketing standard, safe-'n'-sound products; provision of adequate/safe work environments for its employees, provision of appropriate tools like protective clothing for its employees, and most importantly, acting in anticipation, to the dictates and expectations of the environment in which it is operating.

3.2.3 Service sector

Those rendering personal services, that is, professionals like Accountants, Architects, Lawyers, Doctors and so on will be socially responsible through honest dealings with their clients. This they can do by avoiding technicalities which might confuse their clients. They must be properly guided by the ethics of their professions in the course of their dealing with clients.

3.3 SPECIFIC SOCIALLY RESPONSIBLE ACTIVITIES

Thus far, we have attempted to establish that social responsibility is difficult to define precisely. It implies an obligation or debt.

Question: In the case of business, to whom is the obligation due? Certainly, business has obligations to the government and its customers. Does it also owe a debt to the general public? Is there an obligation to future generations to preserve and maintain the institutions which make business possible? Here we must move beyond strict legal obligations into the realm of morals and values. The business social responsibilities under reference are not legal debts; they are self-imposed obligations .which business people must accept if they are to preserve the structure which makes possible their own way of life.

Since what is "responsibility" depends on one's value system, we have attempted below to identify and classify some activities of businesses that reflect their responsibilities.

1. To the customers:

Such activities may be classified into product line and marketing practices. Here, the marketing concept must dominate. This concept requires that responsiveness to customer needs is paramount. Whether it is through increased investment in research and development (R and D) to produce high quality and safe products, ensuring truth in advertising, or providing adequate replacement for warn-out parts, the corporation must ensure that it balances its profit motive with consumer concern.

2. To the public at large:

The business derives its existence from the public. Through incorporation the public gives business the right to exist. Hence business must conduct its affairs with Minimal disruption of the environment or the traditions of the people. This is particularly significant where the given business enterprise is an international or foreign one. In this regard, business assumes activities including:

- The preservation of basic institutions as a good corporate entity, i.e. respect the customs and traditions, the freedom to engage in contractual relations, and to avoid conduct detrimental to the integrity of Nigeria as a nation;

- contributing to increased standard of living and enhancing the quality of life of members of the larger society y engaging in beneficial ventures;

- preservation of resources by ensuring efficient use of the nation's resources which often can be depleted: e.g. petroleum;

- economic activities must be pursued by continuously striving for efficiency. Sub-optimal use of factory capacity and increasing high production costs and lay-offs do not enhance business image or help the community development through voluntary sponsorship of recreational public;

- beautification of the community, providing scholarships for students, and facilities endowing chairs in institutions of higher learning. No law forces business to contribute to education, or provide clinics and build roads. However, to assume these responsibilities enlarges corporate good image and social good.

3. Responsibilities to the business owners

Except where there is sole proprietorship, every business, whether a partnership, or corporation, has a responsibility to protect the interest of those who have invested their money and given authority to manage. The primary responsibility of management here is to ensure adequate return on investment, and protect the corporate assets, and as much as possible, reduce liabilities. By encouraging investment of profit for corporate expansion, prospects are brightened for the stockholder whose Naira value per stock is guaranteed to appreciate. Beyond this is the desirability of providing adequate communication with stockholders through annual general meetings.

4. Responsibility to government

Corporations and any other form of business are products of the law. Hence the basic responsibility to obey the laws of the land and operate within the ambit of the Companies and Allied Matters Decree 1990. One other most observable responsibility in this situation is for business to provide the financial support needed to maintain governmental system, by paying taxes promptly, and generally ensuring that the environment of business is not soured by incessant conflict between Government and business. As a corporate citizen, the business should deem itself committed to the destiny and future of the country where it operates, irrespective of whether it is foreign or domestic.

5. Responsibilities to employees

The law has provision for labour-management relations; and while the law cannot legislate what are "good" jobs or "bad" jobs, perhaps the first task for business managers when making policy is to attempt seriously and with a great amount of honesty to take into consideration the effects of their policies upon the lives of the workers.

Business firms engage in numerous activities intended to meet the need of their employees. Some restrict their activities to providing safe working conditions and competitive pay while others provide a wide range of employee-related services. Responsiveness to workers' needs may show in the following ways:

- Provision of wages appropriate for the job, but which should go beyond meeting bare necessities. Thus, wage policies should aim to make life as full as possible for the worker.
- Providing paid vacations or granting leave allowances.
- Ensuring that employees derive job satisfaction. With increasing emphasis on machine and the computer, the worker is becoming less significant. Making the most of a worker's abilities, by giving him or her satisfying jobs is perhaps the greatest future responsibility of business, and one of the most difficult.
- Miscellaneous responsibilities include unemployment benefits, hazard allowance, provision of clinics and recreational and nursery facilities to employees.

