PREFACE

INTRODUCTION

The Institute noted a number of difficulties faced by students when preparing for the Institute’s examinations. One of the difficulties has been the unavailability of study manuals specifically written for the Institute’s examinations. In the past students have relied on text books which were not tailor-made for the Institute’s examinations and the Malawian environment.

AIM OF THE MANUALS

The manual has been developed in order to provide resources that will help the Institute’s students attain the needed skills. It is therefore recommended that each student should have their own copy.

HOW TO USE THE MANUAL

Students are being advised to read chapter by chapter since subsequent work often builds on topics covered earlier.

Students should also attempt questions at the end of the chapter to test their understanding. The manual will also be supported with a number of resources which students should keep checking on the ICAM website.
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AIM OF THE COURSE
To develop the students’ understanding of management theory and practice in the environmental framework within which accounting and financial information is produced and used.

LEARNING OBJECTIVES
By the end of the course students should be able to:-

i. Define an organization.
ii. Describe and analyze the main functions of business organizations.
iii. Describe organization design and structure and other factors that affect organizations.
iv. Explain the main factors that influence organization design and structure.
v. Identify key stakeholders, their influences and interests in business organizations.
vi. Define the management concept.
vii. Explain the development of management theory.
viii. Explain managerial functions, roles and principles.
ix. Analyze various approaches to management.
x. Explain the strategic management process and its application in modern organization.
xi. Define and explain theories of motivation and the role of motivation in management.
xii. Explain various theories of leadership.
xiii. Explain the impact of change and management of an organization in the global economy.
xiv. Describe the concept of corporate governance and its application in a modern business environment.
xv. Explain the components of organizational culture.
xvi. Explain the ethical considerations in management.

FORMAT AND STANDARD OF THE EXAMINATION PAPER
The examination will have seven questions each carrying 20 marks. Candidates will be required to answer any five.

SPECIFICATION GRID
This grid shows the relative weightings of topics within this topics and should guide the relative study time spent on each. Over time the marks available in the assessment will equate to the weightings below, while slight variations may occur in individual assessments to enable suitably rigorous questions to be set.

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Learning Outcomes

1. **Meaning and nature of an organisation**  
   In the exam the candidate will be expected to:
   
   i. Define an organization.  
   ii. Differentiate formal from informal organization.  
   iii. Differentiate commercial and non-commercial.  
   iv. Analyze the main functions of business organizations.  
   v. Identify the characteristics of business objectives.  
   vi. Identify the key stakeholders in business organizations.  
   vii. Identify the roles and benefits of key stakeholders.

2. **Organizational design and structure**  
   In the exam the candidate will be expected to:
   
   i. Define organization structure.  
   ii. Explain factors influencing the design of organization structure.  
   iii. Identify the objectives of organization design and structure.  
   iv. Explain the common patterns of departmentation.  
   v. Differentiate centralization from decentralization.  
   vi. Describe types of authority.

3. **The development of management school of thought**  
   In the exam the candidate may be expected to:
   
   i. Define management.  
   ii. Identify management functions and roles.  
   iii. Explain the nature of management.  
   iv. Explain management theories.

4. **The administration function**  
   In the exam the candidate will be expected to:
   
   i. Define management and administration.  
   ii. Describe administrative functions.  
   iii. Identify the duties and responsibilities of administrative managers.  
   iv. Differentiate between administration and management.

5. **Production**  
   In the exam the candidate will be expected to:
   
   i. Define production.  
   ii. Describe factors of production.  
   iii. Identify types of production.
iv. Explain approaches to production management.

6. Purchasing
   In the exam the candidate will be expected to:
   i. Define purchasing.
   ii. Explain the objectives of purchasing.
   iii. Identify the responsibilities of purchasing departments.
   iv. Describe the purchasing process.
   v. Describe the purchasing mix.
   vi. Explain the supply strategy.

7. Marketing
   In the exam the candidate will be expected to:
   i. Define marketing.
   ii. Explain organizations philosophy towards their production and customers.
   iii. Describe marketing mix.
   iv. Explain market research.
   v. Explain market segmentation.

8. Finance
   In the exam the candidate will be expected to:
   i. Define financial management.
   ii. Identify sources of finance.
   iii. Describe control methods of financial resources.
   iv. Explain financing strategies.

9. Research and development
   In the exam the candidate will be expected to:
   i. Describe main types of research.
   ii. Identify functions of R & D.
   iii. Identify factors that determine allocation of resources to R & D.
   iv. Differentiate product from process research.

10. Human resource management
    In the exam the candidate will be expected to:
    i. Define HRM
    ii. Identify objectives of HRM.
    iii. Explain functions of HRM.
iv. Identify HRM roles.
v. Describe the process of HR planning.
vi. Explain HR training and development.
vii. Explain the concept of career development.
viii. Explain labour relations

11. **Information communication technology**
   In the exam the candidate will be expected to:

   i. Define ICT.
   ii. Describe the main elements of ICT.
   iii. Illustrate the application of ICT.
   iv. Explain the benefits and challenges of ICT.

12. **Planning**
   In the exam the candidate will be expected to:

   i. Define planning.
   ii. Explain the planning process.
   iii. Describe the levels/types of planning.
   iv. Explain the benefits and challenges of planning.
   v. Explain planning strategies.

13. **Organizing and coordinating**
   In the exam the candidate will be expected to:

   i. Define organizing.
   ii. Explain the organizing process.
   iii. Describe principles of organizing.

14. **Leadership**
   In the exam the candidate will be expected to:

   i. Define leadership and leading.
   ii. Describe characteristics of effective leadership.
   iii. Explain theories of leadership.

15. **Controlling**
   In the exam the candidate will be expected to:

   i. Define control.
   ii. Explain approaches of control.
   iii. Explain the importance of control.
   iv. Identify types of control.
   v. Identify qualities of an effective control system.
vi. Explain control tools.

16. Group dynamics and team building
   In the exam the candidate will be expected to:
   i. Define group dynamics.
   ii. Outline common features of groups.
   iii. Describe main types of groups.
   iv. Explain the benefits of groups.
   v. Explain the factors that determine the cohesiveness of groups.
   vi. Describe the stages of group formation.
   vii. Explain the characteristics of effective and ineffective groups.
   viii. Describe team roles.

17. Communication
   In the exam the candidate will be expected to:
   i. Define communication.
   ii. Explain the importance of communication.
   iii. Identify forms of communication systems.
   iv. Describe the communication process.
   v. Identify barriers to communication.
   vi. Explain procedures of effective meetings.

18. Job design and motivation
   In the exam the candidate will be expected to:
   i. Define job design and motivation.
   ii. Identify approaches to job design.
   iii. Explain theories of motivation.

19. Organizational culture
   In the exam the candidate will be expected to:
   i. Define organizational culture.
   ii. Explain the components of organizational culture.
   iii. Explain the functions that influence organizational culture.
   iv. Discuss the characteristics of various types of organizational culture.
   v. Explain the factors that can be used to identify and classify organizational culture.

20. Managing change
   In the exam the candidate will be expected to:
   i. Define change.
   ii. Identify sources of change.
iii. Explain types change.
iv. Describe the process of change.
v. Identify elements that can be affected by change in organizations.
vi. Explain causes of resistance to change.
vii. Explain strategies to mitigate resistance to change.
viii. Explain the role of a Learning Organization in managing change.

21. Corporate governance
In the exam the candidate will be expected to:

i. Define corporate governance.
ii. Identify components of corporate governance.
iii. Explain the concept of whistle blowing.
iv. Describe corporate governance practices.
v. Explain professional values and ethics.
vi. Explain the strategies to manage social responsibility and ethics.

REFERENCES

ICAM Management Manual


CHAPTER 1
MEANING AND NATURE OF AN ORGANISATION

This chapter covers the main types of organizations, functions, characteristics, objectives and stakeholders of business organizations.

Objectives

By the end of this chapter students should be able to:

- Define an organization.
- Differentiate formal from informal organization.
- Differentiate commercial and noncommercial.
- Analyze the main functions of business organizations.
- Identify the characteristics of business objectives.
- Identify the key stakeholders in business organizations.
- Identify the roles and benefits of key stakeholders.

WHAT IS AN ORGANISATION?

There is no widely accepted definition of an organization (Cole, 2006). If anything, there are many. Some of them are:

- A group of people who work together.
- Persons who make up a body for the purpose of administering something.
- The act of organizing a business or an activity related to a business.
- A body which is set up to meet a set of needs.
- A group or a company, corporation, firm, enterprise, site, authority or institution that has its own functions and administration (ISO14001:1996)
- The arrangement of human and physical resources based upon the need to control and integrate the activities of individuals and groups.
- The process of organizing (G.A. Cole 2006.)
- The social entity formed by a group of people.
‘Social arrangements for the controlled performance of collective goals’ (Buchan 1967)

‘A group of people bound together in a formal relationship to achieve organizational goals’ (Sisk HL, 1977)

‘A system of coordinating people, jobs, financial resources and managerial practices to achieve performance goals’ (Szilagyi AD, 1984)

‘A social device which efficiently accomplishes some stated goal through group means’ (Kat2 & Kahn, 1961).

‘Intricate human strategy designed to achieve certain objectives’ (Argyris, 1960)

Although there is indeed no widely accepted definition of an organization, there are however some commonly accepted features of organizations and these are:

- **Purpose** – to produce goods or provide services or both.
- **Inputs** – raw materials, finances and labour
- **Outputs** – goods or services
- **Interdependent actions** – teamwork
- **Communication** – the engine of every activity in the organization.
- **Dynamism** – the ability of the organization to change and suit to its environment.
- **Structure** – levels of authority in the organization.

### Types of Organizations

#### Formal and Informal Organizations

There are many different classifications of organizations. However, most researchers on organizations make the distinction between formal and informal groups or organizations. This is a very important distinction in terms of the management of organizations because of the different agendas in terms of tasks and social needs, both of which will influence the behavior of individuals.

#### Formal organizations

The division and organization of work activities into different sections gave rise to the formation of formal organizations. By definition formal organizations are highly structured groups formed for a purpose of efficiently achieving specific goals (Lit Croft et al. 1999). Formal organizations are also said to be formal by the extent to which the units of the organizations are explicitly defined and its policies, procedures and goals are clearly stated. A Formal organization is indeed the official organizational structure conceived and built by top management of the organization.
Characteristics of a Formal Organization

A formal organization has the following characteristics or features:

Well defined structures

Formal organizations have clearly defined relationships between its members. Rulers or superiors and those that are ruled or subordinates are easily identified. Rulers regulate communication, members’ behavior and how tasks should be done.

Exact identified beginnings and ends

We can usually pinpoint precisely when a formal organization came into being and came to an end. This is so because there are normally written records, copies of which are kept by the organization in its files to mark the event and evidence may be found elsewhere in central government or government archives about the organisation’s beginning or end.

Longer life span

Formal organizations usually last for a long time. Buildings and people who belong to these organizations may indeed change completely after a lapse of years but in the majority of cases a definite continuity of purposes may be traced.

Membership

Membership to a formal organization is by choice except where the law lays down that one must join. But even where we have little chance in whether to join or not, e.g. a school, there is often choice of which school to join. Joining of the institution or school is usually formal and a contract usually exists between the member and the organization.

Definite Aims (goals)

Formal organizations have definite aims or goals. This means they try to make particular things happen. Sometimes, the aim of the organization may be drawn from the name of the organization e.g. Illovo Sugar Company or Bata Shoe Company. One can deduce from these names that Illovo either produces or sells sugar while Bata produces or sells shoes.

Division of labour

In formal organisations, conscious efforts are made by those who are members of the organisations, in particular by those who run the organizations, to share out the work required to achieve the aims of the organization. While these efforts do not always succeed, there is a general attempt to enable group members nearly all of whom
specialize in one particular job function as a unit each doing his own part without getting in the way of the others.

Some of the examples of the formal organizations we have in Malawi are:

- Blantyre Water Board
- All registered political parties
- University of Malawi
- Malawi Revenue Authority
- Malawi College of Accountancy
- All Banks
- All Insurance Companies etc

An Informal Organization

An informal organization is a network, unrelated to the firm’s formal authority. Structure of social interactions among its employees. It is the personal and social relationships that arise spontaneously as people associate with one another in the work environment. Schein (1998) suggests that informal groups almost always arise if the opportunity exists. They are not explicitly set up by management and do not figure in the formal hierarchy, but, rather they are formed to satisfy needs beyond those of doing the task.

Characteristics of an Informal Organization

Informal groups will usually display opposite characteristics or features of formal organizations. Some of the characteristics are:

Loosely defined structures

We usually see a much less defined relationship between the members of an informal organization e.g. who is a boss or who takes a leading role at any one time may vary. Levels of power or authority are difficult to define. If rules of conduct do exist are rarely written down.

Beginnings and ends are not clearly identified.

An Informal organization membership may grow over a period. At first, one may be occasionally invited by more senior colleagues to join them at lunch times for example. Later on the invited person may become accepted as a regular member of the lunch group. Nobody in the group could point to a particular day when he or she became a full member. Similarly, there are no warnings or announcements when individuals from group decide to leave. Records are unlikely to be kept either of the beginning or ending of an informal group.
Shorter Life Span

While it may be true that a friendship or a lunch hour meal group can last for many years, generally informal organizations tend to have a shorter life span than formal ones.

Less Conscious Membership

Generally, informal groups are informed without a seemingly conscious effort by everyone to form the group. Membership is rarely formally confirmed. This is especially true of ad-hoc or temporary groupings to cope with, for example, an emergency.

Less Well-defined goals

In informal groups, there is less evidence of a consistent and constant pursuit of specific goals over time. For example, the lunch hour meal group may meet and discuss work problems on Monday, football on Tuesday and politics on Wednesday. Each member of the group belongs to it for his or her own reason. It follows therefore that such a group is really a coalition of goals.

Flexibility

Because of a less precise nature of an informal group, it is infinitely more flexible. That is, it can adopt new ideas, react simultaneously, and very quickly to new situations. Members can take on new roles or duties without much discussion or loss of status, e.g. during a weekend trip in the countryside, everyone in the group could drive in turns, have a share in cooking or washing up utensils.

Small in Size

Informal organizations tend to be small in size and by their nature, all the members are likely to know each other. This contrasts with formal organizations which can be either large or small.

Examples of informal organizations:

- A friendship
- A dinner party
- A clique at school/college/work place
- A game of darts in a pub
- Mob justice group
Nature and functions of the main types of business organisations

There are many types of business organizations. However, the focus of this section of the text is on the following forms of business organizations:

- Sole proprietorships
- Partnerships
- Joint-stock companies
- Statutory corporations
- Cooperative societies
- Multinational companies

Before describing each one of them briefly, let us look at their aim, mission, objectives and functions.

Business Organizational Aim

An aim of a business is what business wants to do in broad terms. For example, does it want to produce products, what type of products? Does it want to provide services? What type of services? In addition, the aim of a business is also where the business wants to be in future. In short the aim of a business is a statement of purposes e.g. we want to grow the business in Europe.

A Mission Statement

A mission statement of an organization is a long term vision of what the organization wants to be and what it wants to achieve. Liz Croft et.al. (1999) quoting Asch (1997) suggests that a mission statement should include reference to:

- how the business will gain and sustain competitive advantage;
- how its competitive advantage will translate into superior profitability; and
- how success will be measured. In most cases the sentiments of the mission are then translated into aims/goals and objectives. An example of a mission statement from one of Malawi’s financial institutions could be “To be Malawi’s leading provider of personal financial services”

Business Organizational Objectives

Business objectives are the stated and measurable targets of how to achieve business aims. For example Bata Shoe Company may express that they want to achieve sales of K15m within two months in their two shops in Blantyre alone. What this means then is that plans can now be made so that this K15m target is achieved.

It is important to note that the most effective business objectives must meet the following Criteria:
S - **Specific**
Objectives are what the business does e.g. a hotel might have an objective of filling 60% of its beds a night in July, an objective specific to that business.

M - **Measurable**
The business can put a value to the objective e.g. K15m in sales in the next two months of trading.

A - **Agreed**
The objective must be agreed by all those concerned in trying to achieve the objective.

R - **Realistic**
The objective should be challenging, but it should also be achievable by the resources available.

T - **Time Specific**
Objectives have time limits of when they should be achieved e.g. by the end of the two months we must achieve K15m in sales.

The main objectives that a business organization might have are:

- **Survival** – This may apply to a new business or a small business that is facing competition.
- **Profit maximization** – May be the main objective of any business. The business tries to make the most profit possible. This is most likely to be the aim of the owners and shareholders of the business.
- **Sales growth** – The business tries to make as many sales as possible. This is seen as the best way of facilitating the expansion of the business if it is small.

**Key Stakeholders in Business Organization**

**Introduction**

Any business organization’s interface with the market place takes place at various levels and with various groups and not just its competitors. When asked to list the stakeholders in a business, most people would first name the shareholders, who have actually invested in a share of the company, but might have difficulty in thinking of others that will be highlighted in this topic for the students to understand and appreciate the impact which stakeholders have in business organizations. This topic intends to cover the following issues;

- Definition of a stakeholder.
- Major types of stakeholders
- Stakeholder theory
- Stakeholder analysis
- Stakeholder Management
- Examples of some stakeholders interests
- Examples of conflicts of interests of some stakeholders
- Benefits of having stakeholders

**Definition of a stakeholder**

A stakeholder is best defined as a person, a group or organization that has direct or indirect stake in organization because it can affect or be affected by the organization’s actions, objectives and policies (HellenCoul, 2005).

Michael H (2006) on the other hand believes that stakeholders are often people who:

- Will be impacted by the strategic plan.
- Have information, experience, or insight that will be helpful in developing the plan.
- May be in a position to either support or block progress of your plan
- Have a vested interest in the work
- Are final decision makers or people who must approve the plan
- Will implement any aspect of the plan
- Need to be informed of the plan
- Have been champions or critics of your work in the past (or perhaps both), and
- Are visionary thinkers interested in exploring bold, new opportunities.

A list of stakeholders may include one or more of the following:

- Employees/Managers*
- Shareholders/Directors*
- Investors
- Customers/Clients*
- Suppliers/creditors/contractors *
- Lenders bankers*
- Agents/brokers
- Trade unions*
- Competitors
- Government*
- Professional associations and
- The public at large

Later on, we shall be looking briefly at those stakeholders marked with a star in the above list.
Major types of Stakeholders.

There are three main categories of stakeholders namely, internal, external and connected stakeholders.

Internal Stakeholders

Internal stakeholders are anyone within the business such as employees, board members, management team, investors and donors to the organization. These stakeholders are intimately connected with company, their objectives are likely to have strong and immediate influence on how the organization is run.

External Stakeholders

These are entities who are outside the organization such as regulators, licensing agents, the government, customers, suppliers, lenders, and local authorities, the community at large, professional bodies who can influence and are influenced by the organization but are not its internal part. In addition these stakeholders are likely to have quite diverse objectives and have a varying ability to ensure that the company meets them.

Connected Stakeholders

These are stakeholders that are outside the organization but regularly interact with the organization and often hold important roles in helping the organization to succeed in meeting its goals. Stakeholders such as shareholders, lenders/bankers, customers and suppliers and contractors belong to this group.

A close observation from the three given categories of stakeholders will reveal that some of the stakeholders you find them in all the three categories e.g. shareholders while others you find them at least two of the categories e.g. Customers and suppliers.

The Stakeholder Theory

The stakeholder theory is the opposite of the shareholder theory which argued that strategic objectives should be based on the return on capital which is the prime wish of all shareholders of organizations. However, stakeholder theory suggests that the beneficiaries of the organization are not only the shareholders but also the employees, management, suppliers, customers and the public at large. In an organization where the theory is held, strategic objectives are set not only relating to the return on shareholders capital, but also for the good of these other groups as well. This is a newer approach to the consideration of the organization’s objectives. Once again, the newer approach suggest that a business enterprise has the responsibility to maintain an equitable and working balance among the claims of the interested groups, i.e. stockholders, employees, Customers, venders and the public at large.
Stakeholder Analysis.

Stakeholder analysis is a term used to a process where all the individuals and groups that are likely to be affected by a proposed action say in project management, business administration or in conflict resolution, are identified and then sorted out according to both their impact on the action taken. This information is used to assess the interests and influences of those different stakeholders, and how they should be addressed in the said action. Stakeholder analysis is part of stakeholder management.

Stakeholder Management

Running a successful organization or project requires a higher degree of stakeholder management. It is important to understand the values and issues that stakeholders have in order to address them and keep everyone on board. To achieve this, the following actions will be needed.

- Identify the business’s stakeholders, and who they are;
- Find out their expectations, and the minimum return each stakeholder will accept;
- Identify the strength of each stakeholder’s influence on the way the company acts;
- Establish who the key people are in each stakeholder group and develop good relations with them.
- Identify the view and attitudes of the various stakeholders to the company’s mission, strategies, activities and where necessary invoke any change.
- Establish the stakeholders who support the management’s business policies and approach and find out those who do not agree.
- Find out how antagonistic stakeholders can be won over, use supporters to exert their influence on antagonists. Within all this, the power of the shareholders must be clearly understood. If there are only a few major shareholders their power will be considerable. However, if there are a high number of small investors, they will not exert a high level of power which means they are unlikely to have much influence on the business’s strategies.

Let us now look at some of the more specific interests that stakeholder groups will have in a company.

