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SCHOOL OF BUSINESS AND PUBLIC MANAGEMENT

DEPARTMENT OF MANAGEMENT

COURSE CODE: BBM1101

COURSE TITLE: INTRODUCTION TO BUSINESS STUDIES

Instructional Material for BBM – Distance Learning

COURSE OUTLINE

BBM1101: INTRODUCTION TO BUSINESS STUDIES
Contact hours: 42
Pre-requisites: None

Purpose: To provide fundamental aspects of a typical business and illustrate some of its basic functions issues and phenomena

Expected Learning Outcomes of the Course

By the end of the course unit the learners should be able to:-

i) Illustrate some of the fundamental issues and phenomena of a business firm
ii) Explain the broad functions areas of business enterprise
iii) Relate and apply the aspect of Business enterprises to their business information systems
iv) Provide a comprehensive overview of - Key concepts in business, in particular, contemporary business firm environment, Business firm principles of marketing, operations and information and financial issues

Course Content:

Lesson One: Introduction to business concepts

- Definition of business and related terms
- Historical Development of Business
- Business Objectives

Lesson Two: Business ownership:

- Sole proprietorship
- Partnership
- Incorporated companies
    - The legal person
    - Legal limitations
    - Mode of operations
- Co-operatives

Lesson Three: Business Environment

- Internal Environment
- External/Macro-Environment
- The Role of Government in Business

Lesson Four: Types of business firms

- Domestic
- Foreign multinational
- National and global context of business
- Complex business organizations
    - Mergers
    - Joint ventures
    - Franchise holders

Lesson Five: Business Management

Management Levels

Management functions:

- Planning
- Organizing
- Staffing
- Directing
- Controlling

Lesson Six: Production, marketing and other functions of a business;

- Process of producing goods and services
- Pricing products

CAT

Lesson Seven: Channels of distribution;

- Producers
- Stockists
- Wholesalers
- Retailers
- Warehousing
- Manufacturers' representatives
- Commission agents
- Physical distribution
- Clearing and forwarding

Lesson Eight: Sources of business finance;

- Banks and banking
- Short and long term financing
- Methods of Raising Finance
- Equity Finance
- Ordinary Share Capital
- Quasi Equity/ Preference Share Capital
- Debt Finance - Loan
- Hire purchase institutions

Lesson Nine: Stock Market

- Capital market organization
- Public quoted stock companies
- Members of the stock exchange
- Functions of Stock Exchange
- Terms Use in the Stock Exchange

Lesson Ten: Social Responsibility of a Business

- Arguments for and against social responsibility
- A case against social responsibility

- Areas of social responsibility

Lesson Eleven: Business Ethics

- Levels of questions addressed in ethics (Ethical Questions)
- Ethical language
- Common Morality
- The criteria of evaluating an ethical manager from an unethical manager
- How managers can improve ethical behaviour in their organizations

Teaching / Learning Methodologies: Lectures and tutorials; group discussion; Demonstration; Individual assignment; Case studies

Instructional Materials and Equipment: Projector; test books; design catalogues; computer laboratory; design software; simulators

Course Assessment
Examination - 70%; Continuous Assessment Test (CATS) - 20%; Assignments - 10%; Total - 100%

Recommended Text Books

i) William Allen Wood (2009); *Modern Business Corporations, Including The Organization And Management;* Bibliolife

ii) Graffin R. W and Ronald (2002); *Business Studies;* Prentice Hall

iii) Lomash (2008); *Business Policy And Strategic Management;* Vikas Publishing House Pvt Ltd

Text Books for further Reading

i) Kibera Francis N(1996); *Introduction to Business A Kenyan Perspective;* Nairobi; Kenya Literature Bureau

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LESSON ONE

INTRODUCTION TO BUSINESS CONCEPTS

Learning objectives for the lesson
At the end of this lesson, the learner should be able to;

1. Identify the factors of production and how they are used in business.
2. Trace the history of business
3. Explain the objectives of a business
4. Identify the key stakeholders in a business

Introduction

What is business?

According to Boone and Kurtz (2003) business consists of all profit-seeking activities and enterprises that provide goods and services necessary to an economic system, of course at a profit. The profit is made on behalf of the owner (Symons and Adams 1993). Business provides people with food, clothing, housing, medical care and transport and almost everything else that makes life easier and better. There are businesses that will produce goods such as automobiles (Toyota), breakfast cereals (proctor & Gamble), computers (dell), cooking oil (Bidco) others will provide services such as insurance (Madison, BlueShield), banking services (KCB, Equity), car rental (Kenatco and Avis).

A business is a legally recognized organization designed to provide goods and/or services to consumers. Businesses are predominant in capitalist economies, most being privately owned and formed to earn profit that will increase the wealth of its owners and grow the business itself. The owners and operators of a business have as one of their main objectives the receipt or generation of financial returns in exchange for work and acceptance of risk. Notable exceptions include cooperative enterprises and state-owned enterprises. Socialist systems involve government agencies, public ownership, state-ownership or direct worker ownership of enterprises and assets that would be run as businesses in a capitalist economy. The distinction between these institutions and a business is that socialist institutions often have alternative or additional goals aside from maximizing or turning a profit.

The term "business" has at least three usages, depending on the scope — the singular usage (above) to mean a particular company or corporation, the generalized usage to refer to a particular market sector, such as "the music business" and compound forms such as agribusiness, or the broadest meaning to include all activity by the community of suppliers of goods and services.
Business Studies, the study of the management of individuals to maintain collective productivity to accomplish particular creative and productive goals (usually to generate profit), is taught as an academic subject in many schools.

Profit represent the rewards that business people who have taken the risk in starting and running the entity. This may be different from accountant thought of profit-difference between the firm's revenue and expenditures. Therefore the definition leaves out the non-profit businesses. Nonprofit organization is an organization that serves a specific cause and is not intended to make profits. We need to note that even though the motive of these organizations is not to make profit they are run like a business.

In discussing business it is important to look at the factors of production which are the inputs required by businesses for effective operations. There are four factors of production namely: natural resources, capital, human resources and entrepreneurship. Each of these factors has corresponding payment.

Human resources are the people or workers who are able to perform work for the business, they contribute their skills and abilities and in return they get paid in form of salaries and wages. Capital includes equipment, machinery, tools and physical facilities that the business uses in its daily operation. Technology, which is knowledge or tools, used to produce products or services, falls under the capital and has revolutionized the way business operates; it has helped achieve efficiency and speed for most activities in business. Entrepreneurship on the other hand is the creation of business ideas and the willingness to take risk in pursuing those ideas.

Historical Development of Business

Business history can be traced in six eras; the colonial period, the industrial revolution, the age of industrial entrepreneur, the production era, the marketing era and the relationship era(Boone & Kurtz). In the following paragraphs we discuss activities under each era.

The colonial period

This was the period prior to 1776, and emphasize was rural and agricultural production. There were small towns that functioned as the market place for farmers and craftspeople, in Kenya for example we had town such as Karatina serving as such city though much later in terms of years. The economy success was primarily dependent on the farming.

The industrial Revolution

This was around 1760-1800s'. Business started to move towards mass production and use of semi-skilled workers as well as the use of machines. Some of the benefits that firms were able to get include cost savings from economies of scale and use of machines. Also business growth meant that they could be able to purchase raw materials in bulk. Specialization of labor also improved production a great deal. It is during this period that agriculture became mechanized, and factories sprang up in cities.

Key stakeholders in a business

Business to be successful must involve other people. These people affect and are affected by the business and hence they have an interest in business, we call them stakeholders. These are the company, owners, customers (internal and external), collaboration and competitors.
A company is an arrangement for running the business. It refers to the business itself. It is the organization of people, the buildings and equipment and other resources neede to operate a business. It is the process or system of core activities necessary to run the business. Companies can take many forms ranging from an individual who works on his own to a large corporation that operates in dozen of countries.

Owners

These are the people who provide the capital to the business. If you recall we said that an entrepreneur is the person who come up with the business idea and is willing to take risk. More often than not entrepreneurs may not have the capital to finance the venture, it is at this point that they may allow other people to invest in the business and become co-owners. Stockholders/shareholders are investors who become co-owners or partial owners of firms by buying the firm's stock. (Madura, 2007)

Customers

These are the people who buy companies products or services from the business. The company exchanges goods and services for a price with its customers. A group of customers is known as a market. Business will attract customers by provision of quality desired goods and services at reasonable prices. More than ever before businesses are realizing the importance that their employees play in ensuring that their customers are satisfied. Toward this endeavor firms are now classifying their employees as the internal customer and giving them their deserved attention.

Collaborators

These are persons or organizations that work with the company but are not part of it. They are often specialists who provide special services and supply raw materials, component, parts or production equipments for use in the production of other goods and services. They include banks, creditors, accounting firms, retailers, personnel agents, suppliers etc. they are often referred to as alliances, networks, informal partners etc.

Competitors

These are the rival companies engaged in the business as ones company. Competitors are interested in selling their products and services to a company's existing or potential customers. All competitors who produce similar goods and services are referred to as an industry. A company strives to obtain an edge or a competitive advantage over industry competitors. This implies being superior or different from competitor in a way.

Business Objectives

1. **Profitability**- To an economist, profit is the reward for risk-taking; to accountant it is the difference between revenue and expenditure. Business will try to

maximize profit a notion most economists hails while there are people who goes for satisfying- i.e. the business will decide on a profit level it considers being satisfactory.

2. **Survival**- Organizations and people faced with death will sacrifice possible future gain for life e.g. Uchumi supermarket when it was revived.
3. Prestige- The businesses do seek prestige from high quality products, from care from the environment, from the use of latest technology or from the care of their employees.
4. **Growth**- This could be based on the fact that as the business grows it tends to enjoy economies of scale. It could also recruit from the owner's desire to grow or to limit or eliminate competitors so that there will be more scope for greater profits e.g. equity bank.
5. **Social responsibility-** A business can also exist to serve the society, business produce their commodities to the society. There are some businesses that exist to serve public as their sole priority.

Review Questions

1. Trace the historical development of a business to the current era we are in.
2. Define business stakeholder and identify how each of them are likely to influence business operations.
3. Identify successful companies in your country and then describe the characteristics that make them stand out.
4. Discuss with your friends different objectives of a business could be pursuing at any given time. Is it possible for a business to pursue more than one objective at the same time?

References

Boone L., Kurtz D., (2006) Contemporary Business, 11th Edition, South Western

David S., Andrew A., (1994) Business Intermediate Level, Education Publishers

Kibera F., (1998) Introduction to Business: A Kenyan Perspective: Kenya Literature Bureau

William Allen Wood (2009); *Modern Business Corporations, Including the Organization and Management;* Bibliolife

LESSON TWO

BUSINESS ENVIRONMENT

Learning objectives for the lesson

At the end of this lesson, the learner should be able to;
1. Identify Michael Porter's five forces of competition
2. Describe various factors that constitute the business environment
3. Explain why businesses need to scan their environment
4. Explain how the government involves itself in business activities

Introduction
Regardless of whether they are public or private, large or small, all business enterprises must consider elements that comprise their environment. Business enterprises secure inputs (people, material, information, money) from their surrounding environment and in turn produce goods and services that they send to the same environment. A business' performance is often dependent on how well the enterprise influences and is influenced by its environment. A business is affected by both internal and external environment factors that entrepreneurs must understand.
The internal environment is often referred as the industry environment and consists of employees, shareholders, competitors, customers, suppliers, financial institutions, labor unions, etc.

Internal Environment
Internal environment consist of forces that affect business directly and include competition, employees, financial institutions, suppliers, shareholders etc.
1. Competitors: market competition is the cornerstone of managerial capitalism. Businesses that do not compete effectively are often confronted with the uncomfortable prospect of either changing or being eliminated. Kenyans telephone users are benefiting greatly from competition of Safaricom, Airtel, Orange/Telkom and the newly introduced Yu. There are five forces that shape the degree of market competition operating within an enterprise environment (as given by Michael Porter) these include:
- **Rivalry among the existing enterprises**: This is jockeying for position among the enterprises competing in a particular market. The key issues here are the number of competitors, their competitiveness and the nature of market exit barriers. Competition helps to improve a firm's position, acts as a motivator and often helps to reduce cost. If the rivalry is high then the degree of competition is also said to be high. E.g. in tooth paste industry.
- **Relative power of customers:** the major issue here is whether the customers can exert influence by forcing down the prices, bargain for moe services and higher quality or play enterprises off against one another. Customer is said to be

powerful if the business is selling to only one customer here the customer can influence the price down and the degree of competition is said to be high.

- **Relative power of suppliers:** can the suppliers exert influences by threatening to raise price or by reducing the quality? When one supplier is supplying the business then he can have great power and the degree of competition is high unlike where are many suppliers to choose.
- **Threat of new entrants:** new enterprises in a market place generally increase product supply, seek to gain market share and often possess substantial resources. They are likely to force market prices down which will have negative impact n firms. If the barriers to entry are low then the threat of new entrants is high and so is the degree of competition.
- **Threat of substitutes:** substitutes that are of equal quality offered at a lower price can have a devastating effect on sales and thus in increased competition. Substitutes can make an enterprise product obsolete. Where there is great number of substitute's then the degree of competition is high.

2. Customers: all enterprises rely on customers for existence. Consumer groups are becoming an important force in the business. A customer could be an individual, an institution, a government or another firm. The manager must understand his customers and find ways of maintaining customer relationships.

Suppliers: organizations are dependent upon suppliers of materials and labor and will try to take advantage of competition among suppliers to obtain lower prices, better-quality work and faster deliveries. Many organizations will try to reduce suppliers to reduce costs. A favorable supplier relationship leads to better shipping arrangements, early warning of major changes and advanced information about technological or marketing developments.

3. Financial institutions: An enterprise depends on a variety of financial institutions such as commercial banks, investment banks, insurance firms etc for supply of long-term and short-term loans. Because effective working relationships with financial institutions are so vital, establishing and maintaining these relations is the work of finance officer and CEO of the organization. Some organizations incorporate a banker in their board od directors to enhance the relationship.

4. Employees: all enterprises their objectives through the action of their employees. For their part, employees work to meet their own personal, social and economic needs. Management has to design and influence leadership in a way that employees view their contributions as supportive and consistent with their sense of personal importance. The challenge is to create a situation in which both employer and employee achieve their goals. Management must maintain sound relationships with the unions for effective running of their organizations.

5. Owner/shareholder: they are technically the owners of organizations through stock ownership. Some shareholders have ability to influence the running of their organization. They exercise their powers through voting in general meeting, special general meetings or even in selling their shares.

Task environment responds to organization through networks & coalitions and multiples roles while management tries to keep the relationship between stakeholders and organization.

External/Macro-Environment

Business operate in an external environment where they not only need to be concerned with competition from rivals business but also take into account the legal, political, social and economic influences, commonly referred to as SLEPT factors. Business planners often carry out an analysis of these factors, which enables them to develop more informed strategies (long-term goals).

1. Social factors: these relates to changes in society and demographics structures to which the business is exposed. Demographics are the characteristics of the population such as average age, birth rate, level of education. A consumer preference changes over time given changes in the environment. The advancement in technology has seen so many changes in consumer preferences. Kenyans are no longer buying cassette tapes with the advent of CDs, DVDs, and USBss. (Madura 2007)

2. Legal factors: these relates to changes in laws and regulations. Business must be careful to keep the law and anticipate ways in which change in laws will affect the way they do business e.gtobacco bill, media bill.

3. Political factors: these relate to ways in which changes in government and government policies can influence business. In a country where there is political turmoil business is threatened too, since stability is necessary for every business operations. Business may influence the government actions through lobby groups and/illegal actions as well as in some countries to fund their preferred candidate or party to form the next government.

4. Economic factors: this relates to changes in the wider economy. Country's economy goes through; decline, recession and recovery. A growing economy provides greater opportunities for business to make profits, like banks, and cement industry in Kenya a few years after NARC to power. (Kibera, 1998)

5. Technological factors: change in technology can have positive or devastating effects on business. Managers need to be aware of the changes in technology that is taking place in the environment so as to update themselves and their organization. Technological changes provide opportunities for business to adopt new breakthroughs, innovations and inventions to cut costs and develop new products.

Other factors include: pressure groups such as environmentalists, special interest groups.

The Role of Government in Business

Government is the center of political authority having the power to govern the people it serves. It maintains and regulates orderly relationship among its citizens. The roles of the government in business include:

As a regulator: Government regulates business through policies and legislations that are enforced by its agencies. There is need to regulate business in order to conserve and protect environment, unfair practices or harmful products that may harm the public. Also it is the government that is concerned with registering copyrights, trademarks and patents to protect business from other business or unscrupulous individuals. Government is also responsible for maintenance of sound monetary system necessary for conducting transactions.

Tax-gatherer: Government collects billions of shillings each year from its citizens and business fraternity to funds its programmes. Tax and subsidies can be used to discourage or encourage business establishment in a country.
As owners: There some companies that are owned by the government, in most cases they hails from the sectors that need heavy investment or don't attract private investor but are necessary to the public. These are called parastatals. The business ownership by the government is diminishing through a process that is called privatization that was initiated by donors via structural adjustment programmes.
As provider: The converse of tax-gatherer is that government provides goods and services and to the public and provides infrastructure to the business community to enhance business environment this includes roads, power, security etc.

