

Financial Accounting

After studying this chapter, you should understand the purpose of the three most important items in the annual report:

- the balance sheet;
- the profit and loss account; and
- the cash flow statement.

These are known as the financial statements and together they provide a picture of the overall financial health of the business. You should be able to interpret them in simple cases.

- In Pakistan the companies submit these reports to the license providing authority namely **SECP**; Securities and Exchange Commission of Pakistan .

Example Table: Types of Assets

Type of Asset	Definition	Examples
Current Assets	Short-term, liquid assets	Cash, accounts receivable, inventory
Fixed Assets	Long-term, used in production	Machinery, vehicles, land
Tangible Assets	Physical items	Equipment, buildings, inventory
Intangible Assets	Non-physical, with monetary value	Patents, copyrights, brand

Balance Sheet

EMERSON CORPORATION Comparative Balance Sheet December 31, 20X5 and 20X4		
Assets	20X5	20X4
Current assets		
Cash	\$ 700,000	\$ 170,000
Accounts receivable	850,000	600,000
Inventory	180,000	220,000
Total current assets	<u>\$1,730,000</u>	<u>\$ 990,000</u>
Property, plant, & equipment		
Land	\$ 800,000	\$1,400,000
Building	1,000,000	700,000
Equipment	1,050,000	900,000
	<u>\$2,850,000</u>	<u>\$3,000,000</u>
Less: Accumulated depreciation	<u>(480,000)</u>	<u>(360,000)</u>
Total property, plant, & equipment	<u>\$2,370,000</u>	<u>\$2,640,000</u>
Total assets	<u>\$4,100,000</u>	<u>\$3,630,000</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 270,000	\$ 200,000
Wages payable	20,000	50,000
Total current liabilities	<u>\$ 290,000</u>	<u>\$ 250,000</u>
Long-term liabilities		
Long-term loan payable	900,000	1,800,000
Total liabilities	<u>\$1,190,000</u>	<u>\$2,050,000</u>
Stockholders' equity		
Preferred stock	\$ 300,000	\$ -
Common stock (\$1 par)	910,000	900,000
Paid-in capital in excess of par	370,000	300,000
Retained earnings	<u>1,330,000</u>	<u>380,000</u>
Total stockholders' equity	<u>\$2,910,000</u>	<u>\$1,580,000</u>
Total liabilities and equity	<u>\$4,100,000</u>	<u>\$3,630,000</u>

Solution

DEF Corporation Balance Sheet as of December 31, 2023		
Assets	Amount (\$)	Liabilities & Equity
Current Assets		Current Liabilities
Cash	20,000	Accounts Payable
Accounts Receivable	15,000	Short-Term Loan
Inventory	10,000	Total Current Liabilities
Total Current Assets	45,000	
		Long-Term Liabilities
Fixed Assets		Long-Term Debt
Buildings	100,000	Total Long-Term Liabilities
Equipment	50,000	Total Liabilities
Total Fixed Assets	150,000	
Total Assets	195,000	Equity
		Contributed Capital
		Retained Earnings
		Total Equity
		Total Liabilities & Equity

Step 2: Calculate Total Liabilities and Equity

1. Total Current Liabilities:

1. Accounts Payable: \$18,000
2. Short-Term Loan: \$12,000
3. **Total Current Liabilities = \$18,000 + \$12,000 = \$30,000**

2. Total Long-Term Liabilities:

1. Long-Term Debt: \$60,000

3. Total Liabilities:

1. **Total Liabilities = Total Current Liabilities + Long-Term Liabilities**
2. **Total Liabilities = \$30,000 + \$60,000 = \$90,000**

4. Total Equity:

1. Contributed Capital: \$50,000
2. Retained Earnings: \$55,000
3. **Total Equity = \$50,000 + \$55,000 = \$105,000**

5. Total Liabilities and Equity:

1. **Total Liabilities + Equity = \$90,000 + \$105,000 = \$195,000**

TABLE 6.1 Balance sheet for a student

Jemimah Puddleduck

Balance Sheet

As at 31 October 2004

	2004	2003
ASSET		
Cash in hand	25	40
Cash at bank	361	220
Pre-paid accommodation	300	200
Debts owed by friends	18	0
Computer	400	600
CD player	160	180
Total assets	1,264	1,240
LIABILITIES		
Credit card bill	174	64
Student loans	4,800	1,900
Total liabilities	4,974	1,964
NET WORTH	(3,710)	(724)

Source: Jemimah Puddleduck's account as recorded in her personal financial records. © The author 2004. All rights reserved.

THE PROFIT AND LOSS ACCOUNT

The *profit and loss account* shows how much money has been received and how much has been spent in a given period – usually the organization's financial year.

In the case of non-profit-making organizations it is usually called an *income and expenditure* account.

Profit loss account

XYZ Software Ltd		
Profit and Loss Account	2004	2003
Year ending 31 October 2004	£'000	£'000
TURNOVER		
Continuing operations	14,311	11,001
Acquisitions	407	
Total turnover	14,718	11,001
Cost of sales	(11,604)	(8,699)
Gross profit	3,114	2,302
Other operating expenses	(1,177)	(805)
OPERATING PROFIT	1,937	1,497
Interest payable	(23)	(27)
Profit on ordinary activities before taxation	1,914	1,470
Tax on profit on ordinary activities	719	480
Retained profit for the year	1,195	990

Income expenditure account

Income and Expenditure Account		
Year ended 31 October 2004	2004	2003
INCOME		
Contribution from parents	1,500	1,300
Income from summer job (net)	1,840	1,682
Total income	3,340	2,982
EXPENDITURE		
Course fees	1,050	1,025
Hall fees	2,100	1,980
Books	30	25
Clothes and personal items	179	120
Transport	134	112
Food	1,400	1,247
Entertainment	1,303	840
Depreciation	220	220
Total expenditure	6,416	5,569
EXCESS OF INCOME OVER EXPENDITURE	(3,076)	(2,587)

THE CASH FLOW STATEMENT

Parents usually investigate about the expenses of their kids. Often during childhood we were asked for where we spent our money. If we bought any thing we were asked from where did the money come.

Thus creating a flow “from where to where” these accounts show cash flow.

The link that ties the balance sheet and the profit and loss account to the capital expenditure is the cash flow statement.

Cash flow

TABLE 6.5 *Cash flow statement for a student*

Jemimah Puddleduck		
Cash flow statement		
Year ended 31 October 2004	2004	2003
Cash inflow		
Addition to student loan	2,900	1,900
Add back depreciation	220	220
Total cash inflow	3,120	2,120
Cash outflow		
From income and expenditure account	3,076	2,587
Loans made to friends	18	0
Total cash outflow	3,104	2,587
Increase/(Decrease) in cash over the year	16	(467)

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 \$'000	2007 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Inflows:			
Output receipts		5,974	5,765
User charges		223	181
GST input tax credits from ATO		141	145
GST collected from customers		23	24
Interest receipts		-	9
Outflows:			
Employee expenses		(4,498)	(4,468)
Supplies and services		(1,432)	(1,221)
GST paid to suppliers		(145)	(147)
GST remitted to ATO		(25)	(22)
Other		(35)	(41)
Net cash from operating activities	16	226	225
CASH FLOWS FROM INVESTING ACTIVITIES			
Inflows:			
Outflows:			
Payments for plant and equipment		(8)	(28)
Net cash provided by (used in) investing activities		(8)	(28)
CASH FLOWS FROM FINANCING ACTIVITIES			
Inflows:			
Equity injections		40	-
Outflows:			
Equity withdrawal		-	(120)
Net cash provided by (used in) financing activities		40	(120)
Net increase (decrease) in cash held		258	77
Cash at beginning of the financial year		221	144
Cash at end of the financial year	8	479	221
The accompanying notes form part of these statements.			