Examples of Interests of some Stakeholder groups

Employees/managers

Both employees and managers of any given organization have individual interests and goals which, it is hoped can be harnessed, in part at least, to the goals of the organization. Managers and employees look to the organization for...
Security of income

Increases in income

A safe and comfortable working environment

A sense of community

Interesting work

Skills and career development

A sense of doing something worthwhile

Fair treatment by their superiors

 Provision of relevant information

Shareholders/directors

It is important to mention here that the interests of the shareholders of any business company are taken care of by directors of the company. A part from representing the shareholders, the directors are responsible for

- Laying down strategies, general policies and broad sectional policies.
- Seeing legal requirements are met and the company is operating in accordance with its Memorandum and Articles of Association.
- Ensuring sufficient capital is available and maintaining an efficient system to control the affairs of the company.
- Appointing a managing director and seeing that he creates a sound structure, maintains coordination among senior management and develops good morale.
- Appointment of the company’s senior managers. Other interests of the shareholders that are taken care of by the board of directors are:
  - Return on their investment- i.e. profits, dividends and capital growth.
  - Stability of the company, its solvency, and whether there may be a need for it to raise extra capital.
  - Future profitability of the company, including the type and spread of its business.
  - Provision of detailed information on the major activities of the company.

Customers/ Clients

Customers or clients want products and services. Some of the interests of different customers in any business may be:

- Provision of value for money prices
- Complying with the health and safety of work Act etc, in contact areas.
- Provision of accurate and adequate information of products and services available.
- Low prices
- Readily available and accessible products and services
- Provision of adequate after-sales services (e.g. repair or replacement of faulty goods, maintenance facilities, correction of any mistakes in the case of services)
- Provision of soft credit terms, discounts, rebate and other benefits.
- Quality products and services

**Suppliers / Creditors**

The suppliers interests will among others include:
- Expectation to be paid promptly and as agreed.
- Continuity of both current and future business
- Free from competition with other suppliers
- Fair prices for the goods or services provided
- Provision of detailed, accurate and adequate information
- Reasonable delivery expectations
- Long-term company solvency
- Good relationship with the organizations, as they depend on each other.

- **Lenders / bankers**

The lenders interests in the organizations which they assist financially are many, and some of them are:
- Lenders/bankers are generally interested in a firm’s overall financial condition. But this is from the point of view of the security of any loan the firms take. A lender/banker is keen to minimize the risk of loans taken not being paid, or the lender’s security being poor.
- A banker/lender is also interested in continued business with its customers.
- A banker/lender would like also to see that the business continues to grow and survive.
- A banker/lender would like to see that there is no competition in his area of business.

- **Agents / brokers**

An agent is a person or organization who is authorized to act on behalf of another party (principal) and represents that party’s interests. A broker on the other hand is a mediator between a buyer and a seller, but in principle the broker is also an agent acting on behalf of both the buyer and the seller in a business transaction in exchange for a commission. For example, Rhino Insurance Brokers Limited is an agent of National Insurance Company (general) but also of National Insurance Company’s clients that have been identified by Rhino Insurance Company Ltd. Some notable agents are
Agents/brokers’ expectations (interests) from the organizations they work for (principal) include:

- remuneration for the services rendered on behalf of the principal
- cooperation from the principal
- Indemnity the agent expects to be reimbursed all expenses properly incurred on the principal’s behalf.
- Lien – all agents, prima facie have alien on the goods or chattels of the principal in respect of lawful claims they may have against the principle for remuneration, charges, losses or liabilities incurred in the course of the agency.
- Goods bought in the agent’s name – should an agent buy goods in his name, without discussing to the seller, that he is in reality, acting as an agent, and then the agent becomes personally liable to the seller for the price. What this means is that the property in those goods vests in the agent until such time as he pays the price, then property in them transfers to the principal.

**Government**

The company owes an obligation to the state to abide by laws and regulations affecting its operations. Some of the state’s interests in the company are:

- To account for all taxes due to the state
- To comply with laws regulating the operation of companies
- To show a responsibility to the community
- To contribute significantly to the economic development of the country
- To create job opportunities to the subjects of the country.
- To operate the business in a transparent manner
- To introduce and adopt new technologies.

**Examples of conflicts of interests of some stakeholders.** It will be clear from the above discussion that the needs of one group of stakeholders may conflict in some cases with those of another. Some of the examples are:

- Shareholders will expect profits to be used to increase dividends employees will want those profits used to raise their wages – customers will expect lower prices –

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whereas the management themselves may prefer to invest in the development of
the company.

- Customers will be in favour of longer opening hours, high levels of services and
quick delivery times-staff will want shorter working hours and better conditions
of work generally.

- Employees will prefer standardized products and services – customers will
demand a flexible range of products or services to suit their needs.

- Shareholders expect profit maximization – the state requires a reasonable level of
taxation income which will of course reduce profits.

- The Company may wish to expand its premises in a way which conflicts with
local environmental considerations.

For each pair of stakeholders you will be able to think of a series of possible conflicts of
interest; these are just a few but the list is almost endless – anything which benefits one
group can almost certainly be seen as detrimental to another group.

**Benefits of having stakeholders.**

The key benefits of having stakeholders include:

- Valuable opinions, views, and suggestions of the powerful stakeholders can help
you shape your project/business while it is still in its nascent stage. This can
significantly improve the quality of your project.

- When you have powerful stakeholders supporting you, you have access to useful
resources as well. This way the likelihood of your project cutting higher success
levels is higher.

- The active participation of your stakeholders in your project business will make
them understand the nature of your project/business and they can then contribute
by actively supporting it.

- By envisaging in advance the reaction of the people to your project/business, You
can build into people’s support.

It is equally important to prioritize your stakeholders. Your stakeholder list may
compromise of people and organizations. It is important here to identify who are affected
by your work. It is a good idea to classify them by their power over your work and by
their interest in your work.

**Functions of Business Organizations**

There are many functions of business organizations, but the most notable ones are:
Innovation (Research and Development)

The innovation function is concerned with the development of new business ideas in terms of products, processes and methods of marketing, organization and management. It is rare for this function to be outsourced, since it is a core function which keeps a business unique.

Production

The production function involves those activities which are concerned with the creation of goods and services. This creation of goods and services entails the bringing together and mixing a number of resource inputs, including materials, labour, finance and plans. This function may also be outsourced to separate production facilities.

Marketing

The marketing function deals with those activities that relate directly to the relationship between the business and the consumer. The activities in question involve researching the market and using the information in the development of a new product or service, pricing, promoting and ensuring that the product eventually reaches the consumer. Note that most of the aspects of this function are often outsourced to specialist marketing agencies.

Human Resources Management

The Human Resources Management function is concerned with the planning, recruitment, training and development, organization, utilization and reward of a firm’s human resources. One important aspect of this function is the management of conflict through labour relations activities. These days, recruitment and training are often outsourced to external companies.

Finance and Accounting

The finance and accounting function deals with the raising and management of funds and the production of information to facilitate these two processes. Smaller businesses tend to employ external contractors to carry out this function.

Compliance with regulations (The legal function)

The legal function deals with ensuring that the organization meets the regulations and requirements that are imposed on it by Governments or Industrial bodies. This function is usually the responsibility of the Company Secretary’s department, but may be outsourced to an external legal firm.

Let us now look briefly at the most common forms of business organizations.
Commercial Organizations

Sole proprietorship

It is also commonly known as sole trade. The business is owned by one person, who starts it from personal savings or bank loans. Typical sole traders include tradesmen such as plumbers, electricians, bricklayers, carpenters etc. Nowadays lots of people are setting up their own businesses by creating small web-based companies working from home.

Characteristics

The distinguishing features of a sole proprietor are as follows:

Ownership is by a single person
That is, sole proprietorships occur where one person owns the business alone.

Management and Control
Day to day management and control of the business is usually by the owner. In other words, there is no separation of ownership from management. The owner runs and controls the business.

Finance
The owner provides the capital either from personal savings or bank loans.

Size
The business of the sole trader is usually small due to the amount of capital invested since it is usually small.

The business is not a separate legal entity from the owner
This means that the owner is liable for the debts incurred by the business. However, the business is a separate accounting entity and accounts are prepared for the business as an entity.

Ease of Entry
It is easy to start a sole proprietorship since it does not require a large initial capital expenditure and there are no registration formalities unless a license has to be obtained to operate the business (e.g. if selling liquor)

The sole trader benefits a lot from this type of business.
Advantages

- **Profits**
  He enjoys all the profits alone

- **Managerial freedom**
  Decision making can be effected quickly since the owner does not have to consult anyone. There is no board to convene and no committee to argue with and therefore decisions are reached from his efforts, and also fast.

- **Direct Responsibility**
  Any consequences of action are the sole responsibility of the owner. He gains all the profits from his efforts.

- **Simplicity of Organization (Simple Management Structure)**
  The unit is probably small enough to make small scale management possible; the difficulties of management often associated with large scale organizations are thus avoided.

- **Personal Contact**
  He is in close contact with his customers and can therefore have knowledge of their wants and can offer good personal services.

- **Formal Procedures**
  No formal procedures are required to set up in business, except for types of businesses where a license must be obtained e.g. retailing wines and spirits, operating a taxi cab.

- **Flexibility**
  Sole traders can react quickly to change or the sole trader can change the whole policy of his business in a very short time. He can make quick decisions.

  The sole trader too faces a number of challenges.

Disadvantages

- **Unlimited liability**
  In the event of the business failing the owner is personally liable for the debts incurred by the business, i.e. the owner of the business suffers personal liability in the case of bankruptcy.

- **Limited amount of Capital**
  The sole proprietor’s capital is usually limited and he has difficulties in obtaining outside finance. This hinders expansion because it can only be done by ploughing back profits of the business.
• **Lack of continuity**
  Usually the business does not continue after the death of the proprietor.

• **Limited Expertise**
  The owner may not possess all the attributes required to run a business. An engineer for instance, may have little financial acumen.

• **Indispensability of the owner**
  The business has high dependence on the individual which can mean long working hours and difficulties during sickness.

**Partnership**

A partnership is a “relationship that exists between two or more people carrying on business common with a view to profit”. Partnerships are typically found in professional services such as accountants, lawyers, doctors, dentists etc where the partners can share expertise and skills. They can also share the workload, organizing work rotas to allow for time off and holidays. Partners also pool their capital.

**Characteristics of Partnerships**

- A partnership is not a separate legal entity from its owners which means that a partnership cannot sue or be sued in its own name.
- A contract cannot be entered into in the name of the firm. Contracts must be in names of the partners.
- There is no continuity - if any partner dies, withdraws from the firm or becomes bankrupt, the partnership dies as well.
- Each partner (like a sole trader), except the limited partner, has unlimited liability for the debts of the business.
- No account of the firm’s activities has to be published.

**Formation of Partnership**

A partnership may not have more than 20 members except in respect of certain professional firms such as lawyers, doctors, accountants etc. Partners draw an agreement called **Partnership Agreement**. When this oral agreement is documented it is known as a **Partnership Deed**.

**Contents of the Partnership Deed**

- The name of the firm and the names and addresses of the partners.
• The nature of the business.
• The capital of the partnership and how much each partner is supposed to contribute.
• The role to be played by each partner in the business.
• The profit and loss sharing arrangements.
• The duration of the partnership and the conditions under which it may be brought to an end.

Note that in the absence of this agreement or where there is ambiguity or where the agreement is silent, the provisions of the law principally embodied in the partnership Act 1890 will apply.

Types of Partners

Partners differ from one another according to the liability they have, their involvement with the firm, and whether they are salaried. A partner may be Ordinary or General, Limited, Dormant or Active.

• An Ordinary Partner
  An ordinary partner has unlimited liability and is normally involved in the management of the business.

• A Limited Partner
  A limited partner on the other hand is normally a dormant partner who is allowed by law to form partnership with an ordinary partner. The limited partner takes no part in the running of the business but is given a share of the profits. Limited partnerships are supposed to be registered with the Registrar of Companies.

• A Dormant Partner
  A dormant partner is a partner who contributes to the capital of the business, but is not involved in the day-to-day running of the business. However, although these partners are dormant, they still enjoy the profits made by the partnership.

• An Active Partner
  Active or Salaried partners are employees of their firm, while at the same time are partners of the firm they work for. This is a typical example of professional partnership. These partners enjoy senior positions in the firm they work for, and therefore are remunerated by salary rather than by a share of profits. However, these partners are still liable to the debts of the firm.

• Advantages of Partnerships

  There are a number of benefits in being part of a partnership. Some of those benefits are:
- **More capital**
  A number of persons carrying on business together will obviously provide more capital than is the case with a single person.

- **Specialization**
  Since there are more persons involved in partnership, it is possible for them to divide work among themselves according to the capabilities possessed by each of them.

- **Consultation**
  The partners will from time to time consult each other to iron out business problems while the sole trader does not have anyone to share ideas with which normally results in poor decisions.

- **Share Strain**
  The partners share the worries of the business apart from sharing work.

- **Personal Contact with Customers**
  Most partnerships still operate on a scale which is small enough to permit personal contact with customers and employees.

### Disadvantages

Despite the numerous benefits of forming a partnership there are several challenges that partners face.

- **Unlimited liability**
  The liability of each of the partners, with the exception of limited partners, is unlimited.

- **Formalities in formation**
  Unlike in the formation of a sole trade, it appears there is more protocol involved in the formation of a partnership than is the case with sole trade.

- **Lack of continuity**
  Since the business is identified with its owners this means that when the owners die logically the business ceases to operate.

- **Consultation**
  Because of continued consultation among partners the process of decision-making is slowed down and sometimes resulting in disagreements.

- **One partner’s mistake binds the rest**
  Since any undertaking of one partner binds the others, it is important not to enter into a partnership with someone whose business judgment is dubious.

- **Dissolution of Partnerships**
Partnerships may be dissolved in many ways, some of which are:

- **By death**
  A partnership may be terminated when one of the partners dies.

- **By the court of law**
  A partnership may be dissolved by a court of law on application by a partner to the court when
  - A partner is suffering from mental disorder.
  - A partner becomes incapable of performing his part of the partnership contract.
  - A Partner has been guilty of misconduct on his business likely to be harmful to the carrying of the business.

- **By mutual agreement**
  A partnership might come to an end through the agreement of the partners.

- **By Bankruptcy**
  Bankruptcy renders the partnership dissolved. Like the case of death, dissolution of the partnership in this case starts from the date of bankruptcy.

- **Expiration of contract**
  A partnership comes to an end when the reason of its existence comes to an end also.

**Joint-stock Companies**

A joint stock company is also known as a Limited Company. A joint stock company is a kind of business entity; it is a type of corporation or partnership involving two or more legal persons. Certificates of ownership (or stocks) are issued by the company in return for each financial contribution, and the shareholders are free to transfer their ownership interest at any time by selling their stockholding to others. In most countries a joint stock company offers the protection of limited liability; a shareholder is not liable for any of the company’s debt beyond the face value of their share holding. There are two kinds of the joint stock company, public and private companies.

**Methods of Incorporation**

Companies may be incorporated by:

**Statutes**

This is by Special Act of Parliament. The companies incorporated in this way are known as Statutory Corporations. Examples include Malawi College of
Accountancy, University of Malawi, ESCOM, ADMARC, MBC and MRA just to mention a few. These companies are also known as Parastatals.

The Granting of Royal Charter

The companies created in this way are said to be Charted Companies. Examples include Charted Association of Certified Accountants (ACCA), Charted Institute of Management Accountants (CIMA) and Charted Institute of Bankers (CIB).

Registration

This is the commonest method of incorporation in Malawi. The company becomes into being after the issue of certificate of incorporation by the Registrar of Companies. Companies formed in this way may be unlimited (a Company with corporate personality, but with unlimited liability), or company limited by guarantee- i.e. members of this company undertake to be liable for the debts of the company up to a stated limit. Finally the registered companies may also be limited by shares, and these are the most common ones. In these companies the liability of the members is limited to amount paid or unpaid shares. Companies limited by shares would either be public or private.

General Characteristics of Companies Limited by share

There are many characteristics of Companies Limited by share. Some of the notable ones are:

Profit Motive
Like all business organizations these companies operate with the main objective of making profits.

Large Capital
In most cases these companies operate with a large capital in that the capital is subscribed by many members through the buying of shares from the companies.

Profit sharing
The shareholders of the companies share the profits of the companies in the form of dividends.

Limited liability
The liability of the members in a company is limited to the amount paid/payable on shares.

A separate legal entity
The company is a separate legal entity from its owners. That is, it is regarded as a person created by the law. It can sue and be sued in its own right. It can contract in its own name.
Transferability of membership
Members of the company are free to transfer their shares to other persons be it in the company or outside the company.

Continuity
The company has a continuous existence independent of its members. This is mainly because it has a separate legal entity from its owners.

Separation of Ownership from Management
Usually the company owners are different from the managers of the company.

Regulations of Joint Stock Companies
Joint stock companies may be regulated by

Companies Act
These refer to principal statutes relating to such things as

- formation of a company
- keeping of proper accounting records
- appointment of auditors
- dissolution of a company etc

Company powers
The powers of the company are contained in the Memorandum of Association and Articles of Association which are going to be explained very shortly.

Investigation of Companies
If the shareholders believe that the directors are not conducting the affairs of the company to their satisfaction, they may ask the department of Trade and Industry to appoint inspectors to investigate the issue in question or they may ask their external auditors to do the same.

Documents in the formation of the Company
There are a number of documents that are presented before the Registrar of Companies during the formation of the company. The most notable ones are:

The Memorandum of Association
This is a document that governs the relationship of the company and its outside world. Its main contents include:

- The company’s name with the word ‘LIMITED’. This is to warn anyone dealing with the company that he cannot look beyond the company and its resources for the redress of any grievance (the concept of limited liability).
The physical and postal addresses of the registered office of the company.

The nature of business of the company.

The amount of capital of the company and its division into shares of a fixed amount (also the classes of shares of the company).

Whether the company is public or private limited company.

The restrictions of trade if any.

A statement of the limited liability of members (this is for the benefit of potential creditors as well as shareholders).

**Articles of Association**

This document controls the internal affairs of the company. Usually it is presented to the Registrar of Companies alongside the Memorandum of Association.

It contains internal rules of the company such as:

- The procedure for calling for a General Meeting or an Extra Ordinary Meeting.
- How directors are going to be appointed, remunerated and released from their duties.
- The rights and obligations of the directors.
- The duties of the managing director.
- The borrowing powers of the company.
- How auditors are going to be appointed and remunerated.

Note that of the two documents, the Memorandum of Association is more important than Articles of Association such that where there is conflict of the two documents – that is if they are giving two opposing views on the same thing, the views of the Memorandum of Association will prevail.

**Certificate of Incorporation**

This is a birth certificate of the company and it is issued by the Registrar. It establishes the company as a separate legal body.
Certificate of Trading

Before a company begins to trade, it must get a certificate of trading. This is also issued by the Registrar of companies as well when registration is finally completed and when all requirements are met.

The Capital Of Limited Companies

The initial owners of a limited company raise capital of the company through a number of ways, some of which are:

- Issuing of shares – i.e. selling of the company’s shares.
- Long-term bank loans
- Short-term bank loans (e.g. Overdrafts)
- Retained profits – i.e. ploughing back profits into the business.
- Debentures – that is, in bid to solicit money, individuals or companies lend it money. So basically, debenture holders of a company are creditors of the company.

TYPES OF SHARES

The main types of shares in a company are **ordinary** and **preference** shares.

**Ordinary shares**
These are shares that are mainly bought by well-to-do investors who want big returns. Ordinary shareholders will receive divided only if there is sufficient profit. When the company winds up the ordinary shareholders will be paid after all other shareholders and debts have been paid. In exchange of these risks the ordinary shareholders have the ultimate control over the company.

**Preference shares**
These are shares that are bought by investors seeking security rather than large dividends. These shares have definite rate of dividend and when profits are made they receive profits before anything is paid to ordinary shareholders.

**Cumulative Preference Shareholders**
These shareholders do not only have preference in receiving their dividends before ordinary shareholders receive theirs, but they also have a right to claim dividend that was missed the previous year or years.
Participative Preference Shareholders
These shareholders also participate in the ordinary affairs of the business. In addition to the fixed rate of dividend, these shareholders are entitled to a further share of profits.

Dissolution of a Company
A company may stop existing in two ways.

Stricking it off
This is an informal way of ending a company. The company stops trading and pays off its creditors. Its directors resign. When the Registrar of Companies wants an annual return and reports from the company, he gets no reply, as a result he/she will just strike off its name from his/her register, hence the phrase ‘Striking it off’.

Winding it up
A company may wind up either voluntarily or involuntarily.

Voluntary winding up
A company may wind up voluntarily

- When the period fixed for its duration expires.
- If an event occurs, on the occurrence of which the Memorandum of Association provides that the company is to be dissolved.
- If the shareholders believe that the company is not going to continue a special resolution is passed to dissolve the company.

In normal cases, the shareholders will appoint a Liquidator who will have the following functions:

- To sell all company property or assets
- To pay off all the creditors
- To distribute the balance among the shareholders.

Involuntary/Compulsory Winding up
A company winds up involuntarily if it is forced to do so by a court of law. For example Malawi Bureau of Standards may force a company to close if it is producing and selling substandard goods or products.

1.8 Advantages Of Joint Stock Companies
There are many advantages of Joint Stock Companies. Some of them are:
Ability to raise capital
These companies can raise a large amount of capital because many people subscribe to it as shareholders. They also find it easy to get bank loans as opposed to individuals like the sole trader because of lack of security.

Transferability of membership
Members are free to transfer their shares to either fellow shareholders or to new persons altogether.

Limited liability
Liability of the members is limited to the amount of capital subscribed or payable on the shares.

Economies of Scale
Since these companies have large capital, consequently they operate on a large scale in most cases, as such they can exploit the economies of scale.

Continuity
Unlike the sole trader, such companies last long. This is because, they are legally separated from their shareholders. This means that whatever happens to the shareholders (say deaths), have little or even no bearing on the activities of the company.

Statutory Corporations or Parastatals
A statutory corporation is a corporation created by statute – i.e. Special Acts of Parliament. Their precise nature varies by jurisdiction thus they might be ordinary companies/corporations owned by a government with or without other shareholders, which is controlled by national or Sub-national government to a large extent, provided for in the creating legislation.