6. Political responsibilities of business

It is not unanimous that business operators should be involved in politics, in *the* belief that politics should be left to professional politicians. However, management theories, and experience from practice indicate that business leadership" and political leadership are often related. Apart from the fact that business leadership should be conversant with the political/legal environment of business to prosper, it is in their self-interest to help in the formulation of legal and economic policies as these affect business. This participation in politics should be at all levels of government: local; state and national. But participation must not be disruptive: the involvement in politics must be responsible. Recent developments in Nigeria since the 1980s to date testify to certain level of arrogance and defiance of the law on the part of some large businesses.

3.3.1 Arguments for Social Responsibility

Advocate of corporate social responsibility generally agree that:

(a) industrial society faces serious human and social problems brought about largely by the rise of large corporation, and

(b) managers must conduct the affairs of the corporation in ways to solve or at least ameliorate these problems.

On the basis of these assumptions, they argue that it is in the long-run self-interest of business to be socially-responsible. This long-run self-interest view essentially holds that if business is to have a healthy climate in which to exist in the future, it must take actions now that will ensure its long term viability.

It is also argued that failure to take voluntary action to solve or ameliorate the human and social problems generated by business will force government to intervene on behalf of society and regulate the offending business activities.

A third reason for advocating corporate social responsibility is that business has the resources to solve some of the social problems that it generates. Not only does business have the managerial know-how, and technology, it also has the financial resources to fight environmental pollution, produce safe products, engage in fair advertising etc.

Through involvement in social responsibility, the company is able to build and maintain its corporate image and ensure its long-run survival. Generally, the firm that demonstrates a good sense of social responsibility earns the respect and loyalty of customers, employees, shareholders, suppliers and the community in which it does business. As such it gains government recognition, a merit award and generally improves its relations with government.
One final point is that "pro-acting is better than reacting". This position holds that if business pro-acts - anticipates and initiates, then this is a preferable and less costly posture than simply reacting to problems as they arise.

3.3.2 Argument against Social Responsibility

On the other hand, there are those who are strongly opposed to the idea of corporate social responsibility. Milton Friedman for example argued that business only has one responsibility: to maximize profit for owners; and that social matters are not the immediate concern of business people.

A second major objection to social responsibility is that business is not equipped to handle social problems. This position holds that managers of business enterprises do not have the necessary expertise, - social skills, - to make social decisions.

Other reasons against the concept include:

- Involvement in social responsibility activities will dilute business primary purpose.
- It will reduce the level of profit.
- The cost of social responsibility activities will lead to high production cost that will result in high product prices. That is, the final consumer bears the ultimate burden.
- Business already has enough power-economic, technological and environmental. Why should we place into business hands the opportunity to wield additional power?
- That business will be at a disadvantaged position in its international balance of payments calculation, since added cost of product will make these companies increase prices and thus become less competitive in international markets.
- That government intervention to compel organizations to embark on socially responsible activities, will lead to corporate protectionism, withdrawal, breach of contracts, and resultant litigations.

3.4 SOCIAL AUDIT

In order to show how the organization is fulfilling its social responsibilities, management can make use of social audit. A social audit is an going evaluation of performance measured against established goals in selected areas of social measurement Social audit has been defined as:

> a commitment to systematic assessment of and reporting on, some meaningful, definable domain of the company activities that have social impact.

There are several problems in implementing audit. It is rather difficult to determine what areas the social audit should encompass. Often the items include pollution and the hiring, training, and promotion of disadvantaged groups including women but there are more areas.

Another difficulty is to determine how social performance should be measured. One way is to determine the amount of money an enterprise spends in selected areas. But cost alone is an inadequate measure. It does not necessarily indicate the results of social involvement. Other problems are the collection of the data and their presentation in a way that accurate reflects the social involvement of an enterprise. There is no doubt that many companies and other organizations honestly attempt to address themselves to this challenge. Indeed, social benefits are nearly impossible to measure. A case in point is the benefit to society from pollution control. Although it is possible to measure the reduction in the amount of pollutants in the air, their reduction cannot be quantified in monetary terms.

3.5 THE PRESSURE GROUPS

As a result of the activities of various pressure groups, such as consumer protection groups, environmentalists, and various interest groups, many businesses have altered their views regarding their social responsibilities, and this change has paralleled and partly reflected the changing expectations and priorities of society at large about the social functions of business enterprises. The idea underlying corporate social responsibility is the recognition that the activities of business enterprises have social implications which are both internal and external to individual enterprises. First, the enterprise may accept a responsibility for improving the social effectiveness of its internal processes, and this may be defined as its internal social responsibility. Included in this area of social responsibility would be the problems associated with the management of the human organisation: such as employee selection, training, promotion and reward, as well as employee participation in decision-making as a means of providing a more cohesive framework of relationships within the firm. It also includes the provision of good physical working conditions, and the efficient use of physical resources from a social viewpoint. Second, the enterprise may accept responsibility for the effects of its activities on stakeholders who are external to the firm.