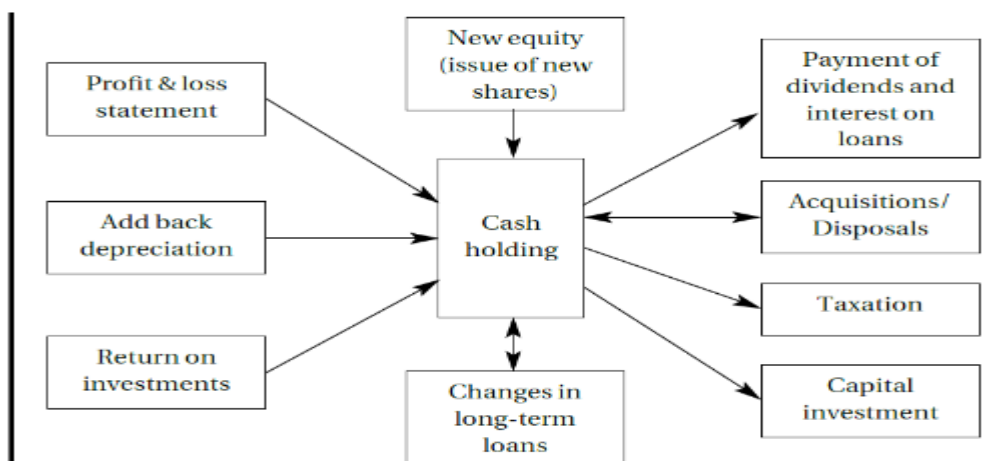
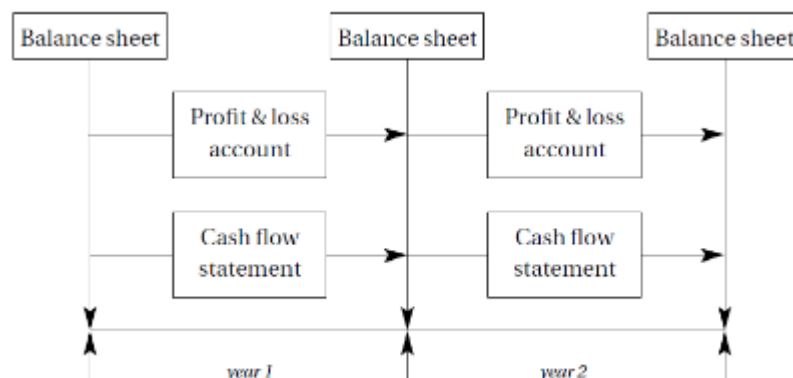
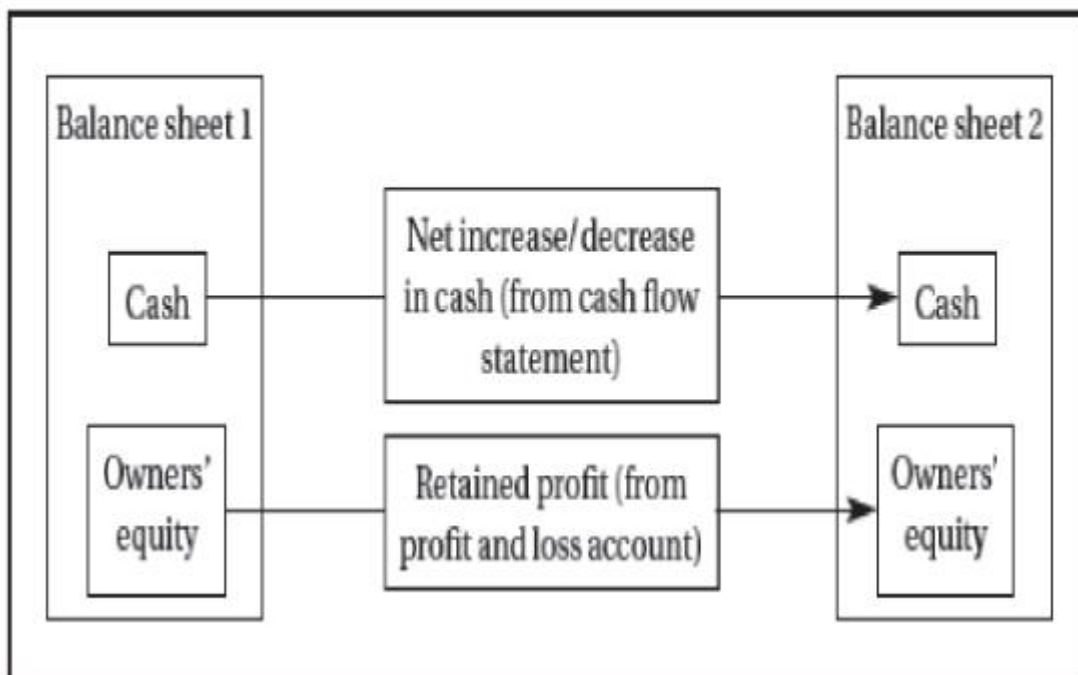


FIGURE 6.3 How the cash flow statement and the profit and loss account affect the items in the balance sheet



Management accounting

Management accounting is the process of preparing and analyzing financial information to help managers make informed business decisions.

Difference Between Financial and Management Accounting

Management Accounting

- Reports used internally
- Will report on specific interest areas performance
- Focused on future performance
- Will use estimations
- Customizable and flexible based on with managerial needs

Financial Accounting

- Reports used externally
- Will report on business-wide
- Looks at historic performance
- Is required to use accurate numbers
- Must produce information in accordance accounting standards

Payroll & cost of Labor

- **What it is:** Payroll is **the amount of money** a company pays to its employees for their work.
- **What's included:**
 - **Wages or salaries** (what the employee earns).
 - **Bonuses**, if given.
 - **Deductions** like taxes, health insurance, and retirement contributions.
- **Purpose:** It's simply the process of paying employees and keeping track of their payments.
- **Example of Payroll:**
 - You have an employee named Ali who earns \$1,000 per month.
 - Ali has 100 deducted for taxes and \$50 for health insurance.
 - So, Ali takes home **850** (after deductions).
 - In this case, your payroll system tracks:
 - **Gross Pay** (before deductions): 1,000.
 - **Deductions:** 150.
 - **Net Pay** (after deductions): 850.

Cost of Labor

- **What it is:** The **total expense** a company incurs to employ workers. This includes payroll **plus other costs** related to having employees.
- **What's included:**
 - The **employee's pay** (which is part of payroll).
 - **Benefits** the company provides (health insurance, retirement contributions).
 - **Employer taxes** (what the company has to pay to the government for hiring employees).
 - **Other costs:** Like training, equipment, or uniforms for employees.
- **Purpose:** It shows how much it actually costs the company to have employees (not just their pay).
- **Example of Cost of Labor:**
 - Using Ali again:

- Ali's salary: **\$1,000** (this is part of payroll).
- The company also pays:
 - **\$100** for Ali's health insurance.
 - **\$80** for employer taxes (what the company pays to the government).
- So, the total **cost of labor** for Ali is:
 - Salary (\$1,000) + Health Insurance (\$100) + Employer Taxes (\$80) = **\$1,180**.
- This is **more than just payroll** because it includes other expenses the company pays for Ali.
-

Cost of labor

Indirect Labor Costs:

- These are wages paid to employees who do not directly contribute to the production of goods but provide support services. Indirect labor cannot be traced to a specific product.

Example:

- In the same car manufacturing company, the security personnel or maintenance staff do not directly work on the production line, but their wages still need to be paid. If a maintenance worker is paid \$3,000 per month,

this is an **indirect labor cost**. Since their services affect the entire factory, the cost is spread across all products.

- **Direct Labor Costs:**

These are wages paid to employees who are directly involved in producing goods or delivering services. These costs can be traced back to specific products.

- **Example:**

In a car manufacturing company, the workers assembling the car on the production line are considered direct labor. If these workers are paid \$20 per hour and they spend 100 hours assembling one car, the direct labor cost for producing that car would be:

- **Direct Labor Cost** = \$20/hour × 100 hours = **\$2,000** per car.

Example

- Example for a Full Company Setup:

1. Direct Labor:

1. In a bakery, the bakers making bread are direct labor.
2. If each baker earns \$15 per hour and works 160 hours a month, their total direct labor cost is:

$$1. \text{ Direct Labor Cost} = \$15/\text{hour} \times 160 \text{ hours} = \mathbf{\$2,400} \text{ per baker.}$$

2. Indirect Labor:

1. The bakery's cashier or supervisor who oversees operations is indirect labor.
2. If a cashier earns \$1,800 per month, this is an indirect labor cost.

3. Other Costs:

1. The bakery also pays \$200 per employee for health insurance and \$100 for employer taxes.

4. Total Cost of Labor for One Baker:

1. **Salary:** \$2,400.
2. **Employer Costs:** \$200 (health insurance) + \$100 (taxes).
3. **Total Cost of Labor** = \$2,400 + \$200 + \$100 = **\$2,700** per baker.

Overhead

- **Overhead** refers to the indirect costs incurred by a business that are necessary for running operations but are not directly tied to producing goods or services.
 - These costs are essential for keeping the business functioning but don't directly generate revenue.
- **Why Overhead Matters:**
- **Cost Control:** Managing overhead is key to maintaining profitability. If overhead expenses grow too large, they can eat into profits.
- **Pricing:** Understanding overhead helps businesses set prices that cover not just the cost of production but also the cost of running the business.
- **Budgeting:** Effective management of overhead helps in financial planning and controlling unnecessary expenses.
- **Profitability:** Overhead affects a company's **break-even point**, which is the level of sales needed to cover all expenses. A high overhead means a company must sell more to break even.

Overhead- Types of Overhead Costs

- Fixed Overhead Costs
 - Rent, salaries, insurance, Depreciation
- Variable Overhead Costs
 - Utilities, supplies, packaging cost
- Semi-Variable (Mixed) Overhead Costs
 - Maintenance:
 - Telephone and Internet Bills

Allocating Overhead to Products and Services

- Since overhead costs are indirect, they cannot be traced to a specific product or service. Therefore, companies use various methods to allocate overhead across products or services. Two common methods include:
- **Absorption Costing:**
 - All overhead costs are assigned to products based on a specific allocation base, such as labor hours or machine hours.
 - **Example:**
- A company with \$50,000 in overhead costs produces 10,000 units. Using absorption costing, each unit is allocated:
 - **Overhead per unit** = $\$50,000 \div 10,000 = \5 per unit .
- **Activity-Based Costing (ABC):**
 - This method assigns overhead costs based on the actual activities that generate those costs. It's more precise because it identifies specific activities responsible for overhead.
- If a company spends \$10,000 on electricity, and 60% of that electricity is used in production, then \$6,000 is assigned to products, while the remaining \$4,000 might be allocated to overhead categories like lighting and office equipment.

