

## 6. Functional Areas of Business Organization

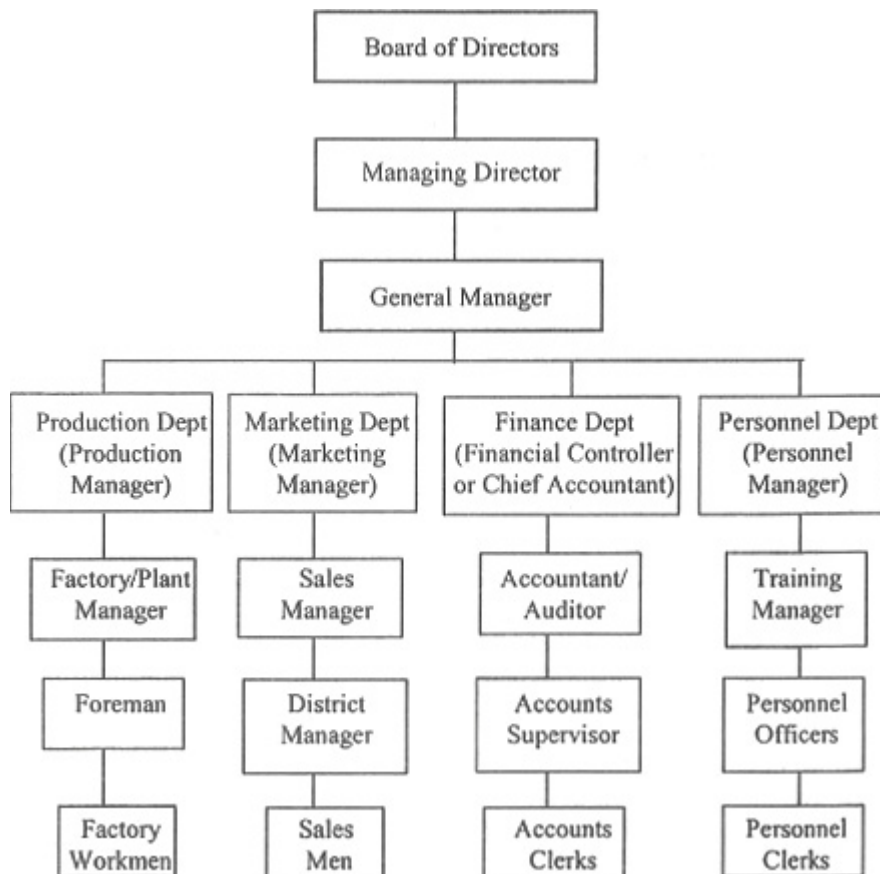
### Objectives

At the end of this chapter, students should be able to list and explain the four functional areas of business and the departments i.e. production, marketing, finance and personnel. They should also be able to draw a chart of the organization of the departments.

### 6.1 Introduction

The functional areas of business can be grouped into four:

- Group A      *Production Department and its auxiliary departments such as: purchasing, stores, quality control, technical support and research and development.*
- Group B      *Marketing Department: This is made up of sales, distribution, publicity, market research and analysis, and customer services departments. This is treated fully in Chapter 9.*
- Group C      *Accounting/Finance Department*
- Group D      *Personnel Department*



**Fig. 6.1:** Organization chart of functional departments of a typical business enterprise

## 6.2 Production Department

The production department has the responsibility of organizing the manufacturing of the right quality and quantity of products and arranging delivery dates by:

- (a) determining all the mechanical processes involved in the production of goods by the business organization;
- (b) controlling the quality and standard of the products;
- (c) determining the pattern, rate and volume of production;
- (d) maintaining a record of input and output flow;
- (e) ensuring proper maintenance of production machinery and equipment;
- (f) observing and maintaining minimum safety standards as protection against industrial hazards;
- (g) engaging in research and development of products;
- (h) deciding on the best source of materials;
- (i) designing products that will meet consumers' convenience and satisfaction.