The debate about corporate social responsibility has been focused on the external effects of corporate activities, and these are often referred to as externalities.

3.6 EXTERNALITIES

Externalities occur whenever a firm's activities have a positive or negative effect on society. Thus, a social benefit is an external benefit which society, rather than the owners of the firm, enjoys. A social cost is an external cost which society must bear, rather than the owners of the firm. Consider, for example, a firm which manufactures detergents. The firm's costs are related to the production and sale of detergent. The firm's benefits stem from the revenues derived from the sale of detergent to customers. The production of detergent results in the discharge of effluent, and dealing with the presence of this effluent either in rivers or in sewage systems is a burden which usually falls on the local community. Hence, the costs associated with the disposal of effluent need not be taken into account by the firm in deciding whether or not to produce detergents or in assessing the profitability of this activity.

Public concern has tended to focus on the external social costs of enterprise activity, rather than on the external social benefits. The most obvious social benefit is the provision of employment. Much of the debate about the social costs is addressed to two questions:

(a) how to control and reduce the undesirable by-products and effects of enterprise activity;

(b) how to calculate the financial costs involved with a view to determining the responsibility for these costs.

Ideally, social costs should be identified and incorporated into the total enterprise costs of production. By bringing such costs to the knowledge of management, the information relevant to enterprise decisions is broadened to include financial and social costs.

3.7 DEALING WITH SOCIAL COSTS

Social costs, as well as social benefits, are a function of Society's perception of what is bad and good about business activity. There are different degrees of social costs. Some are insignificant but others are perceived to be significant as to attract the response of government. This may take three forms:

(g) Legislation which out-law undesirable social activities.

(h) Licensing systems may be employed to limit the extent of activities which are useful to society, but present a potential social problem. For example, licensing of vehicles makes it to ensure that vehicles that are not road worthy are kept off the roads.

(i) Taxation can be used to discourage business enterprises from engaging in certain activities that are considered to have social costs.

3.8 THE FUTURE OF SOCIAL RESPONSIBILITY

One anticipates that issues concerning social responsibility will continue to be important to managers for some time in future. Society is becoming more complex, and social problems are increasing. Business organizations are major institutions in society. As such, they are likely to be concerned with social responsibility at two levels. First, should organization take actions that will have undesirable outcomes? Organizations will probably have little choice. If they are not responsive to "public" needs, they will be faced with social protests, and additional government regulation.

At the second level, should organizations develop programmes to take care of social ill? The answer to this question depends on the values of managers in an organization. Some organizations, acting on their enlightened self-interest or social concern, will be involved in such programmes. Large organizations, like the multinational corporations, are highly visible and have a substantial impact on society: and they are the most likely to initiate this type of action. One expects however, that government will retain primary responsibility for curing social ills.

Consumer activism will definitely be on the increase since consumers are becoming better educated, and as such are more aware of their rights. Thus, the organizations of the future must adapt to change and of necessity, become more consumer-oriented, or face more government intervention.
As business management becomes more professionalized, and there is a separation of ownership and management in modern business, there will be more interest in corporate social responsibility.

The modern professional manager is trained to examine business problems in the widest possible context, and to show concern for both long-range and short-range effects of business policy. Although short-range gains cannot be ignored, the long range effect of policy carries more weight with the modern professional manager than it did with his or her predecessor who owned the firm. Because of the importance attached to long-range policy, the Nigerian business is today better led, and hence, in a better position to accept and carry out its social responsibility expectations than it was in the past.

4.0 CONCLUSION

Managers of business enterprises may not voluntarily respond to protect or improve the environment in which they operate. For example, business enterprises may, if left alone discharge their waste product in such a way that pollutes the environment. To that extent, society may need to enact legislation to enforce proper discharge of waste from business enterprises.

5.0 SUMMARY

In this unit, we have,

- defined and explained the concept corporate social responsibility;
- illustrated socially responsible behaviour of business enterprise;
- enumerated specific social responsible activities;
- defined and discussed social audit;
- discussed the pressure groups;
- defined and explained the concept externalities;
- described how to deal with social costs;
- discussed the future of social responsibility.

6.0 TUTOR-MARKED ASSIGNMENT

1. Assess the future of business social responsibility in Nigeria.
2. What are the arguments for and against business social responsibility?

7.0 REFERENCES/FURTHER READING

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UNIT 4 BUSINESS ETHICS

CONTENTS

1.0 INTRODUCTION

In the last unit, we

- defined and explained the concept corporate social responsibility;
- illustrated socially responsible behaviour of business enterprise;
- enumerated specific social responsible activities;
- defined and discussed social audit;
- discussed the pressure groups;
- defined and explained the concept externalities;
- described how to deal with social costs;
- discussed the future of social responsibility.