Overhead and Profitability

Overhead has a significant impact on a company's **profit margins** and **break-even point**. If overhead is too high relative to sales, it can:

- **Reduce the company's profitability.**
- **Increase the price of products to cover the overhead.**
- **Force the company to sell more just to break even.**

Overheads-Exercise

Expected Sales and Direct Costs of Models:

- A company assembles and sells three different models of computers: Basic, Advanced, and Professional. It employs three technicians and a part-time secretary and incurs various **overhead costs** that cannot be directly traced to specific products, such as rent, utilities, and administrative salaries. These **overheads** need to be distributed among the computers sold.
 - **Direct Costs:**
 - **Components:** The raw materials or parts of the computer (e.g., processor, RAM, hard drive, etc.).
 - **Technician Labor:** The number of hours required to assemble each model.
 - **Overheads:** The company has an annual overhead of £63,500, which must be distributed across the computers sold to cover expenses like rent, utilities, salaries, etc.
- Basic Model:**
- ✓ Cost of components: £200
 - ✓ Technician time: 10 hours
 - ✓ Expected sales: 200 units
- Advanced Model:**
- ✓ Cost of components: £300
 - ✓ Technician time: 12 hours
 - ✓ Expected sales: 100 units
- Professional Model:**
- ✓ Cost of components: £400
 - ✓ Technician time: 15 hours
 - ✓ Expected sales: 50 units

Approaches to handle the overhead

1. Fixed Overhead per Computer Sold:

In this method, the same overhead amount is allocated to each computer sold, regardless of the cost of components or labor involved. Since the company expects to sell **350 units** (200 Basic, 100 Advanced, 50 Professional), the overhead per unit is:

- $63,500/350 = 181.43$ per computer
- This fixed overhead is then added to the direct costs of each model:
- **Basic Model:**
 - $181.43 + 200 + (10 \times 14.62) = 527.63$
- **Advanced Model:**
 - $181.43 + 300 + (12 \times 14.62) = 651.83$
- **Professional Model:**
 - $181.43 + 400 + (15 \times 14.62) = 802.23$

2. Overhead Proportional to Labor Content

In this method, overhead is allocated based on the number of hours of labor required for each model. Since there are **three technicians**, each working **1,505 hours** per year, the total technician hours available are:

$$3 \times 1,505 = 4,515$$

- Thus, the overhead added to each labor hour is:
 - $63,500 / 4,515 = 14.06$ per hour
- The cost of one hour of a technician's time becomes:
 - $14.62 + 14.06 = 28.68$ per hour
- The total cost for each model is then calculated based on the time required:
- **Basic Model:**
 - $200 + (10 \times 28.68) = 486.80$
- **Advanced Model:**
 - $300 + (12 \times 28.68) = 644.16$
- **Professional Model:**
 - $400 + (15 \times 28.68) = 830.20$

Approaches to handle the overhead

TABLE 7.2 Direct costs and expected sales for the different computer models

Model	Cost of components (£)	Technician time (hours)	Expected sales
Basic	£200	10 hours	200
Advanced	£300	12 hours	100
Professional	£400	15 hours	50

2. Overhead Proportional to Total Direct Cost

In this method, overhead is distributed based on the **total direct cost** of each model (components and labor). The **total direct cost** of all units expected to be sold is calculated first:

$$(200 \times 346.20) + (100 \times 475.44) + (50 \times 619.30) = 147,500$$

- The overhead percentage is then:
 - $63,500 / 147,500 = 0.43$ or 43%
- This 43% is added to the direct cost of each model:

- **Basic Model:**
 - $346.20 \times 1.43 = 495.06$
- **Advanced Model:**
 - $475.44 \times 1.43 = 679.88$
- **Professional Model:**
 - $619.30 \times 1.43 = 885$

Direct Cost per Unit (components + labor):
 Basic Model: 346.20
 Advanced Model: 475.44
 Professional Model: 619.30
 Multiply by Expected Sales:
 Basic: $346.20 \times 200 = 69,240$
 Advanced: $475.44 \times 100 = 47,544$
 Professional: $619.30 \times 50 = 30,965$

BUDGETING: A budget is a financial plan showing the expected income and expenditure for an organization over a specific period, typically one year.

Example

TABLE 7.4 An example budget

Overhead Expenditure	
Owner's payroll costs	42,000
Secretary's payroll costs (part time)	8,000
Costs of van (including depreciation)	3,500
Internet connection, telephone, postage, etc.	1,000
Advertising	2,000
Premises (heating and lighting, rent, rates, etc.)	4,500
Professional fees	1,000
Insurance	500
Total overheads	63,500
Operating costs	
Technicians' payroll costs	66,000
Bought-in components	90,000
Total manufacturing costs	156,000
Total costs	219,500
Sales income	
Basic model (200 @ £595)	119,000
Advanced model (100 @ £795)	79,500
Professional model (50 @ £895)	44,750
Total sales	243,250
Profit	24,750

CASH FLOW FORECAST

A company may be very profitable but unable to pay its bills. For that reason, it may be forced into receivership. This apparent paradox typically arises because bills have to be met, in particular staff have to be paid, before the income they generate is received. In order to avoid this difficulty businesses need to prepare cash flow forecasts, that is, estimates of the amount of money that will flow into and out of the company each month.

Cash Flow Prediction

TABLE 7.5 A six-month cash flow prediction

Month	Jan.	Feb.	March	April	May	June
Cash outflow						
Rent and property taxes	500			500		
Energy costs		400	400	300	200	200
Payroll costs	9,000	9,500	9,000	9,500	9,500	9,000
Communications		83	83	83	83	83
Insurance	300					
Components		4,000	7,000	10,000	10,000	10,000
Advertising		500		250		500
Road tax and insurance on van	700					
Professional fees			300			
Van operating costs	100	100	100	100	100	100
Monthly cash outflow	11,466	13,349	17,549	20,899	20,049	20,549
Cash inflow						
Income from retail sales	5,000	5,000	5,000	5,000	5,000	5,000
Income from trade sales		5,000	7,000	10,000	15,000	18,000
Monthly cash inflow	5,000	10,000	12,000	15,000	20,000	23,000
Net monthly cash flow	(6,466)	(3,349)	(5,549)	(5,899)	(49)	2,451
Cumulative cash flow	(6,466)	(11,815)	(17,364)	(23,263)	(23,312)	(22,861)

Cumulative cash flow represents the total amount of cash the business has at the end of each month, taking into account the cash inflows and outflows from both the current and previous months. It's a running total, which tells us the overall financial health of the business at any moment in time

Investment Appraisal

Less resources and more number of proposals lead company owners and investors to decide which proposal to drop which to pick.

Time Value of Money

The Car Purchase Scenario

Imagine you want to buy a car. You have two options:

1. **Pay £8,995 upfront in cash.**
2. **Choose a payment plan:** Pay £500 now and then £400 per month for the next 24 months (2 years).

To figure out which option is better, you need to think about the **Time Value of Money** (TVM). TVM means that **money today is worth more than the same amount of money in the future**

THE TIME VALUE OF MONEY

Money available at present time is worth more than the same amount in the future due to its potential earning capacity.

Purchasing vs leasing

Suppose you want to get a car worth Rs.10,00,000/- and you have that amount.

The car finance department offers you to lease the car providing you pay a down payment of 20% that is Rs.2,00,000/- and a monthly payment of Rs.20,000 for 5 years(60 months).

Thus,

$$(20,000 * 60) + 2,00,000 = 14,00,000$$

While if you purchase it you have to pay Rs. 10,00,000/-

Would you purchase the car or lease it on these terms?

Interest rate

Suppose you put your Rs.10,00,000/- in the bank provided the bank gives you an interest of 10% per annum

Thus $(10/100) * 10,00,000 = 100,000$ per annum

Discount factor

In general, if the interest rate is r (expressed as a fraction such as 0.08, not a percentage), then the present value of a sum of money X due in t years time is:

$$X \div (1 + r)^t$$

QUESTION:

A new van will cost £10,000. There will be annual costs of £500 for insurance and £150 for road tax. The cost of maintenance is estimated to be £200 in each of the first two years, £300 in year 3, £400 in year 4 and £500 in year 5.

At the end of the fifth year, it is expected that the van will be sold for around £2,000. The interest rate that the company pays on its borrowings is 10 percent.

If the van is hired(rented)

Van hire costs £35 per day and it hires a van for about 100 days a year. All the costs are subject to inflation, which is judged to be around 5 per cent over the period, but the resale value of the van is the cash figure expected at the time.

TABLE 8.2 DCF analysis of van purchase versus leasing

	Year 0	Year 1	Year 2	Year 3	Year 4
Buying a van					
Van purchase/sale	(10000)				2000
Tax and insurance	(650)	(683)	(717)	(752)	(790)
Maintenance	(200)	(210)	(331)	(463)	(608)
Annual cash flow	(10850)	(893)	(1048)	(1215)	602
NPV of annual flow	(10850)	(812)	(866)	(914)	412
Total NPV	(13030)				
Continuing to rent					
Annual costs	(3500)	(3675)	(3859)	(4052)	(4254)
NPV of annual costs	(3500)	(3341)	(3189)	(3044)	(2906)
Total NPV	(15980)				

Cost of capital: Even if the company has the cash available to buy the van outright, there is still a cost because the company will lose the income it could have received by investing the money somewhere else, in a suitable interest bearing account for example. Such a cost is known as an *opportunity cost*. If the company is able to pay cash for the van, this is the interest rate it would be appropriate to use in the DCF analysis.