Summary

Business does not operate in a vacuum; there are various components that interact with the business. There is the internal environment, which the immediate stakeholders of the business such as the customers, employees, and suppliers among others. On the hand there is the external forces which the businesses are exposed to include; social-cultural, legal, political, economic, ecological, technological and the global happening.
Other than the external forces, government does play a role in business. Essentially government is supposed to be a referee to the business fraternity. It is supposed to provide enabling climate for the business to operate. Different states government do undertake different deliberate measures to encourage investors either from within their countries or from without. Some of the way that government does this is provision of incentives such as few requirements before one start a business, tax relief, capital reimbursement, guarantees, foreign market exhibition among others.

Review questions

1. You want to start a hotel business in town, what are the factors in the environment that you would have to scan and why?
2. Identify the most fluid environment factors in the world today
3. Debate for or against government intervention in business with justification
4. Show how business interacts with various internal environments.

References

Kibera Francis N; (ed) (1998) Introduction to Business: A Kenyan Perspective; Nairobi; Kenya Litearture bureau.

Madura Jeff, (2007) Introduction to Business, 4th Edition South Western.

Pride Williams, Hughes R. (1993) Business, 4th Edition Houghton Miffin Co. U.S.A

Wild, John. (2008) International Business: challenge of Globalization 4th Edition Prentice-Hall

LESSON THREE

BUSINESS OWNERSHIP

Learning objectives for the lesson

At the end of this lesson, the learner should be able to;

1. Describe characteristics, advantages and disadvantages of sole-proprietorship
2. Describe characteristics, advantages and disadvantages of partnership
3. Explain the characteristics, advantages and disadvantages of a company
4. Distinguish private company from public company.

Introduction

When enterprises establish a business, they must decide on the form of business ownership. There is no single form that can be said to apply to all individuals, but the person venturing into business need to first consider the following factors.

- Formation requirements
- Ease of creation
- Flexibility
- Expenses to start and maintain
- Legal requirements
- Government control and regulation
- Income taxes consequences
- Liability

Sole Proprietorship

The sole proprietorship is by far the simplest and easiest way for an entrepreneur to do business. In reality, a sole proprietorship is not even a legal entity at all. The term is used to imply an individual who is self-employed and operates a business alone, but in practice a sole trader rarely work alone in most cases he/she will bring in other staff to help operate the business. The sole trader accepts all the responsibility for the management and finances of the business. By far this is the most common form of business ownership.

Advantages of the sole proprietorship

1. Being own boss the owner has the full control and this eliminates that chance for conflict or misunderstanding during the decision making.
2. Simplicity of creating and dissolving. In most cases you only need an idea, money and a simple license to start. When dissolving you don't have to consult anyone all you need to do is to simply put a sign on the door saying ''out of business''.
3. Low cost of creating the business. Sole proprietorship is usually one of the least costly forms of business to create. Because legal papers are not necessary, start-up legal expenses are minimal. And since the owner is the boss and probably the only one there will be few labor costs.

4. Total commands over decisions and profits. Since the owner has full control over the business, he/she can make decisions without consulting others and withdrew the money from the business whenever the need arises. And since all the profits goes to the owner there is greater motivation to grow the business.
5. Uncomplicated tax basis. A sole proprietorship is taxed as a person and not the business.

Disadvantages of sole proprietorship

1. Not easy to raise capital to start one's own business.
2. Risk of financial loss, as the owner risks all the investment put in the business, plus all the debts from doing business given the unlimited nature of business.
3. Lack of continuity. Sole proprietorship is established by initial owner, operated by the owner and trends to die with the owner.
4. Opportunities for raising further capital are limited this can severely restrict the growth of the business.
5. Unlimited liability. There is no limit on the debts for which the owner is liable. When the business is sued the owner is liable for the debt.
6. Limited skills. The individual may be limited in terms of skills that they may possess, and for this reasons they may be unable to control all parts of the business. (Madura, 2007)

Partnerships

Where two or more people agree to start a business, the maximum limits of the member is twenty. In partnership, the co-owners share the assets, liabilities and profits of the business. (E.g. Procter & Gamble, Johnson & Johnson were one in partnership). In today business most partnership occurs among doctors, lawyers, accountants and other professionals. A partnership is relatively simple to establish and does not require the same amount of record keeping as a corporation.

Unless the partnership agreement provides otherwise, the law that governs who does business as general partners spreads the ownership and management among the partners so that they share equally in the rights and responsibilities. Therefore, the partners share equally in the profits and losses of the business. Each partner is a residual claimant of the business and therefore has an equal claim to money or property left in the business at termination or dissolution, after all debts and liabilities have been paid.

Uniform partnership Act

Rights of the partners

- Share in the management and operations of the business
- Share in any profits the company makes
- Have access to the company's books and records
- Receive a formal accounting of the business affairs of the partnership

Obligation of the partners

- Share in any losses incurred by the business
- Work for the partnership without salary as necessary
- Submit to majority vote or arbitration of differences that may arise among the partners

- Give other partners complete information about all affairs of the partnership.

The co-owners of the business prepare an agreement and where the business life is expected to be more than one year the agreement must be in writing. This document is called partnership agreement. Where none exist a law called Uniform Partnership Act (UPA) will govern the partnership. However the provision of this law may not be favourable as the drafted agreement by the partners themselves since it is based on the principles detailed in the above paragraph. The partnership agreement should contain;

- The name of the partnership and those of each partners
- A general description of the type of the business that will be conducted.
- The power and duties of the partners, including any limitations or restrictions.
- The financial contribution each partner will make.
- How profits and losses are to be divided
- How partners can leave the business and the new one is added.
- What steps must be taken to dissolve the partnership.

Advantages of partnership

- There is increased capital due to the partners' contributions
- Greater access to finance unlike the sole trader
- Wide range of experience and expertise brought by different partners
- The business is not taxed; rather it is the individuals who are taxed.
- Losses are shared among the partners according to the agreed ratio.

Disadvantages

- Partners are personally liable incase the business incur debts.
- Slow decision making due to consultation
- A decision by one partner can lender the other into trouble since they are jointly liable.
- Profit is shared.
- More requirements when starting in comparison with sole trader.
- Lack of continuity due to death of one partner.

What leads to partnership dissolution?

1. An event, which makes it unlawful for the business or the partners to carry on the partnership, occurs
2. The partnership was entered into a fixed period and the fixed period has come to an end.
3. If the partnership was entered in to for a single venture/undertaking, and has come to an end.
4. Death, bankruptcy of any partner or by the court order.

Types of partnership

In a general partnership, all partners have unlimited liability. That is the partners are personally liable for all obligations of the firm. Conversely, in a limited partnership, the firm has some partners whose liability is limited to the cash or property they contributed to the partnership. Limited partners are only investor in the partnership and do not participate in its management, but because they have invested in the business, they share its profits or losses. A limited partnership has at least one general partner, or partners who manage the business. These partners receive salary, share the profits or losses of the business and have unlimited liability (Madura 2007)

Other forms of partnerships

Limited Liability Partnership (LLP)

An LLP is a form of ownership in which "all" partners receives limited liability protection. The LLP is similar to a general partnership in that all partners can take an active role in managing the day-to-day affairs. However, it has the added benefit of providing the limited liability feature, which is not available to a general partnership. The LLP form of ownership is limited is common to professionals working in the fields of law (attorneys), accountancy, and architects.

Key Features:

The LLP is a flexible form of business.

Designed primarily for specific professional services

The partners will decide the structure of the organization and the distribution of profits and losses. A formal, written partnership agreement is advisable.

The profits and losses "flow down" from the partnership to each partner. Each partner is responsible for paying taxes on their distributive share.

The LLP allows each partner to actively participate in management affairs.

The LLP provides limited liability protection to each partner.

A LLP remains in effect based on partners agreeing to a termination date and as long as all of the general partners remain in the partnership.

Limited Liability Limited Partnership (LLLP)

An LLLP is a new modification of the limited partnership. Similar to a limited partnership, the LLLP consists of one of more general partners and one or more limited partners. The key advantage of this form of ownership is that the general partners receive limited liability on the debts and obligations of the LLLP.

Key Features:

The general partners manage the business operations of the LLLP, while the limited partners typically only maintain a financial interest.

The LLLP is a flexible form of business.

Designed to offer limited liability to all partners in the partnership

The partners will decide the structure of the organization and the distribution of profits and losses. A formal, written partnership agreement is advisable.

The profits and losses "flow down" from the partnership to each partner. Each partner is responsible for paying taxes on their distributive share.

An LLLP remains in effect based on partners agreeing to a termination date and as long as all of the general partners remain in the partnership.

Limited companies
Corporation is a distinct, legal entity in itself that is it has a legal life separate from its owners. According to Boone and Kurtz (2003) a corporation is a legal organization with assets and liabilities separate from those of its owner(s). The corporation can enter into contracts, borrow money, sue and be sued and pay taxes just like a person. This is the most common form of business. A company may have a few as two members/ shareholders with no limitation on the membership ceiling.
When registering a company there are four documents that should be submitted to the registrar of company:

Memorandum of Association
This should contain the following:

- Name of the company, in the case of a private company the name must have limited as the last word, incase of a public company it will be 'public limited company'
- Where its registered office is located, physical address and the building
- The liability of the members i.e. the amount of capital they are responsible for providing.
- The capital of the company, this set the limit on the amount of capital the company is allowed to raise (authorized share capital)

Articles of Association

- This is concerned with the internal administration of the company and it is those that are setting up the company that need to decide on the rules they wish to be included in their article. Matters that are normally dealt in the articles;
- The appointment and power that the directors will have
- The rules about shareholders meting and voting
- The types of shares and the shareholders' right attached to each type.
- The rules and procedures of transferring shares.
- Form 10. Contains details of first directors and secretary, their date of birth, occupation and details of other directorship, they have held within the last five years. They must sign and date the form.
- Form 12. This is a statutory declaration of compliance with all the legal requirements relating to the incorporation of a company. The document must be signed by a solicitor, forming the company or by one of people named in the form 10 as director in presence of a commissioner for oath.
- After incorporation the article may be altered, but only with 75% majority vote. Companies have two main source of control over its affair i.e. shareholders in a general meeting and the directors who act on behalf of the shareholders (stewardship). The most matter such as the change in constitution, appointment of directors rest with its shareholders in a G.M. most issues require a simple majority vote, although some matters require 75% majority. Given the importance the voting power play in the company management, the type of share that the company issue is of great significance, ordinary share carry full voting right such as preference shares may carry no voting right at all.

- The articles that the directors be responsible for the daily running of the company make decision and act on behalf of the company. Directors can be sanctioned or dismissed in a general meeting.

Advantages of a limited company

- Shareholders have limited liability (can only lose what they have put in the business)
- Additional capital can be raised through issuing of more shares. Right issue
- More access to additional capital from external lenders
- Company name is protected by law
- Perpetual existence
- Democratic management
- Easy transfer of ownership

Disadvantages of a limited company

- Employee may feel distant its owners
- Company records are open to the public e.g. annual records-financial disclosure
- Expensive to form a company
- Decision making is complex due to the number of people involved
- Affair are strongly controlled according to companies Acts
- Double taxation, after a company pays its corporate tax its owner will have to pay personal taxes on any distributions of its profits they receive from the corporation in the form of stock dividend.
- Agency problem- when managers do not act as responsible agents for the shareholders who own the business. Since managers run the business on behalf of the owners, they may not always act in the best interest of the owners. For examples managers may take an expensive trip which necessarily may not benefit the business, this bring about the problem of agency. Company such as Enron in USA went down due to agency problem

Key differences between private limited and public limited companies

A private company's shares are not quoted in the stock exchange and cannot be bought on the open market. For public limited company shares may be listed in the on application stock exchange.

Public limited company has tremendous potential for raising capital by inviting the public to subscribe for shares. On the other hand private limited companies are curtailed from the same and hence raising capital become limited.

The capital requirement for the two is also different, private require less authorized capital and indeed no set minimum but for plc they require more capital.

The directors of plc must be at least two and a private need only one.

Private company may dispense with preparing of the accounts but for public it is mandatory.

NB. Businesses today are experiencing changes in the global market. This has seen most firms come together to join forces in order to be able to cope with the dynamics. There are several ways that firms are coming together and these includes; merger-where two or more firms combine to form one company, acquisition-where one firm purchase the property and assumes the obligations of another or where one firm buys a division or subsidiary from another firm. Joint venture- is a partnership between companies formed for a specific undertaking (wild 2008).

Corporation (Legal person)

The corporation was conceived to solve the typical problems of the partnership. Incorporating allows a group of entrepreneurs to act as one, much the way a partnership does, with one important advantage. Since the corporation is a separate legal entity capable of being sued, it can protect its owners by absorbing the liability if something goes wrong. In recent years, the corporation has developed as a tax reduction/planning tool.

A corporation is essentially an "artificial person" created and operated with the permission of the state where it is incorporated. It's a person like you, but only "on paper." A corporation is brought to life when a person, the incorporator, files a form with a state known as the articles of incorporation. The owner of a corporation is known as a shareholder.

Since a corporation is a separate legal entity, the corporation actually owns and operates the business on behalf of the shareholder, under the shareholder's total control. This separation provides a legal distinction between the owner and the business and provides three important benefits:

It allows you, the owner, to hire yourself as an employee (typically as president) and then participate in company-funded employee benefit plans like medical insurance and retirement plans.

Since you and your company are now two separate legal entities, lawsuits can be brought against your company instead of you personally.

When debt is incurred in the company name, a separate legal entity, you are not personally liable and your assets cannot be taken to settle company obligations.

Key Features:

A corporation must create bylaws (e.g., how the corporation will operate) that cover items such as stockholder meetings, director meetings, number of officers, and their responsibilities.

Based on the corporation’s separate legal entity status, the owners of the corporation are not liable for the losses of the businesses and creditors may only look to the corporation and the business assets for payment.

A separate bank account and separate records are required with this form of entity.

The owners have ultimate control of the corporation; but must elect directors who in turn elect officers for the company. The directors make the major decisions, while the officers make the day-to-day decisions.

A corporation’s life is perpetual in nature.

Ownership is easily transferred through the sale of stock and new owners can be easily added by the issuance of additional stock.

This form of ownership is more costly to set up and maintain than a sole proprietorship or partnership. Consult an attorney for guidance on setting up your corporate entity

Reasons for incorporation

i) Accessing finance

ii) You need to incorporate if your business involves potential liability that could seriously damage your personal finances.

iii) You need to incorporate if you're trying to work for other businesses.

iv) You need to incorporate to take advantage of the Small Business Deduction.

v) You need to incorporate if you're making enough money that you need to manage your income.

vi) Generally, the public views incorporated businesses more favourably

Limited Liability Company (LLC)

An LLC is a newer form of business entity. It has advantages over both the corporation and the partnership forms of operating a business. The LLC's main advantage over a general partnership is that, like the owners (shareholders) of a corporation, the owners (members) of an LLC are generally not responsible financially for the debts and obligations incurred in the course of the LLC's business. In addition, an LLC has the flexibility to be taxed as a partnership, sole proprietorship, or corporation.

Key Features:

An LLC may have one or more owners, and may have different classes of owners. In addition, an LLC may be owned by any combination of individuals or business entities.

An LLC is treated as a legal entity separate from its owners, similar to how a corporation is treated, regardless of how the LLC is classified for tax purposes.

In general, the owners (members) are shielded from individual liability for debts and obligations of the LLC.

An LLC is formed by filing "articles of organization" with the California Secretary of State prior to conducting business.

Forming an LLC is simpler and faster than forming and maintaining a corporation.

LLCs do not issue stock, and are not required to hold annual meetings or keep written minutes, which a corporation must take in order to preserve the liability shield for its owners.

Either before or after filing its articles of organization, the LLC members must enter into a verbal or written operating agreement. A formal, written agreement is advisable.

An LLC is typically managed by its members, unless the members agree to have a manager manage the LLC's business affairs.

Generally, members of an LLC that are taxed as a partnership may agree to share the profits and losses in any manner. Members of an LLC classified as a corporation receive profits and losses in the same manner as shareholders of a corporation legally organized as such.

An LLC's life is perpetual in nature. However, the members may agree in the articles of organization or the operating agreement to a date or event that will cause the LLC to terminate. In addition, members of the LLC may vote at any time to end the business operations of the LLC.

Co-operatives

A co-operative organization can be defined as an organization of members who come together to carry out economic activities and to share proceeds equitably on the basis of co-operative principles.

A cooperative is a legal entity owned and democratically controlled equally by its members. A defining point of a cooperative is that the members have a close association with the enterprise as producers or consumers of its products or services, or as its employees.

Cooperatives are based on the co-operative values of "self-help, self-responsibility, democracy and equality, equity and solidarity" and the co-operative principles of “voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education and training; co-operation among co-operatives; and concern for community

Economic benefits are distributed proportionally according to each member's level of participation in the cooperative, for instance by a dividend on sales or purchases, rather than divided according to capital invested.

The co-operative society is that type of business organizations in which members make efforts to achieve any common objective on voluntary and democratic basis. All co-operatives must adhere to the co-operative principles. These principles are formulated by international co-operative alliance which is a world wide confederation of all co-operative organizations.

These principles are;

- Open and voluntary membership
- Democratic administration
- Limited rate of interest
- Disposal of surplus
- Education: the members need to be given adequate education.
- Principle of competition with other co-operatives.

Advantages of co-operatives

- Loyalty- The co-operative societies are voluntary association. Members of co-operative societies are mostly sincere and loyal to one another.
- Democratic administration- all decisions of co-operative societies are made on democratic basis. The members cast their votes and these decisions which have greater support of the members are implemented.
- Common benefit- the main aim of a co-operative society is to provide the best services to all members. Common benefit is taken into consideration.
- It is a means to effect a re-distribution within the population.