## 6.3 The Marketing Department

As we have said, this has a wide umbrella of functions, which include:

- (i) **Policy formulation:** This function is responsible for policies such as what to sell, where to sell and the form that the sales should take. It may decide to increase the sales volume of a popular product, undercut its competitors by increasing its discount or move to certain "virgin" market areas. Policy formation is in itself a function of a variety of data and indicators in the market.
- (ii) **Policy implementation:** The implementation function is also that of the marketing department and this it does in active liaison with other departments such as finance, production planning and control of a manufacturing organization or its suppliers, if it buys for sale the products of other firms. It has the responsibility of advertising or , publicity and sales promotion, especially of new product. Therefore, the marketing department has to interact well with sales department.
- (iii) **Conduct of market research:** It has to engage in market research on customers' reactions to its products. This again would influence even the policy makers.
- (iv) **Oversees supporting services of budgets for marketing:** It has to operate within the constraints of budgets, financial and personnel departments; and also oversee the warehousing, distribution and transportation of goods. We shall now make brief discussion on some of the departments through which these marketing functions take place.

### 6.3.1 Sales Department

Sales is not the same thing as marketing; in fact, sales department undertakes the following sales functions:

- (a) It explains and demonstrates the complex work of technical products; in this case, the number of such sales force may be small.

Where the goods are popular consumer goods of non-technical nature, the sales department will be in great number and capable of communicating in local languages to buyers and potential buyers.

- (b) They set targets for different local market areas basing such targets on previous sales data and the amount of sales promotion and publicity efforts that have gone into each locality in recent times.
- (c) The department has efficient methods of processing customers' orders without losing them to competitors. They also maintain reliable data.
- (d) It co-operates with the stores and the despatch departments to satisfy customers.
- (e) Finally, the Sales Manager or Director co-ordinates all the activities of the salesmen in the field. He is not only a desk manager/director collecting data and reading reports from the field, he also makes occasional excursions to the territories of his salesmen in order to see things for himself, meet with his customers, talk to them and assess the situation in the market against the reports he reads at his office desk. He gives praise or apportion blame to his salesmen accordingly, on the basis of their individual achievements.

### **6.3.2 Publicity and Advertising Department**

If the publicity manager is an expert in his field, he may undertake publicity and advertising for his firm. On the other hand, the firm may allow an outside advertising expert to handle its publicity. In this case, the outside agent receives proper briefing from the inside publicity manager. A chapter is devoted to this topic later on. However, since publicity is a vital image-making organ of the company, it must ensure that the services of a competent agent is employed for this purpose. In addition, such services are expensive and unless an advertising agent believes in the philosophy of the firm, the agent may decline to offer his services. Therefore, for a fairly large establishment, it may be more convenient and economical to have a full-time publicity agent.

### **6.3.3 Sales Promotion**

This is concerned with methods and efforts for increasing sales. In some businesses this is also a function of the advertising and publicity department. But in the main, the two functions are not the same. Sales promotion takes the form of making special offers, special displays and the operation of 'well managed' credit control, attendance at trade-fairs and other aggressive forms of competitions, designed to win a large size of the market and increase sales.

### **6.3.4 Public Relations Department**

- (a) This is distinct from advertisement and publicity since it is meant to project the good public image of the company. In a very large organization like the Nigeria Airways, Unilever Brothers Plc, and Cadbury Nigeria PLC, this is a very prestigious department occupied by a public relations expert. Such expert also handles advertising and publicity.

However, whatever the case, there must always be somebody on the staff list who can handle enquiries and complaints from the public.

- (b) Such a department may even address press conferences on important product developments and other vital issues relating to the company. Press releases may be used to polish the image of the firm. This department distributes literature on the company and its products.
- (c) It organizes exhibitions and makes entries into trade fairs. It may even sponsor sporting events or raise and promote a football team. Some of the Nigerian football teams of the past and present were raised by companies – Stationery Stores, Bendel Insurance of Benin, ACB of Lagos, Julius Berger and Leventis United of Ibadan are a few examples.