In this unit, we shall examine business ethics. It discusses what constitutes ethical and unethical conduct in business. It also examines ethical concerns and the moral duties of business firms, their owners and managers.

2.0 OBJECTIVES

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

- define and explain the concept of ethics;
- explain how various factors play a role in shaping our ethical standards;

- state the importance of ethical standards in business;
- explain the role of codes of ethics in business and in the professions;
- apply the principles of ethics in dealing with complex business problems involving conflicting interests.

3.0 MAIN CONTENT

3.1 Ethics

What is ethics?

According to *Chamber's Twentieth Century Dictionary*, the word ethics refers to “the science of morals, that branch of philosophy which is concerned with human character and conduct: a system of morals, rules of behaviour: a treatise on morals".

In a more formal sense, the term has been defined in the following ways: **I**

In the words of the *Complete Reference Library for IBM PC CD-ROM and Compatibles,* ethics is "in philosophy, the study and evaluation of human conduct in the light of moral principles which may be viewed as the individual's standard of conduct or as **a** body of social obligations and duties".

Crompton's Interactive Encyclopedia says that "Ethics is primarily concerned with attempting to define what is good for the individual and for society. It also tries to establish the nature of obligations, or duties that people owe themselves and each other".

In Griffin's view, ethics refer to "an, individual's personal beliefs about what is right and wrong or good and bad".

John B. Miner defines ethics as “concepts of right and wrong that stem from the values and expectations of society; or they may derive from some major sectors of society”.

We can infer from these definitions that ethics relate to our concept of what behaviour is right or wrong and what behaviour is good or bad. Some of the definitions cited above suggest that our concept of what is right or wrong depends upon the standards of behaviour of the society in which we operate. Those standards define for us our obligations and duties.

Since the values and expectations, of society define for us what is wrong or right, it is expected that within a given society, there will be agreement on what behaviour is right and what behaviour is wrong. Unfortunately, this may not always be the case. There may be situations in which people differ in terms of what they consider to be wrong or right behaviour. For example, some people believe that it is perfectly in order for a seller to seek to sell at the highest possible price he can get. Others think that to do so is to profiteer, which they consider to be bad or unethical. Nevertheless, it will be correct to say that, generally speaking, there is agreement within a society on what is bad or unethical behaviour.

Furthermore, two or more people may agree that a particular kind of behaviour is wrong. But they may not both accept to refrain from that bad behaviour. Consider the following situation. Okoh and Ahmed may both believe that it is unethical for anyone to take what does not belong to him without permission. Suppose further that both of them go to the bank to make cash withdrawals from their accounts. If each of them is overpaid by say N10,000 by the cashier, would they return the money? It is quite possible that one will and that the other will not. The point is that both of them may or may not respond in the same way. This possibility of individuals behaving differently where matters of ethics are concerned is underscored by Griffin's controversial definition which states pointedly that ethics is an individual affair. In spite of this, we should always bear in mind that in the final analysis, it is the society and not the individual who defines whether an act is ethical or unethical.
Ultimately, according to Elegido, the concern of ethics "is to determine how to behave in order to ensure that our life is flourishing, successful, worth living, fulfilling".

In summing up the meaning of ethics, it should be noted that the question as to whether a given behaviour is ethical or unethical is a societal affair. But the decision to engage in, or to refrain from a given behaviour which society considers unethical is usually left to the individual. However, unethical behaviour may attract scorn or other kinds of sanctions from other members of society.

SELF-ASSESSMENT EXERCISE 1

What do you understand by ‘ethics’?

3.2 ETHICAL AND UNETHICAL BEHAVIOUR

Now, we know that ethics are concerned with the society's concept of what is wrong and what is right. We are, therefore, in a position to consider what ethical or unethical behaviour is. Ethical behaviour is some action or conduct which conforms to the generally accepted norms of society. It is behaviour which accords with society's established standards of behaviour and society's expectations. Unethical behaviour is the opposite; it refers to behaviour that violates or that does not conform to the generally accepted standards of behaviour or expectations of society.

Two important observations need to be made at this point. First, it makes sense to talk only of ethical and unethical behaviour. It does not make sense to talk about an ethical or an unethical person. This is so because some aspects of any particular person's behaviour may be ethical while others may not be. In other words, there is no one whose every behaviour is wholly ethical or unethical.

The second observation is that ethical standards will, tend to differ from person to person and from one society to another as a result of cultural differences. In Nigeria of today, lobbying to get a job which one does not otherwise merit or for which one is not even qualified has become normal behaviour - that is, behaviour that is not considered unethical. In some other societies, such acts would be unethical.

As noted earlier, even within the same society, it is sometimes difficult to have general agreement on what constitutes unethical behaviour. In the final analysis, every person must draw his own line to separate what he considers ethical from what he considers unethical behaviour.