Disadvantages

- Lack of business experience- members of co-operative societies does not have the experience of business and as a result the societies fail to achieve their objectives.

- Dis-agreement among members- sometimes members of co-operative societies do not agree on specific duties e.g. on the mode of election. This situation may lead to collapse of co-operative society.
- Lack of sufficient capital- co-operatives rely basically on financial contribution from members for the capital but in many developing countries the incomes are relatively low and sometimes members are reluctant to pay high subscriptions or join societies.
- Weakness in management- co-operatives has an inherent weakness in management due to inefficient committees who lack education, experience or who have promoted the length of service than on their ability, efficiency and qualifications.

Review Questions

1. Distinguish between a general partner and a limited partner.
2. Detail the basic steps that must be taken to start a company in Kenya.
3. Explain why it may be difficult for a partnership to go public.
4. Recommend the best business to your five friends who want to build an apartment complex and are not concerned about limited liability.

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LESSON FOUR

TYPES OF BUSINESS FIRMS

Learning objectives for the lesson

At the end of this lesson, the learner should be able to;
1. Define the terms; Domestic Corporation, foreign corporation and a multinational corporation.
2. Explain various classifications of mergers.
3. Explain what a franchise business is.
4. Differentiate licensing from joint ventures

Domestic Corporation

A firm incorporated under the laws of the country or state in which it does business. For example, a firm incorporated in the United States is considered a domestic corporation in the United States, but a foreign corporation elsewhere

Foreign Corporation

A firm that conducts business in states or countries other than the state or country in which it is incorporated, For example, a firm incorporated in Canada but conducting business throughout North America is considered a foreign corporation in the United States. Also called an alien corporation.

Multinational Corporations

Multinational corporations are companies that operate in more than one country. The name "multinational corporation" is distinct from "international corporations". The latter name was used in the 1960s to designate a company with a strong national identification. The home market was the company's primary focus. Foreign operations were usually wholly owned subsidiaries controlled by home country nationals. By the 1980s, international corporations had evolved into more globally oriented companies. While still maintaining a domestic identity and a central office in a particular country, multinational corporations now aim to maximize profits on a worldwide basis. The corporation is so large and extended that it may be outside the control of a single government. Besides subsidiaries, a multinational corporation may have joint ventures with individual companies, either in its home country or foreign countries.
Some multinationals enter foreign markets by buying stakes in companies of a particular country.

Complex business organizations

Mergers

In business a merger is a combination of two companies into one larger company. Such actions are commonly voluntary and involve stock swap or cash payment to the target. Stock swap is often used as it allows the shareholders of the two companies to share the risk involved in the deal. A merger can resemble a takeover but result in a new company name (often combining the names of the original companies) and in new branding; in some cases, terming the combination a "merger" rather than an acquisition is done purely for political or marketing reasons.

Classifications of mergers

Horizontal merger - Two companies that are in direct competition and share similar product lines and markets (e.g. Sirius/XM)

Vertical merger - A customer and company or a supplier and company. (eg: an ice cream maker merges with the dairy farm whom they previously purchased milk from; now, the milk is 'free')

Market-extension merger - Two companies that sell the same products in different markets (e.g. GTE and Bell Atlantic into Verizon)

Categories of mergers

Mergers may be broadly classified in (i) Cogeneric and (ii) Conglomerate.

Cogeneric: within same industries and taking place at the same level of economic activity- exploration, production or manufacturing wholesale distribution or retail distribution to the ultimate consumer.

Conglomerate: between unrelated business. Two companies that have no common business areas

Acquisition

An acquisition, also known as a takeover or a buyout, is the buying of one company (the ‘target’) by another. An acquisition may be friendly or hostile. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer. Acquisition usually refers to a purchase of a smaller firm by a larger one. Sometimes, however, a smaller firm will acquire management control of a larger or longer established company and keep its name for the combined entity. This is known as a reverse takeover.

The buyer buys the shares, and therefore control, of the target company being purchased. Ownership control of the company in turn conveys effective control over the assets of the company, but since the company is acquired intact as a going concern, this form of transaction carries with it all of the liabilities accrued by that business over its past and all of the risks that company faces in its commercial environment.

Franchising is an arrangement where one party (the franchiser) sells the rights to another party (the franchisee) to market its product or service. There are different types of franchise relationship and this is a possibility for international expansion. It is an

attractive option for companies seeking international expansion without having to undertake substantial direct investments.
In recent years this has increased in numbers and in popularity. They exist when an individual or group of individual (the franchise) raises a sum of money to buy the opportunity to;

- Use an established model and name e.g. wimpy, steers, ken chic e.t.c.
- Sell or distribute an established or recognized product
- Take advantage of marketing and advertising which is organized centrally by the franchise e.g. coke.

A franchise is a legal contract that binds the two parties and hence each has to meet his/her side of bargain. This type of business has lower risk as compared to the other since the machinery and the brand are well established and the business ride on them.

Advantages of the franchisee

- Protected environment in which to open a business
- Access to free help and advice from specialist and experts i.e. the franchiser (proven management style)
- A ready market
- Name recognition- most franchise are nationally or internationally known this can significantly increase the demand for the product. Examples for such include, MacDonald, Holiday Inn.
- Financial support, some franchisees receive some financial support from the franchisor.

Advantages to the franchiser

- Business expansion is achieved
- Business risk is shared
- Franchisee are self-motivated
- Access is gained to very wide market- many outlets.

Licensing is where a company (the licensor) authorizes a company in another country (the licensee) to use its intellectual property in return for certain considerations, usually royalties. Licensors are usually multinationals located in developed countries
Joint ventures are usually a jointly owned and independently incorporated business venture involving two or more organizations. This is a popular method of expanding abroad as each party can diversify, with the benefit of the experience of the others involved in the venture and a reduction in the level of risk. Where a large number of members are involved in such an arrangement, this is called a **consortium**.

Review Questions

Describe a franchise and describe its advantages and disadvantages.
Explain various classifications of mergers.
Differentiate licensing from joint ventures

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LESSON FIVE

BUSINESS MANAGEMENT

Learning objectives for the lesson

At the end of this lesson, the learner should be able to;

1. Identify the key levels of management in organizations
2. Identify skills that managers require to perform effectively
3. Describe the different types of decisions that are made in different levels of management
4. Relate management skills and management levels
5. Explain the functions of management

Introduction

Management is involved in coordinating all factors of production so that they can contribute positively to the organizational goals. Management is involved in utilization of human resources and other resources such as machinery, capital, information and time in the organization. In this chapter we will address the basic functions of a manager, skills that effective manager requires , roles that managers have in their organizations and various management levels and decisions made in each of this levels.

Definition

Management is the process of achieving organizational goals through engaging in the four major functions of planning, organizing, leading and controlling. Another defines management as the process of working with people and resources to accomplish organizational goals.

Management involves coordinating and overseeing the work activities of others so that their activities are completed efficiently and effectively. (Coulter & Robbins 2007)

A more comprehensive definition of management states that management is a process of assembling and using resources (human, financial, material and information) in a goal directed manner to accomplish tasks in an organization.

Managers are those individuals who bring together the money manpower materials and machinery necessary to operate a business. They make decision and decide course of action that the organization takes. A manager is someone who works with and through other people by coordinating their work activities in order to accomplish organizational goals.

Management levels

Managers' decisions vary with their level in the organization. Each level requires different skills too given the fact that they perform different functions.

Top management includes president, chief executive officer, chief financial officer, and vice president (the titles may differ among organizations). The decisions that are made by managers in this level are strategic in nature meaning they stretch over five years and cover the whole organization. Decisions in this level are also unstructured and include answering questions such as should we expand? How can we expand? (Is it through acquisition or merger or joint ventures?)

Middle level management includes position such as regional manager and departmental heads. They are responsible for business’s short-term decisions. Much of their work involves implementing in their region or department what the top managers have deliberated. The decision-making in this level is semi-structured since they have to conform to the top management decisions.

First line management (supervisory) mostly oversees the employees who are engaged in day-to-day production process. They deal with issues such as employee absenteeism and customer complaints. (Madura 2007)

Management Functions

PLANNING

Planning is the function of management that involves setting objectives and determining a course of action for achieving these objectives. Planning requires that managers be aware of environmental conditions facing their organization and forecast future conditions. It also requires that managers be good decision-makers.

Planning is a process consisting of several steps. The process begins with environmental scanning, which simply means that planners must be aware of the critical contingencies facing their organization in terms of economic conditions, their competitors, and their customers. Planners must then attempt to forecast future conditions. These forecasts form the basis for planning.

Planners must establish objectives, which are statements of what needs to be achieved and when. Planners must then identify alternative courses of action for achieving objectives. After evaluating the various alternatives, planners must make decisions about the best courses of action for achieving objectives. They must then formulate necessary steps and ensure effective implementation of plans. Finally, planners must constantly evaluate the success of their plans and take corrective action when necessary.
There are many different types of plans and planning.

Strategic Planning

Strategic planning involves analyzing competitive opportunities and threats, as well as the strengths and weaknesses of the organization, and then determining how to position the organization to compete effectively in their environment. Strategic planning has a long time frame, often three years or more. Strategic planning generally includes the entire organization and includes formulation of objectives. Strategic planning is often based on the organization's mission, which is its fundamental reason for existence. An organization's top management most often conducts strategic planning.

Tactical Planning

Tactical planning is intermediate-range planning that is designed to develop relatively concrete and specific means to implement the strategic plan. Middle-level managers often engage in tactical planning. Tactical planning often has a one- to three-year time horizon.

Operational Planning
Operational planning generally assumes the existence of objectives and specifies ways to achieve them. Operational planning is short-range planning that is designed to develop specific action steps that support the strategic and tactical plans. Operational planning usually has a very short time horizon, from one week to one year.

ORGANIZING
Organizing is the managerial function of arranging people and resources to work toward a goal. The purposes of organizing include but are not limited to determining the tasks to be performed in order to achieve objectives, dividing tasks into specific jobs, grouping jobs into departments, specifying reporting and authority relationships, delegating the authority necessary for task accomplishment, and allocating and deploying resources in a coordinated fashion.

Organizing plays a central role in the management process. Once plans are created the manager's task is to see that they are carried out. Given a clear mission, core values, objectives, and strategy, the role of organizing is to begin the process of implementation by clarifying jobs and working relationships. It identifies who is to do what, who is in charge of whom, and how different people and parts of the organization relate to and work with one another. All of this, of course, can be done in different ways. The strategic leadership challenge is to choose the best organizational form to fit the strategy and other situational demands.

Organizing Decisions
When organizing, managers must make decisions about the division of labour and work specialization, departmentalization, chain of command, span of management, centralization, and formalization. Collectively, these decisions are often called organizational design- the process of structuring an organization

Division of Labour or Specialization
Division of labour contributes to increased productivity and efficiency by allowing workers to specialize and become proficient at a specific task. This principle, coupled with technological advances, has made possible the tremendous productivity of industrial companies during most of the twentieth century. By the 1940s most manufacturing jobs in developed nations were highly specialized, with workers performing specific, standardized, and repetitive tasks. This resulted in reduced staffing, training, and compensation costs, since highly skilled workers were often not necessary. In addition, since employees were doing the same task repetitively, they tended to become very good at it.

Despite the improvements in productivity made possible by the division of labour, managers must be aware of the negative aspects of specialization: fatigue, stress, boredom, low quality products, absenteeism, and turnover. Such problems have led to programs geared toward job enlargement and job enrichment.

Departmentalization
After the work to be completed is organized into identifiable jobs through a process of dividing labour, jobs are then combined into logical sections or departments. Doing so

allows for effective coordination of effort. There are many ways to departmentalize, each of which has important advantages and disadvantages. One of the most common forms is functional departmentalization, which involves grouping similar jobs into a common department, such as accounting, sales, human resources, and engineering. Another form is product departmentalization, which involves organizing around an enterprise's various product lines. Other ways of departmentalizing include organizing by customer and by geographic territory. In practice, most large companies use a hybrid form of departmentalization, which means they combine one or more of the above methods to form their organizational structure.

Chain of Command

The chain of command is a line of authority extending from the top to the bottom of the organizational structure. Classic principles of organizing emphasize that one must be aware of the need to define the extent of managers' responsibility and authority by specifying their place in the chain of command. Another principle of organizing related to the chain of command is called the unity of command, which states that a person should have only one superior to whom he or she must report.

Span of Management

The span of management, often called the span of control, is the number of individuals who are directly responsible to a particular manager. A classic principle of organizing suggests that there are definite limits to the number of subordinates one manager can supervise effectively. When organizing, managers must keep these limits in mind.

Wide spans of management lead to flatter organizational structures with fewer layers of management, and are thus considered more efficient. However, if spans become too wide managers may not be able to provide adequate direction to subordinates. Narrow spans of management lead to tall organizational structures with many layers of management. Although narrower spans of management allow for closer supervision of subordinates they have many drawbacks, including cost, communication problems, and difficulty in developing the initiative and autonomy of subordinates.

In general, the trend is toward wider spans of management, with an accompanying decrease in management hierarchy. Technological advances in information processing and communication have made wider spans of management more feasible.

Degree of Centralization

Another organizing decision is the degree of centralization in the organizational structure. If decision-making authority in an organization is highly centralized, then most major decisions are made at the upper levels of the structure. Conversely, if decision-making authority is decentralized, important decisions are often made at lower levels of the hierarchy. The degree of centralization that is appropriate for a given organization depends upon many factors, including the nature of the environmental conditions that face the enterprise, the characteristics and abilities of lower-level employees, and the size of the enterprise. Many organizations are favouring a greater degree of decentralization of their decision-making authority.

Formalization

The degree of formalization in an enterprise refers to the degree to which there are standardized rules and procedures governing the activities of employees. A company with a high degree of formalization is characterized by detailed job descriptions and clearly defined policies and procedures covering a wide variety of employee behaviours. Conversely, a company with a low level of formalization is characterized by non-structured jobs and fewer explicit policies and procedures.

As companies grow larger, a certain amount of formalization is inevitable. Employees require some direction in their job responsibilities and in the procedures required for consistency within the organization's production schema. When organizing, however, managers should be aware of the costs of excessive formalization, which may include stifling employee creativity and innovation as well as slowing the organization's responsiveness to critical issues and problems.

Factors Affecting Organizing Decisions

There is no standard formula for the best way to organize an enterprise. Several factors have been shown to influence organizing decisions. Among the most important of these factors are strategy, size, environmental conditions, and technology.

Strategy

Managers organize in order to achieve the objectives of the enterprise for which they work. Thus, the strategy of the enterprise affects organizing decisions. Changes in strategy frequently necessitate changes in the way the enterprise is organized.

Size

Small enterprises tend to exhibit less formalization, centralization, and complexity in their organizational structure. Nevertheless, enterprises of the same size may be organized quite differently because of differences in strategy, environmental conditions, and technology.

Environmental Conditions

The key factor in the external environment that is relevant to organizing is uncertainty. Some enterprises face competitive environments that change rapidly and are quite complex, while others face relatively stable conditions. Generally, turbulent environments call for organizing decisions that lead to less formalization and centralization in the organizational structure.

Technology

The processes by which an enterprise transforms inputs into outputs may also affect organizing decisions. Some research suggests that organizing decisions that lead to high degrees of formalization, centralization, and work specialization are more appropriate for routine technologies and that the converse is true for non-routine technologies.

Organization structure

Organizational structure - is the formal system of task and reporting relationships that controls, coordinates, and motivates employees so that they cooperate to achieve an

organization's goals. *Organizational design* - is the process by which managers select and manage various dimensions and components of organizational structure and culture so that an organization can achieve its goals.
Structure and culture affect:

i) Behaviour
ii) Motivation
iii) Performance
iv) Teamwork and cooperation
v) Inter-group and Interdepartmental relationships

What bearing does organizational design have on organizational behaviour?
The way a structure or culture is designed or evolves over time affects the way people and groups behave within the organization.
Once an organization decides how it wants its members to behave, what attitudes it wants to encourage, and what it wants its members to accomplish, it can then design its structure and encourage the development of the cultural values and norm to obtain these desired attitudes, behaviours, and goals.

How does an organization determine which attitudes and behaviours to encourage?
An organization bases these design decisions on the contingencies it faces (a contingency is any event that might possibly occur and thus must be taken into account in planning).
The three major contingencies that determine what kind of structure and culture an organization designs:

i) Organization's environment
ii) Technology an organization uses
iii) Organization's strategy.

In developing an organizational structure, managers must decide how to differentiate and group an organization's activities by function and division in a way that achieves organizational goals effectively.'
The result of this process can be most easily seen in an organizational chart that shows the relationship between an organization's functions and divisions.

Types of organizational structures

Functional Structure
Functional structure groups people together because they hold similar positions in an organization, perform a similar set of tasks, or use the same kind of skills.
This division of labour and specialization allows an organization to become more effective.

Advantages of a Functional Structure
Coordination Advantages

i) *Easy communication among specialists* - People grouped together according to similarities in their positions can easily communicate and share information with each other.

ii) *Quick decisions* - People who approach problems from the same perspective can often make decisions more quickly and effectively than can people whose perspectives differ.

iii) *Learning* - Makes it easier for people to learn from one another's experiences. Thus a functional structure helps employees improve their skills and abilities and thereby enhances individual and organizational performance.