### **6.3.5 Market Research and Marketing Research Department**

Market research is designed to find out customers' reactions to the quality and other attributes of the company's products. It is in recognition of the economic altruism that "the consumer is king".

Market research is a great weapon for sales management in particular and for business management in general. Reports from the local market as collected by salesmen and agents must always be collated, studied and assessed for the use of management.

It may be risky for the producer of a well established and accepted product to be complacent. Customers' preference may change fast and the strength of competitors, real and potential, should not be underrated. Therefore, market research must also take cognizance of competitors' strength.

**Discussion Question:** What is the relationship between market research and sales promotion?

**Marketing Research** is different from market research because the former is about the problem associated with distribution and transportation. Marketing research is concerned with the lack of adequate transport facilities, and the inaccessibility of certain market areas, at some different seasons like the rainy season. This is further explained in Chapter 14 (Advertising).

### **6.3.6 Credit Control Department**

This is an important aspect of marketing management. Offers of credit facility may form part of sales promotion strategy but as we said earlier, credit control must be well managed. There must be a time limit for payments. There must also be a limit to the credit facility allowed each of the customers, considering the credit worthiness of each customer, and his record for prompt payment. This is referred to as "credit rating" stating the extent of available credit facility. So such a rating may vary with the payment performance of each customer.

Cash discounts may be applied to induce prompt payments. Such cash discounts enhance credit control policy. The accounting department must notify the sales department immediately there are some danger signs of non-payment. Customers' statements of accounts must equally be dispatched at regular intervals.

Demand letter must be promptly but politely sent to defaulters and where there are no responses, such cases can be referred to creditors' solicitors while the customer is black-

listed. Even before this, credit-control officers should make personal contact, with defaulters where possible. Litigations for debts recovery must be used very sparingly. But the management should operate a very firm bad – debt policy in order to obviate heavy bad debt records.

#### **6.3.7 Distribution Department**

- (a) In fact, the marketing management function does not end until the goods are delivered to the consumers. Distribution department does this and therefore completes the marketing function. Distribution is concerned with ware-housing and transportation.
- (b) **The Importance of a Warehouse:** This is where finished goods are kept pending outward movement to consumers; while the warehouse must have enough storage capacity for the production volume of the firm, finished goods are not expected to stay too long in it. A situation where a company builds a larger warehouse may not necessarily mean a healthy sales prospect but rather an evidence of a dull market and declining sales.
- (c) **The Importance of Transport:** We have made reference to marketing research earlier on. In large organizations, it may be more economic to use the company's vehicles. Contractors' transportation may prove unreliable and uneconomic. To this end, some large establishments may operate large fleets of vehicles. This again reinforces the need for good vehicle-maintenance policy.

Where large deliveries are made frequently to many points, transport planning may require a scientific approach in order to avoid or minimize the incidence of "empty return" loads and part loads and to avoid "back-tracking" and duplication of delivery.

#### **6.3.8 Customer Services Department**

- (a) **After-Sales Services:** This is otherwise known as Customer Relations Department. This is the department that offers further services to the firm's customers after sales have been made to them. Examples of such services are repairs to damaged or malfunctioning goods or demonstrations in cases of complete inability to handle such products properly.
- (b) **Giving Guarantee:** Some firms carry this service to the point of giving guarantee covering some period after sales; that is, the firm repairs free of charge any damage or break-down of their product within that period. Some big motor-dealers give free services to new vehicles bought from them. Even beyond the guarantee period, the services continue with the provision of spare parts and expert advice to old customers.
- (c) **Handling Customers' Complaints:** After-sales service must be handled with extreme care. Even when a customer makes a very bad case, the firm must not pose to "score" a point against the customer. After-sales services demand very diplomatic handling. Please note the dictum: "the consumer is always right."

### **6.4 Accounts Department**

This Department is headed by a chief accountant. This officer is very important. In order to shed some light on his office, we would have to examine his role in the entire organization.