In the case of Malawi, statutory corporations such as Malawi College of Accountancy, Public Accountants Examinations Council (PAEC), University of Malawi, Malawi Broadcasting Corporation etc are state owned and are also known as public enterprise, public corporations, nationalized industries and parastatals. As stated earlier on, these corporations may be partly owned or wholly owned by the state.

Statutory Corporations play a major role on behalf of the government and therefore must show and prove the aim of their existence. If they fail to justify their existence, then they may be dissolved by the government as it has done with others.
FEATURES OF STATUTORY CORPORATIONS

Some of the notable features of statutory corporations are:

- **Formation and Ownership**
  These companies are formed by Special Acts of Parliament. They have no identified owners. They are owned by the government in trust for people as a whole.

- **Control and Management**
  The government controls and manages these organizations through the following intermediary institutions:

  - **The department of Statutory Corporations in the Office of the president and Cabinet**
    This department monitors these organizations performance and planning. In addition, this department also monitors the financial and personnel management of these organizations.

  - **The Treasury in the Ministry of Finance**
    The role of the treasury in these organizations is to budget the financing of investments. Again, the treasury also budgets grants and subsidies of these organizations.

  - **The parental Ministry**
    Almost each and every statutory organization falls under a particular ministry. For example, in the case of PAEC, MCA and UNIMA, they fall under the ministry of Education, whereas ADMARC falls under ministry of Agriculture. So the role of the parental ministries to the statutory corporation is to give technical advise to the organization.

- **Parastatal Boards**
  In Malawi, the parastatal boards’ members (directors) are appointed by the state president. The board members are drawn from parental ministries, department of statutory corporations, the Civil Society, other ministries, the public at large and a number of private individuals who have skills and experience. The role of the parastatal boards is to work on the formulation of policies recommended. In addition, the parastatal boards execute the good approved policies.

- **Capital**
  Statutory corporations are initially funded by government through Treasury. With passage of time some of the statutory corporations finance their operations on their own while others continue to depend on government funding.
• **Profits and Loses**
  Most corporations provide services which are unprofitable, however some of them make profits. The profits made cannot be shared as done in the private organizations. The profits may be used to make payments on borrowed capital. Sometimes the profits may be kept to pay future loans. Some of the profits could be ploughed back into the business. The profits are sometimes used by the government to pay its general activities. Losses made by the corporations are met by the Treasury. What this means is that losses in public corporations are met by the tax payers money since Treasury gets the money from that.

**CLASSIFICATION OF PARASTATALS**

Parastatal organizations in Malawi are grouped into three categories, namely:

• Commercial
• Quasi-commercial (semi-commercial)
• Subvented

**Commercial Category**
This category covers all those statutory corporations that are expected to show some return in terms of profit on the capital employed. They operate like ordinary private sector enterprises. Examples of this category include PAEC, ADMARC, ESCOM, Malawi Housing Corporation, MACRA etc.

**Quasi-Commercial Category**
The organizations in this category are developmental by their nature and therefore they are expected to be partly funded by government and partly funded by themselves. They include such organizations as Tobacco Control Commission, Television Malawi, Malawi Broadcasting Corporation, Malawi Bureau of Standards etc.

**Subvented Category**
The organizations that fall under this category are also established and funded by the state initially, but they continue to depend on state funding on all their major operations. Indeed, some of them try to fund their operations partially, but this is very insignificant. Examples of such organizations include:

• The University of Malawi
• The University of Mzuzu
• Malawi Institute of Education
• Industrial Research council
• Malawi National Examinations Board, and
• Malawi Broadcasting Corporations
Advantages of Parastatal Organisations

- They create job opportunities for many Malawians.
- They empower Malawians economically through the sale of their produce and supply of various items.
- They sell their services and products to Malawians at affordable places.
- They help in the social and economic development of the country.
- They provide health competition to the Malawian business entrepreneurs.
- In most cases, they offer better working conditions than offered by the Asian business community.
- They also finance the government machinery through taxes and dividends.

Disadvantages of Parastatal Organisations

- The non-performing organizations deplete the government limited financial resources.
- Many of them have been financially mismanaged and the culprits have often times gone unpunished.
- Sometimes their operations have been negatively interfered with by politicians.
- They breed a culture of laziness sometimes amongst its employees taking it from the civil service as some of its senior officers came from there.
- Their poor services and products have sometimes led them to their own downfall.
- They are also reknown for their persistent frauds and corruption cases.
- Most organizations are run by political appointees.
- Waste and cost are sometimes not discouraged since losses are borne by the tax payers’ money.
- Some of the organizations are monopolistic in nature e.g. ESCOM and the Water boards, as such they tend to be non-performers as they lack competition.

Co-operative Societies

A co-operative society is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly-owned and democratically controlled enterprises. It is also defined as a business owned and run by its members who all trade with cooperative and get a share of the profit in return. History has it that the first successful co-operative society was founded in 1844 in the United Kingdom. It was formed by some twenty-eight weavers. The main purpose of this grouping was to buy foodstuffs at wholesale prices and sell them at market price. If profits were made, they were divided among the members proportionate to the value of their purchases. Today, these societies are spread to many countries including Malawi.
MAIN REASONS FOR THE ESTABLISHMENT OF CO-OPERATIVES

- To eliminate middle men between producers and consumers who contributed to the rise of products or services prices.
- To assist in finding markets for farmers produce.
- To provide the advantages of large buying, selling and organization.

MAIN CHARACTERISTICS OF CO-OPERATIVE SOCIETIES

There are many features of cooperative societies but the most notable ones are:

- Membership to the association is open to everybody regardless of their religious or political affiliation.
- The management and control of the association are based on democratic principles.
- Any profit made by the association is shared among the members accordingly.
- In most cases, the business of the association is conducted on cash basis.
- As part of their corporate social responsibility, these societies are engaged in several activities such as the provision of scholarships to needy students, provisions of learning and teaching materials to schools etc.

TYPES OF CO-OPERATIVES SOCIETIES

There are many types of co-operative societies, however most of them fall under the following:

- Consumers’ Co-operatives
- Producers’ Co-operatives
- The Co-operative Credit
- The Buyers’ Co-operatives
- The Workers’ Co-operatives
- The Consumers’ Co-operatives

This is a business owned by its customers for their mutual gain. It is a form of free enterprise that is oriented towards service rather than pecuniary profit. The consumers or customers of the goods/services which the business provides are also the individuals who have provided the capital required for the operations of the business. Consumers’ cooperative is also known as Retail Co-operative but this should be distinguished from a retailers’ cooperative whose members are stores owners rather than the individual consumers. Essentially, the main
purpose of consumers’ cooperative is not to make profit but to distribute reliable goods at a reasonable price to members.

- **The Producers’ Co-operatives**

A producers’ cooperative is typically operated by farmers, producers of goods or small businesses. Farmers and producers organize cooperatives in order to process and market their goods as well as to acquire credit, equipment and production suppliers. The One Village One Product (OVOP) groupings in Malawi are a typical example.

- **The Co-operative Credit**

A cooperative credit is also known as a credit union. It is a cooperative financial institution, which is owned and controlled by the consumer members who use its services. Typically they serve groups which share something in common, such as where they work, live, or go to church. They are closely regulated with deposits insured by the National Credit Union of their own country. In Malawi the typical example of such institutions are the SACCOs regulated by MUSCO. Unlike banks these institutions are not for profit-making.

- **The Buyers’ Co-operatives**

A buyers’ cooperative is an association of businesses that gather together so that they may obtain economies of scale by combining their purchasing power and negotiating wholesale prices as a group. The main reason why a good number of businesses (small or big) would join this kind of cooperative is that it saves them some money. Small businesses which join this kind of cooperative are able to get the same pricing on merchandise from vendors or producers as their counterparts that have large businesses.

- **The Workers’ Co-operatives**

A workers-owned cooperative is a business that is commonly owned and managed by its workers. By organizing a business as a cooperative, the workers/employees make the initial investment in the enterprise, work for its success, and reap any benefits. They also share in the risks of the business. Another method of developing a worker-owned cooperative is when a labour union purchases a failing or failed privately owned business and operates it using the principles of cooperation. Some types of businesses which are often owned and managed by their employees include restaurants, manufacturing and distribution enterprises, and taxi companies.
ADVANTAGES OF CO-OPERATIVES

Some of the advantages of the cooperatives are:

- They provide readily markets for its members produce as we have already noted that the members are also customers to the business.
- The large cooperatives in most cases enjoy economies of scale.
- They are democratically managed as such every member of a cooperative participates in the running of the cooperative.
- There is no conflict of interests since the customers and profit receivers are the same and one person.
- Cooperatives eliminate middlemen, so they buy goods at cheaper prices than would be the case with each member of the cooperative had he done it alone.

DISADVANTAGES OF CO-OPERATIVES

- Many members lack business experience. So the chief difficulty is to secure efficient management, for popular election is not always the best method of securing the most able managers.
- Some of the cooperatives use their funds for political purposes.
- Cooperatives may not stock a large variety of goods as such members have to buy other requirements elsewhere. This might be expensive, so the purpose of having low priced goods might not be there.
- The idea of having every member of the cooperative participate in the making of the cooperatives crucial decisions may turn out to be costly to the cooperative as this constitutes delays in finding a solution to problems requiring urgent solution.
- Banks would normally hesitate in lending to cooperatives because most banks are suspicious with nonprofit making enterprises.

THE MULTI-NATIONAL CORPORATIONS

A multi-national corporation is a firm operating in several countries but managed from one country, usually the home country. Generally, any firm or group which drives a quarter of its revenue from operations outside of its home country is considered as a Multi-national company and may fall under one of the following four categories:
• **Multi-national** – a decentralized firm with a strong home country presence.

• **Global** – a centralized firm that acquires a cost advantage through centralized production wherever cheaper resources are available.

• **International** – a firm that builds on the parent firm’s technology or research and development.

• **Transnational** – a firm that combines the previous three approaches mentioned above.

Some of the notable multi-national companies in the world whose presence is felt here in Malawi are: British Petroleum (BP), Unilever, Bata Shoe Company, Toyota Motor Company and Shoprite just to mention a few.

**REASONS WHY MULTI-NATIONAL COMPANIES DEVELOPED**

There may be several reasons why multi-national companies developed, but the most notable ones are:

• The need to avoid tariffs and non-tariffs barriers which usually reduce markets for export.

• The need to achieve greater efficiency by producing locally in the host country as opposed to exporting.

• The need to reduce costs and competition by producing where raw materials and markets are found.

• The need to avoid losing business to licensed producers who might turn into competitors.

• The need to provide after sale services.

• The desire to enjoy low labour costs or incentives offered by the host country.

**Advantages of Multi-national Companies**

• They create employment for the people of the host country.

• They empower people of the host country economically as they become ready market for the people’s produce.

• They enable the possibility of product specialization for the local market needs.
They transfer managerial skills and technology from developed countries to developing countries.

They are able to avoid government tariffs and other non-tariff trade barriers.

They enjoy low labour costs and incentives offered by host governments.

They help to broaden economic opportunities within the host country by locating plants in depressed regions e.g. Lonrho’s sugar producing plants in Nchalo and Dwangwa.

**Disadvantages of Multi-national**

- Sometimes they evade taxes by applying dishonest pricing policies and accounting standards.

- Because of the several advantages they have over the indigenous companies, they are able to cripple activities of the indigenous companies.

- They are able to use their economic muscle to affect and control decision-making at every level of the host country.

- Where the multi-national firm gets government protection, they can encourage barriers to entry thereby prevent foreign competition. This encourages the development of monopolies who later on exploit the consumer.

- Multi-national companies are sometimes responsible for transferring undesirable foreign cultures to the host countries.

- There are conflicts often between multi-national companies’ goals and that of the host countries – e.g. when the multi-national company is seeking to maximize its profits the host country is seeking to maximize the welfare of its citizens.

**Multi-national Company’s characteristics which give it advantages over the indigenous firms.**

- It has assets such as patents or trademarks.

- It has the technological and managerial skills lacking in many local companies.

- It accesses to raw materials or markets not available to most of the indigenous companies. The exploitation of complex natural resources such as oil, and their subsequent sale in overseas markets, is a clear example of this.
• It has the advantage of size and this results in lower costs via economies of scale, cheaper and easier access to capital and greater opportunities for research and development than available to indigenous firms.

**Non-Commercial Organizations**

A non-commercial organization is also known as non-profit organization. Noncommercial organizations are associations, charities, cooperatives and other voluntary organizations, formed to further cultural, educational, religious, professional, or public service objectives. The startup funding of these organizations is usually provided by their members, trustees or others who do not expect repayment and share in the organisation’s profits or losses which are retained or absorbed. Approved, incorporated or registered non-profit organizations are usually granted tax exemptions and contributions to them are often tax deductible. Most non-governmental organizations such as Public Affairs Committee, the Catholic Relief Commission, Zam-Zam and Press Trust just to mention a few are non-commercial organizations and are non-profit making organizations.

**Major characteristics of non-commercial organizations**

• They operate primarily for scientific, educational, service, charitable or similar purposes in the interest of the public.

• They are not organized primarily for a profit.

• They use their net proceeds to maintain, improve or expand their operations.

• They are funded by the members, donors, other non-profit making firms and sometimes governments.

• A committee chosen by the members manages and controls the operations of the organization.

**Revision Questions**

1. Discuss the characteristics of the main types of organizations.
2. Explain the procedure to follow to get a company registered.
CHAPTER 2

ORGANISATION DESIGN AND STRUCTURE

This chapter covers the definition of organization structure, factors affecting the design of organization structure, common patterns of departmentation, centralization and decentralization, types of authority, delegation, responsibility and accountability.

Objectives

By the end of this chapter the student should be able to:

- Define organization structure.
- Explain factors influencing the design of organization structure.
- Identify the objectives of organization design and structure.
- Explain the common patterns of departmentation.
- Differentiate centralization from decentralization.
- Describe types of authority.
- Explain delegation, responsibility and accountability.

Definitions

An organization design is the set of decisions and procedures used to effect suitable changes in the organizational structure to market it more efficient. The issues involved in organization design include allocation of responsibilities, reporting relationships, and span of control.

An organization design also refers to the dynamics of relationships between different personnel placed at different positions in the organization. The issues involved in organization design include degree of decentralization and span of control. It is important to note that the ultimate design of an organization should be whatever structure best helps the organization to achieve its goals.

An organization structure on the other hand is the framework that defines the formal system of task and reporting relationships between positions in an organization. These relationships control, coordinate and motivate the employees towards attainment of a long term organizational goals. Organizational structure spells out the roles and reporting structure between employees at different positions in an organization. It also facilitates in the organization working as a cohesive social entity.

Furthermore, an organizational structure is the form of an organization which is evident in the way divisions, departments, functions and people link together and interact. It reveals vertical operational responsibilities and horizontal linkages, and may be represented by an organization chart. The complexity of an organization’s structure is often proportional to its size and its geographical dispersal.
Objectives of an Organisational design and structure

There could be many objectives of an organizational design and structure, but the most notable ones are:

- To link individuals in an established network of relationships so that authority, responsibility and communication can be controlled.

- To group together (in any appropriate way) the tasks required to fulfill the objectives of the organization, and allocate them to suitable individuals or groups.

- To give each individual or group authority required to perform the allocated functions, while controlling behavior and resources in the interest of the organization as a whole.

- To co-ordinate the objectives and activities of separate units, so that overall aims are achieved without gaps or overlaps in the flow of work required.

- To facilitate the flow of work, information and other resources required through planning, control and other systems.

Factors influencing the structural design of an organization

A number of factors do influence the way in which an organization is going to be structured. Some of those factors are:

- **The size of the organization**
  As an organization gets larger, its structure gets more complex than before, specialization and sub divisions are required. The process of controlling and coordinating performance, and communication between individuals, also grows more difficulty as the ‘top’ of the organization gets further from the ‘bottom’ with more intervening levels.

- **The organisation’s task**
  These points at the nature of the organisation’s work, structure is shaped by the division of work into functions and individual tasks, and how these tasks relate to each other. Depending on the nature of the work, this can be done in a number of ways. The complexity and importance of tasks will affect the amount of supervision required, and so the ratio of supervisors to workers. The nature of the market will dictate the way in which tasks are grouped together into functions, or sales territories, or types of customers.

- **The composition of the organisation’s staff**
  The staff’s skills and abilities will determine how the work is going to be structured, and the degree of autonomy or supervision required. The staff
aspirations and expectations may also influence job design, and the amount of delegation in the organization, in order to provide job satisfaction.

- **The legal, commercial, technical and social environment of the organization.**
  Here, examples include economic recession or worldwide financial crisis, which necessitate staff streamlining especially at middle management level; market pressures in the financial services sector encouraging a greater concentration of staff in specialized areas and at bank/customer interface, new technology reducing staff requirements but increasing specialization.

- **The organisation’s age**
  It is strongly believed that the longer the organization has been in existence the more it has developed and grown. This in turn will make it to be complex in nature, calling for experimenting with new ways of doing things and making decisions.

- **The organisation’s culture and management style**
  How willing management is to delegate authority at all levels, how skilled they are in organization and communication (for example in handling a wide span of control), whether teamwork is favoured, or large, impersonal structures are accepted by the staff, play a role also in determining the organization’s structure.

### Types of Organizational Design

There are several alternative ways of deploying the intangible webs of relationships that make up an organization structure. Six of the most common forms of structure that have been designed are as follows:

i. **The Functional organization structure**

This is a widely-used method of organization structure. In this type of organization structure tasks are linked together on the basis of common functions. This means all production activities, or all financial activities, or all marketing activities, are grouped together in a single function which undertakes all the tasks required of that function. Below is a typical diagram of a functional organization.
One of the main advantages of the functional organization is that by grouping people together on the basis of their technical and specialist expertise, the organization can facilitate both their utilization and co-ordination in the service of the whole enterprise.

Another advantage of the functional organization is that it also provides better opportunities for promotion and career development.

However, this type of an organization has some challenges. One of those challenges is the growth of sectional interests which may conflict with the needs of the organization as a whole.

Another challenge of a functional organization is the difficulties of adapting this form of an organization to meet issues such as product diversification or geographical dispersement.

Note that functional structures are probably best suited to relatively stable environments.

ii. The Product-based organization structure

Some organizations group activities are found on the basis of products or product-line. This is a popular structural form in large organizations having a wide range of products or services. A typical example can be drawn from Unilever South-East Africa where soaps, oils and detergents may be grouped separately creating soaps, oils and detergents departments respectively. However, some functional groups or departments remain intact (e.g. production, human resources and marketing) but a divisional/product manager is appointed to look after the product
line or brand with authority over personnel of different functions. The diagram below demonstrates what is being discussed here.

![Product-based structure diagram](image)

**Figure 2: Product-based structure**

There are a number of advantages of product-based organization, and some of them are:

- Individual managers can be held accountable for the profitability of individual products.
- Specialisation, which to some extent contributes to efficiency, can indeed be developed.
- The different functional activities and efforts required to make and sell each product can be co-ordinated and integrated by the division/product manager.
The main disadvantage of the product-based organization is that each Product Manager may promote his own product group to the detriment of other parts of the company.

Another disadvantage of this type of organization is that it creates a new form of management and therefore increases the overhead costs and managerial complexity of the organization.

i. The Geographical/territorial organisation structure

This type of organization structure is adopted where the realities of a national or international network of activities make some kind of regional structure essential for decision-making and control. A typical example at national level in Malawi is the structure of ADMARC which is divided into three regions, namely, the Southern, the Central and the Northern regions. These regions are held by regional managers. The three regions are further divided into areas and then branches. The diagram below shows an example of a geographical structure.
Figure 3: Geographical Structure
The advantage of the territorial-based organization structure is that it encourages better local decision-making at the point of contact between the organization (e.g. a salesman) and its customers. Here, localized knowledge is put to better use and in the right circumstances it may be less costly to establish area factories/offices than to control everything through Head Office (e.g. transportation and travelling costs may be less).

The main disadvantage of the territorial based organization structure might be the duplication of management effort, as there will be several managers at different levels doing almost similar tasks.

It must be noted also that a territorial based organization tends to produce decentralized activities which may in fact cause additional control problems for the senior management. It is therefore common with such organizations to find groups of senior functional managers at Head Office in order to provide direction and guidance to line managers in the regions or product groups.

iv. The divisionalised organisation structure

With the increasing complexity and size, many organizations are now opting for a Mix structure which may combine the benefits of two or more functional, product and territorial forms of organization.

One such mixed structure is divisionalised organisation. This type of organization, is divided up into divisions on the basis of products and/or geography, and each division is operated in a functional form, but with certain key functions retained at the organisation’s headquarters. The key functions may include planning, finance and human resources policies. This is a common organizational form for highly diversified companies operating in more than one country.

Figure 4 below shows an example of a divisionalised structure in a British Pharmaceutical Company operating worldwide, as shown by G. Cole (2004).
In the above mentioned example, the cited regions act very much like self-standing companies, producing and marketing the products developed by the parent company. Research and development (R & D) activities and other key corporate standards are controlled worldwide through the functional divisions, while the headquarters (H.Q) division provides group policy in key areas such as finance and personnel.

v. The Matrix organization structure

In addition to divisionalised organization structure, matrix organization structure is another mixed organization structure that has come up in response to increasing complexity and size of many organizations. Matrix structure has also resulted from the difficulties of coordinating activities across products or functional areas especially where the development of new products or designs is involved. The matrix structure is sometimes referred to as a project structure which has a functional base but allows a project structure to occur within it. In the project, teams are formed and team members report to two or more managers.

A matrix structure is a highly flexible form that is readily adaptable to changing circumstances. Matrix structures rely heavily on committee and team authority. Some companies use the matrix structure as a temporary measure to complete a specific project. The end of this project means the end of the matrix structure. The approach applies in such diverse settings as manufacturing, service industries, professional fields and the non-profit sector.