Motivation Advantages

i) *Facilitates performance evaluation for supervisor* - Supervisors are in a good position to monitor individual performance, reward high performance, and discourage social loafing. Functional supervisors find monitoring easy because they usually possess high levels of skill in the particular function.

ii) *Facilitates performance evaluation for peers* - Allows group members to monitor and control one another's behaviour and performance levels.

iii) *Creates teamwork* - Can also lead to the development of norms, values, and group cohesiveness that promote high performance.

iv) *Creates a career ladder* - Functional managers and supervisors are typically workers who have been promoted because of their superior performance.

Disadvantages of a Functional Structure

i) *Serving needs of all products* - When the range of products or services that a company produces increases, the various functions can have difficulty efficiently servicing the needs of the wide range of products. Imagine the coordination problems that would arise, for example, if a company started to make cars, then went into computers, and then went into clothing but used the same sales force to sell all three products. Most salespeople would not be able to learn enough about all three products to provide good customer service.

ii) *Coordination* - As organizations attract customer with different needs, they may find it hard to service these different needs by using a single set of functions.

iii) *Serving needs of all regions* - As companies grow, they often expand their operations nationally, and servicing the needs of different regional customers by using a single se of manufacturing, sales, or purchasing functions becomes very difficult.

Divisional Structures: Product, Market, and Geographic

A divisional structure that overlays functional groupings allow an organization to coordinate inter-group relationships more effectively than does a functional structure

Product Structure

Each product division contains the functions necessary to that service the specific goods or services it produces.

What are the advantages of a product structure?

It increases the division of labour so that the number similar products can be increased (such as a wider variety of appliances like stoves, or ovens) expand into new markets and produce totally new kinds of products (such as when an appliance maker starts to produce computers or air planes).

Market Structure

Market Structure - Group functions into divisions that can be responsive to the needs of particular types of customers.

Geographic Structure

An organization facing the problem of controlling its activities on a national or international level is likely to use a geographic structure and group functions into regional divisions to service customers in different geographic areas.
Each geographic division has access to a full set of the functions it needs to provide its goods and services.

Advantages of a Divisional Structure

Coordination Advantages

i) *Quality products and customer service* - Functions are able to focus their activities on a specific kind of good, service, or customer. This narrow focus helps a division to create high-quality products and provide high-quality customer service.

ii) *Facilitates communication* - between functions improve decision making, thereby increasing performance.

iii) *Customized management and problem solving* - A geographic structure puts managers closer to the scene of operations than are managers at central headquarters. Regional managers are well positioned to be responsive to local situations such as the needs of regional customers and to fluctuations in resources. Thus regional divisions are often able to find solutions to region-specific problems and to use available resources more effectively than are managers at corporate headquarters.

iv) *Facilitates teamwork* - People are sometimes able to pool their skills and knowledge and brainstorm new ideas for products or improved customer service.

v) *Facilitates decision making* - As divisions develop a common identity and approach to solving problems, their cohesiveness in- creases, and the result is improved decision making.

Motivation Advantages

i) *Clear connection between performance and reward* - A divisional structure makes it relatively easy for organizations to evaluate and reward the performance of individual divisions and their managers and to assign rewards in a way that is closely linked to their performance. Corporate managers can also evaluate one regional operation against another and thus share ideas between regions and find ways to improve performance.

ii) *Customized service* - regional managers and employees are close to their customers and may develop personal relationships with them-relationships that may give those managers and employees extra incentive to perform well.

iii) *Identification with division* - employees' close identification with their division can increase their commitment, loyalty, and job satisfaction.

Disadvantages of a Divisional Structure

i) *High operating and managing costs* - because each division has its own set of functions, operating costs- the costs associated with managing an organization-increase. The number of managers in an organization, for example, increases, because each division has its own set of sales managers, manufacturing managers, and so on. There is also a completely new level of management, the corporate level, to pay for.

ii) *Poor communication between divisions* - Divisional structures normally have more managers and more levels of management than functional structures have, communications problems can arise as various managers at various levels in various divisions attempt to coordinate their activities.

iii) *Conflicts among divisions* - divisions may start to compete for organizational resources and may start to pursue divisional goals and objectives at the expense of organizational ones.

Matrix Structure

A complex form of differentiation that some organizations use to control their activities results in the matrix structure, which simultaneously groups people in two ways- by the function of which they are a member and by the product team on which they are currently working

In practice, the employees who are members of the product teams in a matrix structure have two bosses-a functional boss and a product boss.

Coordination Advantages

i) Facilitates rapid product development
ii) Maximizes communication and cooperation between team members
iii) Facilitates innovation and creativity
iv) Facilitates face-to-face problem solving (through teams)
v) Provides a work setting in which managers with different functional expertise can cooperate to solve non-programmed decision-making problems.
vi) Facilitates frequent changes of membership in product teams

Motivation Advantages

The matrix structure provides a work setting in which such employees are given the freedom and autonomy to take responsibility for their work activities.

Disadvantages of a Matrix Structure

i) *Increase role conflict and role ambiguity*- Two bosses making conflicting demands on a two-boss employee cause role conflict. Reporting relationships in the matrix makes employees vulnerable to role ambiguity.

ii) *High levels of work stress*- Conflict and ambiguity can increase feelings of stress. Difficulty employees have in demonstrating their personal contributions to team performance because they move so often from one team to another.

iii) *Limited opportunities for promotion*- because most movement is lateral, from team to team, not vertical to upper management positions.

The extent of these problems explains why matrix structures are used only by companies that depend on rapid product development for their survival and that manufacture products designed to meet specific customer needs. Matrix structures are especially common in high-tech and biotechnology companies.

STAFFING

The managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal and development of the personnel to fill the roles assigned to the employers/workforce.

According to Theo Haimann, "Staffing pertains to recruitment, selection, development and compensation of subordinates."

Nature of Staffing Function

i) *Staffing is an important managerial function*- Staffing function is the most important managerial act along with planning, organizing, directing and controlling. The operations of these four functions depend upon the manpower which is available through staffing function.

ii) *Staffing is a pervasive activity*- As staffing function is carried out by all mangers and in all types of concerns where business activities are carried out.

iii) *Staffing is a continuous activity*- This is because staffing function continues throughout the life of an organization due to the transfers and promotions that take place.

iv) *The basis of staffing function is efficient management of personnel*- Human resources can be efficiently managed by a system or proper procedure, that is, recruitment, selection, placement, training and development, providing remuneration, etc.

v) *Staffing helps in placing right men at the right job.* It can be done effectively through proper recruitment procedures and then finally selecting the most suitable candidate as per the job requirements.

vi) *Staffing is performed by all managers* depending upon the nature of business, size of the company, qualifications and skills of managers etc. In small companies, the top management generally performs this function. In medium and small scale enterprise; it is performed especially by the personnel department of that concern.

Staffing Process - Steps involved in Staffing

Manpower requirements- The very first step in staffing is to plan the manpower inventory required by a concern in order to match them with the job requirements and demands. Therefore, it involves forecasting and determining the future manpower needs of the concern.

Recruitment- Once the requirements are notified, the concern invites and solicits applications according to the invitations made to the desirable candidates.

Selection- This is the screening step of staffing in which the solicited applications are screened out and suitable candidates are appointed as per the requirements.

Orientation and Placement- Once screening takes place, the appointed candidates are made familiar to the work units and work environment through the orientation programmes. Placement takes place by putting right man on the right job.

Training and Development- Training is a part of incentives given to the workers in order to develop and grow them within the concern. Training is generally given according to the nature of activities and scope of expansion in it. Along with it, the workers are developed by providing them extra benefits of in-depth knowledge of their functional areas. Development also includes giving them key and important jobs as a test or examination in order to analyze their performances.
Remuneration- It is a kind of compensation provided monetarily to the employees for their work performances. This is given according to the nature of job- skilled or unskilled, physical or mental, etc. Remuneration forms an important monetary incentive for the employees.
Performance Evaluation- In order to keep a track or record of the behaviour, attitudes as well as opinions of the workers towards their jobs, regular assessment is done to evaluate and supervise different work units in a concern. It is basically concerning to know the development cycle and growth patterns of the employees in a concern.
Promotion and transfer-Promotion is said to be a non- monetary incentive in which the worker is shifted from a higher job demanding bigger responsibilities as well as shifting the workers and transferring them to different work units and branches of the same organization.

Manpower Planning

Manpower Planning which is also called as Human Resource Planning consists of putting right number of people, right kind of people at the right place, right time, doing the right things for which they are suited for the achievement of goals of the organization. Human Resource Planning has got an important place in the arena of industrialization. Human Resource Planning has to be a systems approach and is carried out in a set procedure. The procedure is as follows:

i) Analyzing the current manpower inventory
ii) Making future manpower forecasts
iii) Developing employment programmes
iv) Design training programmes

Analyzing the current manpower inventory- Before a manager makes forecast of future manpower, the current manpower status has to be analyzed. For this the following things have to be noted-

- Type of organization
- Number of departments
- Number and quantity of such departments
- Employees in these work units

Once these factors are registered by a manager, he goes for the future forecasting.
Making future manpower forecasts- Once the factors affecting the future manpower forecasts are known, planning can be done for the future manpower requirements in several work units. The Manpower forecasting techniques commonly employed by the organizations are as follows:

i) *Expert Forecasts:* This includes informal decisions, formal expert surveys and Delphi technique.

ii) *Trend Analysis:* Manpower needs can be projected through extrapolation (projecting past trends), indexation (using base year as basis), and statistical analysis (central tendency measure).

iii) *Work Load Analysis:* It is dependent upon the nature of work load in a department, in a branch or in a division.

iv) ***Work Force Analysis:*** Whenever production and time period has to be analyzed, due allowances have to be made for getting net manpower requirements.

v) ***Other methods:*** Several Mathematical models, with the aid of computers are used to forecast manpower needs, like budget and planning analysis, regression, new venture analysis.

Developing employment programmes- Once the current inventory is compared with future forecasts, the employment programmes can be framed and developed accordingly, which will include recruitment, selection procedures and placement plans.

Design training programmes- These will be based upon extent of diversification, expansion plans, development programmes etc. Training programmes depend upon the extent of improvement in technology and advancement to take place. It is also done to improve upon the skills, capabilities, knowledge of the workers.

Importance of Manpower Planning

i) *Key to managerial functions-* The four managerial functions, i.e., planning, organizing, directing and controlling are based upon the manpower. Human resources help in the implementation of all these managerial activities. Therefore, staffing becomes a key to all managerial functions.

ii) *Efficient utilization***-** Efficient management of personnel's becomes an important function in the industrialization world of today. Setting of large scale enterprises requires management of large scale manpower. It can be effectively done through staffing function.

iii) *Motivation-* Staffing function not only includes putting right men on right job, but it also comprises of motivational programmes, i.e., incentive plans to be framed for further participation and employment of employees in a concern. Therefore, all types of incentive plans become an integral part of staffing function.

iv) *Better human relations-* A concern can stabilize itself if human relations develop and are strong. Human relations become strong trough effective control, clear communication, effective supervision and leadership in a concern. Staffing function also looks after training and development of the work force which leads to co-operation and better human relations.

v) *Higher productivity-* Productivity level increases when resources are utilized in best possible manner. Higher productivity is a result of minimum wastage of time, money, efforts and energies. This is possible through the staffing and it's related activities (Performance appraisal, training and development, remuneration)

Need of Manpower Planning

Manpower Planning is a two-phased process because manpower planning not only analyses the current human resources but also makes manpower forecasts and thereby draw employment programmes. Manpower Planning is advantageous to firm in following manner:

i) Shortages and surpluses can be identified so that quick action can be taken wherever required.
ii) All the recruitment and selection programmes are based on manpower planning.
iii) It also helps to reduce the labour cost as excess staff can be identified and thereby overstaffing can be avoided.
iv) It also helps to identify the available talents in a concern and accordingly training programmes can be chalked out to develop those talents.
v) It helps in growth and diversification of business. Through manpower planning, human resources can be readily available and they can be utilized in best manner.
vi) It helps the organization to realize the importance of manpower management which ultimately helps in the stability of a concern.

Obstacles in Manpower Planning

Following are the main obstacles that organizations face in the process of manpower planning:

i) ***Under Utilization of Manpower:*** The biggest obstacle in case of manpower planning is the fact that the industries in general are not making optimum use of their manpower and once manpower planning begins, it encounters heavy odds in stepping up the utilization.
ii) ***Degree of Absenteeism:*** Absenteeism is quite high and has been increasing since last few years.
iii) ***Lack of Education and Skilled Labour:*** The extent of illiteracy and the slow pace of development of the skilled categories account for low productivity in employees. Low productivity has implications for manpower planning.
iv) ***Manpower Control and Review:***
  - *a)* Any increase in manpower is considered at the top level of management
  - *b)* On the basis of manpower plans, personnel budgets are prepared. These act as control mechanisms to keep the manpower under certain broadly defined limits.
  - *c)* The productivity of any organization is usually calculated using the formula:

    Productivity = Output / Input

    But a rough index of employee productivity is calculated as follows:

    Employee Productivity = Total Production / Total no. of employees
  - *d)* Exit Interviews, the rate of turnover and rate of absenteeism are source of vital information on the satisfaction level of manpower. For conservation of Human Resources and better utilization of men studying these conditions, manpower control would have to take into account the data to make meaningful analysis.
  - *e)* Extent of Overtime: The amount of overtime paid may be due to real shortage of men, ineffective management or improper utilization of manpower. Manpower control would require a careful study of overtime statistics.

Types of Recruitment

Recruitment is of 2 types

i) ***Internal Recruitment* –** is a recruitment which takes place within the concern or organization. Internal sources of recruitment are readily available to an organization. Internal sources are primarily three – Transfers, promotions and Re-employment of ex-employees. Re-employment of ex-employees is one of the internal sources of recruitment in which employees can be invited and appointed to fill vacancies in the concern. There are situations when ex-employees provide unsolicited applications also.

   Internal recruitment may lead to increase in employee's productivity as their motivation level increases. It also saves time, money and efforts. But a drawback of internal recruitment is that it restrains the organization from new blood. Also, not all the manpower requirements can be met through internal recruitment. Hiring from outside has to be done.

   Internal sources are primarily 3:

   a) *Transfers*
   b) *Promotions (through Internal Job Postings)* and
   c) *Re-employment of ex-employees* **-** Re-employment of ex-employees is one of the internal sources of recruitment in which employees can be invited and appointed to fill vacancies in the concern. There are situations when ex-employees provide unsolicited applications also.

ii) ***External Recruitment* –** External sources of recruitment have to be solicited from outside the organization. External sources are external to a concern. But it involves lot of time and money .The external sources of recruitment include – Employment at factory gate, advertisements, employment exchanges, employment agencies, educational institutes, labour contractors, recommendations etc.

   a) *Employment at Factory Level* – This a source of external recruitment in which the applications for vacancies are presented on bulletin boards outside the Factory or at the Gate. This kind of recruitment is applicable generally where factory workers are to be appointed. There are people who keep on soliciting jobs from one place to another. These applicants are called as unsolicited applicants. These types of workers apply on their own for their job. For this kind of recruitment workers have a tendency to shift from one factory to another.
   b) *Advertisement* **–** It is an external source which has got an important place in recruitment procedure. The biggest advantage of advertisement is that it covers a wide area of market and scattered applicants can get information from advertisements. Medium used is Newspapers and Television.
   c) *Employment Exchanges* – There are certain Employment exchanges which are run by government. Most of the government undertakings and concerns employ people through such exchanges. Now-a-days recruitment in government agencies has become compulsory through employment exchange.
   d) *Employment Agencies* **–** There are certain professional organizations which look towards recruitment and employment of people, i.e. these

private agencies run by private individuals supply required manpower to needy concerns.

e) *Educational Institutions* – There are certain professional Institutions which serve as an external source for recruiting fresh graduates from these institutes. This kind of recruitment done through such educational institutions is called as Campus Recruitment. They have special recruitment cells which help in providing jobs to fresh candidates.

f) *Recommendations* – There are certain people who have experience in a particular area. They enjoy goodwill and a stand in the company. There are certain vacancies which are filled by recommendations of such people. The biggest drawback of this source is that the company has to rely totally on such people which can later on prove to be inefficient.

g) *Labour Contractors* – These are the specialist people who supply manpower to the Factory or Manufacturing plants. Through these contractors, workers are appointed on contract basis, i.e. for a particular time period. Under conditions when these contractors leave the organization, such people who are appointed have to also leave the concern.

Employee Selection Process

It is a procedure of matching organizational requirements with the skills and qualifications of people. Effective selection can be done only when there is effective matching. By selecting best candidate for the required job, the organization will get quality performance of employees. Moreover, organization will face less of absenteeism and employee turnover problems. By selecting right candidate for the required job, organization will also save time and money. Proper screening of candidates takes place during selection procedure. All the potential candidates who apply for the given job are tested.

But selection must be differentiated from recruitment, though these are two phases of employment process. Recruitment is considered to be a positive process as it motivates more of candidates to apply for the job. It creates a pool of applicants. It is just sourcing of data. While selection is a negative process as the inappropriate candidates are rejected here. Recruitment precedes selection in staffing process. Selection involves choosing the best candidate with best abilities, skills and knowledge for the required job.