### **The Chief Accountant**

He is invariably a senior member of staff. He is a professional whose expertise is of primary importance not only to his section but also to all other departments, and even to the board. Through the impact of his expertise, every department is kept aware that no basic business activity will succeed without adequate finance. That is, the chief accountant's office is to ensure that every firm is financially viable. To this end, this office keeps adequate data that would show both current and anticipated cash-flow positions. The chief accountant is therefore in a good position to advise the board and the management team, that is, the heads of all departments under the chairmanship of the managing director, on the best financial strategy all the time. He maintains a close relationship with the management and occasionally attends board meetings to give expert financial advice. In some cases where there is a financial director, then he is a member of the board. In order to have a wider view of the chief accountant's role, it is proper to distinguish between the two divisions of accounting and examine the functions of each of the departments; that is: the Financial Accounting Department and the Management Accounting Department.

- (a) **Financial accounting section:** This has the responsibility for recording accounting transactions which have taken place. It keeps records of all debtors and creditors to the company, all monies paid out and received by the company, including wages and salaries, and deductions from such things as income tax, pension and national insurance contributions, if any. It equally arranges for the transfer of such deductions to the appropriate authorities, e.g. income tax deductions to the Inland Revenue Authority.

*Periodic statement of account:* From the financial data kept, this department prepares statements of account at certain intervals, monthly, quarterly and biannually, as required for the use of management in assessing financial performance and in advising management further.

*Annual accounts:* This is required by law to be submitted yearly to the registrar of companies. Apart from its preparation by the Finance Department, it must be audited by certified external auditors and a copy be submitted also to the Inland Revenue Authority. The amount of corporation tax payable by the company is as agreed by the external auditor, and the Inland Revenues Authority using the audited annual accounts. Since the annual accounts must show the total financial position of the company for the relevant corresponding accounting year, it is often referred to as final accounts. It shows two distinct portions: The Profit and Loss Account and the Balance Sheet. The profit and loss account shows the profitability of business activities *for the year in question*; while the balance sheet reveals the state of assets owned and debts (long-term and short-term) owed by the company *as at the last day of that year*. Therefore, financial accounting is useful for both internal management and external relationship with other bodies like the Inland Revenue and the Registrar of Companies.

- (b) **Management accounting section:** This takes the functions of the Financial Accounting division a bit further. It collates and analyses the data so presented by the Financial

Accounting section for proper use in management decision. This department lays emphasis on costs, therefore it is often referred to as cost accounting; and because of its linkage to management decision-making, it is known as Management Accounting.

**Standard costing and budgeting control:** This section sets up standards of costs and performance in all spheres of business activities – production, marketing, etc. This is a function that is known as standard costing. It also installs and appraises targets for the firm's expenditure and revenue – a function known as budget and budgetary control; the performance of all the activities of the business can be assessed and appraised; comparisons are made with previous years and, possibly, with similar organizations. The differences between variances could be 'favourable' if performance is greater than standards set or 'adverse' if performance falls below standards. The reasons for such variances are found and corrective measures are taken to prevent recurrence.

Therefore, Management Accounting and Financial Accounting are two different sides of a coin; although they are distinct, they cannot be separated.

- (c) **The cashier unit:** This is usually a unit of the Financial Accounting section. But because of its vital function for effecting receipt of all cash and cheques and payments of all expenses, we give it a special mention here. It is also responsible for banking the company's money (Cash & Cheques) and keeps cash book for the records of such bank lodgements. The company may insist on daily banking, depending on the size of its receipts daily (or cash). The unit also prepares vouchers and cheques for all payments and keeps records of such. In fact, the cash book is divided into 'receipts' and 'expenditure' for the two accounting activities. The cashier unit engages in all bank's reconciliation statements to ensure that differences between lodgement and bank payments are brought to light and explained.