Handling inflation: Inflation in a financial context means the fall in the value of money over time

Software company example

- We consider a company that is assessing a proposal for the development of a software product. It is estimated that three people will be required for development in the first year and a further person and a half in the second year; suitable staff cost £35,000 per year, including the employer's pension and national insurance costs. The product will be released in the second year. After the second year, maintenance is expected to require one person, full-time. Sales and marketing costs are estimated to be £10,000 in the first year, rising to £20,000 for each of the next four years.
- The product itself is a fairly high-value but specialized product. It is expected that about 100 copies will be sold over this period, at around £5,000 a copy.

TABLE 8.3 *DCF analysis of a proposed software package development*

	Year 0	Year 1	Year 2	Year 3	Year 4
Development cost	105000	55125			
Maintenance			38588	40517	42543
Sales and marketing	10000	21000	22050	23153	24310
Number of sales		10	20	40	30
Revenue		50000	100000	200000	150000
Net cash flow	(115000)	(26125)	39363	136331	83147
Discount factor	1	0.9091	0.8264	0.7513	0.6830
Present value	(115000)	(23750)	32529	102425	56789
Cumulative present value	(115000)	(138750)	(106221)	(3796)	52993

PITFALLS OF DCF

we must take into account that:

- most software projects take more effort than expected;
- most software doesn't work very well when it's first released;
- we may not manage to sell as many copies as we expected;
- there is a considerable risk that a competitor will launch a similar product before ours is ready.

Structure and Management of Organizations

- *How Organizations are structured?*
- *How can you suggest alternative possible structures and identify their advantages and disadvantages.*

Introduction

Definition: An organization is a group of people working together in a formal way.

Explanation: The work that has to be done is shared between these people and there are rules about who does what.

- How the work is shared and how tasks and people are grouped together – the structure of the organization – will vary very much from organization to organization. It is surprising, however, that organizational structures have much more in common than might be expected.

ORGANIZATIONAL MODELS

- ***The bureaucratic model***
- ***The organic model***
- ***Matrix management***

The bureaucratic model: *Organizational theory is the study of how organizations are structured and how they work. (19th century)*

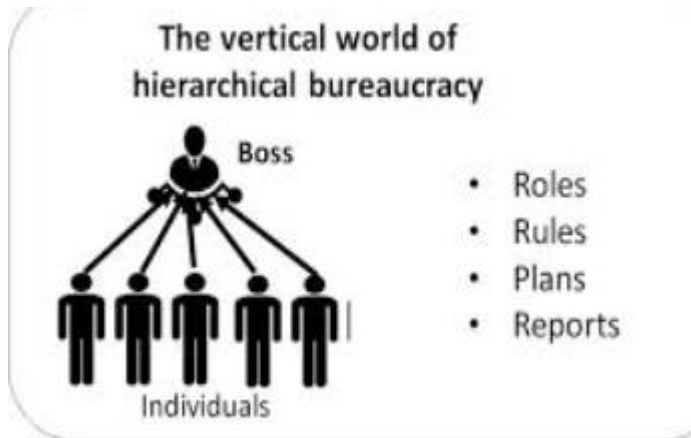
The founders of the theory were sociologists like Max Weber and Mary Parker Follett, and practical business people like Henri Fayol and Lyndall Urwick.

In a modified form, this model still describes the organizational structures to be found in most large, and many smaller, organizations. This is not realistic in the context of project-based, high-technology companies.

1)The bureaucratic model characteristics

The ideal bureaucratic organization was thought to have the following characteristics:

1. *All tasks are split up into specialized jobs, in which jobholders become expert; management can thereby hold the jobholders responsible for the effective performance of their duties.*
2. *The performance of each task is governed by precise rules. This means that there should be no variation in the way tasks are carried out and therefore no problems with the co-ordination of different tasks.*
3. *Each individual (and hence each unit) in the organization is accountable to one and only one manager.*
4. *In order to ensure that personalities and personal relationships do not interfere with the organization's performance, employees are required to relate both to other employees and to clients in an impersonal and formal manner.*
5. *Recruitment is based on qualifications and employees are protected against arbitrary dismissal. Promotion is based on seniority and achievement. Life-time employment is envisaged.*



2) The organic model

The best known alternative model is the *organic* model

Rensis Lickert expresses the basic assumption of the model in the following (rather verbose) terms:

“An organization will be effective to the extent that its structure is such as to ensure a maximum probability that in all interactions and in relationships within the organization, each member, in the light of his background, values, desires, and expectations, will view the experience as supportive and one which builds a sense of personal worth and importance.”

Key features of organic model

- This view underlies the organizational structure of most small professional companies – software houses, advertising agencies, even solicitors’ and GPs’ practices
- it is also common in academic institutions, both schools and universities. The view is not necessarily consciously articulated – nor is this view and the adoption of the structures it suggests sufficient to achieve effectiveness!
- Proponents of the bureaucratic model claim that it is universally applicable.
- Proponents of the organic model make similar claims.
- It says little for common sense that those who hold the obvious view that each has its appropriate place should be christened adherents of the contingency school of organizational design.

3) Matrix management

- It is an essential feature of the bureaucratic model that every individual and every unit in the organization is responsible to only one manager.
- This is not realistic in the context of project-based, high-technology companies.
- It accepts that individuals may be responsible to more than one manager and requires rules that will enable possible conflicts to be resolved.
- Some organizations and some management consultants have tried to formulate the matrix management model much more formally. The results are not encouraging.

A specialist in high-speed communications working for a systems integrator may well find themselves working on two or three projects simultaneously, as well as having a more general responsibility for maintaining the company’s expertise in the area.

In the past 30 years or so the idea of matrix management has become fashionable as a way of addressing such situations.

STRUCTURING PRINCIPLES

- Structure by function
- Structure by geography
- Product line structure
- Structure by market sector
- Structure by technology
- Operational structure

1) Structure by function

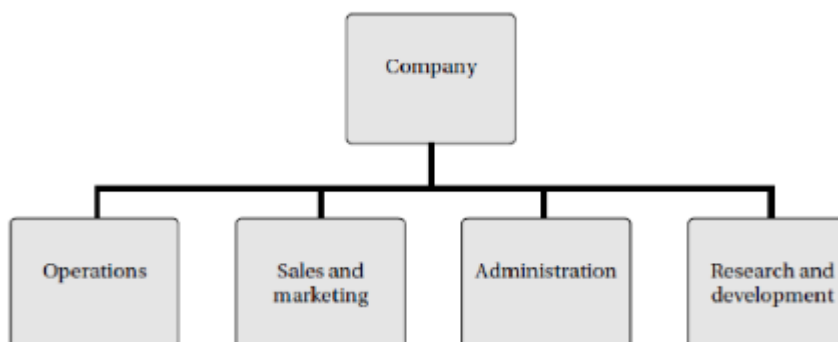
There are the activities that are the primary purpose of the organization. These activities are known as *operations*.

All organizations have to pay their bills and pay their employees. They need to ensure that the buildings they use are cleaned regularly. If they charge for their services, they may need to send out bills and ensure that these are paid. They will probably need to hire new employees from time to time. These activities are generally known as *administration*.

Many organizations will need to publicize their services or their products and try to persuade people to use them or buy them. In the business world these activities are usually known as *sales and marketing*.

Finally, many organizations need to be continually developing new products or services, or developing new ways to deliver them. These activities are known as research and development.

Structure by function



Strategic Advantages/Disadvantages

Strategic Advantages

- Permits centralized control of strategic results
- Promotes in-depth functional expertise
- Enhances operating efficiency where tasks are routine and repetitive

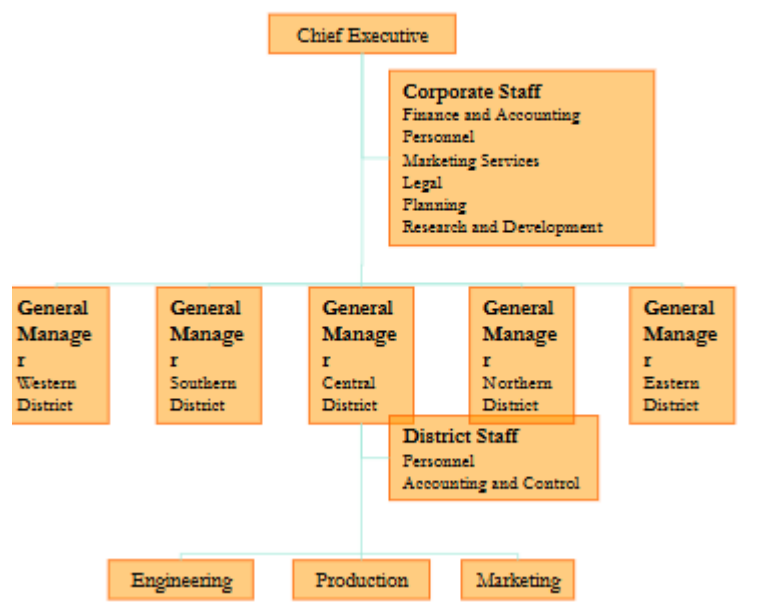
Strategic Disadvantages

- Poses problems of functional coordination
- Can lead to inter functional rivalry, conflict, and empire-building
- May promote overspecialization/ narrow viewpoints

2) Structure by geography

- In many cases it makes sense to group activities together on a geographical basis. Multinational companies, that is, companies that operate in a number of different countries, are usually forced to have some geographical elements in their structure.
- The subsidiaries are subject to the laws of the countries in which they are registered, in particular, the laws regarding employment, accounting and taxation.
- Within a single country, geographical factors have become less important as a result of the development of modern communications and, as a result, geographical structures have been replaced by structures based on other factors.