The Employee selection Process takes place in following order-

i) *Preliminary Interviews*- It is used to eliminate those candidates who do not meet the minimum eligibility criteria laid down by the organization. The skills, academic and family background, competencies and interests of the candidate are examined during preliminary interview. Preliminary interviews are less formalized and planned than the final interviews. The candidates are given a brief up about the company and the job profile; and it is also examined how much the candidate knows about the company. Preliminary interviews are also called screening interviews.

ii) *Application blanks*- The candidates who clear the preliminary interview are required to fill application blank. It contains data record of the candidates such as details about age, qualifications, reason for leaving previous job, experience, etc.

iii) *Written Tests*- Various written tests conducted during selection procedure are aptitude test, intelligence test, reasoning test, personality test, etc. These tests are used to objectively assess the potential candidate. They should not be biased.

iv) *Employment Interviews*- It is a one to one interaction between the interviewer and the potential candidate. It is used to find whether the candidate is best suited for the required job or not. But such interviews consume time and money both. Moreover the competencies of the candidate cannot be judged. Such interviews may be biased at times. Such interviews should be conducted properly. No distractions should be there in room. There should be an honest communication between candidate and interviewer.

v) *Medical examination*- Medical tests are conducted to ensure physical fitness of the potential employee. It will decrease chances of employee absenteeism.

vi) *Appointment Letter*- A reference check is made about the candidate selected and then finally he is appointed by giving a formal appointment letter.

Table 5.1: Difference between Recruitment and Selection

Basis	**Recruitment**	**Selection**
Meaning	It is an activity of establishing contact between employers and applicants.	It is a process of picking up more competent and suitable employees.
Objective	It encourages large number of candidates for a job	It attempts at rejecting unsuitable candidates It attempts at rejecting unsuitable candidates
Process	It is a simple process	It is a complicated process
Hurdles	The candidates have not to cross over many hurdles	Many hurdles have to be crossed
Approach	It is a positive approach	It is a negative approach
Sequence	It precedes selection.	It follows recruitment
Economy	It is an economical method	It is an expensive method
Time Consuming	Less time is required	More time is required.

Orientation and Placement

Once the candidates are selected for the required job, they have to be fitted as per the qualifications. Placement is said to be the process of fitting the selected person at the right job or place i.e. fitting square pegs in square holes and round pegs in round holes. Once he is fitted into the job, he is given the activities he has to perform and also told about his duties. The freshly appointed candidates are then given orientation in order to familiarize and introduce the company to him. Generally the information given during the orientation programme includes-

i) Employee’s layout
ii) Type of organizational structure
iii) Departmental goals

iv) Organizational layout
v) General rules and regulations
vi) Standing Orders
vii) Grievance system or procedure

During Orientation employees are made aware about the mission and vision of the organization, the nature of operation of the organization, policies and programmes of the organization.

The main aim of conducting Orientation is to build up confidence, morale and trust of the employee in the new organization, so that he becomes a productive and an efficient employee of the organization and contributes to the organizational success.

The nature of Orientation program varies with the organizational size, i.e., smaller the organization the more informal is the Orientation and larger the organization more formalized is the Orientation programme.

Proper Placement of employees will lower the chances of employee's absenteeism. The employees will be more satisfied and contended with their work.

Training of Employees

Training of employees takes place after orientation takes place. Training is the process of enhancing the skills, capabilities and knowledge of employees for doing a particular job. Training process moulds the thinking of employees and leads to quality performance of employees. It is continuous and never ending in nature.

Importance of Training

Training is crucial for organizational development and success. It is fruitful to both employers and employees of an organization. An employee will become more efficient and productive if he is trained well. Training is given on four basic grounds:

i) New candidates who join an organization are given training. This training familiarizes them with the organizational mission, vision, rules and regulations and the working conditions.
ii) The existing employees are trained to refresh and enhance their knowledge.
iii) If any updating and amendments take place in technology, training is given to cope up with those changes. For instance, purchasing new equipment, changes in technique of production. The employees are trained about use of new equipments and work methods.
iv) When promotion and career growth becomes important. Training is given so that employees are prepared to share the responsibilities of the higher level job.

The benefits of training can be summed up as:

i) ***Improves morale of employees-*** Training helps the employee to get job security and job satisfaction. The more satisfied the employee is and the greater is his morale, the more he will contribute to organizational success and the lesser will be employee absenteeism and turnover.
ii) ***Less supervision-*** A well trained employee will be well acquainted with the job and will need less of supervision. Thus, there will be less wastage of time and efforts.
iii) ***Fewer accidents-*** Errors are likely to occur if the employees lack knowledge and skills required for doing a particular job. The more trained an employee is, the

less are the chances of committing accidents in job and the more proficient the employee becomes.

iv) ***Chances of promotion-*** Employees acquire skills and efficiency during training. They become more eligible for promotion. They become an asset for the organization.

v) ***Increased productivity-*** Training improves efficiency and productivity of employees. Well trained employees show both quantity and quality performance. There is less wastage of time, money and resources if employees are properly trained.

Ways/Methods of Training

Training is generally imparted in two ways:

i) ***On the job training-*** On the job training methods are those which are given to the employees within the everyday working of a concern. It is a simple and cost-effective training method. The proficient as well as semi- proficient employees can be well trained by using such training method. The employees are trained in actual working scenario. The motto of such training is "learning by doing." Instances of such on-job training methods are job-rotation, coaching, temporary promotions, etc.

ii) ***Off the job training-*** Off the job training methods are those in which training is provided away from the actual working condition. It is generally used in case of new employees. Instances of off the job training methods are workshops, seminars, conferences, etc. Such method is costly and is effective if and only if large number of employees have to be trained within a short time period. Off the job training is also called as vestibule training i.e., the employees are trained in a separate area(may be a hall, entrance, reception area etc. known as a vestibule) where the actual working conditions are duplicated.

Employee Remuneration

Employee Remuneration refers to the reward or compensation given to the employees for their work performances. Remuneration provides basic attraction to a employee to perform job efficiently and effectively. Remuneration leads to employee motivation. Salaries constitute an important source of income for employees and determine their standard of living. Salaries affect the employee's productivity and work performance. Thus the amount and method of remuneration are very important for both management and employees.

There are mainly two types of Employee Remuneration

i) Time Rate Method

ii) Piece Rate Method

Time Rate Method: Under time rate system, remuneration is directly linked with the time spent or devoted by an employee on the job. The employees are paid a fixed pre-decided amount hourly, daily, weekly or monthly irrespective of their output. It is a very simple method of remuneration. It leads to minimum wastage of resources and lesser chances of accidents. Time Rate method leads to quality output and this method is very beneficial to new employees as they can learn their work without any reduction in their salaries. This

method encourages employees' unity as employees of a particular group/cadre get equal salaries.
There are some drawbacks of Time Rate Method, such as, it leads to tight supervision, indefinite employee cost, lesser efficiency of employees as there is no distinction made between efficient and inefficient employees, and lesser morale of employees.
Time rate system is more suitable where the work is non-repetitive in nature and emphasis is more on quality output rather than quantity output.
Piece Rate Method: It is a method of compensation in which remuneration is paid on the basis of units or pieces produced by an employee. In this system emphasis is more on quantity output rather than quality output. Under this system the determination of employee cost per unit is not difficult because salaries differ with output. There is less supervision required under this method and hence the cost per unit of production is low. This system improves the morale of the employees as the salaries are directly related with their work efforts. There is greater work-efficiency in this method.
There are some drawbacks of this method, such as; it is not easily computable, leads to deterioration in work quality, wastage of resources, lesser unity of employees, higher cost of production and insecurity among the employees.
Piece rate system is more suitable where the nature of work is repetitive and quantity is emphasized more than quality.

DIRECTING

Directing is said to be a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals. Directing is said to be the heart of management process. Planning, organizing, staffing have no importance if direction function does not take place.
Directing initiates action and it is from here actual work starts. Direction is said to be consisting of human factors. In simple words, it can be described as providing guidance to workers is doing work. In field of management, direction is said to be all those activities which are designed to encourage the subordinates to work effectively and efficiently. According to Human, "Directing consists of process or technique by which instruction can be issued and operations can be carried out as originally planned" Therefore, Directing is the function of guiding, inspiring, overseeing and instructing people towards accomplishment of organizational goals.
Direction has got following characteristics:

i) *Pervasive Function* - Directing is required at all levels of organization. Every manager provides guidance and inspiration to his subordinates.

ii) *Continuous Activity* **-** Direction is a continuous activity as it continuous throughout the life of organization.

iii) *Human Factor* **-** Directing function is related to subordinates and therefore it is related to human factor. Since human factor is complex and behaviour is unpredictable, direction function becomes important.

iv) *Creative Activity* **-** Direction function helps in converting plans into performance. Without this function, people become inactive and physical resources are meaningless.

v) *Executive Function* **-** Direction function is carried out by all managers and executives at all levels throughout the working of an enterprise; a subordinate receives instructions from his superior only.

vi) *Delegate Function* **-** Direction is supposed to be a function dealing with human beings. Human behaviour is unpredictable by nature and conditioning the people's behaviour towards the goals of the enterprise is what the executive does in this function. Therefore, it is termed as having delicacy in it to tackle human behaviour.

Importance of Directing Function

Directing or Direction function is said to be the heart of management of process and therefore, is the central point around which accomplishment of goals take place. A few philosophers call Direction as "*Life spark of an enterprise*". It is also called as on actuating function of management because it is through direction that the operation of an enterprise actually starts. Being the central character of enterprise, it provides many benefits to a concern which are as follows:-

i) *It Initiates Actions* – Directions is the function which is the starting point of the work performance of subordinates. It is from this function the action takes place, subordinates understand their jobs and do according to the instructions laid. Whatever are plans laid, can be implemented only once the actual work starts. It is there that direction becomes beneficial.

ii) *It Ingrates Efforts* **–** Through direction, the superiors are able to guide, inspire and instruct the subordinates to work. For this, efforts of every individual towards accomplishment of goals are required. It is through direction the efforts of every department can be related and integrated with others. This can be done through persuasive leadership and effective communication. Integration of efforts bring effectiveness and stability in a concern.

iii) *Means of Motivation* **–** Direction function helps in achievement of goals. A manager makes use of the element of motivation here to improve the performances of subordinates. This can be done by providing incentives or compensation, whether monetary or non – monetary, which serves as a "Morale booster" to the subordinates Motivation is also helpful for the subordinates to give the best of their abilities which ultimately helps in growth.

iv) *It Provides Stability* **–** Stability and balance in concern becomes very important for long term sun survival in the market. This can be brought upon by the managers with the help of four tools or elements of direction function – judicious blend of persuasive leadership, effective communication, strict supervision and efficient motivation. Stability is very important since that is an index of growth of an enterprise. Therefore a manager can use of all the four traits in him so that performance standards can be maintained.

v) *Coping up with the changes* – It is a human behaviour that human beings show resistance to change. Adaptability with changing environment helps in sustaining planned growth and becoming a market leader. It is directing function which is of use to meet with changes in environment, both internal as external. Effective communication helps in coping up with the changes. It is the role of manager here to communicate the nature and contents of changes very clearly to the subordinates. This helps in clarifications, easy adoption and smooth running of an enterprise. For example, if a concern shifts from handlooms to power looms, an important change in technique of production takes place. The resulting factors are less of manpower and more of machinery. This can be resisted by the subordinates. The manager here can explain that the change was in the benefit of the subordinates. Through more mechanization, production increases and thereby the profits. Indirectly, the subordinates are benefited out of that in form of higher remuneration.

vi) *Efficient Utilization of Resources* – Direction finance helps in clarifying the role of every subordinate towards his work. The resources can be utilized properly only when less of wastages, duplication of efforts, overlapping of performances, etc. don't take place. Through direction, the role of subordinates become clear as manager makes use of his supervisory, the guidance, the instructions and motivation skill to inspire the subordinates. This helps in maximum possible utilization of resources of men, machine, materials and money which helps in reducing costs and increasing profits.

Functions of a Supervisor

Supervisor, being the manager in a direct contact with the operatives, has got multifarious function to perform. The objective behind performance of these functions is to bring stability and soundness in the organization which can be secured through increase in profits which is an end result of higher productivity. Therefore, a supervisor should be concerned with performing the following functions –

i) *Planning and Organizing* - Supervisor's basic role is to plan the daily work schedule of the workers by guiding them the nature of their work and also dividing the work amongst the workers according to their interests, aptitudes, skills and interests.

ii) *Provision of working conditions* **-** A supervisor plays an important role in the physical setting of the factory and in arranging the physical resources at right place. This involves providing proper sitting place, ventilation, lighting, water facilities etc. to workers. His main responsibility is here to provide healthy and hygienic condition to the workers.

iii) *Leadership and Guidance* - A supervisor is the leader of workers under him. He leads the workers and influences them to work their best. He also guides the workers by fixing production targets and by providing them instruction and guidelines to achieve those targets.

iv) *Motivation* - A supervisor plays an important role by providing different incentives to workers to perform better. There are different monetary and non-monetary incentives which can inspire the workers to work better.

v) *Controlling* - Controlling is an important function performed by supervisor. This will involve

   a) Recording the actual performance against the time schedule.
   b) Checking of progress of work.
   c) Finding out deviations if any and making solutions
   d) If not independently solved, reporting it to top management.

vi) *Linking Pin* - A supervisor proves to be a linking pin between management and workers. He communicates the policies of management to workers also passes instructions to them on behalf of management. On the other hand, he has a close contact with the workers and therefore can interpret the problems, complaints, suggestions, etc to the management. In this way, he communicates workers problems and brings it to the notice of management.

vii) *Grievance Handling* - The supervisor can handle the grievances of the workers effectively for this he has to do the following things :-

   a) He can be in direct touch with workers.
   b) By winning the confidence of the workers by solving their problems.
   c) By taking worker problems on humanitarian grounds.
   d) If he cannot tackle it independently, he can take the help and advice of management to solve it.

viii) *Reporting* - A supervisor has got an important role to report about the cost, quality and any such output which can be responsible for increasing productivity. Factors like cost, output, performance, quality, etc can be reported continually to the management.

ix) *Introducing new work methods* **-** The supervisor here has to be conscious about the environment of market and competition present. Therefore he can innovate the techniques of production. He can shift the workers into fresh schedules whenever possible. He can also try this best to keep on changing and improving to the physical environment around the workers. This will result in

   a) Higher productivity,
   b) High Morale of Workers,
   c) Satisfying working condition,
   d) Improving human relations,
   e) Higher Profits, and
   f) High Stability

x) *Enforcing Discipline* - A supervisor can undertake many steps to maintain discipline in the concern by regulating checks and measures, strictness in orders and instructions, keeping an account of general discipline of factory, implementing penalties and punishments for the indiscipline workers. All these above steps help in improving the overall discipline of the factory.

CONTROLLING

Controlling consists of verifying whether everything occurs in conformities with the plans adopted, instructions issued and principles established. Controlling ensures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals. Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions

According to Brech, "Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs."

According to Donnell, "Just as a navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course."

Controlling has got two basic purposes

i) It facilitates co-ordination
ii) It helps in planning

Features of Controlling Function

Following are the characteristics of controlling function of management-

i) **Controlling is an end function-** A function which comes once the performances are made in conformities with plans.
ii) **Controlling is a pervasive function-** which means it is performed by managers at all levels and in all type of concerns.
iii) **Controlling is forward looking-** because effective control is not possible without past being controlled. Controlling always look to future so that follow-up can be made whenever required.
iv) **Controlling is a dynamic process-** since controlling requires taking review methods, changes have to be made wherever possible.
v) **Controlling is related with planning-** Planning and Controlling are two inseparable functions of management. Without planning, controlling is a meaningless exercise and without controlling, planning is useless. *Planning presupposes controlling and controlling succeeds planning*.

Process of Controlling

Controlling as a management function involves following steps:

i) **Establishment of standards-** Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criterions for judging the performance. Standards generally are classified into two-
   a) Measurable or tangible – Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.
   b) Non-measurable or intangible- There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.

   Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.
ii) **Measurement of performance-** The second major step in controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be measured. Performance of a manager cannot be measured in quantities. It can be measured only by-
   a) Attitude of the workers,
   b) Their morale to work,
   c) The development in the attitudes regarding the physical environment, and
   d) Their communication with the superiors.

   It is also sometimes done through various reports like weekly, monthly, quarterly, yearly reports.

iii) **Comparison of actual and standard performance-** Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here- extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. He has to find out those deviations which are critical and important for business. Minor deviations have to be ignored. Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked upon consciously. Therefore it is said, "If a manager controls everything, he ends up controlling nothing." For example, if stationery charges increase by a minor 5 to 10%, it can be called as a minor deviation. On the other hand, if monthly production decreases continuously, it is called as major deviation.

Once the deviation is identified, a manager has to think about various causes which have led to deviation. The causes can be-

a) Erroneous planning,
b) Co-ordination loosens,
c) Implementation of plans is defective, and
d) Supervision and communication is ineffective, etc.

iv) **Taking remedial actions-** Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here-

a) Taking corrective measures for deviations which have occurred; and
b) After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets. It is here the controlling process comes to an end. Follow up is an important step because it is only through taking corrective measures, a manager can exercise controlling.

Relationship between planning and controlling

Planning and controlling are two separate functions of management, yet they are closely related. The scopes of activities if both are overlapping to each other. Without the basis of planning, controlling activities becomes baseless and without controlling, planning becomes a meaningless exercise. In absence of controlling, no purpose can be served by. Therefore, planning and controlling reinforce each other. According to Billy Goetz, "Relationship between the two can be summarized in the following points

i) Planning precedes controlling and controlling succeeds planning.
ii) Planning and controlling are inseparable functions of management.
iii) Activities are put on rails by planning and they are kept at right place through controlling.
iv) The process of planning and controlling works on Systems Approach which is as follows :

Planning → Results → Corrective Action

v) Planning and controlling are integral parts of an organization as both are important for smooth running of an enterprise.

vi) Planning and controlling reinforce each other. Each drives the other function of management.