In a matrix organization structure a person working on a project would have two bosses: the boss of the department that he works in, and the leader or manager of that particular project that he is working on at that moment. The project may cover some or all of the organisation’s departmental areas.
Below is a matrix structure diagram

<table>
<thead>
<tr>
<th>Research &amp; Development</th>
<th>Information Systems</th>
<th>Human Resources</th>
<th>Marketing</th>
<th>Corporate Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Manager 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Manager 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Manager 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 5: Matrix Structure**

This type of structure has advantages and some of them are:

- It combines lateral and vertical communication and authority, so there is the efficiency of the hierarchical structure with reporting lines to project managers and project sponsors.
- It allows the focus to fall on the requirements of the client and it clarifies who is responsible for success.
- It also encourages functional managers to understand their contribution and role in the organisation’s productive efforts and thus offsets one of the principal disadvantages of the purely functional form that is individual empire-building by the functional heads.

However, like all other forms of organizations, matrix structures do have disadvantages and some of them are:
The potential conflicts that can arise concerning the allocation of resources and the division of authority as between project groups and functional specialists are as follows:

- The relative dilution of functional management responsibilities throughout the organization and
- The possibility of divided loyalties on the part of members of project teams in relation to their own manager and their functional superiors.

Despite these disadvantages, many companies today use matrix structures as it offers the best answer to date, to the issue of handling the tension between the need to integrate the complex activities of modern organizations.

**CENTRALISATION AND DECENTRALISATION**

There are other issues concerned with structure which organizations need to address. These are centred around the degree of centralization versus decentralisation, and the power to delegate both responsibility and authority.

**Centralisation**

Centralisation is a condition where the upper levels of an organisation’s hierarchy retain the authority to take most decisions. Absolute centralization would mean that no authority at all is exercised by subordinates (i.e. there would be no co-ordination of subordinates). Note that absolute centralization of authority is not practical except in very small concerns because day-to-day decisions must be taken at lower levels.

**Advantages of Centralisation**

Those who support a high degree of centralization claim advantages such as:

- Co-ordinated decisions and better management control, therefore less suboptimising;
- Conformity with overall objectives;
- Standardisation e.g. variety reduction and rationalization;
- Balance, between functions, divisions etc – increased flexibility in the use of resources;
- Economies of scale – general management, finance, purchasing, production etc;
- Top managers become better decision makers, because:
  - they have proven ability
  - they are more experienced; and
  - speedier central decisions may be made in a crisis – delegating can be time-consuming.
Disadvantages of Centralisation

- Those of lower rank experience reduced job satisfaction.
- Frequently, senior management does not possess sufficient knowledge of all organizational activities. Therefore, their ability to make decisions is narrowed and delegation becomes essential.
- Centralisation places stress and responsibility onto senior management.
- Subordinates experience restricted opportunity for career development toward senior management positions.
- Decisions often take considerable time.
- Slower decision-making impairs effective communication. Such communication problems may affect industrial relations.

Decentralisation

Decentralisation is a term which describes a condition where the authority to make specific decisions is passed down to units and people at lower levels in the organisation’s hierarchy. A highly decentralized organization is one in which authority to commit people, money and materials is widely diffused throughout every level of the organization. An absolute decentralization of authority is not possible because any delegated authority can derive only from the top and the activities delegated must conform with the policy decided at a higher level.

Advantages of decentralization

The advantages of decentralization are chiefly;

- It prevents top-management overload by freeing them from many operational decisions and enabling them to concentrate on their strategic responsibilities.
- It speeds up operational decisions by enabling line units to take local actions without reference back all the time.
- It enables local management to be flexible in their approach to decisions in the light of local conditions, and thus be more adaptable in situations of rapid change.
- It focuses attention onto important cost and profit-centres within the total organization, which sharpens management awareness of cost-effectiveness as well as revenue targets.
- It can contribute to staff motivation by enabling middle and junior managers to get a taste of responsibility, and by generally encouraging the use of initiative by all employees.
Disadvantages of decentralization

The main disadvantages of decentralization are:

- It requires an adequate control and communication system if major errors of judgment are to be avoided on the part of operational management.
- It requires greater coordination by senior management to ensure that individual units in the organization are not working against the interests of the whole.
- It can lead to inconsistency of treatment of customers, clients or the public, especially in service industries.
- It may encourage parochial attitudes in subsidiary units, who may be inclined to look more to their own needs than to those of colleagues in the organization.
- It does require a plentiful supply of capable and well-motivated managers, able to respond to the increased responsibility which decentralization brings about.

ORGANISATION LEVELS

For some time now we have mainly focused on the vertical aspects of organization structures. We have not talked anything about the horizontal aspects of the same, and we now turn to that element. We are now answering to the question of how many levels are appropriate between the top and bottom layer of an organization? In respect to this question, an organization can either be Flat or Tall in relation to their total size.

Flat organizations

A flat organization would show the following characteristics:

- Centralised authority
- Few authority levels
- Wide spans of control

In recent times more and more flatter structures are becoming common as there have been major efforts to delegate authority throughout the system by empowering workforce teams in a way which was not thought possible, or desirable, some years ago. Flat structures generally apply to small organizations, say organizations that have up to about 500 employees. Most organizations, whether business firms or public services, find that a flat structure produces a span of control (i.e. the number of subordinates directly controlled by a superior) that is unmanageable for most managers. One of the disadvantages of flat organizations is that the wide spans of control create more opportunities for mismanaging people that do narrow ones. Again, a flat organization is less likely to provide career development opportunities than a taller structure. On the other hand, a flat organization has fewer problems of communication and coordination. In addition, a flat organization encourages delegation by the managers involved, and can motivate juniors to take greater responsibilities for their output.
Figure 6 below shows the main features of a flat organization,

![Diagram of a flat organization structure]

**Chief Executive**

<table>
<thead>
<tr>
<th>Department Heads</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervisors</td>
</tr>
<tr>
<td>Workforce</td>
</tr>
</tbody>
</table>

**Figure 6: A flat organization structure Chart**

**Tall Organisation**

A tall organization tends to demonstrate the following characteristics:

- decentralized authority
- many authority levels
- narrow spans of control

The advantages of tall organization structures arise mainly from their ability to sustain a very high degree of specialization of functions and roles. They can also provide ample career and promotion opportunities for employees. The main disadvantage of this type of organization structure is that it has long lines of communication and decision making. Essentially tall structures go hand in hand with formality, procedures and standardisation which may discourage initiative and risk-taking at operational levels. This type of structure is most commonly practical in big companies.

The main factors that determine the number of levels for any one organization are likely to be:

- Size of the operation
- Nature of operation, especially in relation to the complexity of production
- The dominant management style
An example of a tall organization structure is shown below in Figure 7.

![Organization Structure Chart](image)

**Figure 7: A tall Organization Structure Chart**

**LINE, STAFF AND FUNCTIONAL AUTHORITY**

When analyzing the types of authority which a manager or a department may have, the terms ‘line’, ‘staff’ and ‘functional’ are used. Each term seeks to define how the authority fits into the organisation’s chain of command. Let us now look at each one of them separately.

**Line Authority**

Line authority is the simplest to understand as well as to agree about. It is the authority a manager has over his subordinates. Line authority enables a manager to allocate work, direct and control subordinates and delegate authority. What this means is that specialist managers such as chief accountants, human resources managers and civil engineers just to mention a few, exercise line authority over their own staff in their departments. In that respect, they are not different from so-called line managers such as production managers and sales managers. This means that line authority here is not dependent on line functions.

It is important to note that when we talk of line managers such as production and sales managers we are referring to those managers whose functions contribute
directly to the achievement of the organization’s goals. This is the provision of goods and services to the customers. The functions of production and sales managers are seen as the primary functions of an organization.

**Staff Authority**

Staff authority’s concept is derived from the staff function and this does relate it to the advisory and service functions of the internal structure of an organization. In that regard, a staff manager is a person whose functions contribute indirectly to the achievement of the organization’s goals. Typical staff functions include purchasing, accounts, legal and human resources. This is seen as authority without responsibility. It is however important to note that staff advisor/managers will exercise line authority over their own assistants and may be required to exercise functional authority in connection with their own areas of expertise. Once again, staff authority does not entail the right to make or influence decisions in the advisee department.

**Functional Authority**

Functional authority is a hybrid of line and staff authority, whereby a specialist staff manager or department has the authority, in certain circumstances, to direct activities or procedures.

Functional authority cuts across departmental boundaries and enables managers to take decisions that affect staff in other departments. This type of authority is restricted to technical matters that are the specific concern of the managers concerned. It is the type of authority exercised by the techno-structure. The authority a finance manager has to establish accounting procedures that affect other departments is a good example of functional authority.

**AUTHORITY, RESPONSIBILITY, ACCOUNTABILITY AND DELEGATION**

One of the main issues of organization design is the question of how to create the best balance between control from the centre and delegation throughout the rest of the system. This particular section examines some of the factors that go with delegation, and they include Authority, Responsibility, and Accountability.

**Authority**

Authority is a right conferred on some members of an organization to act in a certain way over others. Authority defines the part each member is expected to perform in the organization. Authority also defines the relationship between members. Authority can be regarded as a defined amount of power granted by the organization to selected members such as directors, managers, specialist personnel and supervisors. Authority can be specified or general. Authority unlike responsibility can be delegated.
Sources of Authority

There are five sources of authority that are well known.

- **Top down Authority**
  Authority based on the organizational hierarchy. In other words, this is authority that comes from superiors to the subordinates. This is also referred to as organisation authority.

- **Bottom up Authority**
  Authority that comes from subordinates to superiors. Normally, it is the kind of authority which is associated with the way leaders are selected in politics, associations, clubs, churches etc.

- **Rank Authority**
  Authority which is associated with armed forces, that is the higher the rank the more authority one has.

- **Personal Authority/Charisma**
  This is the kind of authority which is acquired through natural talents. People just feel that they have no choice but to follow and obey you because of your natural talents.

- **Traditional Authority**
  This is inherited authority. The way one takes the position of a Chief or a King is an example in point.

Responsibility

Responsibility refers to the liability of a person to be called to account for his/her actions and results. A subordinate may have a responsibility for which he will be called to account by his superior; a board of directors may have a responsibility to its shareholders; and a government in a democracy will have a responsibility to the electorate. Responsibility is therefore the obligation to do something. In an organisation it is the duty of an official to carry his/her assigned tasks.

 Unlike authority, responsibility can never be delegated. Where a supervisor delegates authority to a subordinate, the former remains responsible for ensuring that the work gets done, albeit by the subordinate rather than by the supervisor personally.

Accountability

With responsibility, we must associate accountability. A manager is accountable or answerable to his/her superiors in the organisation for his or her actions and he or she is obliged to report to his/her superiors how well he or she has exercised responsibility and the use of the authority delegated to him or her.
Delegation

Delegation of authority is essentially a power-sharing process in which individual managers transfer part of their legitimate authority to subordinates / team members, but without passing on their own ultimate responsibility for the completion of the overall task which has been entrusted to them by their own superiors. Without delegation formal organizations could not exist.

Effective process of delegation

Good practice in delegating in situations where either the manager is new, or the team is newly formed, is likely to include the following principles:

- ensure that the objective to be achieved is made clear.
- assign tasks to juniors who agree to do them.
- indicate the standard of performance that is required.
- decide what level of authority to grant.
- ensure that clear reporting arrangements are made.
- encourage subordinates to request further help if needed.
- inform subordinates that early mistakes will be used as learning opportunities.
- ensure that the task is completed according to agreed standards.
- provide resources and authority that may be required to carry out the task.
- thank the individuals for their efforts.

Reasons for delegating

The reasons for delegation are mainly practical, but some are idealistic. The practical ones include:

- Senior managers can be relieved of less important or less immediate, responsibilities in order to concentrate on more important issues.
- Delegation enables decisions to be taken nearer to the point of impact, and without delays caused by frequent reference upwards.
- Delegation gives managers the opportunity to experience decision-making and the consequences of their decisions.
- Delegation encourages managers to learn how to cope with responsibility.
- Delegation enables organizations to meet changing conditions more flexibly, especially at the boundaries of their system.
- Delegation contributes to staff development and motivation.

The idealistic reasons for delegation include:

- Delegation is a ‘good thing’ for individual growth, and contributes to staff morale.
- Delegation is ‘the sine qua non of empowerment’
• Delegation helps to enrich individuals’ jobs and humanizes work.

**Reasons for not delegating by managers**

There are many reasons why a good number of managers are reluctant to delegate their duties to subordinates, and some of them are the following:

• Low confidence and trust in the abilities of the juniors.  
• The burden or responsibility and accountability for the mistakes done by the subordinates.  
• The desire of the managers to remain in touch with the team both in terms of the workload and staff – i.e. sense of job insecurity.  
• The unwillingness to admit that the juniors have indeed developed to the extent that they can perform some of the manager’s duties.  
• The poor control and communication system in the organisation which make the manager feel he has to do everything by himself.  
• Failure of the manager to recognize delegation positively in an organizational culture which has failed to reward effective delegation by superiors.  
• Lack of understanding of what delegation involves, that is, not giving juniors total control.  
• When juniors who must coordinate their activities cannot agree on how things should be done.  
• When collective authority of juniors may be required to make a decision.

To the last two problems, the general rule states that problems which cannot be solved at lower levels should be referred to upward through the organisation structure until it reaches an official with enough authority.

**Some solutions to problems of delegation**

• Set a selection system of juniors who will be capable of handling delegated authority in a responsible manner.
• Set an open communication system which will allow both the superior and the juniors free interchange of ideas and information. This helps the juniors to make better informed decisions and the superiors never panic any more of knowing what is going on.
• Make sure that a system of control has been set so as to monitor responsibility and accountability at all levels of the hierarchy, in this way the dangers of relinquishing authority and control to juniors are reasonably lessened.
• Effective delegation by superiors and efficient assumption of authority by subordinates must be rewarded e.g. by way of pay rise or promotions.

**Revision Questions**

1. Discuss the factors a manager should consider when designing organizational structure.
2. Explain the principles of effective delegation.
3. Discuss the merits and demerits of centralization and decentralization respectively.
CHAPTER 3

THE DEVELOPMENT OF MANAGEMENT SCHOOL OF THOUGHT

THE DEVELOPMENT OF MANAGEMENT THEORIES

This chapter covers the major early theories of management which contributed to the development of management thought. These were grouped under two schools of thought namely classical approaches to management and behavioral approaches to management.

OBJECTIVES

By the end of this chapter the student should be able to:

- Explain management theories.
- Explain the main contributors to scientific management.
- Explain the main contributors to administrative theory.
- Explain the main contributors to behavioral school.

THE CLASSICAL SCHOOL

The classical school comprised of two schools namely scientific management and administrative theory.

SCIENTIFIC MANAGEMENT

Scientific management was a school of management based on the application of the scientific method to the workplace and management activities. It was developed in the early 1990’s

FREDRICK W TAYLOR (1856-1915)

Fredrick W. Taylor is considered the founder of scientific management. As an engineer and inventor he developed his new managerial concepts at the engineering company where he was employed. He proposed four principles of scientific management

1. Develop a science for each element of a person’s job, replacing the old rule of thumb method.
2. Scientifically select, train, teach and develop the worker unlike in the past.
3. Management to cooperate with the workers to ensure the work was being done in accordance with the science which had been developed.
4. There has to be equal division of work and responsibilities between management and the workers. Managers were to do only the work for which they were best suited and leave the rest to the workers, which was not the practice in the past.
Taylor also recommended adoption of techniques such as time study, standardization of tools, time saving devices and others.

Scientific management became popular in the 1990’s because it was an answer to most of the labour problems of that time. Taylor’s views contributed the development of management thought.

**OTHER CONTRIBUTORS TO SCIENTIFIC MANAGEMENT**

Other contributors to scientific management include the Gilbreths (Frank B 1868 – 1924 and Lillian M 1878 – 1972.) whose main contribution was the development of motion study. Motion study refers to the determination of the best sequence and numbers of motions to accomplish a specific task. Another contributor is Henry L.Gantt (1861 – 1919) who is credited with developing the Gantt Chart which is a method for comparing actual to planned work performance. Gantt is also credited with proposing an alternative pay formula to Taylor’s piece-rate pay system called “task work with a bonus system”.

**ADMINISTRATIVE THEORY**

Henri Fayol and Max Weber are the main contributors to this school.

**HENRI FAYOL (1841 – 1925)**

Fayol was Europe’s foremost management theorist and the first to develop a general theory of management. A Frenchman and an Engineer by training, he joined a mining company at a very young age and became its managing director when it was facing several financial problems. He turned around the company’s performance using the management techniques he developed.

He believed the administrative function of an organization was distinct from all other functions and was the shared responsibility of all managers at different levels. Fayol developed a philosophy and theory of management which were expressed in his book *Administration Industrielle et Generale* published in 1916. His theory proposed that industrial undertakings consists of six separate activities:

1) Technical (i.e., production, manufacture, adaptation)
2) Commercial (i.e. buying, selling, exchange)
3) Financial (i.e. sourcing and use of capital)
4) Security (i.e. of property and persons)
5) Accounting (i.e. stock taking, balance sheets, costs, and statistics)
6) Managerial (i.e. planning, organizing, command, coordination, control.)
Fayol felt the first five activities were already well known and therefore concentrated on managerial activities. In his general theory of management he identified basic management principles relating to 14 concepts: division of work, authority and responsibility, discipline, unity of command, unity of direction, subordination of individual interest to the general interest, remuneration, centralization, scalar chain, order, equity, stability of tenure of personnel, initiative, and espirit de corps.”

He is also credited with advocating the universality and teaching of management.

**MAX WEBER 1864-1920**

Unlike Fayol who was both practitioner and theorist, Weber was a German academic who was interested in the study of organizational sociology. Weber identified three types of authority:

1) Charismatic, based on the unique power of the leader.
2) Traditional, based on loyalty to the leader and
3) Rational-legal, based on formal, explicit rules i.e. bureaucracy.

Weber coined the term bureaucracy to describe a management approach based on a formal organizational structure with rules and regulations. Although bureaucracy has come under criticism it still provides very important organizational principles.

Weber believed that bureaucracy was superior to the other forms of organization because it requires different specialists. He stated the requirements for an effective bureaucracy:

1) Technical training for its personnel,
2) Appointment on merit,
3) Set salaries and retirement benefits,
4) Guaranteed careers,
5) Separation of people’s private lives from their officials positions,
6) Set hierarchy of jobs and offices,
7) Implementation of an adequate control system,
8) A system of rational rules and regulations in the organization and
9) Certain obedience to a superiors command,
Weber’s work is considered an important part of classical organizational and management theory.

**BEHAVIORAL APPROACH**

Behavioral school is a managerial approach that emphasizes employee motivation as a primary determinant of organizational and managerial effectiveness. The key thinkers in this school include Mary Parker Follett, Elton Mayo and Abraham Maslow.

**MARY PARKER FOLLETT (1868-1933)**

Mary Parker Follett started her career as a social worker helping young people to get employment and quickly became a leading figure in the community movement. Although she had never worked in a factory she became an adviser to business people on personnel issues and made important contributions to the field of human resource management.

Follett’s main contribution was on group influences. She observed that when people participate in group decision making, their thought patterns change. She developed the theory of integration to explain this phenomenon. The concept of integration refers to the harmonious blending of the differences to produce a solution acceptable to all. She recommended that management should allow group interaction guide their decisions making.

**ELTON MAYO (1880-1949)**

Elton Mayo is associated with the Hawthorne studies which were conducted from 1927 to 1933. The studies were concerned with the impact of human motivation on productivity and output. From these studies Mayo concluded that group rather than individual psychology was more important in the performance of workers. These were the two most notable experiments.

**THE RELAY ASSEMBLY TEST ROOM STUDY**

In the Relay Test Room Study a group of six female assemblers was set aside and had factors such as lighting and temperature varied and their effects on productivity measured.

It was observed that increasing or decreasing these factors led to higher productivity. This surprised the experimenters. After further investigation, the experimenters found that the women were responding to factors other than experimental ones. The women felt special for participating in the experiment and what they were able to do unlike previously. The unexpected results came to be known as the Hawthorne effect. The Hawthorne effect refers to the positive effect on employee motivation of factors other than money and job security.
The findings on the circumstances surrounding the Hawthorne effect led to the development of the Human Relations approach which lasted up to 1950’s. The approach was based on the belief that better treatment of employees would increase their productivity. The Human Relations approach received mixed reactions. The negative reactions could not have been surprising had the Bank Wiring Observation Room experiments been remembered.

The Bank Wiring Observation Room Study.
In this study workers were paid on an incentive play plan under which pay was supposed to vary directly with output. This did not happen and researchers tried to find the cause. The researchers found the workers had an informal organization which set its own standards of for example “what was a fair day’s work” and the workers enforced it themselves. The “regulars” (he majority) ignored the incentive plan and conformed to the groups standard output or group norm. Those who did not conform were called “deviates” and were disciplined by the group. Those who worked too fast were called “rate busters” or “speed kings” and were threatened. “Chiselers” were those who worked too slowly. A “Squealer” was anybody complaining to management and faced isolation.
In this experiment group morale was high but productivity did not increase. In a way high morale worked against management.

The Hawthorne studies contributed to the development of the behavioral school. They stressed the impact of human motivation on productivity and output. Mayo identified the existence of an informal organization that sets it’s own productivity standards and is considered a breakthrough in the history of management thought.

Abraham H. Maslow (1908 - 1970)
Abraham H. Maslow, a psychologist, developed the hierarchy of Needs Theory, which clearly shows that people have a variety of needs other than money. Maslow’s Hierarchy of needs theory is detailed in the chapter on motivation.