Geographic Organizational Structure



Strategic Advantages/Disadvantages

Strategic Advantages

- Allows tailoring of strategy to needs of each geographic market
- Improves coordination within the market
- Takes advantage of economies of local operations

Strategic Disadvantages

- Greater difficulty in maintaining consistent company image across areas
- Can result in duplication of staff services at headquarters and district levels, making a relative-cost disadvantage

3) Product line structure

A product line structure is a structure that is based around the different types of product that an organization produces.

For example, where a motor vehicle manufacturer organizes around types of vehicle.

- Companies that produce and market a substantial piece of software for corporate customers – a multi-user accounting package
- For example – often organize themselves into three main operational divisions: development and maintenance of the software, consultancy, and training. This should be regarded as a product line structure since the three types of activity, providing software, giving advice to companies in how to use it, and providing training for customer staff, can be considered to be different services that the company provides and they are typically provided by different teams of people.

Advantages:

1. **Specialization and Focus:** Each division is dedicated to a specific product or service, allowing teams to develop in-depth expertise and focus on improving that product line.
2. **Clear Accountability:** Each product line has its own set of responsibilities, which clarifies accountability and can enhance decision-making within each division.
3. **Flexibility in Response to Market Changes:** The structure enables quick adjustments to product lines based on changes in demand or technological advancements.

Disadvantages:

1. **Duplication of Resources:** Different product lines may require similar resources, leading to redundancies and potentially higher costs.
2. **Isolation of Divisions:** Divisions may become isolated from one another, which can lead to missed opportunities for collaboration and shared learning.
3. **Inefficiency in Cross-Product Processes:** If customers need multiple products or services, the structure may create inefficiencies in providing an integrated solution.

4) Structure by market sector

- Structure by market sector means structure based on the different market sectors to which its customers or prospective customers belong.
- From the sales and marketing point of view it has the great advantage that each division can fairly readily identify its potential customers, and its staff, both sales and technical, are likely to be familiar with customers' problems and to speak a language that the customer understands.
- Example: Different branches of BATA.

Advantages:

1. **Customer Focus:** Each division can specialize in understanding and addressing the unique needs of its specific market sector, which can lead to better customer satisfaction.
2. **Effective Marketing and Sales:** Sales and marketing teams within each sector are likely to communicate effectively with customers and address their specific needs, enhancing the chances of successful sales.

3. **Enhanced Responsiveness:** The organization can more easily adapt to changing needs within each market sector, as divisions are in close contact with their respective customer bases.

Disadvantages:

1. **Knowledge Silos:** Divisions may not communicate well with each other, which can lead to redundancy or missed opportunities to share expertise across sectors.
2. **Risk of Market Saturation:** Focusing too closely on traditional sectors can lead to stagnation, as the company may overlook emerging markets or new opportunities.
3. **Resource Duplication:** Different sectors may have similar needs, leading to duplicated efforts and resources, increasing operational costs.

5) Structure by technology

- A technology-based structure was once a favorite model for software companies.
- A company might have divisions specializing in artificial intelligence, communications, web-based systems, databases, and real-time systems.⁴

Advantages:

1. **Expertise Development:** Teams can specialize in specific technologies, allowing them to deepen their expertise and keep up with technological advancements.
2. **Innovative Solutions:** With a technology focus, divisions are well-positioned to innovate within their specialties, potentially creating cutting-edge solutions.
3. **Efficient Use of Technology Resources:** Technology-specific divisions can be more effective in resource allocation, as they're focused on their specific technological needs.

Disadvantages:

1. **Complex Customer Needs:** Many customers require solutions that use multiple technologies, making it difficult to meet their needs with a strictly technology-based structure.
2. **Limited Market Responsiveness:** This structure is often not customer-centered, which can hinder understanding of customer needs and limit responsiveness to market demands.
3. **Difficulty in Sales and Marketing:** Sales teams may struggle to align specific technologies with customer needs, leading to inefficiencies in targeting the right clients.

6) Operational structure

- The actual operations of a company may be organized on a *project* basis or on a *production* basis, although the line separating the two may be vague.
- Project-based activity is not restricted to operations. Most research and development is organized on a project basis and such administrative activities as introducing a new accounting system or transferring a company's head office are also to be regarded as projects, in that they last for a fixed length of time, after which they should be complete.

- Projects last a comparatively long time but the team carrying out the work only stays together for the length of the project. Production activities are comparatively short, but the team carrying them out stays in existence indefinitely.

Advantages:

1. **Flexibility in Project-Based Work:** Project teams are assembled based on current needs, allowing the organization to adapt quickly to new projects or initiatives.
2. **Enhanced Collaboration for Projects:** Team members come together specifically for the project's objectives, encouraging close collaboration and focus on achieving the project's goals.
3. **Efficiency in Production Activities:** Production teams operate continuously, which can lead to increased efficiency, streamlined processes, and reduced turnover costs.

Disadvantages:

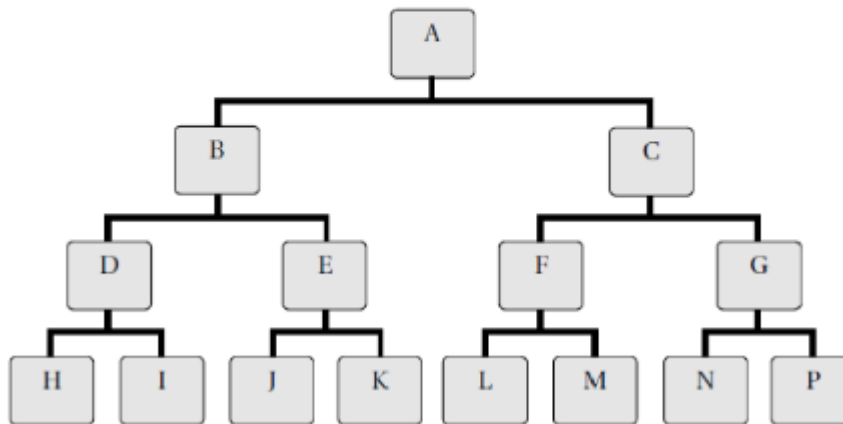
1. **Temporary Team Dynamics:** Project teams are often disbanded after the project ends, which can lead to loss of knowledge and cohesion if members do not stay in the organization.
2. **Resource Allocation Challenges:** Switching between projects may create competition for resources, leading to conflicts and inefficiencies if not properly managed.
3. **Difficulty in Managing Long-Term Goals:** The transient nature of projects can make it difficult for the organization to focus on long-term strategy and sustained growth, as priorities shift with each project.

DEPTH OF STRUCTURE

The depth of an organizational structure is the number of layers in the

- structure – or, more precisely, the maximum number of layers, since not all
- parts of the structure will have the same number of layers. Organizational
- structures are often described as flat or, in contrast, deep or tall, according
- to whether the depth is small or large. For a given number of people, the
- depth of the structure will obviously depend on the number of people reporting
- directly to each manager; this is sometimes known as the manager's *span*
- *of control*.

Fifteen people organized into a four-level structure



CENTRALIZATION

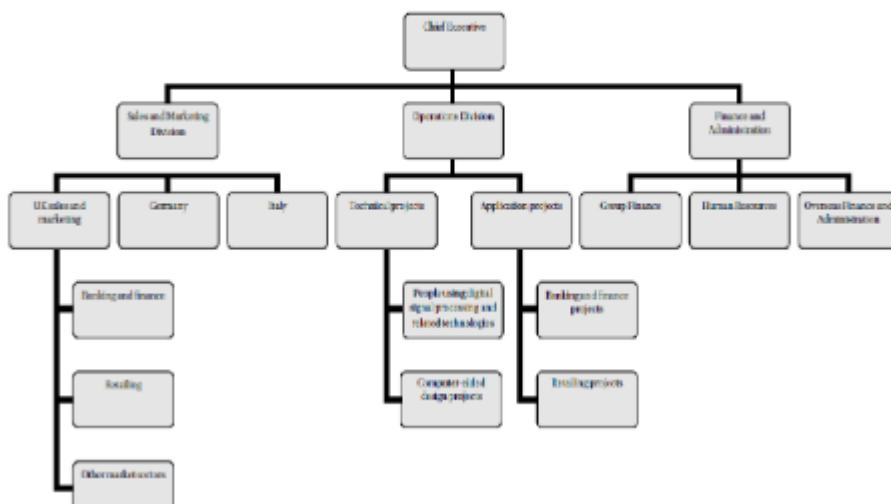
- Organizations may be centralized or decentralized. In a centralized company, as much power as possible is kept at the top of the company, with delegation only when essential. In a decentralized company, as much power and control as possible is delegated to the lowest level.

SETTING UP A STRUCTURE IN PRACTICE

In most cases, an organization of any size will have a structure that includes elements of several of the different types of structure.

A combination of different structures would help when adopted.

An organizational structure for a bespoke software house



Human Resource Management (HRM)

- Human Resource Management (HRM) is the term used to describe formal systems devised for the management of people within an organization.
- Human resources is used to describe both the people who work for a company or organization and the department responsible for managing resources related to employees.