3.3 DETERMINANTS OF ETHICS

We have already noted that ethics or the concept of what is wrong and what is right tends to vary from one culture to another. Furthermore, some individuals have high ethical and moral standards while others have very low ethical and societal variations in ethical standards? In other words, what factors shape our ethics?

At least seven broad sets of factors or forces play a role in the formation of our ethics. These are family influences, peer influences, personal experiences, values, institutional or organizational affiliations, law and situational factors.

3.3.1 *Family influences*

The family in which we are brought up plays a major role in moulding us, especially in our early years as children and teenagers. Our parents instill their own values and ethical standards in us in various ways. They encourage iron engage in only certain kinds of behaviour. They also dissuade us specifically front behaving in certain ways. In addition, they teach us and preach to us on a variety of issues.

Children are told things like:

> "Good children do not take what does not belong to them".
> "Do unto others as you would want them do unto you."
> "Do not tell lies."
> "Do not betray your friends".
> "Don't take undue advantage of people".
> "It is nice to help people in need, especially friends".

Precepts such as these go a long way in influencing the future ethical standards of many children.

Therefore, the ethical standards of our parents sometimes get passed on to us either in whole or in part. Even more importantly, many children follow the examples set consciously or unconsciously by their parents.

3.3.2 *Peer influences*

One's peer group consists of one's equals. Such peers are usually one's school mates, play mates, work mates and friends. There can be no doubt that we are influenced in a variety of ways by these and other similar groups: A young pastor tells the story of how, prior of his pastoral calling, he was lured into armed robbery by his school mates.

Invariably, people who end up as thieves, drug peddlers, drug addicts and who engage in other forms of questionable behaviours were introduced into such illegal and unethical life styles or encouraged by friends. In the same manner, whether an individual's ethical standards are high or low will be determined largely by the norms of his peer groups. This is, perhaps, one reason why many parents take a keen interest in determining who their children befriend.

3.3.3 *Personal experiences*

One major lesson which we have learned from psychology is that the individual's experiences especially in are early life play a key role in shaping his personality. We adjust our behaviours in the light of past experience. An experience that is rewarding tends to be repeated and reinforced. An experience whose consequences are unpleasant will tend to be avoided.

In the course of moving through life, our experiences shape our lives in very profound ways. The philanthropic bent of some rich people in our society today is the result of their earlier experiences involving various forms of deprivation. Some people have become deeply religious because of some critical experiences they have had in life. In a sense, the sum total of our past is to be found in our ethical standards.

3.3.4 *Values*

According to Schiffman and Kanuk, values are "accumulated feelings and priorities that individuals have about 'things'. A society's values are by nature relatively few in numbers, widely accepted by members of the society and enduring or difficult to change. In addition, they serve as guide for "culturally appropriate behaviour.

A person's values help in the formation of his ethical standards. Usually, the ethical standards to which a person subscribes must be such as to permit and indeed promote the attainment of those things which he values. Take for example, the case of individuals who place a lot of premium on money and the acquisition of material wealth As the saying goes, "no person becomes rich without putting a hole in another person's pocket". The Inordinate pursuit of money may lead a trader to pass off used "second hand" goods for new ones, to sell cheap imitation at the prices of higher quality versions or to engage in "hard selling" which means pressurizing people to buy things which they do not need.

Take other examples. Why do some teachers force students to buy their handouts or text books or accept bribes to pass students? Why would some pastors ask for money in order to pray for a person in difficulty? Why do some medical doctors ask for and receive side-payments from their patients as a condition for performing surgical operations? The answer is that, to them, money is a much higher ideal than service.

On the other hand, those who believe that there is more to life than making money may shun these and other questionable ways of acquiring wealth. Thus, in the final analysis, our values play a role in shaping our ethical standards.

3.3.5 *Institutional or organizational affiliations*

It is common knowledge that various organizations play a role in shaping our personality, attitudes and behaviours. They also have an influence on our ethical standards. Examples of such organizations would be the schools we attended, professional/trade associations, ethnic-based organizations, social clubs, the organizations for which we work and the religious organizations we belong to.

There are at least three major ways in which such organizations influence our ethical standards. First, each of them subscribes to a set of ethical standards. These standards may or may not be codified. Either way, the individual is expected to adopt the set of standards. Many indeed uphold the standards even when they cease to be members of the organization. Second, each member's experiences within the organization play a role in defining, redefining or reinforcing his ethical standards. Finally, some members may choose their role models from organizations of which they are members. They may imitate such role models in their attitudes, behaviours and ethical standards.

3.3.6 *The law*

Every society is governed by a body of laws. Laws constrain our behaviour by defining the boundaries within which our behaviour must fall. They forbid us to infringe on the rights of others. Laws require us to engage in, or to refrain from certain behaviours. Infringement on the law is punishable in courts of law. Through the enactment and enforcement of laws, society requires (rather than merely expect) us to behave in particular ways under certain situations. Clearly, a society chooses which ethics to elevate to the status of law. Laws affect our ethical standards by forcing certain standards of behaviour on us.