Summary
In this section we have defined scientific management, explained contributions of the major thinkers in the scientific management school, Administrative, theory and Behavioral school. Behavioral school has also been defined.
Revision questions

1. Explain the principles of scientific management.
2. What were Fayol’s main contributions to the development of management theory.
3. Explain the significance of the Hawthorne experiments.
CHAPTER 4
THE ADMINISTRATION FUNCTION

This chapter covers the definitions of management and administration, identifies administration functions and the duties and responsibilities of an administrative manager.

Objectives

By the end of this chapter the student should be able to:

- Define management and administration
- Describe administrative functions
- Identify the duties and responsibilities of administrative managers.

Definitions of Management and Administration. There is still some confusion of thought on the distinction between the terms ‘management’ and ‘Administration’. These terms are often regarded as interchangeable. But strictly speaking, the two terms are different.

- **Management**

Management might be defined broadly as getting things done through other people. Breach EFL (2001) on the other hand defines management as:

  i) A social process entailing responsibility for the effective and economic planning and regulation operations of an enterprise, in fulfillment of a given purpose or tasks and such responsibility involve:

  - Judgment and decision in determining plans and in using data to control performance and progress against plans, and
  - The guidance, integration, motivation and supervision of personnel comprising the enterprise and carrying out its operations.

From this definition we can conclude that management mainly involves such functions performed by managers as; formulation of policy and organizational objectives; controlling the activities of an organization to ensure plans are being met as intended; human resource management; ensuring effective communication and coordination of activities of the organization; and the direction and guidance of staff (leadership) to achieve the organization’s goals. Management’s scope is broader than administration.
Breach (2001) then defines administration as: that part of management which is concerned with the installation and carrying out the procedures by which the programme is laid down and communicated and the progress of activities is regulated and checked against plans.

In general terms administration deals with all the logistics of implementing objectives and plans made by management. Administration is therefore a specialized function which provides general support services to various management function necessary to achieve organizational goals. Administration mainly deals with the implementation of management decisions. The main areas covered under administration include:

- Office organization
- Purchasing (procurement)
- Issuing and storage of office supplies
- Provision and maintenance of office furniture and equipment
- Transport administration
- Housing institutions administrations etc

From the above discussion we can see that while management is proactive, administration is reactive.

**Administrative Functions.**

Administrators, broadly speaking, engage in a common set of functions to meet the organization’s goals. Henri Fayol calls them 5 elements of administration, and these are:

- **Planning**

  This is deciding in advance what to do, how to do it, when to do it, and who should do it. It maps the path from where the organization is, to where it wants to be. The planning function involves establishing goals and arranging them in logical order. Administrators engage in both short and long-range planning.

- **Organizing**

  It involves identifying responsibilities to be performed, grouping responsibilities into departments or divisions, and specifying organizational relationships. The purpose is to achieve coordinated effort among all the elements in the organization. Organizing must take into account delegation of authority and responsibility and span of control within supervisory units.
• **Staffing**

Staffing means filling job positions with the right people at the right time. It involves determining staffing needs, writing job descriptions, recruiting and screening people to fill the positions.

• **Directing (Commanding)**

Directing entails ensuring employees do the jobs allotted to them. All firms use the combined services of human beings, who must be directed, through communication and orientation, to carryout assignment with the utmost cooperation. Working relationships are involved at all levels and these must be governed to see that they are effectively executed. Proper motivation is needed to encourage them to work and various techniques may be used to this end.

• **Controlling**

Controlling is the function that evaluates quality in all areas and detects potential or actual deviations from the organization’s plan. This ensures high-quality performance and the satisfactory results while maintaining an orderly and problem free environment. Controlling includes information management, measurement of performance, and institution of corrective specific actions.

**Duties and Responsibilities of An Administrative Manager**

In every organization, especially a large organization, each department is headed by a manager who reports to the head of organization. These managers have authority over, and are responsible for their departments and the people who work in them. One of these managers is the administrative manager who may also be known in some organizations by such names as office manager, operations manager or office superintendent. The administrative manager is responsible to the Chief Executive of the organization. Some of the specific duties and responsibilities of the administrative manager are as follows.

- Advising and assisting departmental managers in the planning of clerical activities, equivalent, and methods of work, supplies, personnel required and layout of office accommodation.
- Scrutinizing all clerical procedures and the forms and stationery associated therewith, and making recommendations to the departmental managers concerned.
- Maintaining the following general office services including supervision of staff engaged therein.
  
  i) Opening and distribution of inward mail, collection and dispatch of outwards mail.
ii) Telephone, messenger and internal postal services.
iii) Contract filing system (room)
iv) Duplicating section
v) Stationery store.

- Maintaining the office manual of procedures and forms and approving requisitions for Office equipment and supplies for all departments and establishing with the purchase manager a satisfactory procedure for their purpose.
- Regularly, reviewing office machinery and equipment with a view to its maintenance and replacement where necessary.
- In association with departmental managers, establishing controls with a view to securing efficiency and economy in the use of clerical staff and the completion of routines to time.
- Assisting the human resources manager in establishing satisfactory standards of welfare and grading arrangements for staff, informing him of expected vacancies and approving proposed appointments thereto.
- Eliminating of delays in clerical procedures in all departments in association with managers thereof.

**Positive Traits of a good Administrative Manager**

There are a number of positive traits of a good Administrative manager, and some of them are:

- An Administrative Manager must have adequate problem solving – skills. Since the Administrative manager is a centre of complaints receiving from employees almost on daily basis, he/she must be a good problem solver by nature. Even when he/she cannot be able to solve those problems or complaints on his own, he must know where to take them for solutions.
- An Administrative Manager should also be personable in nature. Since he is the one who is supposed to deal with others, both inside and outside the office environment, it is pertinent for him to be good conversationalist. He must be at ease while conversing with others as this enables him to get the job in the most efficient way possible.
- An Administrative Manager must possess good mathematical skills as he will be working with numbers on a frequent basis. Not only an administrative manager has to perform payroll duties, but he also heeds to perform accounting tasks as well. Those that have good mathematical skills will be able to get the job done as quickly as possible.
An Administrative Manager must possess good multitasking skills. Frequently an administrative manager will feel himself being pulled in every different direction, so it is important for the Administrative Manager to know how to do multiple things at one time.

Lastly, but not the least, an Administrative Manager should be leaders by nature. He should be comfortable with filling a leading position and be able to resolve all problems which come their way. By being a natural leader, he will be able to complete his daily duties in a timely and efficient manner.

**Characteristics of a bad Administrative Manager**

Administrative managers are managers in general, and therefore the characteristics of bad administrative managers do not apply to them only but also the rest of the managers. Here are some of the characteristics of bad managers in general.

- They choose favourite employees and cover up and make excuses for the poor work of their incompetent favourites. They ignore selected people and discriminate against many employees.

- They fail to communicate and may not even have expectations, timelines or goals. They change their minds frequently leaving employees off balance. They also change their expectations and deadlines frequently.

- They use disciplinary measures inappropriately when simple, positive communication would correct the problem. In addition, they ignore employees until there is a problem, and then pounce.

- They speak loudly, rudely, one-sidedly to staff. They do not give chance to staff to respond to accusations and comments. They intimidate and bully staff.

- They take credit for the successes and positive accomplishments of employees. They are equally as quick to blame when something goes wrong.

- They fail to provide rewards or recognition for positive employee performance.

- They are not qualified for the manager job by either skills or experience.

- They will not accept constructive feedback and suggestions for improvement.
Revision Questions
1. Define administration.
2. Explain the difference between management and administration.
3. Discuss the duties of administrative manager.
CHAPTER 5

PRODUCTION

This chapter covers definition of production, identifies factors of production, types of production and approaches to production management.

Objectives

By the end of this chapter the student should be able to:

- Define production.
- Describe factors of production.
- Identify types of production.
- Explain approaches to production management

What is Production?

The word production is often synonymous with making things. However, making things alone belong to the form of production called manufacturing. Production encompasses both making things and provision of services. However, our concern in this particular topic is the production form which is synonymous with making things, hence manufacturing. Production is essentially the process by which raw materials are transformed into finished goods. Finished goods could be products or services.

Factors of Production

Factors of production are also known as agents of production. They are those things that must be present when manufacturing a product or when doing business. There are four factors of production and these include: land, labour, capital and entrepreneurship.

Land

It refers to all the natural resources on earth. This includes; water, minerals, plants, animals and all the products of extractive occupations like agriculture, fishing and mining. Land is the basic factor of production as every business needs to be situated somewhere on land.

Labour

It is another factor of production and refers to people that work for the business or the manufacturer. People are employed in factories, forms and offices. Labour has value and the cost for using labour is wages. The wages that a business offers to its employees determine the quality of workers the business can attract and retain. Labour is the factor of production that deals with people.
Capital

Capital refers to money contributed by the business owner to start the business. It also refers to already produced good that are used in the production of other goods and services (assets). Capital is the production factor which is employed to acquire land, labour, machines and other materials required by the business. Capital is classified according to its major usage and it may be classified as fixed or circulating.

Entrepreneurship

Entrepreneurship is also called organization or management. The other agents of production – i.e. land, labour and capital need somebody in the name of an organizer to decide how best these could be combined and produce the desired outcome. In small businesses, the owner is the organizer and is also known as an entrepreneur, and decides on the location of the business, the products to be produced, capital to be employed and the kind of labour to be used etc.

Organisation is the most important factor of production. The success or failure of the business depends on the organization or entrepreneurship. Organisation has value, and the cost or benefit for organization is profit or loss.

Types of Production

There are three main types of production namely:

- Job Production
- Batch Production
- Flow-line Production

Job Production

It is sometimes known as unit production.

It looks at separate identifiable jobs.

Features of Job Production

- Most of the work is done specifically for each customer or order.
- It is labour intensive. The organization may require a wide range of machines, tools and plant.
- Most of the raw materials cannot be stocked in advance.
- Funding is a problem as it requires high labour and machines.
- Work does not normally start until an order has been received
- The labour force is usually versatile (dynamic) and highly skilled to deal with special problems in production.
No regular procedure to production, each job needs individual planning and production.
The supply of raw materials can only be maintained with plenty of early warning because it is usually difficult to balance capacity and requirements.

Flow – Line Production

It is sometimes known as mass production.
It is the opposite of job production Here a product is made on a continuous basis, with unbroken flow of production, passing from one operation to the net.

Types of flow-line production

**Process Production**
Where a single production (e.g. oil or paper) is treated through a fixed sequence of process in a continuous flow.

**Mass Production**
Where individual production such as cars, domestic appliances etc are made in a series of repetitive operations in a fixed sequence, sometimes on an assembly line.

Features of Mass Production

- It has a rigid specification based on development work for the production process or operations.
- It has highly specialized tools and equipment, or plant laid out to facilitate continuous flow.
- It is associated with a high degree of standardisation of methods, tools, equipment and materials.
- It has a carefully balance workload at each work station in the production process.
- There must be sufficient continuous demand to justify the expenditure involved.
- There must be continuous maintenance to prevent breakdown in the flow line.
- There must be a carefully scheduled supply of materials to avoid costly stoppages in the production.
- To remain profitable, it is necessary for the organization employing this method to utilize machinery to completely full capacity.
- This form of production is criticized for the poor quality of life imposed on workers i.e. the content of the individual job of a worker is severely limited, sometimes to one repetitive operation.
Batch Production

Batch production is quantity production of the same product where the items produced are not intended for sale to a specific single customer e.g. loaves of bread.

Features of Batch Production

- It falls between job and mass productions. It is associated with repeated production rather than continuous.
- Employed where orders consist of a significant number of similar items, but not enough to justify continuous manufacturing.
- Industries such as furniture which offer choice of designs in the products use this kind of production. Labour is more skilled in this method of production than in mass production because of variety of work involved and machines are more versatile.
- A producer using batch production will set up a production run when orders for a particular item are received, but has the problem of producing sufficient quantity to make the run profitable.
- Batch production does not only offer some of the cost saving advantages of mass production, but also allows the producer to satisfy individual job orders if necessary because of this more versatile machinery and skilled workers.
- Each batch of work passes from one machine or process to the next stage as work is completed.
- Groups of general purpose machines are needed to cope with the variety of products.
- Comparatively expensive tooling arrangements are needed to cater for this variety of products.
- Good facilities must be provided for transferring of work from one operation to another.

Factory-Lay outs for production

There are four main layouts for production, namely:

Layout By Process (Functional Layout)

Favoured by batch Production
All machines carrying out the same operations are grouped together in one place. The product then moves from one work – station to another progressively until you have finished product.

Layout by product (flow-line)

Machines are grouped to perform the total sequence of process needed to make a complete product or component of a product.

Note that (a) and (b) are tradition layouts, though it is a rare sight to see them used independently.
Group Working

Group here refers to manufacturing rather than to workers. This involves grouping parts or components into families by way of their design, shape, or production requirements. The aim being to improve production efficiency by the utilization of each work-station.

Cell Production

This originates from group technology
A form of worker grouping
Like any group working, cell production operations enjoy a measure of autonomy.

CELL PRODUCTION (WORK CELLS)

Cell production is closely linked to layout decisions. These decisions are concerned with the best placement of machines (in production setting), offices and desks (in office setting) or service centres (in settings such as hospitals or department stores). An effective layout facilitates the flow of materials, people and information within and between areas. To achieve these objectives, a variety of approaches have been developed, one of which is work-cell layout. This layout arranges machinery and equipment to focus on production of a single product or group of related products. A work cell reorganizes people and machines that would ordinarily be dispersed in various departments into a group so that they can focus on making single product or group of related products. These arrangements are used when volume warrants a special arrangement of machinery and equipment. In a manufacturing environment, group technology identifies products that have similar characteristics and lend themselves to being processed in a particular work cell.

Advantages of work cells include:
- **Reduced work-in-progress inventory** because the work cell is set up to provide one-piece flow from machine to machine;
- **Less floor space required** because less space is needed between machines to accommodate work-in-process inventory;
- **Reduced raw material and finished goods inventories** because less work-in-process allows more rapid movement of materials through the work cell;
- **Reduced direct labour cost** because of improved communication among employees, better material flow and improved scheduling;
- **Increased use of equipment and machinery** because of better scheduling and faster material flow;
- **Reduced investment in machinery and equipment** because good facility utilization reduces the number of machines and the amount of equipment and tooling.
Choice of Production-line

You decide on the choice of the type of production line on the following bases:

- The need for highly specialised machinery.
- The need for availability of an adequate supply of labour with the right skills.
- The ability to operate long continuous runs.
- The form of the product.
- The physical aspects of the factory building.

Production Management

Production management ensures that materials, labour and equipment resources of the organization are utilized to the best and most economic advantage.

Divisions of manufacturing undertakings

Marketing – Oriented Organisation

This believes that those responsible for production management should plan production to fit in with the requirements of the market, and the sales forecasts which the marketing section has prepared.

Production – Oriented Organisation

This believes that production will make only what it can make in the most conveniently way, and the marketing section must sell that. However, modern society believes that success goes to those who are marketing – oriented unlike those who are production – oriented.

Functions of Production Management

Production management has many functions. Some of them are:

- The type of Production-line and assembly-line methods and layouts (discussed above)
- Production Engineering
- Production Planning
- Production Control
- Production Inspection
- Quality Control

1. Production Engineering

This occurs before actual production. Decisions taken before production have bearing on the success or failure of the actual production.
Work at this stage is the responsibility of the production manager, but delegates it to the Production Engineer.

The Production Engineer is therefore responsible for the following:-

- Identification of the most effective way of carrying out the Production process.
- Explaining methods to be used in the production process, and selection of the machinery and equipment required.
- Defining the required standards of quality and tolerances to be worked to, at each manufacturing stage.
- The designing of special tools and jigs for use on the machine tools to be utilized in production.
- Regular monitoring of production processes with the view to make improvements and introduce newer technology as it develops.

2. Production Planning

Production Planning uses engineering decisions and covers the requirement to plan the actual manufacturing of the products.

It is controlled by production planning manager, sometimes called Production Planning Engineer.

Duties of the Production Planning Engineer

- To determine when production should take place and the time scale involved.
- Preparations of work and materials, timetables so that labour and materials are available at the right time and quantities.
- Preparation of machine utilization timetables – known as “machine loading” to ensure machine and operator availability and the most economic use of plant operators.
- To maintain close unity with the design and sales sections, with actual production on runs and production.

3. Production Control

Production control is an extension of production planning. In some small organizations both functions are held by one manager.

Production planning says what is to be done, while production control ensures that it is done.

Production control is indeed progress chasing i.e. monitoring the passage along the production lines of the items being manufactured.
Ensuring that time tables are being maintained.

Correcting delays or deviations.

Progress chasing checks work through job cards. Each job card has progress slip which has to be completed when work is over.

Other functions of the Production Controller:-

- Checking machine utilization
- Ensuring adherence to materials delivery timetables
- Checking labour utilization
- Cost control
- Quality control of output and services
- Control of total output volumes
- Checking efficiency of working

4. Inspection

At the hub of inspection is quality checking of items produced.’

Items produced should meet the standards set by the organization in view of its market.

It helps to prevent production of waste and unacceptable products which would result in losses.

Inspection starts with goods in receipt to ensure that inputs into the production process have the right quality.

5. Inspection Times

- On receipt of inputs
- Preproduction run, to ensure the correct setting up of machines.
- During the production run to ensure that the machines are maintaining their correct settings.
- Pre-assembly (the parts to be assembled should be inspected for quality before being incorporated into the final product ready for sale)

6. Quality Control

Quality control is best done through tests, though highly expensive to carry out. Tests, expensive as they are, reserved for products where public safety is at risk, or those products that go to highest quality market.
Quality control can be through inspection of samples at regular or irregular intervals.

Quality control can also be carried out in a more scientifically manner through statistical random samples, otherwise known as Statistical Quality Control (SQC) or simply Quality Control (QC).

It is argued that SQC provides means of forecasting the trends in poor-quality production so that it can take care of the quality before it falls below acceptable standards. However, it should be noted that despite of all this, products with faults still land in the hands of consumers.

7. Places of Inspection

Floor Inspection

Floor Inspection is carried out by roving inspectors at the point of production.

It is valuable kind of inspection for it prevents the faulty items receiving any additional processes, and remedial action is taken immediately.

It is adopted easily where you have the skilled labour operating automatic machines, and where the product is too bulky to be transported economically to a central inspection point.

Centralised Inspection

Centralised Inspection occurs where you have a central inspection centre from which sub-assemblies and complete assemblies are brought for testing and checking.

Advantages of this method are:-

- Provides better supervision of the inspection team or department.
- Facilitates development of precise measuring machinery.
- More automatic machines can be utilized.

8. Responsibility for Inspection

There is varied opinion on this. Some prefer to report to managers closest to the production process. Others argue that it should be separated from production operations. Latest opinion is that it should be under a Chief Inspector who is responsible to the production manager.
The make or buy decision

This looks at the issue whether certain parts in the production sector would be made by the producer himself or buy them elsewhere.

Here are some of the advantages of the producer making the parts himself.

- Has complete control over their quality
- Delivery times are completely in the hands of the production team just are the costs.
- Additional earnings may be made which may as well increase the organisation’s profits.
- It is possible to make components which relate precisely to production plans in quality, delivery and cost.
- It could also be a market advantage to claim that the product is completely made by you.

Disadvantages of the decision to make components by yourself.

- Need for finances to fund this part of the product with respect to design costs, manpower and machine suitability.
- More labour and machines may be required in some cases.
- Flexibility in supply may be lost if you commit yourself in producing your own components.

Perhaps it is good indeed to adopt this method if you have spare facilities. On the other hand, if you are socially minded, you would adopt it to give jobs to unemployed or to avoid redundancies.

Revision Questions
1. Discuss the characteristics of different types of production.
2. Explain the main approaches to production management.
CHAPTER 6
PURCHASING (PROCUREMENT)

This chapter covers definition of purchasing, purchasing objectives, responsibilities of purchasing departments, purchasing process, purchasing process, purchasing mix and supply strategy.

Objectives

By the end of this chapter the student should be able to:

- Define purchasing.
- Explain the objectives of purchasing.
- Identify the responsibilities of purchasing departments.
- Describe the purchasing process.
- Describe the purchasing mix.
- Explain the supply strategy.

Definition and objectives

Purchasing is a management control point where all significant purchases are monitored for the right authorization of buying the right item, at the right price, quality and quantity, from the right supplier at the right terms and the right time.

The major objectives of purchasing are:

- to maintain the quality and value of the firm’s products
- to maintain cash tied-up in inventory.
- to maintain the flow of inputs to maintain the flow of outputs.
- to strengthen the firm’s competitive position

Purchasing may also involve:

- development and review of the product’s specifications
- receipt and processing of requisitions
- advertising for bids and bids evaluation
- to award supply contracts
- to inspect goods received
- to appropriately store and release the goods
The Purchasing Department’s Responsibilities

The primary responsibility of the purchasing department is to secure scientific and suitable raw materials, components, other goods and services to ensure that the manufacturing process is fully supplied with all its materials, and to achieve this responsibility in a cost-effective manner. To this end the purchasing department can usually be expected to carry out the following responsibilities:

- The economic acquisition of raw materials, components, sub-assemblies, consumable stores and capital equipment.
- Laising with the design and development department to find suppliers for materials which are to the specifications required by the designers.
- Dealing with suppliers (e.g. discussing prices, discounts, delivery lead times etc)
- Location and selecting suppliers
- Provision of up-to-date information on availability quality, prices, distribution and suppliers for the evaluation or purchasing alternatives
- Maintenance of stock levels.
- Establishing and maintain necessary relationships with internal departments (e.g production, finance, marketing, R & D) and suppliers.
- Developing effective links with existing suppliers, and maintaining good relationships with potential suppliers.