In the present dynamic environment which affects the organization, the strong relationship between the two is very critical and important. In the present day environment, it is quite likely that planning fails due to some unforeseen events. There controlling comes to the rescue. Once controlling is done effectively, it gives us stimulus to make better plans. Therefore, planning and controlling are inseparable functions of a business enterprise.

Review Questions

1. Identify skills that managers require to perform effectively in business.
2. Describe the different types of decisions that are made in different levels of management
3. What level of management should formulate the strategic plan?
4. Explain the five functions of management

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LESSON SIX

PRODUCTION AND MARKETING ACTIVITIES

Learning objectives for the lesson
At the end of this lesson, the learner should be able to;

1. Identify the various types of Production Systems
2. Explain the methods of pricing
3. Describe the eight universal functions performed in marketing
4. Explain the Marketing Mix Decisions

Definition of Production
Production means application of processes (Technology) to the raw material to add the use and economic values to arrive at desired product by the best method, without sacrificing the desired quality.

Types of Production Systems

The organization of manufacturing systems, also planning and control of production greatly depends on type of product type of the product line. Basic principles that guide the formation of planning policy and its execution may be the same for all the manufacturing concerns. But emphasis on a particular aspect of production management in fulfilling of specific requirement of the plant and the management approach to the problems of inventory, machine selection, machine setting, tooling, routing, scheduling, loading, follow up and general control will differ depending on the type of production system.

(a) Intermittent production

(i) Job Production: In this system Products are manufactured to meet the requirements of a specific order. The quality involved is small and the manufacturing of the product will take place as per the specifications given by the customer. Examples include Tailors shop; cycle and vehicles repair shops, Job typing shops, small Workshops.

(ii) Batch Production: Batch Production is the manufacture of number of identical products either to meet the specific order or to satisfy the demand. When the Production of plant and equipment is terminated, the plant and equipment can be used for producing similar products. Examples include Tyre Production Shops, Readymade dress companies, Cosmetic manufacturing companies...etc

(b) Continuous Production
Continuous Production system is the specialized manufacture of identical products on which the machinery and equipment is fully engaged. The continuous production is normally associated with large quantities and with high rate of demand. Hence the advantage of automatic production is taken. This system is classified as

(*i*) *Mass Production:* Here same type of product is produced to meet the demand of an assembly line or the market. This system needs good planning for material, process, maintenance of machines and instruction to operators. Purchases of materials in bulk quantities are advisable. Examples include Components of industrial products,

(*ii*) *Flow Production:* The difference between Mass and Flow Production is the type of product and its relation to the plant. In Mass Production identical products are produced in large numbers. If the demand falls or ceases, the machinery and equipment, after slight modification be used for manufacturing products of similar nature. In flow production, the plant and equipment is designed for a specified product. Hence if the demand falls for the product or ceases, the plant cannot be used for manufacturing other products. It is to be scraped. Examples include Cement Factory, Sugar factory, Oil refineries...etc.

Production function

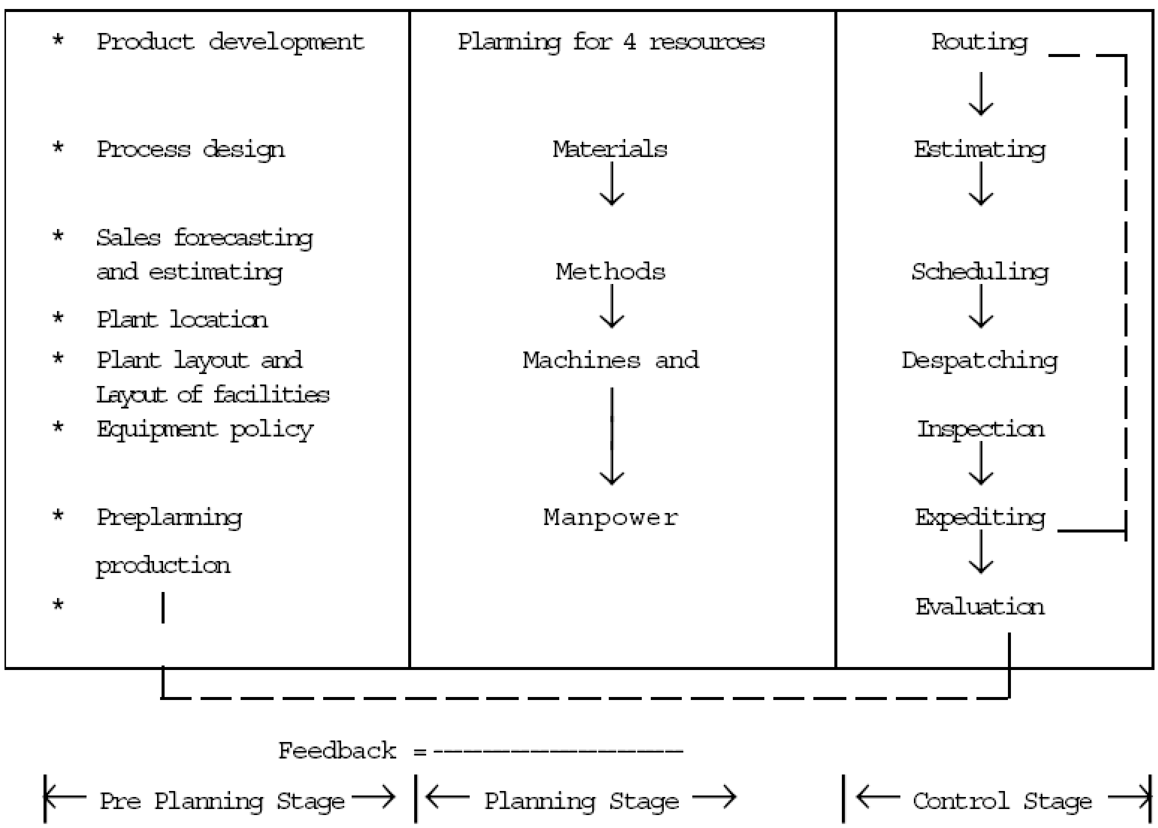

Figure 6.1: Production Function

Product Pricing

Product pricing refers to establishing a selling price for a product

The basic rules of pricing are:

- All prices must cover costs and profits.
- The most effective way to lower prices is to lower costs.
- Review prices frequently to assure that they reflect the dynamics of cost, market demand, response to the competition, and profit objectives.
- Prices must be established to assure sales.

Prices are generally established in one of four ways:

Cost-Plus Pricing

Many manufacturers use cost-plus pricing. The key to being successful with this method is making sure that the "plus" figure not only covers all overhead but generates the percentage of profit you require as well. If your overhead figure is not accurate, you risk profits that are too low. The following sample calculation should help you grasp the concept of cost-plus pricing:

Cost of materials	$50.00
+ Cost of labour	30.00
+ Overhead	40.00
= Total cost	$120.00
+ Desired profit (20% on sales)	30.00
= Required sale price	$150.00

Demand Price

Demand pricing is determined by the optimum combination of volume and profit. Products usually sold through different sources at different prices--retailers, discount chains, wholesalers, or direct mail marketers--are examples of goods whose price is determined by demand. A wholesaler might buy greater quantities than a retailer, which results in purchasing at a lower unit price. The wholesaler profits from a greater volume of sales of a product priced lower than that of the retailer. The retailer typically pays more per unit because he or she are unable to purchase, stock, and sell as great a quantity of product as a wholesaler does. This is why retailers charge higher prices to customers. Demand pricing is difficult to master because you must correctly calculate beforehand what price will generate the optimum relation of profit to volume.

Competitive Pricing

Competitive pricing is generally used when there's an established market price for a particular product or service. If all your competitors are charging $100 for a replacement windshield, for example, that's what you should charge. Competitive pricing is used most often within markets with commodity products, those that are difficult to differentiate from another. If there's a major market player, commonly referred to as the market leader, the company will often set the price that other, smaller companies within that same market will be compelled to follow.

To use competitive pricing effectively, know the prices each competitor has established. Then figure out your optimum price and decide, based on direct comparison, whether you can defend the prices you've set. Should you wish to charge more than your competitors, be able to make a case for a higher price, such as providing a superior customer service or warranty policy. Before making a final commitment to your prices, make sure you know the level of price awareness within the market.

If you use competitive pricing to set the fees for a service business, be aware that unlike a situation in which several companies are selling essentially the same products, services vary widely from one firm to another. As a result, you can charge a higher fee for a superior service and still be considered competitive within your market.

Mark-up Pricing

Used by manufacturers, wholesalers, and retailers, a mark-up is calculated by adding a set amount to the cost of a product, which results in the price charged to the customer. For example, if the cost of the product is $100 and your selling price is $140, the mark-up would be $40. To find the percentage of mark-up on cost, divide the dollar amount of mark up by the dollar amount of product cost:

$40/$100 = 40%

This pricing method often generates confusion--not to mention lost profits--among many first-time small-business owners because mark-up (expressed as a percentage of cost) is often confused with gross margin (expressed as a percentage of selling price). The next section discusses the difference in mark-up and margin in greater depth.

Pricing strategies

Premium Pricing

Use a high price where there is uniqueness about the product or service. This approach is used where a substantial competitive advantage exists. Such high prices are charge for luxuries such as Conrad Cruises, Savoy Hotel rooms etc

Penetration Pricing

The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by France Telecom and Sky TV.

Economy Pricing

This is a no frills low price. The cost of marketing and manufacture are kept at a minimum. Supermarkets often have economy brands for soups, spaghetti, etc.

Price Skimming

Charge a high price because you have a substantial competitive advantage. However, the advantage is not sustainable. The high price tends to attract new competitors into the market, and the price inevitably falls due to increased supply. Manufacturers of digital watches used a skimming approach in the 1970s. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented.

Premium pricing, penetration pricing, economy pricing, and price skimming are the four main pricing policies/strategies. They form the bases for the exercise. However there are other important approaches to pricing.

Psychological Pricing

This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example 'price point perspective' 99 cents not one dollar

Product Line Pricing

Where there is a range of product or services the pricing reflect the benefits of parts of the range. For example car washes. Basic wash could be $2, wash and wax $4, and the whole package $6.

Optional Product Pricing

Companies will attempt to increase the amount customer spend once they start to buy. Optional 'extras' increase the overall price of the product or service. For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other.

Captive Product Pricing

Where products have complements, companies will charge a premium price where the consumer is captured. For example a razor manufacturer will charge a low price and recoup its margin (and more) from the sale of the only design of blades which fit the razor.

Product Bundle Pricing

Here sellers combine several products in the same package. This also serves to move old stock. Videos and CDs are often sold using the bundle approach.

Promotional Pricing

Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free).

Geographical Pricing

Geographical pricing is evident where there are variations in price in different parts of the world. For example rarity value, or where shipping costs increase price.

Value Pricing

This approach is used where external factors such as recession or increased competition force companies to provide 'value' products and services to retain sales e.g. value meals at McDonalds.

Marketing

Marketing is defined by the American Marketing Association as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large

The Chartered Institute of Marketing defines marketing as "the management process responsible for identifying, anticipating and satisfying customer requirements profitably.

A *market* is defined as a group of customers with the authority and ability to purchase a particular product or service that satisfies their collective demand

Marketing Functions

There are eight universal functions performed in marketing:

Buying: (Raw material to produce goods and services and to purchase finished goods or services as retailer or wholesaler to sell them again for final customers and consumers) It is a function that ensures that product offerings are available in sufficient quantities to meet customer demands.

Selling: The function to be performed to sell the products/services/idea to satisfy customer needs or wants by using advertising, personal selling and sales promotion to match goods and services to customer needs.
Transporting: Function related to create the availability of product or services. It is used for moving products from their points of production to location convenient for purchases.
Storing: Warehouses are used to store the products for further distribution.
Standardizing and grading: To provide more quality products and services without variation in the quality. Ensuring that product offerings meet established and grading quality and quantity control standards of size, weight, and other product variables.
Financing: Providing the financial resources to carry out different promotions of products and providing credit for channel members (wholesalers, retailers) or consumers.
Risk taking: Marketer takes a risk specifically when any new product is introduced in a market because there are equal chances of success and failure. Dealing with uncertainty about consumer purchases resulting from creation and marketing of goods and services that consumers may purchase in the future.
Obtaining Market information: Successful Marketing is no accident it involves the conduct of marketing research. This helps the managers to evaluate the potential demand, sales, buying power of the intended market.

The Marketing Process

Under the marketing concept, the firm must find a way to discover unfulfilled customer needs and bring to market products that satisfy those needs. The process of doing so can be modeled in a sequence of steps: the situation is analyzed to identify opportunities, the strategy is formulated for a value proposition, tactical decisions are made, the plan is implemented and the results are monitored.

The Marketing Process

Situation Analysis

|

Marketing Strategy

|

Marketing Mix Decisions

|

Implementation & Control

Situation Analysis

A thorough analysis of the situation in which the firm finds itself serves as the basis for identifying opportunities to satisfy unfulfilled customer needs. In addition to identifying the customer needs, the firm must understand its own capabilities and the environment in which it is operating.
The situation analysis thus can be viewed in terms an analysis of the external environment and an internal analysis of the firm itself. The external environment can be

described in terms of macro-environmental factors that broadly affect many firms, and micro-environmental factors closely related to the specific situation of the firm.

The situation analysis should include past, present, and future aspects. It should include a history outlining how the situation evolved to its present state and an analysis of trends in order to forecast where it is going. Good forecasting can reduce the chance of spending a year bringing a product to market only to find that the need no longer exists.

If the situation analysis reveals gaps between what consumers want and what currently is offered to them, then there may be opportunities to introduce products to better satisfy those consumers. Hence, the situation analysis should yield a summary of problems and opportunities. From this summary, the firm can match its own capabilities with the opportunities in order to satisfy customer needs better than the competition.

There are several frameworks that can be used to add structure to the situation analysis:

- *5 C Analyses* - company, customers, competitors, collaborators, climate. Company represents the internal situation; the other four cover aspects of the external situation
- *PEST analysis* - for macro-environmental political, economic, societal, and technological factors. A PEST analysis can be used as the "climate" portion of the 5 C framework.
- *SWOT analysis* - strengths, weaknesses, opportunities, and threats - for the internal and external situation. A SWOT analysis can be used to condense the situation analysis into a listing of the most relevant problems and opportunities and to assess how well the firm is equipped to deal with them.

Marketing Strategy

Once the best opportunity to satisfy unfulfilled customer needs is identified, a strategic plan for pursuing the opportunity can be developed. Market research will provide specific market information that will permit the firm to select the target market segment and optimally position the offering within that segment. The result is a value proposition to the target market. The marketing strategy then involves:

- Segmentation- Market segmentation is the identification of portions of the market that are different from one another. Segmentation allows the firm to better satisfy the needs of its potential customers. The basis of consumer markets segmentation are: Geographic, Demographic, Psychographic, Behaviourist that of industrial markets include: Location, Company type, Behavioural characteristics
- Targeting (target market selection)
- Positioning the product within the target market
- Value proposition to the target market

Marketing Mix Decisions

Detailed tactical decisions then are made for the controllable parameters of the marketing mix. The action items include:

- Product development - specifying, designing, and producing the first units of the product.
- Pricing decisions
- Distribution contracts
- Promotional campaign development

Implementation and Control

At this point in the process, the marketing plan has been developed and the product has been launched. Given that few environments are static, the results of the marketing effort should be monitored closely. As the market changes, the marketing mix can be adjusted to accommodate the changes. Often, small changes in consumer wants can be addressed by changing the advertising message. As the changes become more significant, a product redesign or an entirely new product may be needed. The marketing process does not end with implementation - continual monitoring and adaptation is needed to fulfill customer needs consistently over the long-term.

Review Questions

Identify the various types of Production Systems.
Explain the factors that a business person should consider when pricing his/her products
Describe the eight universal functions performed in marketing.
Explain the 4 P's of marketing.
Discuss how marketing contributes to our economy citing relevant examples.

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LESSON SEVEN

CHANNELS OF DISTRIBUTION

Learning objectives for the lesson

At the end of this lesson, the learner should be able to;

1. Describe the nature of distribution channels
2. Explain the functions of distribution channels in a business
3. Discuss the logistics management aspect of distribution
4. Describe the various Distribution Channel Levels

Introduction

Distribution describes all the logistics involved in delivering a company's products or services to the right place, at the right time, for the lowest cost.

Well-chosen channels constitute a significant competitive advantage, while poorly conceived or chosen channels can doom even a superior product or service to failure in the market. Distribution (or "Place") is the fourth traditional element of the marketing mix. The other three are Product, Price and Promotion.

The Nature of Distribution Channels

Most businesses use third parties or **intermediaries** to bring their products to market. They try to forge a "distribution channel" which can be defined as

"All the organizations through which a product must pass between its point of production and consumption"

Why does a business give the job of selling its products to intermediaries? After all, using intermediaries means giving up some control over how products are sold and who they are sold to.

The answer lies in efficiency of distribution costs. Intermediaries are specialists in selling. They have the contacts, experience and scale of operation which means that greater sales can be achieved than if the producing business tried run a sales operation itself.