3.3.7 *Situational factors*

The particular circumstance surrounding an individual at a particular point in time could make him engage in behaviours that he would otherwise not contemplate. The frequent occurrence of such situations or even a single occurrence could alter the individual's ethical standards. We know of many social critics in Nigeria who have committed a *volte face* or abandoned their causes either as a result of physical threats to their lives or as a result of appointment to certain 'lucrative' positions. In some cases, some have been tempted with huge sums of money, otherwise generally referred to in popular parlance as "settlement". It may be argued that tempting or trying situations do not force people to redefine their ethical standards. Rather, such situations are a real test of established ethical standards. This may well be the case for some people. For many, they really redefine their ethical standards in the light of so-called realities of the new situation.

3.4 ETHICS IN THE WORKPLACE

We shall discuss the question of ethics in the work place under two headings: ethics amongst workers (non-managers) and managerial ethics. Ethics in the workplace are concerned with the wrongness and rightness of employee behaviour both in the workplace and in relation to his work. The ethical standards exhibited by employees at work are important in various ways. Low standards might mean that workers can engage in behaviours which have negative consequences for themselves and their peers. They, could demoralize other employees or be imitated by them. Such behaviours could attract reproach and reprimand from management. In the final analysis, the company could suffer in various ways – financially, economically and 'reputationally'.

For example, consider the impact of the following attitudes and behaviours on the part of employees:

- pilfering in the workplace;
- falsification of overtime records for selfish personal gains;
- abuse of corporate time or working hours;
- systematic soldiering on the job, that is, a deliberate cut-back on output by the individual worker;
- divulging official secrets to outsiders;
- submission of fake sick reports;
- deliberately withholding vital information from other workers and thereby occasioning avoidable costs for the company;
- lying against other staff; and
- persistent lateness to work.

The above list of work situations involving ethics is by no means exhaustive. However, the list serves the purpose of illustrating potential forms of unethical behaviour at work.

The ethical standards which workers are prepared to uphold will depend substantially on the values and overall moral tone of the society in which they live and the ethical tone or standards established by the management of the company for which they work.

3.5 FUNDAMENTAL PRINCIPLES OF BUSINESS / MANAGERIAL ETHICS

The subject of ethics is very complex and sometimes quite controversial especially where the attempt is to establish principles of general application. It should be noted that the subject of business and managerial ethics is only a part of the general subject of ethics. In order to serve as a guide to the understanding of the ethical responsibilities of business and managers, Elegido has outlined a number of fundamental principles which relate to business ethics. We shall present them first since they provide a background to the understanding of the managerial ethics which we are about to explore. These principles which are discussed below can also serve as a guide to non-managerial staff.

1. ***Principle of solidarity:*** We should be concerned not only with seeking to promote our self-interest but also with promoting the well-being of others. It may therefore be unethical to trample upon the interests of others in our search for self fulfillment. For example, a business owner would be violating this principle if he became insensitive, to the plight of his underpaid workers.

2. ***Principle of rationality:*** Rather than acting irrationally by allowing emotions and feelings to becloud our better sense of judgement, we should seek to act logically and intelligently always by consciously considering the impact of the various courses of action open to us. Acting rationally could enable us avoid actions which we could have regretted later.

3. ***Principle of fairness or impartiality:*** Fairness or impartiality demands that we should apply the same standards in judging others include strangers as we would when judging ourselves or those dear to us. In the language of the layman, this means that we should be "objective" or "unbiased" irrespective of whose interests are involved. Consider the following example. A cousin of the Executive Director of a certain government-owned company was involved in a case of theft of company property, an offence for which the Executive

Director had on several occasions in the past promptly approved dismissal as provided by company policy. In this particular case, the Human Resources Manager recommended that the employee concerned be dismissed as usual. The Executive Director was infuriated because he had asked the Human Resources Manager to look for a way to exonerate the thief. The Executive Director ensured that for his role in sacking his cousin, the Human Resources Manager was himself relieved of his appointment.

4. ***Principle of efficiency:*** According to this principle, it is not enough to have good intentions as far as promoting human fulfillment or the wellbeing of people is concerned. Such good intentions must be backed up with honest or genuine efforts to realise or actualise the intentions. Otherwise the good intentions will amount to nothing but mere lip-service.

5. ***Principle of refraining from willing harm to a human being:*** One should not inflect harm on others as an end in itself or as a means to an end. Harm may be physical, psychological, social or economic.

6. ***Principle of role-responsibility:*** This rather complex principle has been explained as follows:

   One does not have equal responsibility for all aspects of the well-being of all human beings. One's special circumstances, capacities, role and commitments give one a priority responsibility for certain aspects of the well-being of certain people.