Aim of HRM

- The term '*human resources*' emphasizes the fact that the people who work for an organization are an vital part of the organization's resources and the most important one.
- For this reason, the organization will try to ensure that it always has appropriately skilled, qualified & experienced staff that it needs.
- This must be done without wasteful over-staffing and within the constraints of what is lawful.

Employee relation

The aim is to create a climate in which productive and harmonious relationships can be maintained through partnerships between management and employees and their trade unions.



Aim of HRM

Meet diverse needs

HRM aims to develop and implement policies that balance and adapt to the needs of its stakeholders and provide for the management of a diverse workforce, taking into account individual and group differences in employment, personal needs, work style and aspirations, and the provision of equal opportunities for all.



Objectives of HRM



Knowledge management

- HRM aims to support the development of firm-specific knowledge and skills that are the result of organizational learning processes.



AIM OF HRM

Organizational effectiveness

- HRM strategies aim to support programmes for improving organizational effectiveness by developing policies in such areas as knowledge management, talent management and generally creating 'a great place to work'.



Human capital

- HRM aims to ensure that the organization obtains and retains the skilled, committed and well-motivated workforce it



Aim of HRM...

- The cost of recruiting new staff is high and the loss of continuity when staff leave can also be very expensive.
- Accordingly the organization will want to keep staff turnover low.
- Many organizations want to behave as a 'good' employer and will therefore try to follow the best of current employment practice.
- Any organization that employs staff will be faced with the need to handle administrative issues relating to their employment.
- As the number of employees grow, a full-time personnel officer or human resources manager will be required.
- However, managers cannot hand over all responsibility for personnel matters to specialists.
- This is true specially in the IT industry, where staff have high expectations and staff turnover is particularly high.

Recruitment and selection

Human resources managers often make a distinction between the two terms *recruitment* and *selection*.

- Recruitment is the process of soliciting applications for jobs. It is often handled partly or entirely by consultants.
- Selection is the process of selecting from the available applicants.

While recruitment consultants may screen the initial applications, they don't usually do the final selection.

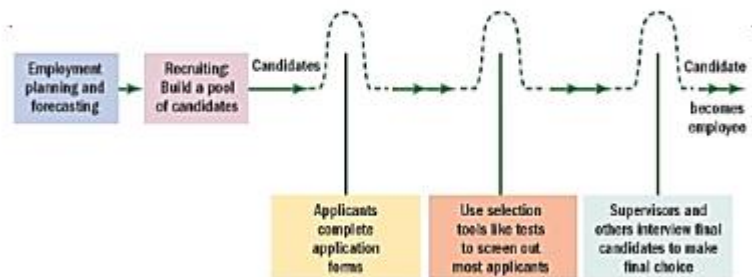
1. Recruitment Example: A company needs software developers. It posts job openings on LinkedIn and other job portals, encouraging applications from a wide range of

candidates. The company's HR or a recruitment consultant handles the process of gathering applications.

2. Selection Example: Once 100 applications are received, HR shortlists 20 candidates for interviews. After interviewing, the company selects the best candidate based on skills, experience, and fit for the role.

Recruitment and selection...

Steps in Recruitment and Selection Process



The recruitment and selection process is a series of hurdles aimed at selecting the best candidate for the job.

Personnel Planning & Recruitment

- 1) Decide what positions you'll have to fill through personnel planning and forecasting.
- 2) Build a pool of candidates for these jobs by recruiting internal or external candidates.
- 3) Have candidates complete application forms and perhaps undergo an initial screening interview.
- 4) Use selection techniques like tests, background investigations, and physical exams to identify viable candidates.
- 5) Decide who to make an offer to, by having the supervisor and perhaps others on the team interview the candidates.

Recruitment and Selection Process

<u>Step 1</u> Planning for Recruitment & Selection	<u>Step 2</u> Recruitment: Locating Prospective Candidates	<u>Step 3</u> Selection: Evaluation and Hiring
<ul style="list-style-type: none"> • Job Analysis • Job Qualifications • Job Description • Recruitment & Selection Objective • Recruitment & Selection Strategy 	<ul style="list-style-type: none"> • Internal Sources • External Sources 	<ul style="list-style-type: none"> • Screening Resumes and Applications • Initial Interview • Intensive Interview • Testing • Assessment Centers • Background Invest. • Physical Exam • Selection Decision and Job Offer

Rules Of Recruitment And Selection

Commonality
 Openness
 Competitiveness
 Legality
 Non-discrimination
 Constancy of criteria
 Neutrality
 Objectivism
 Transparency
 Personal data security
 Acting without delay

RECRUITMENT PROCESS

The steps in the recruitment process are to:

Identify the job vacancy
 Carry out a job analysis
 Prepare a Job Description
 Prepare a Person Specification
 Advertise the job
 Sent out application forms

JOB ANALYSIS

Job analysis involves finding out everything about what a job involves by identifying the following:

Tasks to be completed in the job

Responsibilities of the job

Technology that is used in the job

Knowledge needed to carry out the job

Skills needed to carry out the job

Level of initiative needed from staff

Advertising: In Direct method

Advertising

- The Media: selection of the best medium depends on the positions for which the firm is recruiting.
 - Newspapers (local and specific labor markets)
 - Trade and professional journals
 - Internet job sites
 - Marketing programs

Advertisement: The most popular method

Blind ad (no identification of company)

AIDA (attention, interest, desire, action)

Constructing (Writing) Effective Ads

Create attention, interest, desire, and action (AIDA).

Create a positive impression (image) of the firm.

Content of Job Advertisement

- | | |
|----------------------|------------------------|
| i) job content | ii) working conditions |
| iii) location of job | iv) compensation |
| v) job specification | vi) to whom apply |

Other Methods

A) private employment Search Firms

B) Employment Exchanges

C) Gate Hiring & Contracting

D) Unsolicited Applications / Walk-ins

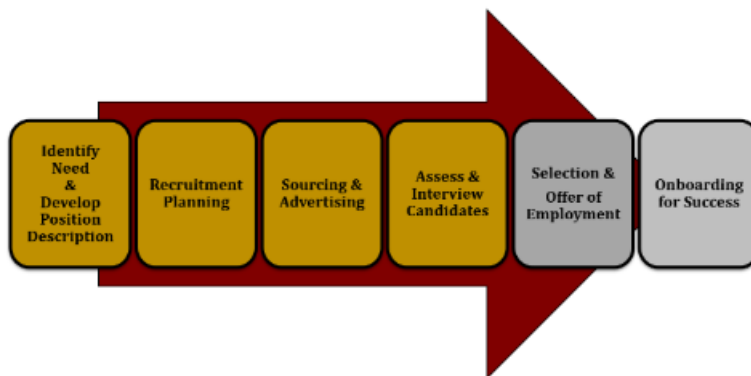
E) Internet recruiting

F) Raiding

G) Nepotism: Hiring relatives.

- Does your organization have a policy on nepotism?
 - May be discriminatory.
 - Must ensure individuals are not in supervisory positions managing their own relatives.
 - May create issues of favoritism.
-

Recruitment



Outside Sources of Candidates

Executive recruiters (headhunters)

- Special employment agencies retained by employers to seek out top-management talent for their clients.
- Contingent-based recruiters collect a fee for their services when a successful hire is completed.
- Retained executive searchers are paid regardless of the outcome of the recruitment process.
- Internet technology and specialization trends are changing how candidates are attracted and how searches are conducted.

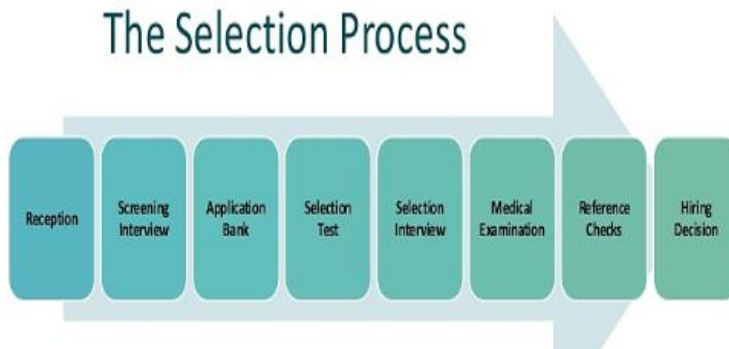
Selection techniques

Selection is made mostly by the employer, although a member of the recruitment agency staff may also be used to advise.

Following are some of the selection techniques used in making professional appointments:

- One-to-one interviews with several senior managers and technical staff
- Interview by a panel
- Assessment of references
- Aptitude tests
- Situational assessment
- Task assessment

The Selection Process



Staff training and development

- Staff training and development are of particular importance in high technology companies, where failure in this respect can threaten the company's reputation.
- It is unfortunate that, when money is tight, it is often the first thing to be cut.
- Companies Identify training & development needs during appraisals/reviews. They give staff a guarantee of at least 10 days training a year.
- This training in specific skills is only useful if they can be exercised straightaway
- Development/education has long term impact
- Can be a good way of keeping staff

TAKEOVERS AND OUTSOURCING : Employees employed by the previous employer when the undertaking changes hands automatically become employees of the new employer on the same terms and conditions. It is as if their contracts of employment had originally been made with the new employer. Thus employees' continuity of employment is preserved, as are their terms and conditions of employment under their contracts of employment (except for certain occupational pension rights). Representatives of employees affected have a right to be informed about the transfer. They must also be consulted about any measures which the old or new employer envisages taking concerning affected employees.

Remuneration policies

One of the major sources of staff dissatisfaction in organizations is perceived disparities in remuneration, (Remuneration means salaries + Benefits).