The purchasing process

There are a number of procedures to be followed if a decision to procure an item is made. The sequence of events could follow these lines:

- Purchasing receives a requisition from an appropriate authority.
- Purchasing approaches a selected supplier to negotiate quantity, quality, price and delivery of goods.
- Purchasing seeks an alternative supplier if a satisfactory agreement cannot be reached, or to place an order with the supplier. This could be a one-off or spot, order, or a contract order over a period of time.
- Purchasing maintains records of orders made, orders fulfilled, delivery dates, invoices etc.
- Purchasing arranges for the originating requisition to be met, either directly from the supplier or via stores, and amends its stock or delivery records as appropriate.

The Purchasing Mix

In the purchase of material goods, issues of quantity, quality, price and delivery are crucial in several aspects. These could be described as the key elements of the purchasing mix. The negotiating skills required of those in the purchasing
function are likely to be crucial elements in a company’s ability to produce quality goods at a competitive price.

**Quantity**

The size and timing of orders will be dictated by the balance between (i) delays in production caused by insufficient stock, and (ii) the costs of stock – holding – tied up capital, storage space, deterioration, insurance risk of pilferage.

A system of stock control should be devised, whereby optimum reorder levels (the stock level at which suppliers must be replenished so as to arrive in time to meet demand) can be set, and economic order quantities obtained for individual stock items. Environmental considerations (e.g. seasonal peaks, political pressures) will also influence the decisions about future supply.

**Quality**

The quality of the goods purchased needs to be suitable (i) for the manufacturing process, and (ii) for the customer’s wants. In seeking decisions about quality, the purchasing department must work closely with both production and marketing staff to arrive at a suitable compromise. Inspection of goods received is vital to check that the supplier is fulfilling the order to the correct specification.

**Price**

Purchasing should essentially aim for a price which gives the best value to the organization, taking quality, delivery and relative urgency into account. This may not always be the lowest price available, but the one which represents the best value for a period of time.

**Delivery**

One of the factors which needs to be considered by the purchasing department in the appraisal and selection of suppliers is the reliability of deliveries. The lead time between placing and delivery of an order can be crucial to efficient stock control and production planning. The reliability of suppliers’ delivery arrangements must be carefully assessed. Where lead times are certain, they can be allowed for in stock calculations. Where lead times are uncertain, it makes stock control much more difficult. As said earlier on, not only is stock affected by the delivery situation, so is production.
The Supply Strategy
A key element in the purchasing function is the supply strategy – i.e. the correct choice of suppliers. Here are some of the issues to be considered when choosing a supplier:

Sources of Supply
Consideration should be given to the availability of the sources of suppliers, where they are found, the kind of suppliers they are, and whether they are reliable or not. It is also important to find out whether the suppliers would treat you as a valued customer or not.

Spread of Supply
Should there be just a single source of supply in order to get bulk purchase discounts and minimize costs, or should there be dual sourcing to avoid the risk of lost production and supplier complacency?

Cost of Supplies
How quickly can cost discounts through volume purchases be achieved? Can the supplier be convinced that if he supplies at a low price to encourage low-cost high volume sales, he will soon reap the benefit of large orders?

The make or buy decision
Is it more efficient to make the goods in house or buy them in?

The suitability of the existing supplier
Can existing suppliers produce goods to the required standard? If new standards of quality are required, can existing suppliers match them or not?

The image or reputation of the supplier
This could be a selling point for the buyer’s own customers – e.g. major car Rental firms are pleased to admit that they rent Ford, BMW or other.

Last but not the least, let us remember that the effectiveness of any purchasing function affects the profit of the company in three ways, namely:

- Effective purchasing ensures that the best value for money is obtained by the company.

- Effective purchasing assists in meeting quality targets. Again this has an impact on a firm’s long-term marketing strategy, if quality is an issue.
• An effective purchasing strategy minimizes the amount of purchased material held in stock.

Revision Questions
1. Write the job description of a purchasing manager.
2. Explain purchasing process.
3. Describe purchasing mix.
CHAPTER 7

THE MARKETING CONCEPT

This chapter covers definition of marketing, organizations philosophy towards their production and customers, marketing mix, market research, market and product segmentation.

Objectives

By the end of this chapter the student should be able to:

- Define marketing.
- Explain organizations philosophy towards their production and customers.
- Describe marketing mix.
- Explain market research.
- Explain market segmentation.
- Explain product segmentation.

Definition of marketing

Marketing has been defined by the Chartered Institute of Marketing (CIM) as the management process which identifies, anticipates and supplies customer requirements efficiently and profitably.

Marketing is thus more than selling. It is a means of trying to ensure before hand that the goods produced or services offered confirm to what potential customers want and will buy. Without marketing business organizations would die.

Organisations’ philosophy towards their products and customers

The attitude of firms towards marketing may also be considered in terms of their philosophy towards production, their products and customers. The most notable options are as follows:

- **A production-oriented firm**
  This is an organization which believes that customers will favour products which are available and affordable. As a result, the organization believes that management time should be spent in improving production and distribution efficiency.

- **A product-oriented firm**
  This is a firm which believes that if it can make a good quality product at a reasonable price, then customers will inevitably buy it with a minimum of marketing effort by the firm. The firm will therefore concentrate on product developments and improvements.
A sales-orientated firm
This is an organization which believes that in order to achieve cost efficiencies through large volumes of output, it must invest heavily in sales promotion. This attitude implies in the belief that potential customers are by nature sales resistant and have to be persuaded to buy so that the task of the firm is to develop a strong sales department with well-trained sales personnel.

A marketing-orientated firm
This is a firm which accepts that the key task of the organization is to determine the needs, wants and values of a target market and to adapt the firm to delivering the desired satisfaction more effectively and efficiently than its competitors.

The Marketing Mix
The concept of the marketing mix is central to the whole marketing. It is commonly referred to as the 7Ps of marketing. The term is used to describe the combination of controllable marketing variables that a manager uses to carryout a marketing strategy in pursuit of the firm’s objectives in a given market. Here are the seven elements in the marketing mix:

(a) Product:
The product element of the marketing mix is what is being sold. Therefore a product could be a service. Product issues in the marketing mix will include such factors as:

- Product variety
- Product quality and reliability
- Product design
- Product features
- Product brand name
- Product packaging
- Product services
Etc

(b) Price
The price element of the marketing mix is the only one which deals with revenue. Factors affecting price include:

- Price list
- Discounts
- Trade in allowances
- Payment period
- Credit terms

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(c) **Promotion**

Many of the actual activities of the marketing department are related to promotion. Promotion is the element of the mix over which the marketing department generally has most control. Factors included in promotion mix are:

- Sales promotion
- Advertising
- Sales force
- Public relation
- Direct marketing

A useful mnemonic which summaries the aims of promotion is AIDA which points at:

- Arouse Attention
- Generate Interest
- Inspire Desire and
- Initiate Action

(d) **Place**

The place element of the marketing mix deals with how the product is distributed, how it reaches its customers. Examples of issues relating to place are as follows:

- Where are the products/services sold?
- Which sales outlets will be chosen?
- Will products be sold - by - mail order?
- Channels
- Coverage
- Assortments
- Transport
- Locations
- The location of warehouses and efficiency of the distribution system. Arguably, the speed of delivery is an important issue in place.

(e) **People**

This element is one of the three extended elements from 4Ps to 7Ps of marketing. This element is mostly applicable to services rather than products. Those that advocate this element argue that since people an essential element in production and delivery of services, the quality of the service is largely determined by the quality and behavior of the firm’s staff, and this is particularly true of jobs involving high levels of customer contract.
(f) **Process**

This element refers to systems used to assist the organization in delivering services. Here one looks at the processes that enable a customer to obtain an efficient service delivery. For example, an efficient service that replaces an old credit card in a bank will foster consumer loyalty and confidence in that bank. So the focus of this element is on an organization’s procedures, routines and policies which are used to deliver a service to the customers.

(g) **Physical evidence**

This element also focuses on the organization’s services, and in particular where the service is delivered. So physical evidence is the element of the service mix which includes people and process, which allows the consumer gain to make judgments on the organization. For example, if you walk into a restaurant your expectations are of a clean, friendly environment. In the case of an aircraft, if you travel first class, you expect enough room to be able to lay down.

**Market research**

This is an activity used to try to establish whether the potential customers are likely to buy or not, and to discover the best form the product should take.

This is done before a new product is launched so that resources are not wasted.

Research areas include:

- What is likely to attract the buyer in the product.
- How to attract large numbers with the product. (size, colour, shape etc)
- If it is an old product, what improvements have customers asked for.

Areas of research with a new shop for example.

- Location identification
- Number of potential Customers
- Active Customers
- Average income of the area
- Normal buying habits of the potential customers
- Their particular tastes etc.

Note this is also applicable to non-profit-making sector (e.g. fund raising project).
Divisions of Market Research

Desk research

Research done on a desk through reading.

Reading past records both internal and external; on matters relating to proposed project.

The past records will include among others:-

Past sales, sales representative reports, customers complaints, estimates in sales volume etc.

Externally, collect information from newspapers, magazines, journals, government publications, sales literature etc.

Field research

It involves active field work.

It is carried out through interviews and questionnaires with potential customers.

It is administered through sampling or prototypes of the product.

How the field research is done depends entirely on the nature of the product to be launched.

For example, if it is food stuffs or detergents, usually there is free distribution of the products to be launched to solicit reactions from potential customers.

In the case of high-cost capital equipment, there is need of personal contact with potential buyers and get their reactions.

Market research is very statistical in nature, therefore it requires expert knowledge and experience if the results are to be relied on.

Marketing versus market research

While market research is concerned with the assessment of the market for a new or existing product service, marketing research concerns itself with all the factors bearing on marketing policy and plans.

The factors include:

- Research and evaluation of marketing opportunities.
- Investigations of various promotional and selling methods.
• Investigations of the organisation’s public image in comparison to its effectiveness.
• Investigation of advertising media and their effectiveness.
• Research into customers desires and needs.
• Consideration of various ways of distribution.
• Research into its own existing marketing methods, product research, and Sales policy.

Marketing research therefore includes market research

**Market segmentation**

This is a division of a given market. Market segmentation is indeed a term used to mean dividing a market into categories according to the type of customer, age, sex, income, region or any other logical division that suits the product or service.

**BASES FOR SEGMENTATION**

There are many different bases for segmentation. One base will not be appropriate in every market and sometimes two or more bases might be required at the same time.

Types of market segmentation:

a. **Geographical area**: the needs and behavior of potential customers in rural areas may differ from those in urban areas.

b. **End user**: paper used in an office may vary in quality depending on whether it is used for formal letters or for internal memos.

c. **Buyer behavior**: depends on whether purchase is on impulse; customer loyalty has an impact; or how sensitive the customer is to market mix factors such as the 4Ps.

d. **Demographic**: market is divided on the basis of age, gender, socio-economic group, housing, family characteristics or family life cycle stages. These factors may be used in combination.

Demographic segmentation covers a wide range of possibilities:

- **Age**: banks in Malawi may attempt to attract students in Colleges;

- **Gender**: products targeted by gender include cosmetics, clothing, alcohol, cars and even financial services.

- **Family type**: the size and constitution of the family unit.
- Special social grouping – the National Readership Survey (formerly JICNARS) scale is used by the UK market research industry to provide standardized social groupings. These are based entirely on occupation of the head of the household.

e. Psychographics (or lifestyle segmentation): seeks to classify people according to their values, opinions, personality characteristics or interests. It attempts to discover the particular unique lifestyle patterns of customers. This offers an insight into their preferences for various products and services.

   It enables an organization to decide on best policies in respect to exploiting either the total market or its segments.

   For example, the total market for lamp-posts for streets does include such segments as:-

   - the supply of steel concrete poles and
   - their erection

   One may therefore decide to supply only the lamps, or steel concrete poles, or erecting them or the 3 of them which is the total market.

   The market segment also goes with the categories of customers that one has. One group of the customers may want you to address them with the total market while others just a segment of the total markets.

Product segmentation

   It follows market segment.

   Once customers have been classified in market segment; the product segment classifies the identified segments according to the product each identified market segment needs.

The product life-cycle

   It is a fact of life that all products undergo the following life cycle:

   - Development
   - Introduction
   - Growth
   - Maturity
   - Decline

   Factors that may influence the life cycle of a product whether to be longer or shorter are:-
• New uses of the product.
• Improvements on the product
• New markets
• Price reductions

Two solutions to the problem of product-life cycle

• Introduction of new products to replace those in decline.
• To avoid simultaneous decline in the life-cycle of a product or service.

Pricing

Pricing is an important feature of marketing. It can have an important effect on the success or failure of a new product.

Types of prices

Economic Price

This is the lowest price that can be set to cover all costs and have a reasonable profit.

This is the true economic price which will justify continued production.

True economic price is also said to be the price “the traffic will bear” i.e. the highest price which the consumer will pay and attract a satisfactory sales volume. This is higher than the purely economic price.

The economic price survives until other sales begin to fall off or competitors enter the market with a similar product at a lower price.

The Market Price

This is the price which customers are expected to pay, especially when the product is competing with similar products.

The price should not be higher than demanded by the competitors or lower than demanded by competitors otherwise it will be considered inferior in quality.

The Psychological Price

Two types of psychological prices

• That which concerns luxury goods e.g. jewelry, perfumes, high class watches etc often bought as gifts.
  Here the buyer expects to pay high prices because the gifts are of high value.
Again, such quality goods as motorcars, cameras, hi-fi equipment etc command higher prices than the economic price.

- The price which sounds lower than it really is e.g an article marked K99.99 sounds cheaper than if it were marked K100.

Similarly, a verbally quoted price of two hundred and fifty thousand kwacha sounds significantly less than a quote of a quarter of a million kwacha, although they are the same.

**Pricing a new product**

This is not an easy task, especially in the face of competitors.

**Factors to consider in Pricing**

- Establish some level of brand loyalty in the first place by offering price incentives to customers e.g. low price first.

- Enter the market at an average market price, but then have something in the product that would make it clearly different from that of its competitors.

- A totally new product should normally have a high-price, but to be reduced when other competitors join the market.

- Recovering of R & D costs – should they be covered at once at the launching time or spread them over at a longer period?

**Advertising**

It is concerned with selling organisation’s goods and services.

**Major functions of advertising.**

- To inform- making the public aware of the organizations products or services
  
  Introduce new products to potential buyers.

- To persuade- generating a desire for the product being offered, and then turn this desire into a need that must be satisfied.

- To convince- having attracted attention and created the desire, advertising then becomes a two ford one.

  (i) To convince the potential buyer that the advertised product is the only one which can fill satisfactory the created desire.
(ii) To convince the buyer that future purchases should be of the same brand as the only way of achieving continued satisfaction.

Types of advertising media

- The press (local, international, daily national, etc)
- Television
- The radio
- Direct mail
- Slides/firms
- Theater
- Public Transport
- Posters
- Magazines/Prospectus

Factors determining the choice of media

- The market aimed at
- Is the market local or national
- Section of the public aimed at
- Availability of names and addresses
- Advantages of the choice made
- Past effectiveness of the medium
- Budgeting allocation for it
- Budgeted sales
- Frequency of the medium
- Reliability
- Coverage
- Urgency of the advertisement

Advantages of advertising to the consumer

- Through it demand becomes high inducing large scale production results.
- It encourages more careful examination of competing goods by consumers.
- Poor quality products are withdrawn from marketing because of widespread dissatisfaction by consumers through examination of the adverts.

Public Relations

This is part of marketing and promotion. It is defined as deliberate, planned and sustained effort to establish and maintain mutual understanding between one organization, the public and the employees at all levels.
At its best, it focuses on maintaining the good image of an organization in the public’s eye.

Today many organizations have Public relations officer or manager from the marketing team.

His duties include handling complaints and criticisms from customers and the public at large.

He informs the public about the organisation’s actions and policies which touch them.

To enhance the organisation’s image, the organization sometimes sponsors social and sporting activities and give donations to the needy inform of money

**Revision Questions**
1. Explain the components of marketing mix.
2. Discuss the approaches to market segmentation.
3. Explain the merits and demerits of each type of market segmentation.
CHAPTER 8

FINANCE FUNCTION

This chapter covers financial management, sources of finance, control methods of financial resources and financing strategies.

Objectives

By the end of this chapter the student should be able to:

- Define financial management.
- Identify sources of finance.
- Describe control methods of financial resources.
- Explain financing strategies.

Definition of Financial Management

Van Horne (1986) suggests that financial management involves the solution of three inter-related decisions namely:

- The investment decision – the process of selecting new investments for an organization to undertake.
- The financial decision – determining the best financing mix or capital structure for the organization.
- The dividend decision – deciding how much of the profits made by the organization should be paid as dividends and how much should be retained in the business.

Let us note that while financial management is the taking of investment, decisions, financing, dividend and operating decisions that affect profits, management of finance on the other hand is the responsibility for the handling of cash, invoices, and other financial documents and for recording the affairs of the business in the books of account.

Financial accounting management responsibilities are largely concerned with the management of finance. Accounting managers, especially cost and management accountants are advisers and information providers in the sphere of financial management. For many companies, as hinted earlier on, financial management can be an issue of strategic importance.

Sources of finance

There are several ways by which a company may raise new funds for its operations. Some of those ways are:

- The capital markets
  
  i. New shares issues-for example by companies acquiring for the first time.
ii. Rights issues - that is when existing companies issue shares to investors for money
iii. Issues of loan capital

- **Retained earnings** – that is profits earned in a year which have been kept in the company as opposed to being distributed to share holders.
- **Bank borrowings** – it could be either on a short or long – term basis.
- **Debentures** – that is the company may borrow funds from individuals or other companies rather than financial institutions. These become ordinary creditors to the company.
- **Government sources** – for example grants or tax reliefs.

**Control of financial Resources**

Whilst the finance department often has a staff or functional relationship with other departments, it has its own unique duties and structure. These are briefly outlined below.

- **Finance Accounting**

  Financial accounting is that part of accounting which covers the classification and recording of actual transactions of any entity in monetary terms in accordance with established concepts, principles, accounting standards and legal requirements and presents as accurate a view as possible of the effect of those transactions over a period of time and at the end of the time.

  The Companies Act requires directors of companies to maintain adequate records to show its transactions, assets and liabilities, and from which accounts can be prepared to show its profit or loss for the accounting reference period and its balance sheet, detailing assets, liabilities and capital, at the end of that reference period. In addition, the information must be reported to the shareholders in accordance with the detailed disclosure requirements of the Companies Act and financial reporting standards.

- **Treasury Management**

  Treasury management is an aspect of accounting distinct from the control function. Its aims are to plan and control the sources and uses of funds by the organization in the most efficient way possible. This function includes:

  i. Cash budgeting, daily, weekly, monthly, quarterly, and annually.
  ii. Arranging a bank overdraft facility, borrowing funds in the money markets and capital markets,
  iii. Repaying sums borrowed when the loans mature.
  iv. Comparing actual cash flows against budget and
v. Possibly the cashier’s duties of making payments to suppliers, paying wages and banking receipts.

In international or multinational companies the Treasury function has a very important role to play in managing the company’s dealings in foreign currencies. Some of the reasons could be:

i. Any foreign currency operation invariably involves a risk that changes in the exchange rate will increase or decrease costs and revenues. This in turn can affect the profitability of the transactions of the company with the outside countries.

ii. If costs are in one currency and revenues are in another, then movements in exchange rates can turn a budgeted profit into a loss.

iii. If assets are in one currency and liabilities are in another, then changes in an exchange rate can affect a company’s gearing in its financial reporting.

There are various ways in which the exchange risk can be minimized. They include hedging, options and forward exchange contracts.

- **Working Capital**

A company’s management of its working capital is an important feature of success. Working capital consists of cash, which has been mentioned above, and also accounts receivable, accounts payable and stocks.

**Accounts Receivables** are individual persons or companies who owe a debt. Debtors can be managed by effective credit control. The costs of poor credit control are:

i. Bad debts – that is, sales revenues is not received for goods or services sold. In effect this means that one has given away the goods.

ii. A company which cannot collect its debts in time might have to use bank overdraft finance to pay its bills. If the bank is concerned about the security of its loan, this might mean the company is vulnerable to increases in interest rates, or bank credit decisions.

Note that ensuring that debtors pay in a reasonable time is indeed a function of the credit control section. In addition, companies can offer settlement discounts to debtors who pay earlier than agreed.

**Creditors** are persons or companies to whom a debt is owed e.g. a supplier. Many companies delay in paying these creditors even when they themselves (i.e. the companies) try to collect their debts as soon as possible. In effect they use suppliers as a sort of credit finance. Payments to suppliers are an outflow of funds. However, in the long term it may be more important to establish reliable commercial relationships with them than squeeze every penny out of them in the short-term.
Stock on the other hand is also working capital. Stock levels are the subject of some of the production systems discussed earlier. To recap, Just In Time (JIT) production systems minimize stock to save on holding costs, and to minimize the risk of obsolescence.

- **Cost accounting & management Accounting**

The task of accounting managers or supervisors is to direct or supervise the work or the cost accounts section. Cost accounting is defined as that part of management accounting which establishes budgets and standard costs and actual costs of operations, processes, departments or products and the analysis of variances, profitability or social use of funds.

The cost accountant’s main function is to provide information to other managers cost accountants as staff officers must work closely with the rest of the management team if they are to do their job well.

**Management accounting** on the other hand is an extension of cost accounting so that cost accounting is part of the management accounting function. Within an organization, the structure of management authority might be for the management accountant to be in charge of the cost and management accounting section, with several subordinate cost accountants reporting to him or her.

The success of the cost and management accounting managers in meeting their job objectives will depend on:

- The quality of the information they provide; and
- Whether the information they provide to other managers is used by them properly

**Financing strategies**

A strategy is a means by which certain objectives can be accomplished. It is a course of action undertaken to achieve a particular objective. The role of finance in this regard is threefold.

- Finance is a resource, as such it can be deployed so that objectives are met.
- Objectives are often expressed in financial or semi-financial terms.
- Financial controls are often used to plan and control the implementation of strategies. Financial indicators are often used for detailed performance measurement.