7. ***Principle of acceptance of harmful side-effects:*** "Under certain circumstance it can be reasonable to perform actions which are likely or even certain to cause harmful side effects". Consider a very simple case:

   A company interviewed fifty-five persons for a certain job. The three applicants who performed best in the interview had the same score. Nevertheless, the personnel manager offered the job to one of them.

   The harmful side effect of the personnel manager's action is that the other two applicants did not get the job. Has the personnel manager acted unethically? No.

8. ***Principle of cooperation in immorality:*** This principle affirms that "under certain circumstances it can be reasonable to cooperate in some ways in the immoral actions of other people". Consider this scenario.

   One afternoon, a band of four robbers armed with automatic rifles rudely edged you to a stop on the highway. They ordered you at gun-point to surrender the key to the company car you were driving at the time. You "cooperated" and they made away with the car and some vital personal and official documents which you had in it.

   Did you not "cooperate?" In the circumstance, did you act ethically by "assisting" them to rob you? No!

The usefulness of the above principles is that each time a manager is unsure of the ethical path to tow in a given situation, one principle or the other can pinpoint the way.

3.6 MANAGERIAL ETHICS

Managers, like everyone else, have ethical responsibilities or obligations which do not derive from their special positions as business managers. In this discussion, we are not concerned with those general ethical issues which are applicable to virtually every member of our society. Our concern here is with those ethical issues which confront managers because of the managerial positions which they occupy in the society.

In order to keep the discussions simple as possible, we shall merely outline the ethical responsibilities of managers. Most of these responsibilities arise because managers occupy fiduciary positions.

A manager is said to occupy a fiduciary position because he is put in position of trust in which he is expected to utilize the powers entrusted to him and the assets or properties of the company, not for his personal benefit, but for promoting or advancing the interest of the owners of company. The points to note are that a manager's fiduciary position, according to Elegido, involves the following:

(i) he occupies a position of trust;
(ii) the position gives him access-to power (authority) and assets;
(iii) the power and assets are not his but are assigned to him by his employers (who own the business);
(iv) he is expected not to abuse the power or assets or to use them to promote his personal or selfish interest;
(v) he is required to use them to serve and advance the interest of his employers; and
(vi) he is accountable to his employers for the proper use of the powers and assets.

The ethical responsibilities of the manager, some of which flow from the fiduciary nature of his position are as discussed below:

Conflict of interest: Conflict of interest arises "whenever a manager is placed in a position he has to make decision which will influence both his personal interest and the interest of the firm for which he works, and these two sets of interests are in conflict with each other." An example will help to clarify this point. A company of which you are the managing director is about to buy a parcel of land belonging to your elder brother. The conflict arises because you should want your company to pay the lowest price possible for *the* parcel of land. At the same time, at the personal level you would be pleased if your elder brother sold his parcel of land for the highest price possible. It has been suggested that the solution to this problem is that a manager should prevent such a situation from occurring in the first instance. If it is inevitable, the manager’s ethical duty is to disclose his interest and/or disqualify him from making the decision.

***Acceptance of gifts*:** Ultimately the question of whether it is ethical or unethical for a manager to accept a gift from those who engage in business transactions with his company borders on whether he would not thereby have “bought”? In other words, the gift could serve as a bribe. Even if the manager accepts the gift but refuses to be influenced by it, would other managers and his employers be sure that he has not been compromised?

The same situation occurs when a teacher accepts gifts or favours from his students. Perhaps the best option for a manager is to refuse gifts which are beyond what is customary, such as hampers at Christmas.

Insider trading: Insider trading refers to a situation "which a director or an employee of a company buys or ***sells*** shares of that company on the basis of confidential information which once it becomes public, is likely to have a significant impact on the price of the shares." Consider the following example: Your, company has just discovered a major defect in the new car which it introduced into the market six months earlier. You are aware that the company has no choice but to recall all the cars sold during the period so that the defects can be rectified. You also know that when the decision is announced, the company's share price will crash. To benefit from this privileged information, you have decided to sell your shares now possibly with the intention of buying them after the share price fall. That way you will make a profit on the sale and yet retain your share-holding after the re-purchase. This and similar situations raise the question of ethics.

Duty to be honest: Managers are entrusted with a lot of decision-making powers, money and other assets. A manager can easily be dishonest in the use of such company property. Examples of such possible acts of dishonesty would be following:

- Using company property for unauthorized and illegitimate personal purposes. An **instance** of this would be a case where a manager 'uses the guest house facilities of his company for unapproved personal purposes;

- Making fictitious financial claims; for example, in respect of non-company trips or trips that are fictitious.

Confidentiality: Managers usually have access to a lot of information about the companies they manage. Some of the information are of a confidential nature. Disclosing them to competitors or to the general public could harm the company and its owners economically. For example, some products such as soft drinks and beer have their unique formulations which are business secrets. It would be unethical for a manager or reveal such information whether or not for some personal benefits.