A good remuneration policy aims are:

- Staff retention (or controlled loss!)
- Consistency of treatment within the company, to avoid discontent
- Comparability with conditions outside the company.

Appraisal schemes

- It is astonishing that people working for years in a professional job without anyone, colleague or superior, giving them any indication of how well they are doing the job or how they might improve.
- This was commonly the case for school teachers, university lecturers, many civil servants, and managers in commercial and industrial organizations.
- It is still true of many doctors, solicitors, architects, etc.
- Till recently, there were no procedures or regulations that ensured that there was any such feedback.
- It is the job of the human resources management to design procedures to avoid this undesirable situation.
- Appraisal schemes are the usual formal way of doing this. They derive from the idea of Management by Objectives (MBO).
- A good appraisal process provides an effective way of fulfilling the requirements of a professional body and It must:
 - Set agreed objectives
 - Monitor and review performance against objectives
 - Set new or modified objectives
 - Assess training needs
 - Discuss career ambitions

Failure of appraisal schemes

However great, appraisal schemes usually fail due to the following reasons:

- There's always something more urgent than the appraisal interview.
- Seen as ineffective – good appraisal reports don't lead to anything; no one takes any notice of what was agreed.
- Appraisers who don't know anything about the appraiser's work.
- More emphasis on the measurable criteria.

Redundancy and dismissal

- *Redundancy* occurs when staff are fired because there is insufficient work for them. They may be eligible for compensation.
- *Dismissal* means firing staff because their work is unsatisfactory.
- In both cases it is important to have procedures and to follow them, in order to avoid litigation/legal action.
- The HRM department is responsible for setting up these procedures and advising the company on how to use them.

Dismissal Procedures

Following are the dismissal procedures:

- employer must give employee a written statement of why dismissal is being considered;
- employer must arrange a meeting at which both sides can state their case;
- employer must inform employee of decision, in writing;
- employee must have right to appeal to a more senior manager, where this is practicable.
- Any dismissal that does not follow or incorporate this procedure will automatically be considered unfair.
- Simply following the procedure does not, however, automatically make the dismissal fair.

Contracts of Employment

- According to Law, every employee must have a contract of employment.
- What this means is that the agreement between an employee and their employer can be enforced in a court of law.
- A good contract of employment should be written in terms that are easily understood and should avoid legal jargon.

Prospective employees should not need to consult a lawyer in order to understand it. They should, however, read it carefully before signing it.

Human resource planning

- If the human resources department wants to ensure that the organization always has the staff available it needs, it must be able to forecast the needs some time ahead.
- This is extremely difficult, particularly in software companies.
- From software houses through banking, manufacturing and retailing the uncertainty is always present, but it can be reduced to possibly predict staff needs much more precisely.

In a **software house**, there are three inputs to the human resource planning process:

- Human resource plans from existing projects, showing how many staff of each grade and with which specialized skills will be required in each of the following months.
- Sales forecasts: These are subject both to the unexpected behavior of potential clients and the judgement, good or otherwise, of the sales staff.
- Forecasts of the likely staff losses in the coming months: In the software business this depends very much on the buoyancy of the market for software developers.
- From these inputs, it can be predicted as to how many staff will be required each month, and how many will be available.
- In practice, human resource prediction in project-based companies never works very well and there are good statistical reasons why it never will.
- If we are summing 1,000 weighted predictions, the uncertainty in the sum will be quite small, even though the uncertainty in each prediction may be quite large; this is called the Law of Large Numbers.

Job Design

- Setting up an organizational structure implies designing jobs. As soon as a one-person organization becomes a two-person organization, it has to decide who does what; in other words it has to design jobs.
- In project-based organizations, jobs get designed when the project team is set up and when the project plan is produced.
- The jobs are temporary – they last only as long as the project – and the technical nature of the project determines exactly what tasks the jobs have to cover.

The **job design in IT companies** is done within an established framework:

- a project-based organization will have procedures in which project teams are to be structured

Such procedures may mandate the use of chief programmer teams in certain circumstances, or specify the maximum span of control and the responsibilities of team leaders, and project quality assurance (QA) staff in a hierarchically organized project.

- The tasks to be carried out will be defined by the development methodology that the company uses.
- **In many large organizations structured along bureaucratic lines, job specialization leads to very narrow and tightly defined jobs.**
- **As a result, the people carrying out those jobs find them dull and unsatisfying. This in turn leads to poor performance and high turnover.**

In an effort to alleviate this problem, companies have tried three different ways to provide more interesting and satisfying jobs: ***job rotation, job enlargement, and job enrichment.***

Scenario

- ***Job rotation*** is rotating staff through series of jobs, is the most obvious way of preventing employees from becoming bored with a very narrow and specialized task.
- Consider handling of creditor's invoices in a large accounts department with a very specialized regime.

- An analysis of the process might identify the following tasks, which then might be allocated to the individuals named: Freda, Gareth, John, Peter, Julie.

Tasks

1. Receive incoming invoice and match to purchase order (Freda)
2. Confirm price calculations and despatch to receiving Department for confirmation that goods or services have been received (Gareth)
3. Receive confirmation from department and pass for payment (John)
4. Produce payment (Peter)
5. Handle queries arising at any of the above stages (Julie)

Job rotation

Freda, Gareth, John and Peter move round every week.

- It gives staff a greater variety.
- It gives department greater resilience or elasticity in the case of sickness, holiday or resignation.

Job enlargement

Job enlargement means each of these members does tasks 1 to 4 for a particular group of invoices (e.g. particular suppliers or particular divisions).

- It adds variety and interest, and may increase pride in job.
- It may not be consistent with separation of responsibilities in financial matters.

Job enrichment

Job enrichment means adding more responsibilities, to say, Julie's job.

- It is very effective for some staff members.
- Others may not want too much responsibility.

WHAT IS DISCRIMINATION?

- Discrimination means treating one person or one group of people less favorably than another on the grounds of personal characteristics.
- Discrimination can be *direct* or *indirect*.

Discrimination Grounds

In Europe, the USA and many other countries prohibits discrimination on grounds such as:

- sex, Gender;
- race, colour, ethnic origin or nationality;
- disability;
- sexual orientation;
- religion;
- age.

Direct discrimination

- Direct discrimination occurs when one person is treated less favourably than another specifically because of their sex or race, and so on.

Examples

- A woman does exactly the same job as a man but is paid less than he is.
- A doctor refuses to treat a Chinese patient on the grounds that he has no room for any more patients but then accepts an English patient.
- A company advertises for a secretary and automatically rejects all the male applicants.
- A company advertises for 'a mature woman to act as the Chief Executive's personal assistant' or 'a strong young man to work as a trainee zoo-keeper'.

Indirect discrimination

Indirect discrimination occurs when an employer imposes conditions that apply to all employees or all applicants but have a disproportionate effect on one group.

Examples

- Advertising a job with the requirement that applicants must be at least 180 cm tall. In the UK, there are many men over 180 cm tall but very few women. The result is that few women can apply for the job.
- When allocating public housing, a local authority has a policy of giving priority to the children of existing tenants.
- An employer insisting that all employees work on Saturdays. This might be held to be indirect discrimination against those who practice Judaism, since Saturday is their Sabbath. This would be discrimination on grounds of religion but, since the practitioners of Judaism are overwhelmingly of the Jewish race, it might also be regarded as racial discrimination.

It can be justified if the employer demonstrates that there is a genuine occupational requirement that the offending condition be satisfied.

Direct discrimination & indirect discrimination

- **Direct Discrimination** occurs when someone is treated less favorably than others because of a protected characteristic such as race, gender, age, disability, etc. This form of discrimination is obvious and intentional.

Example: If an employer refuses to hire a woman simply because she is a woman, this is direct discrimination. For instance, during an interview, a company might say, "We don't hire women for this role," which is clear discrimination based on gender.

- **Indirect Discrimination** happens when a policy, rule, or practice appears neutral but disadvantages a group of people who share a protected characteristic. It's often unintended but still harmful.

Example A company introduces a policy that all employees must work late shifts. While this policy applies to everyone, it could disadvantage employees with childcare responsibilities, disproportionately affecting women, who are more likely to be primary caregivers. Even though the rule is the same for everyone, it indirectly discriminates against women.

DISCRIMINATION ON GROUNDS OF Gender

- Formally women got low salaries and men got extra allowances and more if they are married
- Married women were either to lose their job or transferred to temporary status

- Women after having kids were not allowed to rejoin
- it was very difficult for women to gain entry to academic and professional courses in fields such as medicine or the law that would have qualified them for senior positions.

Key Anti-Discrimination Laws

- 1. Equal Pay Act (1970) and Sex Discrimination Act (1975) (UK):** Unlawful to discriminate in employment, education, and service provision based on sex or marital status.
- 2. Race Relations Act (1976):** Prohibits racial discrimination, including indirect discrimination, and established the Commission for Racial Equality.
- 3. Disability Discrimination Act (1995):** Prohibits discrimination against disabled persons unless there's substantial justification.
- 4. Employment Equality Regulations (2003):** Protect against discrimination on the grounds of sexual orientation and religion, particularly in employment and education.
- 5. AgeDiscrimination:** The Equal Treatment Directive allows certain age-based discrimination for protection, insurance rates, and eligibility for roles or benefits.

Act of Parliament

In UK this situation was dramatically changed by two Acts of Parliament:

- the **Equal Pay Act of 1970** and
- the **gender Discrimination Act of 1975**.