As a planning medium and a tool for monitoring, financial management contributes to the strategy in the following ways:

- By ensuring that resources of finance are available in order to meet a strategy. Issues of raising equity or capital are important here. For example the amount
of resources that a strategy will consume needs to be assessed, and the likely cost of those resources needs to be known in advance.

- By integrating the strategy into budgets for revenues, operating costs and capital expenditure over a period. The budgeting process serves as:
  
  i. A planning tool  
  ii. A means of financial control and monitoring

- By establishing the necessary performance measures, in line with other departments for monitoring strategic objectives.

- By establishing priorities, if for example, altered conditions make some aspects of the strategy hard to fulfill.

- By assisting in the modeling process. Financial models are simplified representations of the business. It is easier to experiment with models, to see the effect on the business changes in variables, than with the business itself. As finance is a measure of success, it is also a measure of sensitivity.

**Revision Questions**

1. Explain the sources of finance for an organization.
2. Describe the ways in which financial resources can be controlled.
3. Explain financing strategies.
CHAPTER 9

RESEARCH AND DEVELOPMENT

The chapter covers types of research, functions, allocation of resources and challenges of R & D.

Objectives

By the end of this chapter the student should be able to:

- Describe main types of research.
- Identify functions of R& D.
- Identify factors that determine allocation of resources to R & D.
- Differentiate product from process research.
- Identify challenges of R & D.

Research is a careful, systematic, patient study and investigation in some field or area of knowledge, undertaken to increase or revise current knowledge or to find out a solution to an existing problem, or developing new processes, products or techniques. Research has been necessitated by the increasing technological knowledge, competition pressure and factors relating to products life-cycle. The growth and survival of any organization is therefore questionable if it cannot engage into R & D. Development on the other hand is the use of existing scientific and technical knowledge to produce new (or substantially improved) products or systems, prior to starting commercial production operations. When research finds the basic elements of a new material or product or improvement to an existing one, development translates these basic findings into practical application. Development of a new products or existing product is therefore refining it through interviews or test from time to time.

Main types of Research

There are two main types of research, namely Pure and Applied Research.

- **Pure research** is original research to obtain new scientific or technical knowledge or understanding. It is concerned with furthering knowledge. It is basically exploratory. There is not obvious commercial or practical end in view. However the origins of new materials, methods and applications can be traced through this kind of research.

- **Applied research** on the other hand is also original research work like pure research, but it has a specific practical aim or application (e.g. research on improvements in the effectiveness of medicines). It is this type of research in which industry is heavily involved. It is concerned with investigation and
solving an identified problem or project with a view to ultimate commercial exploitation.

The functions of the R & D department

Here is a summary of the functions of the R & D department.

- Providing the organization with knowledge of current opportunities and threats presented by developments in the technological environment.
- Contributing to corporate planning by identifying threats and opportunities in the current and potential product bases and processes of the organization.
- Developing new products, or prolonging the lifespan of old products, in response to market changes, competition, changing cost structures and the stage the product life cycle reached by the existing products.
- Developing new production processes, in response to the need for increased productivity or cost reduction, or to the availability of new technologies.
- Creating and supporting the organization culture of adaptability and innovation.
- Running the department at a pre-planned cost.
- Achieving a predetermined percentage of new products in the company’s line of suitable products.
- Getting a head of or catching up with competitive technology.
- Producing new product plans by an agreed date and at a predetermined cost.

Development of a new product

The development of a new product might follow stages set out below:

- Preparing a ‘duty’ specification for the new products.
- Preparing a ‘model shop’ sample.
- Preparing drawings of components or computer models (in CAD systems) of the product.
- Preparing methods of assembly and assembly procedures.
- Supervising first product runs.
- A field test
- Releasing the product for full production and selling to the market.

Financing R & D department

There are no hard and fast rules over this issue. Some of the factors that will determine the amount of funds to be spent on R & D are as follows:

- the nature of the products involved.
- the size of the organization carrying out the research.
- its financial strength
- the extent to which the industry itself is subject to a technology change.
- how much a competitor is spending in the same type of research?
• how much the organization spent in previous years, bearing in mind the success or failure of those years?
• what is the remaining life span of the current product or products?

Many large manufacturers, particularly of highly technical machine tools and pharmaceuticals, now pay universities and other professional research bodies to carry both pure and applied research in their sphere of interest.

Product and Process Research

It is possible to analyse R & D into two categories namely, Product & Process research. The difference between them is that product research is based on researching new products. In other words, the organisation’s offer to the market, whereas ‘process research is based on improving the way in which those products or services are made or delivered.

Product research involves developing, testing and prototyping. A proposed new product will go through an extensive screening process whereby the idea is assessed for its:

• conformance to the firm’s strategic objectives
• customer demand or possible customer demand
• technical plausibility

Process research is also important although from a different perspective. Processes are sometimes crucial to the successful and timely delivery of products and services. This is particularly true in service industries. Process redesign can greatly enhance productivity. Process research can also help in planning. If you know how long certain stages in a project are likely to take, you can plan the most efficient sequence.

Problems with R & D

There are many problems with R & D and some of them are:

• The research staff is not the easiest of staff to control. The nature of their work makes them independent and individualistic.
• Because of intense interest in a particular project, research team is tempted to carry on with the work beyond the point where the outcome of the research would be economically viable.
• Where several research projects are going on at the same time, it becomes very difficult to agree on priorities when it is necessary to stop some of them temporarily.
• Where work has been going on for some time on a research project which seems to have reached stalemate, there is often real difficulty in deciding when to abandon it.
Occasionally, management or a forceful member of it, will insist on research being done from a sense of prestige only – waste of resources.

**Possible measures of budgetary control over R & D funding**

An organization may want to apply any one or more of the following approaches:

- Rigid application of budgetary control (unthinkable)
- Flexibility in budgetary control (plausible)
- Imposition of time limits on projects and review progress from time to time.
- Have experienced and skilled personnel to take charge of the R & D work so that you can have commercially sound judgments.

**Value analysis**

Value analysis is a technique used to help in reducing manufacturing cost without undermining the quality or use of the product.

It is carried out by a team comprising members from R & D, purchasing, production and marketing departments. Each component of the product is studied and examined so as to determine the ones that can be replaced by more efficient and less costing materials and techniques. The incorporation of plastic components in radios, TVs and other machines than the usual expensive metal is a case in point. Value analysis also solves the problem where the life of components of a product outlive that of the total product. Value analysis solves the problem of where a product lives much longer than the time required for its use.

If properly employed, value analysis can be useful and cost saving for both the manufacturer and the customer.

**Product Standardisation**

Production standardization is another method of reducing manufacturing costs and simplification of the holding of stocks and spare parts. Basically, it is the reduction of unnecessary differences in parts and components going into completed units. A typical example is that of TV remote control hand units – A good solution to this has been the introduction of a Universal remote control. The philosophy behind standardization is to minimize differences as much as possible.

Standardisation applies also in industry overall e.g. it would be incomprehensible for domestic light bulbs of any make not to fit the normal lamp holder, or any audio-tape not to be played on any normal audio-tape recorder.

Where standardization is not achieved in this manner, often times the industry in question finds difficulties in exploring its products to the full.
Product Simplification.

Product Simplification is the making of a product simpler and less complicated. Simplification of a product originated from value analysis. It is normally associated with a reduction in the variety of the products manufactured. Sometimes it is referred to as “rationalization” e.g. a paint manufacturer may restrict the number of packaging sizes of the paint produced or may reduce the number of colours. Both of these decisions will result in simplification.

Simplification does indeed save costs and reduces stock varieties. It is not only manufacturers who use it, but also retailers in times of recession. They rationalise their stocks by reducing the variety held. Simplification is a function of marketing and production rather than R & D but close to standardization.

Revision Questions
1. Explain the types of research types.
2. Discuss research process.
3. Explain the functions of R & D.
4. Explain the challenges of R & D.
CHAPTER 10
HUMAN RESOURCES MANAGEMENT

This chapter covers HRM definition, objectives, functions, roles and HR practices.

Objectives

By the end of the chapter, the student should be able to:

- Define HRM
- Identify objectives of HRM.
- Explain functions of HRM.
- Identify HRM roles.
- Describe the process of HR planning.
- Explain HR training and development.
- Explain the concept of career development.
- Explain labour relations

Definition of HRM

Human resources management (HRM) is concerned with the most effective use of an organization’s human resources. It deals with people at work and their relationships as they arise in the working environment.

The phrase human resource management as opposed to personnel management has gained currency as the scope of personnel management was felt to be restricted to ‘hiring and firing issues. The human resources approach, on the other hand deals with the employee’s entire working life at the company, not just his or her contractual relationship with it. HRM is also concerned with values, in that its aim is not simply to obtain employees’ consent but their commitment to management goals.

Objectives of HRM

It is possible to identify four main objectives of HRM, and these are:

- To develop an effective organization which will respond effectively to change
- To obtain and develop the human resources required by the organization and to use and motivate them effectively
- To create and maintain a co-operative climate of relationships within the organization
- To meet the organization’s social and legal responsibility.

These are implemented and achieved in various activities in the organization.
Functions of HRM

As already stated above, HRM’s scope is extremely broad and include such areas as:
- Recruitment and selection
- Reward systems
- Organization and job design
- Employee training and development
- Leadership and team building
- Change management
- Manpower and succession planning
- Employee communications
- Performance management
- Counseling
- Incentive and benefit schemes
- Management development

HRM Roles

The activities carried out by HR practitioners will of course vary widely according to the needs of the organisation, the job they carry out and their own capabilities. In general, however, they provide services, guidance and advice.

Reactive/Proactive Roles

HR practitioners can play a mainly reactive role. They do what they are told or asked to do. They respond to requests for services or advice. They provide the administrative systems required by management. This is the non-interventionary role in which HR people merely provide a service to meet the demands of line managers.

But at a more strategic level, HR specialists take on a proactive role. They act as business partners, develop integrated HR strategies, intervene, innovate, act as internal consultants and volunteer guidance on matters concerning upholding core values, ethical principles and the achievement of consistency.

As business partners, HR practitioners share responsibility with their line management colleagues for the success of the enterprise. HR specialists as business partners integrate their activities closely with top management and ensure that they serve a long-term strategic purpose, and have the capacity to identify business opportunities, to see the broad picture and to see how their HR role can help to achieve the company’s business objectives.

HR practitioners in their role as business partners are aware of business strategies and the opportunities and threats facing the organization. They are capable of analyzing organizational strengths and weaknesses and diagnosing the issues facing the enterprise (PEST analysis) and their human resource implications. They know about critical success factors that will create
competitive advantage and they can draw up a convincing business case for innovations that will add value.

**Service Role**

The basic activity carried out by HR specialists is that of providing services to internal customers. These include management, line managers, team leaders and employees. The services may be general, covering all aspects of HRM: human resource planning, recruitment & selection, employee development, employee reward, employee relations, health & safety management & welfare. Or services may be provided in only one or two of these areas by specialists. The focus may be on the needs of management (e.g. resourcing), or it may extend to all employees (e.g. health & safety).

The aims are to provide effective services that meet the needs of the business, its management and its employees and to administer them efficiently.

**Guidance Role**

To varying degrees, HR practitioners provide guidance to management. At the highest level, this will include recommendations on HR strategies that have been developed by processes of analysis and diagnosis to address strategic issues arising from business needs and human, organisational or environmental factors. At all levels, guidance may well be provided on HR policies and procedures and the implications of employment legislation. In the latter area, HR practitioners are concerned with compliance – ensuring the legal requirements are met.

Providing guidance in the above areas means taking on the roles of business partner, strategist, innovator, interventionist, internal consultant and monitor as described in the next section.

More general guidance may be given on the values the organisation should adopt in managing people. This role of acting as ‘guardian’ of people values is also discussed in the next section.

Guidance will also be provided to managers to ensure that consistent decisions are made on such matters as performance ratings, pay increases and disciplinary actions.

**Advisory Role**

HR practitioners provide advice on such matters as job design, advertising for staff, drawing up short lists for selection, identifying methods of training needs, the rates of pay to be offered to on recruitment or promotion, health & safety requirements, employee relations issues (disputes, grievances and communications) and handling people problems (discipline, capability, absenteeism, timekeeping, etc.).

Advice will be given to managers and team leaders on the above issues but it will also be provided to individuals. This may deal with aspects of work and development such as the suitability of the present job, developing competence and employability, self – managed learning and career development. It may cover problems arising from work, such as physical ailments, stress, incompatibility with managers or colleagues, bullying or sexual harassment. It could
extend to personal problems that affect employees at work. These activities mean that the HR practitioner can take on the roles of counsellor and mentor as well as problem solver.

As mentioned above, the activities of HR practitioners involve taking on a number of different roles. Again, the extent to which any of these roles are carried out depends on the practitioners position in the organisation, the expectations of the management on the contribution HR should make, and the practitioner’s own capacity to make an impact, exert influence and demonstrate that the services, guidance and advice provided add value. The main roles that can be played are described below.

**Partner Role**

As strategists, HR practitioners address major long – term issues concerning the management and development of people and the employment relationship. They are guided by the business plans of the organisation but they also contribute to the formulation of the business plans. This is achieved by ensuring that top managers focus on the human resource implications of their plans. HR strategists persuade top managers that they must develop plans that make the best use of the core competences of the organisation’s human resources. They emphasize that people are a strategic resource for the achievement of competitive advantage.

A strategic approach to managing people means that HR strategists strive to achieve strategic integration and fit. Integration means that strategies are linked together to form a coherent whole. Vertical integration takes place when HR strategies are linked to and support business strategies. Horizontal integration is achieved when a range of coherent, interconnected and mutually reinforcing HR strategies are established. Strategic fit means that both the business and HR strategies meet the particular needs and circumstances of the organisation.

**Interventionist Role**

To intervene is to modify the course of events. An intervention is an action or an event in itself that is intended to achieve this purpose.

HR practitioners are well placed to observe and analyse what is happening in and to their organisations. They can take a somewhat detached, albeit empathetic, view on what is happening to organisational processes and their impact on people. Line managers may find this more difficult because of their inevitable preoccupation with operational matters. The role of HR specialists is to adopt an all – embracing, holistic approach to understanding organisational issues and their effect on people.

Following their analysis, HR professionals can produce a diagnosis of any problems and their causes and formulate proposals on what should be done about them. Interventions can be concerned with organisational processes such as interaction between departments and people, team work and structural change, for example delayering. It may be necessary to intervene with proposals on job design, team building, training, communications and involvement in anticipation of the people implications of the introduction of new technology, a business process re – engineering exercise, a change in work methods, or the launch of total quality or improved customer service initiatives.
HR practitioners can also intervene when they believe that existing people management processes need to be improved or changed. They can observe problems of performance, productivity, competence, motivation or commitment and intervene with ideas on how these can be dealt with by, for example, performance management and reward processes. Similarly, they can identify high levels of employee turnover, a multiplicity of grievances and unfair dismissal cases or other evidence of poor morale, established causes and then make proposals on any actions required in such areas as selection, training, pay and the provision of extra guidance and help to line managers.

**Innovation/Change Agent Role**

A proactive approach to HRM will mean that HR specialists will want to innovate - to introduce new processes and procedures which they believe will increase organisational effectiveness.

The need for innovation should be established by processes of analysis and diagnosis that identify the business need and the issues to be addressed. ‘Benchmarking’ can take place to identify ‘best practice’ as adopted by other organisations. But ‘best fit’ is more important than ‘best practice’, In other words, the innovation should meet the particular needs of the business, which are likely to differ from those of other ‘best practice’ organisations. It has to be demonstrable that the innovation is appropriate, beneficial, practical in the circumstances and can be implemented without too much difficulty in the shape of opposition from those affected by it or the unjustifiable use of resources - financial and the time of those involved.

The danger is that HR people may go in for ‘impression management’ – aiming to make an impact on senior managers and colleagues through publicising high profile innovations. HR specialists who aim to draw attention to themselves simply by promoting the latest flavour of the month, irrespective of its relevance or practicality, are falling into the trap, described as follows: ‘The constant worry of all HR administrators is their inability to prove that they are making a contribution to the enterprise. Their pre – occupation is with the search for a “gimmick” which will impress their management colleagues.’

The risk is that people believe ‘all can be improved by the wave of a magic wand and the slaying of a few evil characters along the way’. This facile assumption means that people can too readily devise elegant solutions which do not solve the problem because of the hazards encountered during implementation – for example, indifference or open hostility. These have to be anticipated and catered for.

**Internal Consultancy Role**

As internal consultants, HR practitioners function like external management consultants, working alongside their colleagues – their clients – in analysing problems, diagnosing issues and proposing solutions. They will be concerned with the development of HR processes or systems, for example performance management, personal development planning or new pay structures, and in ‘process consulting’. The latter is concerned with process areas such as organisation, team building, objective setting, quality management, customer service and, importantly, change management. Process consulting is the most challenging field for internal consultants because it
requires both skill and credibility, and external consultants may seem to be more credible because of their perceived expertise and independence.

In some organisations, HR specialists may be assigned service delivery contracts in such fields as recruitment and training. HR practitioners in their roles as interventionists and innovators are ideally placed to identify needs as they arise. They do not have to wait to be asked, as do external consultants. But management consultancy requires considerable skill and this is possibly even more the case with internal as distinct from external consultancy. Internal consultants must:

- Understand the strategic imperatives of the organisation and its business plan, environment and culture and their advice must be embedded in this understanding;
- Have well-developed analytical and diagnostic skills;
- Be good project managers able to plan and conduct assignments through the stages of contact, contract (deliverables and cost), data collection, analysis, diagnosis, feedback, discussion and agreement of recommendations, and implementation;
- Be able to act as ‘experts’ as well as helpers;
- Understand the needs of their internal clients and work with them in developing solutions while at the same time preserving the appropriate degree of independence and objectivity so that they can bring their expertise to bear on the issue or problem;
- Ensure that their internal clients ‘own’ the solution and are capable of implementing it and want to do so.

**Monitoring Role**

As monitors of the application of HR policies and procedures and the extent to which the organisation’s values concerning people are concerned, HR practitioners have a delicate, even a difficult, role to play. They are not there to ‘police’ what line managers do but it is still necessary to ensure that the policies and procedures are implemented with a reasonable degree of consistency. This role can mean that HR specialists can act as ‘regulators’ who are ‘managers of discontent’ involved in formulating and monitoring employment rules. Although the tendency is to devolve more responsibility for HR matters to line managers, they cannot be given total freedom to flout company policy or to contravene the provisions of employment, equal opportunity and health & safety legislation. A balance has to be struck between freedom and consistency or legal obligations. For example, line managers may be given authority to award pay increases within a budget, but the HR department may monitor proposals and have the right to question unusual awards or distributions of increases. When a disciplinary case arises, the HR department has the right to insist that the standard disciplinary procedure is followed.

HR practitioners may also act as the guardians of the organisation’s values concerning people. They point out when behaviour conflicts with those values or where proposed actions will be inconsistent with them. In a sense, their roles require them to act as the ‘conscience’ of management – a necessary role but not an easy one to play.
The monitoring role is particularly important with regard to employment legislation. HR practitioners have to ensure that policies and procedures comply with the legislation and that they are implemented correctly by line managers.

The Process of HR planning

Human resource planning may be defined as ‘a strategy for the acquisition, utilization, improvements and return of an enterprise’s human resources’.

Human resources planning deals with

- Recruitment
- Retention (company loyalty, to retain skills and reduce the cuts and disruption of staff turnover)
- Training and retraining of staff to enhance the skills base.

The process of human resources planning can be illustrated by means of a diagram

1. STRATEGIC ANALYSIS
   - Of the environment
   - Of the organisation’s manpower strengths and weakness, opportunities and threats
   - Of the organization’s use of manpower
   - Of the organization’s objectives.

2. FORCASTING
   - Of Internal demand and supply
   - Of external supply

3. JOB ANALYSIS
   - Investigating the tasks performed in each job
   - Identifying the skills required

4. IMPLEMENTATION
   - Training and development existing staff
   - Recruiting required staff

Strategic analysis is about where the organization stands at present and where it wants to be in terms of manpower in future. The analysis involves.

- The environment. The organization needs to be aware of developments in the social and political world, such as population and education trends, policies on the employment of women and on pension ages, and trends generally in the employment market.
The organization’s manpower strengths, weaknesses, opportunities and threats need to be analyzed so as to identify skills and competence gaps and level of innovation. Threats may involve competitors ‘poaching’ staff. Comparing data from other organizations may be of help here.

Human resource utilization. An assessment should be made of how effectively the organization is currently utilizing its staff.

Objectives. Core and subsidiary corporate objectives should be analyzed to identify the manpower implications. New products, technology, sites, ‘culture’ and structure will make demands on staff.

Time scales are also very important. An immediate gap may prompt instant recruitment while long-term corporate objectives will allow long-term plans updating existing staff and providing them with the skills required. Then following strategic analysis, the internal demands for manpower will emerge. Planning future manpower also requires accurate forecast of turnover and productivity (e.g. if fewer are required for the same output). The demand can be estimated from the following sources;

- New venture details
- New markets
- New products/services
- New technology (might need a different skills mix)
- Divestment
- Organizational restructuring (e.g. when existing staff are unwilling to move)
- Cost reduction plans.

The supply of labour can be estimated as follows:

- A stocks and flows analysis will define the internal labour market. It describes, not just aggregate quantities, but movements in and out of certain grades, by occupation and grade and according to length and service. This can be used in modeling.
- The external labour market must also be examined. Cannock recommends that in some cases labour market research might be useful. Labour market research:
  
  i. measures potential employees’ awareness of the organization;
  ii. helps discern the attitudes of potential employees towards work and the organization;
  iii. suggests possible segmentation for advertisements (e.g. some areas might offer more favourable targets than others);
iv. provides demographic analysis of population trends for long term forecasting.