The unit also handles preparation and payment of wages and salaries. It ensures that deductions from source – income tax, insurance, car loan, housing loan, repayments, etc. are effected and that such deductions are paid to the appropriate authorities or funds accounts. Because of the bulk of receipts and payments involved in the cashier office, the staff must not only be fairly knowledgeable about the basic principles of book keeping and accounts, they must be honest. They must be such that could be trusted with large amounts of cash and payments.

- (d) **Audit section:** Here, we shall be concerned with the internal audit. The external audit represents all external certified auditors who call yearly for the verification of the accounting activities and accounting financial statements as prepared in the Financial Accounting Department. The external auditor may also be called in at any time fraud is suspected. The internal audit verifies all the vouchers prepared by the cashier's office before any payment is made. The internal audit also 'audits' or attests to the correctness of all the incomes of the firm all the year round. They are to guard against fraud in a company. The audit department is therefore expected to be independent of the finance department so as to be able to carry out its functions. The department is responsible directly to the managing director and not to the chief accountant; and through the managing director to the board of directors. By tradition, the audit staff write

in “green ink”™, a colour designed to make traces of their auditing function on some accounting records more easily evident. The internal audit co-operates with the external auditors whenever the latter come in to perform their duties. The head of the internal audit is known as the chief internal auditor; usually in private companies, he is a qualified (professional) accountant. Almost all the staff in the internal audit department should also be good in basic accounting knowledge.

The internal audit is supposed to protect the interest of shareholders against any likely fraud by cashiers or any other accounting staff.

## 6.5 The Personnel Department

In order to underline the vital role of the personnel department, it is often agreed that the quality of service in a firm is as good as the quality of its personnel department. This department, which in large firms is usually headed by a well-qualified personnel officer, normally performs the following functions:

- (a) **Recruitment:** It carries out the policy of staff recruitment for all departments of the organization through organize recruitment interviews. It starts by putting up advertisement (where necessary); prepares a short-list of those who are qualified to be interviewed with the active co-operation of the relevant departments. It fixes a date for the interview, sends out invitation letters to the candidates and to those already carefully selected on the basis of their discipline and expertise to serve as members of the interview panel. It arranges for the place and time of interview and makes provisions for every convenience, including refreshments for the members of the interview panel. It also links up with the cashier office for possible payment of traveling allowances to the members (and possibly candidates) who come from outside the place of interview. The personnel department collates the list of candidates found qualified for appointment for the approval of the appropriate authority, like the appointment and promotions committee. It also issues letters of appointment to those whose appointments are approved by the authority. On assumption of duty, the department informs the accounts department accordingly so that new staff will be put on the payroll of the company, on the correct salary allowances, etc.
- (b) **Training:** In small organizations where the desired training is in non-specialized areas, the personnel department could undertake this function; otherwise, it is left to a special division known as training division, especially in large companies. However, training courses like induction courses for new staff and training courses for the junior and the supervisory staff could be organized by the personnel department. The same department sometimes liaise with external training organizations and individuals to organize very specialized and advanced training courses.
- (c) **Staff appraisal:** The department installs a system whereby staff performance and achievement can be assessed periodically. It also organizes the procedure by which staff may be promoted, or disciplined as required.
- (d) **Records:** It keeps an up-to-date record on all employees. Such staff personal data are considered confidential; and only made available for official use by the management.



**Retirement and Resignation:** part of the staff information bank relates to those who resigned or retired. The Personnel Department advises the accounts department accordingly for the purpose of payment of gratuities and pensions or stoppage of payment of wages and salaries as applicable.

- (e) **Salary structure:** The personnel department has a great input in the preparation of scales for paying staff salaries. This it does in conjunction with the accounts department.
- (f) **Staff welfare:** In a big organization, there may be a welfare division. In most others, this division is an arm of the personnel department. This unit compiles a list of welfare packages for the staff and sees to its effective operation, e.g. pension scheme, insurance provision, sports facilities, counselling, etc. It sees to the welfare of sick staff like organizing home or hospital visits. It also assists in the funeral arrangements for any dead staff member. It sees to the implementation of any statutory employment regulation as regard minimum working hours, minimum pay, salary increase guidelines and conditions of staff generally.