The most important features of the law as it stands can be summarized as follows:

- **Regarding Employment**
- **Regarding Education**
- **Regarding Provision of services**

Act of Parliament Regarding Employment

- It is unlawful for employers to discriminate based on **gender** or **marital status** in several aspects of employment. Specifically:
- **Recruitment and Selection:** Employers cannot discriminate when recruiting or selecting employees. This includes job offers and the terms of employment.
- **Promotion, Transfer, or Training:** Employers must provide equal opportunities for promotion, transfer, and training, without discriminating against employees based on sex or marital status.
- **Dismissal or Redundancy:** It is illegal to dismiss an employee or make them redundant because of their gender or marital status.
- **Victimization:** Employees who bring complaints about gender discrimination, or who support another employee's complaint, are protected from victimization. Employers cannot retaliate against them.

Act of Parliament Regarding Education

- It is unlawful for a provider of education (public or private, school, college or university) to discriminate against a person on the basis of their gender, in offering admission to the establishment or to specific courses, and in providing access to the other benefits and facilities it offers.

Act of Parliament Regarding Provision of services

- It is unlawful to discriminate on grounds of gender in the provision of goods, facilities or services. The Act gives a number of examples including accommodation in a hotel,

facilities for entertainment, recreation or refreshment, banking and insurance services, and so on.

- It is unlawful to discriminate on grounds of sex in selling or letting property.

The main exception to these provisions are for charities that have been founded with the purpose of helping a specific group of people who are all of the same sex, for example, single mothers.

Case:

- In 2017, it was revealed that male presenters at the BBC were earning significantly more than their female counterparts for doing the same work. BBC's China editor, Carrie Gracie, resigned from her position, accusing the organization of paying her less than male colleagues in similar roles. The BBC later apologized and agreed to pay backdated wages to address the issue.
- **Based on this scenario, what type of discrimination was experienced by Carrie Gracie at the BBC, and which UK law does it violate?**

Case:

- Carrie Gracie, the BBC's China editor, discovered that she was being paid significantly less than her male counterparts in similar roles. Despite her equal qualifications and job responsibilities, the BBC failed to offer her the same salary. She resigned and filed a complaint, resulting in backdated wage payments and an apology from the organization.
- **What type of gender discrimination does this case represent, and which UK law is specifically designed to protect against such unequal treatment in employment**
- **Answer 1:** This is an example of **direct discrimination** based on gender. Carrie Gracie and other female presenters were paid less than male colleagues for doing the same work. This violates the **Equal Pay Act of 1970**, which ensures that men and women must receive equal pay for equal work.
- **Answer 2:** The case represents **direct gender discrimination** in terms of unequal pay. This violates the **Equal Pay Act of 1970**, which mandates equal compensation for men and women doing the same or similar work. The law is designed to protect employees from gender-based pay disparities in the workplace.

Remedies

if an individual believes they have been discriminated against (e.g., unequal pay), they can take their case to an **employment tribunal**, a legal body that deals with work-related disputes.

- The tribunal will review the evidence and decide whether the complaint is valid.
- **If the tribunal finds in favor of the complainant (the person making the complaint),** it can:
 - **Award damages:** Compensation for financial loss, emotional distress, or harm caused by the discrimination.

- **Make recommendations:** The tribunal can instruct the respondent (the employer or organization) to take corrective actions, such as fixing the pay gap, changing discriminatory policies, or providing training to staff.
- **If the respondent fails to act on the recommendations,** the tribunal may **increase the amount of damages** awarded to the complainant, as a penalty for not complying with the tribunal's decision.

Case: One notable real-time case where an employment tribunal made recommendations and awarded damages was the Allan vs. G4S Case (2016) in the UK, related to disability discrimination.

Case: Allan vs. G4S (2016)

- Mr. Allan, who worked for G4S Cash Solutions, developed a disability and was transferred to a new role. He continued to work in the new role for several months, but then G4S decided to reduce his salary by 10% because they felt the new role was less demanding.
- Mr. Allan took the matter to an employment tribunal, claiming **disability discrimination**. He argued that the pay reduction was discriminatory, given that he was placed in the new role due to his disability.
- **Tribunal's Decision:**
- The tribunal ruled in favor of Mr. Allan, finding that reducing his salary was an act of **disability discrimination**.
- The tribunal awarded Mr. Allan damages for the pay reduction and recommended that G4S should not reduce his pay in the future.
- **Outcome:**
- G4S was ordered to pay compensation, and the tribunal's recommendations were aimed at ensuring that Mr. Allan would continue to receive the same salary as he had in his previous role.

DISCRIMINATION ON RACIAL GROUNDS

- The present law is based on the **Race Relations Act 1976** and subsequent amendments to it.
- It makes it unlawful to discriminate on grounds of race, colour, ethnic origin or nationality.
- It introduced the idea of indirect discrimination based on race. And it established the Commission for Racial Equality by the merger of the Race Relations Board and the Community Relations Commission.

DISCRIMINATION ON GROUNDS OF RELIGION OR BELIEF, OR SEXUAL ORIENTATION: As regards discrimination on grounds of sexual orientation and religious belief, the EU directive is implemented in the UK by the Employment Equality (Sexual Orientation) Regulations 2003 and the Employment Equality (Religion or Belief) Regulations 2003, both of which came into effect in December 2003. These regulations follow the pattern established by the Sexual Discrimination Act 1975 and the Race Relations Act 1976.

DISCRIMINATION ON GROUNDS OF DISABILITY

- **Disability Discrimination Act 1995:** Made it unlawful to treat disabled employees or service users less favorably without serious justification.

- Example: Rejecting a blind applicant for a bus driver position is justified, but employers must make reasonable adjustments (e.g., modifying equipment for disabled employees).
- **Reasonable Adjustments:** Employers are required to adapt the workplace for disabled employees.
- Example: Providing screen-reading software for visually impaired workers or modifying workstations for employees with limited mobility

Disability Discrimination Act

- **Access to Goods and Services:** Businesses must ensure that disabled people can access services, including on the web.
 - Example: Websites should be designed with features like screen reader compatibility, clear navigation, and proper text alternatives for images.
 - All images on the BBC website are labeled with alternative text descriptions, allowing screen readers to describe the images to users.
- Published **Web Content Accessibility Guidelines (WCAG)** to assist web developers in making web content accessible to disabled users.
 - Example: Ensuring clear page layouts, proper labeling of links/images, and avoiding poor contrast between text and background.

Survey

The **Disability Rights Commission** commissioned a study of web accessibility for the disabled, which resulted in a report entitled *The Web: Access and Inclusion for Disabled People*. The study included a survey of 1,000 home pages and found that 81 per cent, including many government sites, failed to comply with even the lowest level of the W3C guidelines. Among the commonest reasons why disabled users experienced difficulty were:

- page layout was unclear and confusing;
- the navigation mechanisms were confusing and disorienting;
- there was poor contrast between the text and the background and colours were used inappropriately;
- graphics and text were too small;
- links and images were poorly labelled;
- the web pages were incompatible with the software designed to assist disabled users (screen readers, magnification software).

DISCRIMINATION ON GROUNDS OF AGE

1) Special treatment of different age groups to protect them

- This provision allows for age-related rules that protect certain age groups, particularly vulnerable ones like children.
- **Example:** A company may be prohibited from employing children under the age of 16. This rule is in place to protect minors from hazardous working environments and ensure that their education is not disrupted.

2) Different premiums for life insurance and pension rates based on age

- This provision allows insurance companies to adjust premiums and pension rates depending on the person's age, as age is a factor that affects risk and life expectancy

- **Example:** A 25-year-old taking out a life insurance policy may pay a lower premium than a 55-year-old because younger people generally have a lower risk of death. Similarly, a person who retires at 60 might receive a lower monthly pension compared to someone who retires at 65, as they are likely to receive the pension for a longer period.
- 3) **Fixing a maximum age for recruitment based on the need for a reasonable period of employment**
- In some cases, employers may set a maximum age for hiring new employees to ensure that there is enough time for the individual to be trained and contribute effectively before retiring.
 - **Example:** A company offering a highly specialized job may set a maximum recruitment age of 45, because the role requires several years of training and the company expects employees to work for at least 15-20 years before retirement.
- 4) **Fixing a minimum age, experience, or years of service for certain posts or benefits**
- Employers may require that employees meet specific age or experience criteria to be eligible for certain positions or employment benefits.
- **Example:** A company may require employees to be at least 30 years old or to have 5 years of professional experience before being eligible for a managerial role. Similarly, a company may offer additional annual leave only to employees who have worked for them for 10 years or more.

AVOIDING DISCRIMINATION

Effective compliance with anti-discrimination legislation in the workplace requires three things:

- a suitable written policy, well publicized, and freely and easily available;
- a training program for new and existing staff, to ensure that they are all aware of the policy and its importance;
- effective procedures for implementing the policy.

WCGA Guidelines for developers:

- **Perceivable:** Make content available to all senses. Provide text alternatives for images, captions for videos, and adaptable content for screen readers.
- **Operable:** Ensure all features are usable via keyboard and give users time to interact. Enable easy navigation for users with limited motor skills.
- **Understandable:** Use clear language and consistent layouts. Provide clear labels and instructions to make content intuitive for all users.
- **Robust:** Build content that works across devices and with assistive technologies. Use standards that ensure compatibility and adaptability over time.