Functions of a Distribution Channel

The main function of a distribution channel is to provide a link between production and consumption. Organizations that form any particular distribution channel perform many key functions:

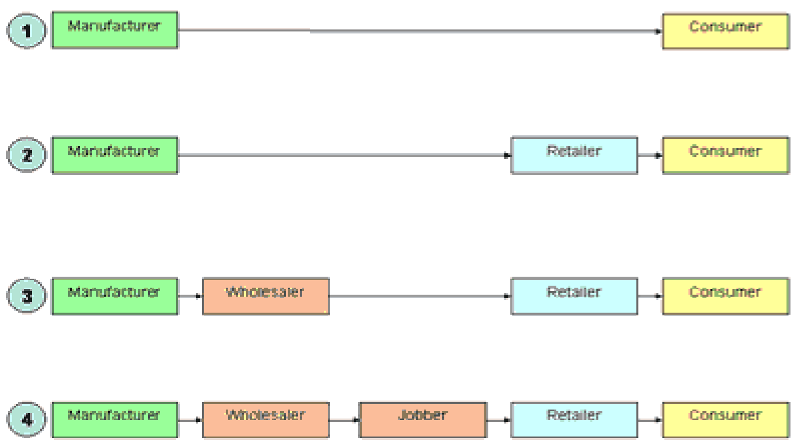
Information	Gathering and distributing market research and intelligence - important for marketing planning
Promotion	Developing and spreading communications about offers
Contact	Finding and communicating with prospective buyers
Matching	Adjusting the offer to fit a buyer's needs, including grading, assembling and packaging
Negotiation	Reaching agreement on price and other terms of the offer
Physical	Transporting and storing goods

distribution	
Financing	Acquiring and using funds to cover the costs of the distribution channel
Risk taking	Assuming some commercial risks by operating the channel (e.g. holding stock)

All of the above functions need to be undertaken in any market. The question is - who performs them and how many levels there need to be in the distribution channel in order to make it cost effective.

Numbers of Distribution Channel Levels

Each layer of marketing intermediaries that performs some work in bringing the product to its final buyer is a "channel level". The figure below shows some examples of channel levels for consumer marketing channels:



Examples of Customer Marketing Channels

In the figure above, *Channel 1* is called a ***"direct-marketing"*** channel, since it has no intermediary levels. In this case the manufacturer sells directly to customers. An example of a direct marketing channel would be a factory outlet store. Many holiday companies also market direct to consumers, bypassing a traditional retail intermediary - the travel agent.

The remaining channels are ***"indirect-marketing channels"***.

Channel 2 contains one intermediary. In consumer markets, this is typically a **retailer**. The consumer electrical goods market in Kenya is typical of this arrangement whereby producers such as Sony, Panasonic, Canon etc. sell their goods directly to large retailers such as Nakumatt and Tuskys which then sell the goods to the final consumers.

Channel 3 contains two intermediary levels - a wholesaler and a retailer. A wholesaler typically buys and stores large quantities of several producers' goods and then breaks into the bulk deliveries to supply retailers with smaller quantities. For small retailers with limited order quantities, the use of wholesalers makes economic sense. This arrangement tends to work best where the retail channel is fragmented - i.e. not dominated by a small number of large, powerful retailers who have an incentive to cut out the wholesaler. A good example of this channel arrangement in the UK is the distribution of drugs.

Stockists

A dealer who undertakes to maintain stocks of a specified product at or above a certain minimum in return for favourable buying terms granted by the manufacturer of the product

Manufacturer's representatives

Manufacturer's representative or rep, manufacturer's broker and manufacturer's agent are all terms used to describe independent sales agents who work on commission. You don't pay them a salary, just a percentage of what they sell. Manufacturer's reps offer a practical, cost-effective alternative to a direct sales force for many growing companies.

Warehousing

Performance of administrative and physical functions associated with storage of goods and materials. These functions include receipt, identification, inspection, verification, storage, retrieval for issue, etc.

Physical distribution

Physical distribution is the set of activities concerned with efficient movement of finished goods from the end of the production operation to the consumer. Physical distribution takes place within numerous wholesaling and retailing distribution channels, and includes such important decision areas as customer service, inventory control, materials handling, protective packaging, order procession, transportation, warehouse site selection, and warehousing. Physical distribution is part of a larger process called "distribution," which includes wholesale and retail marketing, as well the physical movement of products.

Clearing and forwarding

Clearing and forwarding agents are service providers that can assist the importer/exporter to arrange transport, documentation and custom clearance for international shipments. Unless an exporting/importing company handles a vast amount of transactions per month, it is much more viable for them to make use of this service

Review Questions

1. Explain the functions of distribution channels in a business
2. Discuss the logistics management (Physical Distribution Management) function.

3. Describe the various Distribution Channel Levels

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LESSON EIGHT

SOURCES OF COMPANY FINANCE

Learning objectives for the lesson

At the end of this lesson, the learner should be able to;

1. Identify various ways of raising finance for a business.
2. Define ordinary share capital and identify the advantages and disadvantages of using ordinary share capital.
3. Describe the various classifications of Debt Finance.
4. Explain what debenture finance is.

Methods of Raising Finance

A company can raise finance in the following ways:

A. From finance classified according to the relationship to the party giving the finance, e.g.

1) Equity finance- This is finance provided by real owners of the business i.e. ordinary shareholders.

2) Quasi equity- This is finance provided by quasi-owners of the business i.e. preference shareholders.

3) debt finance- This is finance provided by outsiders i.e. creditors: thus it include loans, overdrafts, trade creditors, bills of exchange, debentures, hire-purchase, leases, mortgages, etc.

B. Classified according to the duration i.e. term of finance i.e. how long the finance will be in the business.

1) Permanent finance- This is finance which cannot be refunded to the owners in the short-run. Examples of this finance are:

Ordinary share capital

Irredeemable preference share capital

Irredeemable debentures

These are only refunded in the event of the company's liquidation.

2) Long term finance- If finance is in the business for a period of 7 years and beyond, this finance is long-term, e.g. long-term debt finance. However, this term is relative because for a kiosk a 2 years loan is long-term, and for a limited company a 2 years loan is short term.

3) Short term finance- this is finance due to be refunded to lenders after a short period i.e. a period between one year and three years, e.g. overdrafts, short term loans, etc.

C. Classified according to the origin of finance**:**

1) Internal sources of finance- these are such finances as generated within the business, i.e. from the businesses' own operations. Examples of such finances are

- Retained earnings
- Provision for depreciation
- Provision for taxation
- Adjustment in working capital items

The above finances are used as follows:-
i) Undistributed profits transferred to the business i.e. ploughed back into the business.
ii) Provision for depreciation if a company has created a sinking fund to replace an asset after useful economic life. This finance can be used and replaced later when the asset is due to be replaced.
iii) Provision for taxation is a source of finance in as much as the tax liability falls due a bit later than when it is appropriated from the current profits, e.g. a company will provide for taxation in December and pay it at the end of March or thereafter. i.e. It can be used up to the end of March.
iv) Adjustment in working capital serves as a source of finance in as much as the company will reduce the levels of working capital items to release finance which would have otherwise been tied up in those items.
v) Sale of an asset; this is a source of finance under the following conditions:-
If the asset is obsolete
If the asset is sensitive to technology e.g. computers, aircrafts.
If the asset cannot meet the company's contemplated expansion programme.
If the asset is not sensitive/ central of the company's operations, and its sale will not substantially affect he productive capacity of the business.
D. Classification according to the rate of return i.e. in relation to the cost of that finance.
1) Finance with variable rate of return (VRT). In this case the return on such finance will vary with the profits made by the company, e.g. ordinary share capital and participative preference share capital are VRT.
2) Fixed rate of return capital (WFR). This will refer to the finance whose rate of return is fixed regardless of the profits made, e.g. preference share capital, loan finance, debenture finance etc.

Equity Finance

This is the largest source of finance to any limited company and usually forms the base on which other finances are raised. Equity is the total sum of the company's ordinary share capital plus the company's retained earnings also known as revenue reserves.

Ordinary Share Capital

It is that finance contributed by the ordinary shareholders of a business. This is raised through the sale of the company's ordinary shares. It is finance contributed by real owners of the company. This finance is only raised by limited companies. It is permanent finance to the company and can only be refunded in the event of liquidation, i.e. in Kenya; a company cannot buy back its own shares (ordinary shares).
This finance is paid ordinary dividends as return to the shareholder's investment.
Ordinary shares carry rights and usually each share is equal to one vote exercised in Annual General Meetings.
Ordinary shares are quoted at the stock exchange where they are sold and bought by the public through brokers. Ordinary share capital carries the highest risks in the company because it gets its return after other finances have got theirs, and also in the event of

liquidation it is paid last (their voting right is assumed to be used wisely to minimize these risks.)
Ordinary dividends are not a legal obligation on the part of the company to pay. If the company's profits are good, ordinary shareholders get the highest return because their dividends are varied. This is the only type of finance that grows with time and this growth is technically called growth in equity which is facilitated by retention of earnings.

Rights to Ordinary Shareholders

- They have a right to vote. This right is given to them by the company's Act. They are also entitled to vote by Proxy in absentia
- They have a right to inspect corporate books e.g. Articles of association, Memorandum of Association and books of accounts.
- They have a right to sell their shares to other parties i.e. to transfer their ownership in shares of a company.
- They have a right to share in residual assets of the company during the company's liquidation.
- They have a right to approve the purchase of capital assets.
- They have a right to amend the charters and by laws of the company (Articles and Memorandum of Association)
- They have a right to approve the sale of the company's assets.
- They have a right to approve mergers, acquisitions and take-overs.
- They have a right to appoint directors.
- They have a right to appoint/remove auditors of the company who will oversee the company's affairs.

Features of Ordinary share Capital

- It is a permanent finance to the company which can be refunded only during liquidation.
- It is the largest source of finance to the Ltd Company.
- This finance has a residual claim on profits and assets during liquidation.
- Ordinary share capital is entitled to voting powers, each share usually being equal to one vote.
- This finance carries a varied return i.e. its dividends will vary with the profits made.
- Ordinary share capital carries no nominal cost to the company. i.e. dividends on ordinary share capital are not a legal obligation to the company to pay.
- It is the only finance which will grow with time as a result of retention.
- This finance cannot force the company into liquidation i.e. it does not increase its gearing; on the contrary, it decreases the gearing.
- It can be raised by limited companies only.

Advantages of using Ordinary Share Capital by a company

- Being a permanent finance the company will invest it in long term ventures without inconveniencies of paying it back.

- Dividend payment (to ordinary shareholders) is not a legal obligation to the company, thus no threat to liquidity of the company.
- This type of finance contributes valuable ideas towards the running of the company during the Annual General Meeting.
- This finance is available in large amounts in particular if the company is quoted on the stock exchange in which case it can raise substantial amounts of money to finance the company's operations.
- Ordinary share capital forms a base and thus a security on which other money can be raised.

Disadvantages of using Ordinary Share Capital to a company

- The cost of ordinary share capital (ordinary dividend is paid in perpetuity).
- This finance may disorganize a company's policy in case shareholders' votes are cast against the company's present operations and policies.
- It does involve a lot of formalities in its raising and it may take a long time to raise as the company has to obtain permission from the capital market authority and other regulators.
- It is very expensive to raise as it involves a lot of costs commonly known as floatation costs e.g. printing the prospectus and share certificates, advertising expenses, cost of underwriting the issue, brokerage costs, legal fees, auditor's fees, cost of communication.
- The issue of ordinary share capital means that the company's secrets will be exposed to the public through published statements which may be dangerous from competitors' point of view.

Quasi Equity/ Preference Share Capital

This is finance contributed by quasi-owners or preference share holders. It is so called quasi-equity because it combines features of debt finance and those of equity finance. It is called preference share capital because it is accorded preferential treatment over ordinary shareholders in:-

(a) Sharing in dividend- It receives its dividend before those of ordinary shareholders. Thus it is said to be preferred to dividends.

(b) It is accorded preferential treatment in sharing of assets in the event of liquidation. Preference shareholders get their claims on asset before ordinary shareholders get theirs. Thus it is said to be preferred to assets.

In order for a share to be called a preference share it must be accorded the above preferential treatment over and above ordinary share capital.

Similarities between Ordinary and Preference Share capital

- Both finances earn a return in form of dividends
- If the preference shares are irredeemable then both will be permanent sources of finance to the company.
- In case the preference share capital is irredeemable both will receive dividends in perpetuity.
- Both form the company's share capital/ share finance

- Both are difficult to raise due to a lot of formalities the company must go through to raise this finance.
- Both claim on assets and in profits after debt finance has had its claim.
- Payment of dividend to both is not a legal obligation for the company i.e. neither the ordinary shareholder nor the preference shareholder can sue the company to claim their dividends.
- Both finances are not secured i.e. no security is attached to such finance.
- Both finances are raised strictly by limited companies.
- Both finances are long-term finances to the company.

Differences between Ordinary and Preference Share capital

- Ordinary share capital carries voting rights whereas preference share capital does not except if it is convertible, and is converted.
- Ordinary share capital carries variable rate of dividends whereas preference dividends are fixed except for participative preference share capital.
- Ordinary share capital receives its dividends after preference share capital has been paid theirs.
- The share prices of ordinary shares will be higher if the company is doing well than those of preference shares.
- Preference share capital increases the company's gearing level whereas ordinary share capital reduces the gearing level.
- For cumulative preference shares these may receive dividends in arrears ordinary shares cannot.
- Raising finance by way of ordinary share capital is easier than raising preference share capital as in the latter case the company has to be financially strong.
- Preference share capital is usually secured by the company's financial soundness whereas ordinary share capital is not.
- Preference share capital cannot qualify for a bonus issue, while ordinary share capital can, i.e. preference shares cannot receive bonus issues.
- Ordinary shares have a chance to receive a rights issue whereas preference shares cannot get rights issues.

Debt Finance - Loan

This is the type of finance which is obtained from persons other than actual owners of the company i.e. creditors to the company. This finance can be in any of the following forms:

- Loans
- Debentures
- Bank overdrafts
- Trade creditors
- Borrowing against bills of exchange
- Lease finance
- Mortgage finance
- Hire purchase finance

All the above finances have a legal claim or charge against the company's resources or assets.

Classification of Debt Finance

1. Short term finance

This ranges from 1 month up to 4 years and is given to customers known to the bank or to lenders. The agreement of this loan will mention both the repayments of principal and interest, and for interest it must identify whether it is simple or compound interest. For principal, it has to be paid over some time. This finance is usually secured and the terms of the loan will be restrictive e.g. to be invested in an area acceptable to the bank or lender. Usually, this finance should be used to solve short-term liquidity problems.

2. Medium-term finance

This finance will be in the business for a period ranging between 4-7 years. This term is relative and will depend upon the nature of the business. This type of loan is used for investment purposes and is usually secured but the security should not be sensitive to the company's operations. The finance obtained must be invested while respecting the matching approach to financing i.e. the term and payback period must be matched. This type of finance is the most popular of all debt financing because most of the businesses will need it both in their growing stages and also in their mature stages of development.

3. Long-term finance

This is a rare finance and is only raised by financially strong companies. It will be in the business for a period of 7 years and above. This finance is used to purchase fixed assets in particular during the early stages of a company's development. It is always secured with along term fixed asset, usually land or buildings. Its investment, however, must obey the matching approach. In all, the companies needing such finance do not have to be known to the lenders.

Other forms of Debt Finance

Overdrafts

These are very short-term sources of finance to the company and are usually used to finance the company's working capital or solve its liquidity problems. This finance is usually not secured and is more costly than long-term loans as much as its interest is 1-2% higher than bank rates. Interest on overdrafts is computed on a daily basis although it may be paid monthly. Overdrafts are usually given to very well known customers of the bank although over-reliance on overdrafts is a sign of poor financial management policies and as such they should not be used often.

Bills of Exchange

As a source of finance, bills of exchange can be:-

i) Discounted

ii) Endorsed

iii) Given as securities for loans

A bill of exchange us defined as an unconditional order in writing addressed by one person to another signed by the person giving it, requiring the person to whom it is addressed to pay on demand at a fixed or determinable future date a certain sum of money to the order of the person or to bearer. Most of the bills mature between 90-120 days although they could be sight bills i.e. payable on sight or issuance i.e. payable in the future. In order for a bill to be valid and to serve as a source of finance it should be:-

- Signed by the drawer;
- Accepted by the drawee;
- Be unconditional;
- Bear appropriate revenue stamp.

Debenture finance

It is a document that is evidence of a debt which is long-term in nature, and confirms that the company has borrowed a specific sum of money from the bearer or person named in the debenture certificate. Most debentures are irredeemable thus forming a permanent source of finance to the company. If these are redeemable then these will be long-term loans which range between 10-15 years. They can be endorsed, negotiated, discounted or used as securities for loans. They carry a fixed rate of interest which is payable after six months i.e. twice a year.

Classification of debentures

a) Classification according to security

i) Secured debentures- these are secured against the company's assets or have a fixed charge against the company's assets. In the event of the company's liquidation such debentures will claim from that particular asset. They could be secured against a floating charge in which case the holder can claim on any or all of the company's assets not yet attached by other secured creditors. A debenture holder with a floating charge has a status of a general creditor. However, the floating charge debentures are rare and they are sold by financially strong companies.

ii) Unsecured (naked) debentures- these carry no security whatsoever and such they rank as general creditors. They carry a residual claim to the first class creditors but a superior claim over ordinary shareholders. These are rare sources of finance and are sold by financially strong companies with a good record of dividend payment to the shareholders.

b) Classified according to redemption.

i) Redeemable debentures- these are bought back by the issuing company. Like preference shares, these have two redemption periods. This is usually between 10-15 years, i.e. the company has the option to redeem these after 10 years but before expiry of 15 years. In most cases redeemable debentures are secured against specific assets e.g. land or buildings (mortgage debentures). Their interest is a legal obligation on the part of the issuing company.

ii) Irredeemable debentures (perpetual debentures)- these can never be bought back by the issuing company except in the event of liquidation and as such they form a permanent source of finance to the company. These debentures are rare and are only sold by financially strong companies which must have had some good dividend history. They are unsecured and thus are known as naked perpetual debentures.

c) Classified according to convertibility

i) Convertible Debentures- These are the type of debentures which can be converted into ordinary share capital and this conversion is optional as follows:

- At the option of the company i.e. at the company's option.
- At the option of both parties i.e. debenture holder and the company.
- At the option of the holder.