### Summary

Departments in business organizations can be grouped as integrated functional units into production management, marketing, finance and personnel departments.

The Production Management Department is an embodiment of all other departments:

- (i) *The Production Planning Department:* Sets targets for production, delivery, quality control, etc.
- (ii) *Quantity Control Department:* Sets quality standard of material, labour and finished goods.
- (iii) *Purchasing Department:* Ensures adequate supply of materials and component parts. Keeps records for quality, for available prices and delivery dates, makes economic purchases.
- (iv) *Store Department:* Sees that there is no stock out, excess, and the company does not run obsolete stock, and also sees to the safety of material goods.
- (v) *Research and Development Department:* Engages in development of new ideas which are translated into marketable products; ensures that manufacturing processes keep pace with industry trends.
- (vi) *Costing & Estimating Department:* Costs the implications of goods to be produced or new ideas meant for new products. It is under the control of accounting department.
- (vii) *Design Department:* Enhances the practical and economic value of finished goods, especially those for household and industrial use.

### *The Marketing Department*

- (i) policy formation;
- (ii) relates to a number of departments: sales, stores, accounts, despatch, etc.;
- (iii) sets targets and compares with performance;
- (iv) carries out market research;

- (v) organizes publicity and quality control.

#### *Sales Department*

- (i) responsible to the marketing department;
- (ii) manages sales and keeps sales records;
- (iii) controls sales force;
- (iv) operates credit control in conjunction with the accounts department.

#### *Market Research Department*

- (i) appreciates that "the consumer is king";
- (ii) collates data on consumers' reaction to products;
- (iii) appraises and informs on the analyzed data which form the cornerstone of new marketing policy.

#### *Public Relations Department*

- (i) informs the public on the good services of the company;
- (ii) enhances the image of the company.

### **Revision Questions**

#### ***Essay Questions***

1. What are the function of production management? Explain very briefly how interlocking these functions are
2. Give a list of departments with direct relationship with the marketing management department.
3. (a) What is the role of the distribution department?  
(b) What is the role of the personnel department as a servicing organ of the company?
4. State FIVE Important functions of the personnel department.
5. Explain FOUR functions carried out by the office of the chief accountant.

#### ***Objective Questions***

1. The four key departments of a business organisation are
  - A. Production, Corporate Affairs, Administration and Finance
  - B. Production, Works, Marketing and Personnel
  - C. Production, Marketing, Finance and Personnel
  - D. Production, Public Relations, Advertising and Staff Welfare

The following are groups of activities for a number of functional departments:

- A. Production Planning, Stores, Quality Control, Design
- B. Selling, Advertising, Sales Promotion, Market Research
- C. Accounts, Audit, Staff Salary, Banks Reconciliation
- D. Recruitment, Training, Promotion and Retirements

Use the information above to answer questions 2-5 below.

2. Which activities fall under the finance department?  
A      B      C      D
3. Which activities fall within the personnel department?  
A      B      C      D
4. Which functions are under the production department?  
A      B      C      D
5. Which are the activities under the marketing department?  
A      B      C      D
6. Departmentalization in an organization is an aspect of  
A. directing  
B. controlling  
C. organizing  
D. planning

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- A. Finance and Personnel
- B. Production and Marketing
- C. Finance and Production
- D. Personnel and Production

Use the above to answer questions 7–10 below.

7. Which two departments have to work together to meet customers'™ production deadline?  
A      B      C      D
8. Which of the departments have to work together in order to meet customers'™ delivery date (all resources given)?  
A      B      C      D
9. Which two departments have to cooperate with each other in seeing that salary is paid promptly?  
A      B      C      D
10. The two departments that have to see that production targets of a customer is met are  
A      B      C      D

### **Project**

How many departments is your school divided into for effective management? State the heads of each division and their roles in the management of the school.

Make a visit to your local departmental store and ask for information on the organization of the sales department.

Make a visit to your local council office and draw a sketch of the organizational chart showing the different divisions.