In other cases, disclosing confidential information could hurt a company's customers or its other publics. For example, no bank customer would want the bank to divulge information about his accounts to unauthorised third parties. Finally, doctors are expected to treat the information about their patients in very strict confidence. Doing otherwise amounts to unethical conducts.

Others: Managers have other ethical responsibilities. One such responsibility is the duty to be diligent in their work by exercising utmost care, showing competence in what they do and engaging in continuous learning. Secondly, the manager owes his firm loyalty and obedience while in the service of the company. While a loyal manager is faithful to his commitment to the company, an obedient manager will follow company policies and instruction unless doing so will jeopardise the company.

In order to conclude this section, it is useful. to note that ethical considerations arise in a manager's relationship with different groups or publics. These groups and publics include employees, labour unions, trade association, customers, suppliers, competitors, shareholders, creditors, dealers or distributors, government, society at large and the firm itself. Since there are right and wrong ways of dealing with each group, it follows that issues of ethics arise in each case. For examples of issues involving ethical considerations, see Table 1.

3.7 CODE OF ETHICS

Ethics or unethical concerns and conduct of managers occur against the background of the overall ethical climate of the wider society and the ethical climate within their organizations. At the level of the wider society, ethical guides are sometimes enacted into laws in order to enhance compliance.

On the other hand, individual organizations including professional bodies sometimes establish and formalize their ethical guides by putting in place certain ethical codes of conduct. Such codes of ethics are "written statements of the values and ethical standards that guide the firm's actions. Such codes should be seen as one way in which companies seek to manage the ethical behaviour of their personnel. Of course, many organizations do not have such formal statements. Figure 1 is an example of the codes of ethics of a professional body, the code of conduct of the Nigerian Institute of Management.

As Griffin has pointed out, "no code, guideline or training can truly replace an individual's judgement about what is right or wrong in any particular situation.

Table 1: Ethical-concerns of managers as they relate to different publics

Public or Stakeholder	Examples of Relevant Areas of Ethical Concern
1. Employees	Wages, conditions of service, retrenchment, privacy.
2. Labour Unions	Honesty in honouring agreements, Strategies in handling negotiations and industrial action.
3. Trade Associations	Loyalty, Honesty in honouring agreements.
4. Dealers	Honesty in honouring agreements, Hiring, Firing.
5. Customers	Product safety, Truthful advertising.
6. Suppliers	Honesty in honouring agreements.
7. Competitors	Fair versus unfair competition.
8. Shareholders	Insider trading, Truthful stewardship, Conflict of interest.
9. Creditors	Payment for Supplies.
10. Government	Tax evasion, Economic sabotage, Truthful disclosure.

11.	Society at Large	Environmental Concerns.
12.	The Firm itself	Confidentiality, Loyalty, Obedience.

4.0 CONCLUSION

Ethics are concerned with notions of right and wrong ad good and bad against the background of accepted societal standards and expectations. Although society supplies the standards, the question of what is ethical or unethical varies from individual to individual and from one culture to another. Even what an individual accepts that a particular behaviour is unethical; we cannot be sure that he will avoid it.

Variations in individual and cross-cultural ethical standards can be explained in terms of the different determinants of ethical standards. These determinants are family influences, peer group influences, past personal experiences, values and situational factors.

Ethical issues confront both the manager and non-manager at the workplace. These issues arise in the relationships between the employee and the organization, for which he works, between one employee and his co-workers and between the employee and outsiders or third parties such as government, customers, suppliers, labour unions and so on and so forth.

The basic principle which should guide business/managerial ethics are those of solidarity, rationality, acceptance of harmful side-effects and the principle of cooperation in immorality. Others are principles of impartiality, efficiency, refraining from willing harm to human beings and the principle of role-responsibility.

Some of the specific ethical issues that confront the manager are those of conflict of interest, acceptance of gifts, insider trading, honesty, confidentiality, loyalty, obedience and diligence in the discharge of his duties.

These ethical concerns do not occur in a vacuum but within the ethical climate of the wider society and the ethical climate established within the firm. One way in which firms and professional bodies seek to guide their managers in handling issues bordering on ethics is by establishing and enforcing codes of conduct.

5.0 SUMMARY

In this unit, we have

- defined the Concept Ethics
- discussed Ethical and Unethical Behaviour
- stated the determinants of Ethics
- explained Ethics in the Workplace
- enumerated the Fundamental Principles of Ethics/Managerial Ethics
- discussed Managerial Ethics
- listed and explained Code of Ethics

6.0 TUTOR-MARKED ASSIGNMENT

1. What is business ethics? What is the relationship between ethics and behaviour?
2. Discuss the importance of ethical standards in business.

7.0 REFERENCES/FURTHER READING

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