In all, convertible debentures are never secured.

ii) Non-convertible debentures- These cannot be converted into any shares be it ordinary or preference shares and are usually secured.

d) Subordinate debentures (naked)

These are issued with a maturity period of 10 years and above, and usually they carry no security and depend upon the goodwill of the company. They are so called subordinate because they rank last in claims after all classes of creditors except trade creditors. Nevertheless their claims are superior to those of shareholders both preference and ordinary shares.

Hire Purchase

This is an arrangement whereby a company acquires an asset by paying an initial installment usually 40% of the cost of the asset and repays the other part of the cost of the asset over a period of time. This source is more expensive than bank loans. Companies that use this source of finance need guarantors as it does not call for collateral securities to raise. The company hiring the asset will be required to honor all the terms of the arrangement which means that if any term is violated then the hiree may repossess the asset. This finance is kind and the hirer will not get a good title to the asset until he clears the final installment and an optional charge in some cases. Companies that offer this finance in Kenya are:- National Industrial E.A. Ltd., Diamond Trust(K) Ltd., Kenya Finance Corporation, Credit Finance Co. Ltd. They avail hire purchase facilities for such assets as: Plant and machineries, vehicles, tractors, heavy transport machines, aircrafts, agricultural equipments.

Review Questions

1. Discuss various ways through which a business person can raise finance for a business.
2. Identify the advantages and disadvantages of using ordinary share capital.
3. Describe the various classifications of Debt Finance.
4. Explain what debenture finance is and the various classifications of debentures.

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LESSON NINE

STOCK MARKET

Learning objectives for the lesson

At the end of this lesson, the learner should be able to;

1. Identify the members of the stock exchange
2. Explain the functions of the Stock Exchange
3. Describe the Requirements of quotation in the stock exchange market
4. Define various terms used in the Stock Exchange

Definition of a stock market

It is a market where securities are bought and sold. Securities refer to shares, debentures, treasury bonds, treasury bills etc.
Stock refers to capital detained by a company through the issue of shares.
Bonds are debt instruments used to borrow money from the public.

Members of the stock exchange

1. Stock jobbers

These are members who buy and sell securities in their own names.
They sell securities at a profit called a 'turn'
They buy shares in wholesale and hold them for speculative purposes

2. Stock brokers

These are middle men between the investing public and the stock exchange.
They are agents who earn a commission from the buyers and sellers.
Members of the stock exchange must pass through them for technical advice

Similarities between Jobbers and Brokers

- They both operate in the stock market
- Both don't hold shares for investment purposes
- Activities of both are regulated by the rules of stock market.

Types of jobbers

1. Bull- this is a speculator in the stock exchange who buys shares in expectations of a rise in their prices.
2. Bear- speculator in the stock exchange who sells shares in the anticipation of a fall in their prices.
3. Stag- a speculator in the stock market who purchases large block of new issues of shares in anticipation in the rise of market price. They buy their shares directly from the companies selling them.

Functions of Stock Exchange

- Provides a ready market for stock, shares, bonds, debentures etc.
- facilitates the flow of new capital into the industry
- Facilitates savings (encourages savings by individuals)
- Protects investors by reasons of the rules of the stock exchange.
- Companies seeking capital are advised and guided by all stages.
- Shows the trend of business in the stock exchange provides an important barometer for business throughout the country.
- Investors are able to obtain capital from the public.
- It enhances the inflow of foreign capital.
- The title to any quoted security is transferred speedily and cheaply.
- Disciplines the company's management by ensuring that the companies fulfill certain requirements and follow certain rule before securities are listed in the stock exchange.

Quotations in the Stock Exchange

Quotation is consent by the stock exchange for companies' securities to be dealt with in the stock market i.e. to be bought and sold in the stock market.

Requirements of quotation

- A company must be a public limited company
- It must be registered with the registrar of companies and must submit a certification of registration.
- The company must provide details of the current directors, company lawyers, company secretary, company auditors, financial year end and subsidiaries (branches) of the company.
- Such a company must inform the stock exchange the current distribution of the shares.
- Such a company must be willing to offer the public a minimum number of shares.
- Such a company must pay a clearing fee.
- Such a company must issue a prospectus to the stock exchange.
- Such a company must issue a statement of dividends and bonds issued in the previous 5 years.

Advantages of Quotations

- A quoted company is able to raise finances quickly and easily.
- A quoted company is considered to be financially stable.
- A quoted company can easily obtain a loan.
- A quoted company can compare itself with other companies.
- There is prestige associated with quoted companies.
- Quoted companies are forced to operate within certain guidelines

Disadvantages

- Loss of secrecy- means the company losses its secrecy through the publication of the company's shares. The secrecy is also lost by inspection of the books of accounts by the shareholders or by the public.

- In case the company's profits decline this will be revealed to the public and will lower the share prices of such a company.
- There is loss of control to incoming shareholders.
- It is expensive because of the fee payable to the stock market.
- The formalities of quotation are tedious and tiresome.
- Immediately after quotation the prices are likely to be low.
- A quoted company can easily be taken over by people buying shares in the stock exchange.

Terms Use in the Stock Exchange

1. Par value: it is the value of shares printed on the face of the share certificate.
2. Dividends: it is the profit that is distributed to the shareholders
3. Market value: it is the price that is quoted at the stock exchange i.e. the price at which the company's shares are traded at the stock exchange.
4. Speculation: it is the expectation about the future changes I the share prices.
5. Blue chips- they are shares with a good dividend history e.g. shares of KPLC, Barclays bank.
6. Rights issued- it is an opportunity given to an existing shareholder to purchase additional shares from the company usually at a lower price before they are issued to members of the public.
7. Bonus issued: it is where the existing shareholder is issued with free shares out of the retained earnings.
8. Ex-dividends: It is where the person buying shares doesn't receive the right to buy additional shares from the company at a lower price if such an opportunity is made available.
9. Cum-dividends: It implies the shares that have been sold to the buyer give the buyer rights to receive dividends if they are declared.
10. Ex-rights: Means the person buying shares doesn't receive the right to buy additional shares from the company at a lower price if such an opportunity is made available.
11. Cum-rights: Situation where the person buying shares receives

Review Questions

1. Explain the advantages and disadvantages of quotation in the Stock Exchange
2. Explain the functions of the Stock Exchange
3. Describe the Requirements of quotation in the stock exchange market
4. Define various terms used in the Stock Exchange

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William Allen Wood (2009); *Modern Business Corporations, Including the Organization and Management;* Bibliolife

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LESSON TEN

SOCIAL RESPONSIBILITY OF A BUSINESS

L earning objectives for the lesson

At the end of this lesson, the learner should be able to;

1. Define Corporate Social Responsibility
2. Identify stakeholders to whom a business is socially responsible to.
3. Justify the use of social responsibility in business
4. Explain arguments against the use of social responsibility

Introduction

Social responsibility arises from the social power which vests upon society and society has social charters. Business shall operate as a two way open system with open receipts of inputs from society and open disclosure of its operations to the public.
Both social cost and benefits of any activity or product or service shall thoroughly be calculated and considered in order to decide whether or not to proceed with it.

Arguments for and against social responsibility

- A case for social responsibility
- Social actions can be profitable because they bring together society and business which leads to profit maximization.
- Social responsibility is an ethical thing to do because the rules of morality require that no one decision should harm others.
- It is in the best interest of business to improve and promote the communities where it does business.
- Through social responsibility the business will improve its corporate image also known as public image.
- Social responsibility is necessary because social cultural norms require it.

A case against social responsibility

- Social responsibility might be illegal particularly when business organizations engage themselves in illegal activities.
- Social responsibility is unnecessary because business plus Government equals to monolith i.e. some business firm collide with government officials to exploit the society.
- Social actions cannot be measured because most of them are in services and are not tangible.
- Social responsibility violates the motive of profit maximization of the business because what is extended as social responsibility is part of profit of the business.
- Business organizations lack social skills to solve some societal problems because they have no experience.

Areas of social responsibility

A. Towards the consumer and community

Socially responsible firms are expected to do the following to the consumers and the society:

- Production of cheap and better quality goods and services
- Locating the factories and markets at proper places and rationalizing the use of capital and labor.
- Leveling out seasonal variations in employment and production through accurate forecast.
- Deciding priorities of production in the country's interest and conserving natural resources.
- Avoiding ostentation i.e. production of prestigious goods.
- Honoring contracts and following honesty trade practices.
- Providing for after sale services.
- Achieving better public relation through education and other means.
- Ensuring that their products are safe and well designed.
- Preventing the creation of monopolies.

B. Towards the employees

Socially responsible firms should ensure the following towards their employees and workers;

- Paying a fair wage to workers
- Ensuring just selection, training and promotion.
- Ensuring satisfying conditions of work and social security measures.
- Ensuring good human relation in terms of maintaining industrial peace.
- Provision of freedom, self respect and self realization. And in general empowering the employee.
- Increase in productivity and efficiency by recognition of merits by providing opportunities for creative talents and incentives.

C. Towards the shareholders and other business.

- Arousing interest in the shareholders to abjure high dividends so that enough profits may be ploughed back for innovation and expansion.
- Fairness in relation with competitors. Competition with rival businesses should be fair and based on rules of ethics.
- Maintaining a balance between heavy industry, small industry and cottage industry.
- Help in the growth of professional practice.
- Towards the state
- Maintaining impartiality towards political affairs.
- Observing all the laws of the land which may have the following objectives:-
- To provide direction to the economic and business life of the community.
- To bring about harmony between the limited enterprise interest and the wider social interest of the country.

- To provide safe guard against errant business practices.
- To compel business to play fair to all participants in the economy in terms of employees, shareholders, consumers, creditors etc.
- To prevent oppression or exploitation of weaker partners in business.
- To enforce maximum production according to the priorities of sectors and production lines laid down by the government.
- To allocate limited resources according to social priorities and preferences.

Review Questions

1. How is a business socially responsible to customers?
2. Justify the use of social responsibility in business
3. Explain arguments against the use of social responsibility

References

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LESSON ELEVEN

BUSINESS ETHICS

Learning objectives for the lesson

At the end of this lesson, the learner should be able to;

1. Define business ethics
2. Identify the levels of questions addressed in ethics
3. Describe the ethical terminologies used in business
4. Explain what Common Morality is
5. Discuss the criteria of evaluating an ethical manager from an unethical manager

Definition of ethics

Ethics is the study of how our decisions affect other people.
It is a study of people habits and their effect on others.
It is a set of moral values or principles used by the organizations to steer the conduct of both the organization itself and its employees in all their activities whether internal or external.
Business or management ethics therefore are the standards that guide managers in line with their actions and decisions to determine whether they are good or bad or right or wrong morally. In this case they are generally accepted ways of behavior expected of managers and businesses.
Businesses must balance the interest of employees against the needs of the overall business objective. In most cases managers are the ones likely to confront ethical dilemmas in the course of their duties. Some of the dilemmas or ethical problems that arise among managers include the following:-

- Conflicts between the personnel managers desire to improve quality of employee working life versus job extension and the insistence of other managers that the division of labor is employed as extensively as possible and that salaries and condition be kept constant.
- Senior management demanding the personnel officers to deliberately misrepresent unsound personnel policies in order to promote them to the workers.
- Awareness that certain employees are not receiving fair rewards for their effort.
- Having to decide whether to report to the police illegal acts of the employer or even employee.

Levels of questions addressed in ethics (Ethical Questions)

1. Societal level

At this level we ask questions about basic institutions in a society. For example, is it ethically correct to have a social system in which a group of people are systematically denied basic rights?

2. Stakeholders level

This includes the employees, customers, shareholders and others. The question is how a company or business organization should deal with these groups who are affected by its decisions and how should these groups deal with the company in question.

3. The moral discourse level

This is also known as the internal policy. Questions addressed are about the nature of the relation of business organization and its employees i.e. managers and others.

4. The personal level

Questions addressed at this level are about how people should treat one another within an organization. For example, should we be honest with one another whatever the consequences.

Ethical language

This refers to ethical terminologies. They include;

1. Values- values are relatively permanent desires that seem to be good in them. For example, peace or goodwill. They are therefore answers to the why questions.
2. Rights- these are claims that entitles a person to take a particular action. They entitle room or sphere of autonomy or freedom. Rights are rarely obsolete because they are limited by the rights of others.
3. Duties- duties are obligations to take specific steps, obey laws. E.g. paying taxes.
4. Moral values- these are roles for behavior that often become internalized as moral values. These roles guide management through situations where competing interest collide.

Common Morality

This is a body of roles covering ordinary ethical problems. They include the following;

1. Promise keeping.

According to this value members of society and business organizations must keep their promises if business is to be continuous. It also means telling the truth.

2. Non malevolence

This means refraining from harming others. Morality by its very nature requires that we avoid violence or using force in settling dispute. For example, using the police to subdue rioting employees.

3. Mutual aid

According to this rule individuals must pursue both the individual interest and groups' interest if this is not costly i.e. individuals should help one another if the cost of doing so is not great.

4. Respect of persons

Common morality requires us to regard other people as ends in themselves but not as mere means to our own ends hence we should regard others as people and also regard their desires as important.

5. Respect of property

It means people should get the consent of others before using their property.

The criteria of evaluating an ethical manager from an unethical manager

1. Through the managers' utilitarian outcomes. If a managers behavior results in the greatest wound for the greater number of people. It means that ethical managers are those whose decisions yield or consider society demands. This is assessed through social responsibility.
2. If the manager's behaviour respects the rights of the other people or parties then the manager is ethical
This includes issues such as human rights of free consent, free speech, privacy and due process. Ethical managers therefore are those whose decisions consider the stakeholders of the business organization.
3. From criteria of distributive justice
A manager who behaves ethically respects the role of justice such a manager does treat people arbitrarily but equally and fairly.

4. From the way the managers deals with internal policy
This involves the mutual obligation of managers and other workers. Ethical managers are those who treat subordinates and other managers as human beings but not in a discriminating manner. For example increasing their wages, creating better work environment.
5. From the way a manager deals with his/her personal issues.
Ethical managers behave professionally in terms of the way they handle themselves and their work.

How managers can improve ethical behaviour in their organizations

- By establishing corporate codes of conduct. This guides new and existing members in dealing with each other and the customers.
- Encouraging good working relationship among the workers
- Encouraging good working relationship between employers and employees
- Ensuring that the rights of the individual in the work place are protected
- Ensuring that professional relate professionally to their clients
- Helping workers to protect and uphold the reputation of the organization
- Helping workers to develop proper skills and the right attitude towards their work

Review Questions

1. Describe the ethical terminologies used in business
2. Discuss the criteria of evaluating an ethical manager from an unethical manager
3. Explain how managers can improve ethical behaviour in their organizations

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SAMPLE PAST PAPERS

Mt Kenya University

UNIVERSITY EXAMINATION 2010/2011

SCHOOL OF APPLIED SOCIAL SCIENCES

DEPARTMENT OF BUSINESS AND SOCIAL STUDIES

BACHELOR OF BUSINESS MANAGEMENT

UNIT CODE: BBM1101 TITLE: INTRODUCTION TO BUSINESS STUDIES

TIME 2HRS

INSTRUCTIONS

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

1. a) Assume you have attended an interview for a productions manager position and have been asked to explain the difference between intermittent production and continuous production. Explain yourself to the panel. (6mks)

b) Describe the principles of cooperatives (6mks)

c) What drives entrepreneurs to incorporate their enterprises? (6mks)

d) What are the motivations behind corporate social responsibility (6mks)

e) Explain six pricing strategies (6mks)

2. a) Discuss four ethical frameworks that will guide you in making sound business decisions. (10mks)

b) Identify and discuss four challenges that face multinational organizations. (10mks)

3. a) Discuss the financial instruments traded in the capital markets. (10mks)

b) Discuss the implication of the product life cycle for the marketing manager (12mks)

4. a) Explain the coordination advantages of a divisional structure (10mks)

b) Discuss internal recruitment as a method of filing job position in an organization. (10mks)

5. a) Describe the effect of culture on organization structure. (10mks)

b) The directing functions is said to be the ‘Life spark of an enterprise.’ Discuss (10mks)

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TIME 2HRS

INSTRUCTIONS

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

1. a) Highlight the main activities of production control (6mks)

   b) With appropriate examples explain the various consumer buying motives (6mks)

   c) Describe the three different types of mergers (6mks)

   d) Explain the procedure for carrying out human resource planning (6mks)

   e) State the short-term sources of funds for enterprise such as Safaricom (6mks)

2. a) Explain the key features of a limited liability partnership (LLLP) (10mks)

   b) Distinguish between recruitment and selection (10mks)

3. a) Explain the key components of production control (10mks)

b) As a marketing agent of your organization/company, explain how you can be society responsible to the consumers. (10mks)

4. a) Explain the co-ordination advantages of a matrix organization structure (10mks)

b) Describe the elements of a physical distribution system. (10mks)

5. a) Describe the stages of the decision making process (12mks)

b) Describe the marketing process (8mks)