Demand and supply must be compared in a review called a manpower position survey, skills or location can be removed through the application of an integrated manpower strategy. Short-term adjustments to manpower requirements may be made and consultation concerning the long-term strategy continued.

**Closing the manpower gap between demand and supply**

Manpower strategy requires the integration of policies for:

- Pay and conditions of employment
- Promotion
- Recruitment
- Training, and
- Industrial relations.

Because all these are inter-related, an integrated approach is necessary.

- Job/rate evaluation should be carried out in large companies to avoid unfairness.
- The costs of recruitment include intensive training if personnel move quickly between companies and labour turnover is high.
- Junior management should be given sufficient training for senior management positions
- In industrial relations, problems may occur because of a lack of communication between unions and management.

Tactical plans can be made, within this integrated framework for:

- Pay and productivity bargaining
- Physical conditions of employment
- Management and technical development and career development;
- Organizations and job specifications;
- Recruitment and redundancies
- Training and retiring; and manpower costs.

**Problems and solutions of staff deficiency and surplus**

Shortages or surpluses of labour which emerge in the process of formulating the position survey may be dealt with in various ways.

- A deficiency may be met through
  - i. Internal transfers and promotions, training, rotation, job sharing, teamwork, overtime introduction, job enlargement and enrichment.
ii. External recruitment
iii. Reducing labour turnover, by reviewing possible causes.

- A surplus may be met by:
  i. Running down manning levels by natural wastage;
  ii. Restricting recruitment
  iii. Redundancies – as a last resort, and with careful planning

**The Manpower plan**

The manpower plan is prepared on the basis of manpower requirements, and the implications for productivity and costs. The plan may consist of the following.

- **The recruitment plan**: types of people, when required; recruitment programmes.
- **The training plan**: numbers of required trainees and/or existing staff needing training; training programme.
- **The redevelopment plan**: programmes of transferring, retraining employees.
- **The productivity plan**: programmes for improving productivity, or reducing manpower costs; setting productivity targets.
- **The redundancy plan**: where and when redundancies are to occur; policies for selection and declaration of redundancies; re-development; re-training or relocation of redundant employees; policy on redundancy payments, union consultation etc.
- **The retention plan**: actions to reduce avoidable labour wastage.

The plan should include budgets, targets and standards. It should allocate responsibilities for implementation and control (reporting, monitoring achievement against plan.

**The control over manpower**

Once a manpower plan has been established, regular control reports should be produced.

- Actual numbers recruited, leaving and being promoted should be compared with planned numbers. If actual levels seem too high, action can be taken by stopping recruitment temporarily. If levels seem too low recruitment, promotions or retraining activity should be stepped up.
- Actual pay, conditions of employment and training should be compared with assumptions in the manpower plan. Do divergences explain any excessive staff turnover?
- Periodically the manpower plan itself should be reviewed and brought up to date
Recruitment and Selection

Note that there is an important distinction between recruitment and selection.

- **Recruitment** is the part of the process concerned with finding the applicants: it is a ‘positive’ action by management, going out into the labour market, communicating opportunities and information generating interest.

- **Selection** is the part of the employee recruiting process which involves choosing between applications for jobs. It is largely a ‘negative’ process, eliminating unsuitable applicants.

A systematic approach to recruitment and selection will therefore embrace the following:

- **Job analysis**, so that for any given job there is:
  
  1. A statement of the component tasks, duties, objectives and standards (*a job description*)
  2. A specification of the skills; knowledge and qualities required to perform the job (*a job specification*)
  3. A reworking of the job specification in terms of the kind of person needed to perform the job (*a personnel specification*)

- An identification of vacancies, by way of the personnel plan (if vacancies are created by demand for new labour) or requisitions for replacement staff by a department which has lost a current job holder.

- Evaluation of the sources of labour again by way of the personnel plan, which should outline personnel supply and availability, at macro- and micro-levels. Internal and external sources, and media for reaching both, will be considered.

- Review of applications, assessing their relative merits of broadly suitable candidates.

- Notifying applicants of the results of the selection process.

- Preparing employment contracts, induction, training programmes etc.

After a job description and a personnel specification have been prepared, the organization should advertise the job vacancy (or vacancies). In many large organizations, the personnel department arranges the advertising, deals with applications and arranges interviews with applicants.

Applicants who reply to job advertisements are usually asked to fill a job application form, or to send a letter giving details about themselves and their previous job experience (their CV or curriculum vitae) and explaining why they think they are qualified to do the job. An application form should be used to find out relevant information about the applicants, in order to decide:

- Whether the applicant is obviously unsuitable for the job; or
• Whether the applicant might be of the right caliber, and worth inviting to an interview

The application form should therefore help the selection officer(s) to sift through the applicants, and to reject some at once so as to avoid the time and costs of unnecessary interviews. If the form is to be useful in the sifting process, it should be designed carefully so as to be useful in the sifting process, it should be designed carefully so as to carry out these tasks successfully.

The interview is a third stage of the selection process. It is often the most crucial, but research shows that interviewing is practically the least effective way of predicting job success. Before deciding to interview, the CVs and application forms should be screened so as to come up with a reject, reserve and interview list. Interviewing is a crucial part of the selection process because:

• It gives the organization a chance to assess the applicant directly; and
• It gives the applicant a chance to learn more about the organization and the job.

The aim of the interview must be clear. It should have a three-fold purpose.

• Finding the best person for the job
• Making sure that the applicant understands what the job is and what the career prospects are:
• Making the applicant feel that he or she has been given fair treatment in the interview.

The interview must be prepared carefully, to make sure the right questions are asked, and relevant information obtained to give the interviewers what they need to make their selection.

• The job description and specification should be studied to review the major demands of the job.
• The personnel specification should be studied and questions should be planned which might help the interviewer make relevant assessments of the applicant’s character and qualifications.
• The application form of each applicant should be studied in order to decide on questions or question areas for each applicant.

In some job selection procedures, an interview is supplemented by some form of selection test. Alternatively, invitation to an interview is granted on satisfactory performance in a number of tests (a test battery) to give a more rounded impression. There are five types of test commonly used in practice.
• Psychological tests
• Intelligence tests
• Personality tests
• Proficiency tests
• Aptitude test

**Staff Appraisal**
The general purpose of any staff appraisal is to improve the efficiency of the organization by ensuring that the individuals within it are performing to the best of their ability and developing their potential for improvement. Staff appraisals are used in practice for the following.

• Reward review (measuring the extent to which an employee is deserving of a bonus or pay increase as compared with his or her peers).
• Performance review (for planning and following-up training and development programmes, i.e. identifying training needs, validating training methods and so on).
• Potential review (as an aid to planning career development and succession, by attempting to predict the level and type of work the individual will be capable of in the future.


• Establishing what actions are required of the individual in a job in order that the objectives for the section or department are realized.

• Establishing the key or main results which the individual will be expected to achieve in the course of his or her work over a period of time.

• Assessing the individual’s level of performance against some standard, to provide a basis for remuneration above the basic pay rate.

• Identifying the individual’s level performance to provide a basis for informing, training and developing him.

• Identifying those persons whose performance suggests that they are promotable at some date in the future and those performances which require improvement to meet acceptable standards.

• Establishing an inventory of actual and potential performance within the undertaking to provide a basis for HR planning.
- Monitoring the undertaking’s initial selection procedures against the subsequent performance of recruits, relative to the organisation’s expectations.

- Improving communication about tasks between different levels in the hierarchy.

Whatever the purpose of appraising staff in a particular situation is, the review should be a systematic exercise, taken seriously by assessor and subject alike. It may be argued that such deliberate stock-taking is unnecessary, since managers are constantly making judgments about their subordinates and (should be) giving their subordinates feedback information from day to day. However, it must be recognized that:

- Managers may obtain random impressions of subordinates’ performance (perhaps from their more noticeable success and failures) but rarely from a coherent, complete and objective picture;

- They may have a fair idea of their subordinates’ shortcomings – but may have devoted time and attention to the matter of improvement and development;

- Judgments are easy to make, but less easy to justify in detail, in writing, or to the subjects’ face;

- Different assessors may be applying a different set of criteria, and varying standards of objectivity and judgment, which undermines the value of appraisal for comparisons, as well as its credibility in the eyes of the appraises.

- Unless simulated to do so, managers rarely give their subordinates adequate feedback on their performance, especially if the appraisal is critical one.

There is clearly a need for a system which tackles three basic problems.

- The formulation and appreciation of desired traits and standards against which individuals can be consistently and objectively assessed. Assessors must be aware of factors which affect their judgments.

- Recording assessments. Managers should be encouraged to utilize a standard and understood framework, but still allowed to express what they consider important, and without too much form-filling.

- Getting the appraiser and appraise together, so that both contribute to the assessment and plans for improvement and/or development.
Human Resources Training and Development (HRTD)

Human resource Training development is about ‘enhancing and widening these skills by training, by helping people to grow within the organization, and enabling them to make better use of their skills and abilities’.

The merits of HRTD to an organization.

- It provides necessary skills for the provision of existing products/services.
- It encourages a ‘culture of flexibility’ in the organization (training involves taking on new skills or adapting old ones to new circumstances).
- It encourages a culture of learning (i.e. people expect to learn new skills) which makes for greater receptivity to change.
- It enables the organization to introduce employees to wider issues in a training session. It is a good means of communicating information.
- It is a good means of communicating culture and organizational values.
- It is claimed that training can contribute to:
  
  i) Increased output, productivity, profitability, employee versatility and morale.
  ii) Reduced costs, supervisory problems, grievances and accidents;
  iii) Improved quality, methods and communications;
  iv) Eased labour shortage; and
  v) The ability to cope with diversification

The merits of HRTD to an individual employee.

- It demonstrates that the individual is valued.
- It gives the individual an enhanced sense of security (that he or she is still useful).
- It can enlarge a person’s portfolio of skills, and hence a person’s ability to take responsibility.
- It can motivate employees.
• Training sessions enable employees to mix with people from other business functions, and so develop networks and contacts.

Training is however, no panacea. It may be appropriate to problems caused by faulty organization, layout methods, equipment, employees selection and placement etc.

**Formal Training**

Internal courses are run by the organisation’s training departments. External courses vary and may involve the following.

- **Day release**, which means that the employee works in the organization and on the day week, attends a local college for theoretical teaching.

- **Evening classes**, which make demands on the individual’s time outside work. This is commonly used, for example, by typists wishing to develop or ‘refresh’ shorthand skills.

- **Revision courses** for examinations of professional bodies.

- **Block release course** which may involve four weeks at a college followed by a period at work.

- **Sandwich courses**, usually involving six months at College then six months at work, in rotation, for two or three years.

- **A sponsored full-time course** at a university for one or two years.

The disadvantages of formal training might be as follows.

- An individual will not benefit from formal training unless he or she wants to learn. The individual’s superior may need to provide encouragement in this respect.

- If the subject matter of the training course does not relate to an individual’s job, the learning will quickly be forgotten.

- Individuals may not be able to accept what they learn on a course unless it applies in the context of their own particular job.

On the job training is very common, especially when the work involved is not compelled. Unfortunately, this type of training will be unsuccessful if:
• The assignments do not have a specific purpose from which the trainee can learn and gain experience; or

• The organization is intolerant of any mistakes which the trainee makes. Mistakes are inevitable part of on the job learning.

Experienced supervisor and managers, either promoted from within the organization or recruited from outside, will need a period of orientation in their new job. It takes time to settle down, and learn the way the ‘system’ operates. There must be tolerance of mistakes during this orientation period, because it is a form on the job training.

Technical training involves the identification of technical work which will lend itself no training, the design or training scheme, implementation of the scheme and subsequent review to decide whether or not it has succeeded in achieving its purpose at a reasonable cost. The stages in a systematic approach of this kind may be listed as follows.

- Identity areas where training will be beneficial.
- Set training objectives
- Decide on the training method
- Compare the costs and benefits of the proposed course
- Introduce a pilot or test scheme
- Implement the scheme in full
- Monitor the results to check that

  i) Training works and
  ii) Benefits exceed costs.

Operational managers should suggest to the training department areas of work where they think that training would be beneficial. Alternatively, the training department itself may look for areas of work where training might be provided. Training needs can be identified by considering the gap between;

- Job requirements, as determined by job analysis, job description; and
- The ability of the job holder, as determined by testing or observation and appraisal.

The training objectives should be clear, specific and measurable for example, at the end of a course a trainee must be able to describe, or identify….. or list……. Or state …….. or distinguish x from y ……..etc’. It is insufficient to state as an objective of course ‘to give trainees a grounding in……’ or ‘to give trainees a better appreciation of.’ These objectives are too woolly, and actual achievements cannot be measured (quantifiably) against them.
Having decided what must be learned and to what standard of achievement, the next stage is to decide what method of training should be used. Training methods include:

- Residential courses;
- Day courses or lectures;
- Programmed learning;
- Computer assisted learning. The training programme is provided on a computer.

CAREER DEVELOPMENT

1. DEFINITION
A career is an advancement one undertakes to develop a particular occupation or a profession into a lifetime work. It entails development of knowledge, skill and attitude plus a commitment to a particular job throughout one's life.

2. IMPORTANCE OF CAREER DEVELOPMENT
Career development is beneficial to both the organization and the employee because:

(i) **Future benefits**
Most employees are not just interested in their current jobs, they are concerned about where this job will lead to in the future. Advancement in a particular job depends upon opportunities for career development.

(ii) **Opportunity to gain expertise**
Career development allows people to broaden their understanding in a particular field. This may subsequently lead to developing ability to be innovative.

(iii) **Future investment**
Most people consider career development as future investment. They consider it to be more important than money currently earned. They are willing to forgo certain things in order to gain a career. Many Malawians have trained abroad for long periods. Sometimes at the expense of their families or financial benefits in order to obtain a career.

(iv) **Sense of independence**
It provides employees a sense of independence allowing them to move profitably in the job market. For instance, a person who has chosen accounting as a career can be employed by almost any organisation.

(v) **Sense of pride**
It creates a sense of pride and belonging as such people with careers often become members of some association.

(vi) **Anchor employees**
To the employer, career development helps to anchor employees as it may be used as a motivator. In some cases however career development has been used as a training ground where employees leave as soon as they feel qualified.
3. DEVELOPING A CAREER

A person may follow a particular career because of:

- Parental Guidance
  Most young people will take up their parents career either because they have been impressed by the parents or have been persuaded to follow a certain career.

- Self Interest
  Children grow up wishing to become somebody. Often these desires change as the child grows up. But the ultimate choice of a career is based on self-interest.

- Government policy
  Many people have followed a particular career because Government needed so many people in a given area at that particular time. For example the Government of Malawi established the Malawi Polytechnic in order to encourage and train Engineers. It also established the Malawi College of Accountancy in order to encourage the development of accountancy in Malawi.

- DEMAND
  Demand for a particular profession or lack of demand may discourage people from a profession leading them to other lucrative professions. For example because of the system of selection at the Malawi School Certificate level, most able students used to be selected into the University of Malawi to study mathematics and science some were selected to Kamuzu Academy to study Cambridge A Levels pending to go abroad. If the students graduated with degrees in mathematics and science, their only option for employment was to become teachers in Secondary schools. Those who graduated at the Kamuzu Academy but were not selected to go abroad were left stranded or entered the University Malawi. To this effect the Malawi College of Accountancy instituted a conversion programme which led such students to train as accountants. Most early highly renowned accountants in Malawi came through this programme.

4. CAREER PLANNING

Although career development is the responsibility of the employee at the beginning of his/her career the employer can assist his/her staff to develop by providing a career path.

Creating a Career Path

May involve:

1. Providing challenging and difficult jobs. Most workers will gladly accept challenging tasks if they feel that they will be rewarded in the end.
2. Support the employees effort in undertaking the challenging task.
3. Provide feedback by way of moving the peg i.e. recognition that the employee status has changed from A to B even if it may be only psychological recognition.
4. Involvement: Management should be involved in the process, counseling the employee in order to encourage progress.

Factors which may influence the choice of a career

Selection of a career may involve complex decisions on the part of the individual such as:

1. **Type of occupation:** One may choose the type occupation which is compatible with one’s interest and aptitude. One’s personality, self identity and background may also determine one’s choice of a career.

2. **Types of organizations:** Types of organizations influence the kind of work done by certain professions e.g. Accountants working in Government differ from those working in public firms and are different from those working for non-profit making organizations. One may therefore choose to work for a particular type of organization.

3. **Size of Company:** Small organizations provide one with broader responsibilities than in a larger organizations. However larger organization have more. Opportunities for career development

4. **Line or staff position:** One may start as a management trainee and develop a career in a staff position or start as an assistant to the functional manager e.g marketing, which may lead to a position to head the department.

5. **Job Location:** Many people have left certain jobs because it happens to be in an area or location of the country which they do not like.

Summary

This section has discussed the meaning and development of a career. The role of the individual, Government and the Organisation in career development.

**Industrial Relations/Employee Relations**

Industrial relations is a multidisciplinary field that studies the employment relationship. Today it is increasingly called employment relations because of the importance of non-industrial employment relationships. It is indeed a branch of Human Resources Management which essentially deals with:

- Relations of employees in the work place
- Relations between employees and management
- Relations between management and employers

However at the hub of industrial relations is **Conflict Resolving**

**Areas of Interest in Industrial Relations**

- grievance handling
- dispute settlement
- management – labour communication
- negotiations
It is important to note that maximum productivity cannot take place in an organization, unless there is unity or cooperation among all members of the organization. So there must be unity at all levels of members of staff. Management should make sure that it maintains a positive working environment at all levels of the organization.

**Causes of Conflicts**

- differences in objectives of different groups or individuals
- scarcity of resources
- interdependence of two departments on a task
- disputes about the boundaries of authority
- personal differences in almost anything either from departmental or individual point of view.

**Symptoms or Signs of Conflicts**

- poor communications in all directions
- interpersonal friction
- inter-group rivalry and jealousy
- low morale and frustration
- widespread use of arbitration, appeals to higher authority and inflexible attitudes towards change.

**The Tactics of Conflicts**

- withholding information from one another
- distorting information
- empire building
- information organizations
- fault-finding in the work of other people or departments.

**Management Response to a Conflict**

**Denial/Withdrawal**
- If a problem is trivial it might disappear on its own–so sweep it under the carpet.

**Suppression**
- Smooth it over so as to preserve working relationships despite being minor conflicts.

**Dominance**
- Apply power to influence to settle the conflict.

**Compromise**
- Try to use the skills of bargaining, negotiating and reconciliation.

Note that **Negotiation** is the process of interaction by which two or more parties who consider they need to be jointly involved in an outcome, but who initially have different
objectives by the use of argument and persuasion to resolve their differences in order to achieve a mutually acceptable solution.

**Integration / Collaboration** - put emphasis on the task, individuals must accept the need to modify their views for its sake, and group effort must be seen to be superior to individual effort.

**Encourage co-operative behaviour** - Come up with joint problem-solving team, goals set for all teams / department to follow.

**Discipline**

Discipline is a condition in an organization in which there is orderliness in which the members of the enterprise behave sensibly and conduct themselves according to the standards of acceptable behavior as related to the goals of the organization.

**Types of Discipline**

**Positive or Constructive discipline**

Relates to procedures, systems and equipment in the workplace which have been designed specifically so that the employee has no option but to act in the desired manner to complete a task safely and successfully.

**Negative discipline**

This is the promise of sanctions designed to make people choose to behave in a desirable way. Note that disciplinary action may be any of the following:

- **Punitive** - punishing an offence
- **Deterrent** - warning people not to behave in that way
- **Reformative** - calling attention to the nature of the offence, so that it will not happen again.

**Self-discipline** - This is the best discipline. Even before people start to work, most mature people accept the idea that following instructions and fair rules of conduct are normal responsibilities that are part of any job.

**Types of disciplinary situations**

Here are some of the internally disciplinary situations:

- Excessive absenteeism
• Poor time keeping
• Defective or inadequate work performance
• Poor attitudes which influence the work of others or which reflect the public image of the company.
• Breaking rules regarding rest periods and other time schedules such as leaving work to go home early.
• Improper personal appearance
• Breaking safety rules
• Other violations or rules, regulations and procedures.
• Open insubordination such as the refusal of an employee to carry out a legitimate work assignment.

External disciplinary situations

• Drinking heavily off job
• Partaking in illegal drugs
• Law breaking outside work
• Robbery
• Immoral behavior etc.

Disciplinary action

Any disciplinary action must be undertaken with sensitivity and sound judgment on the manager’s part. The purpose of discipline is not punishment or retribution. Disciplinary action must have as its goal the improvement of the mature behavior of the employee and other members of the organization. The purpose obviously is the avoidance of similar concurrences in the future.

Steps in disciplinary action

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal talk</td>
<td>A friendly talk to a first offender or a minor offense</td>
</tr>
<tr>
<td>Oral warning or reprimand</td>
<td>A disciplinary action is not taken but manager tells (warns) the junior if the undesirable action is repeated an action will then be taken in future.</td>
</tr>
<tr>
<td>Written or official warning</td>
<td>This warning is of a formal nature in as far as it becomes a permanent part of the employee’s record.</td>
</tr>
<tr>
<td>Disciplinary layoffs or suspension</td>
<td>This course of action would be next in order if the employee has committed repeated offence and previous steps were of no avail.</td>
</tr>
<tr>
<td>Demotion</td>
<td>The last but one course of action</td>
</tr>
<tr>
<td>Dismissal</td>
<td>The last course of action</td>
</tr>
</tbody>
</table>
Relationship management in disciplinary situations.

Even if the manager uses sensitivity and judgment imposing disciplinary action tends to generate resentment because it is unpleasant experience. The challenge is to apply the necessary disciplinary action so that it will be least resented. The following are some of the measures to be taken by the manager to minimize resentment:

- **Immediacy**: Take disciplinary action as speedily as possible but subject to investigations.
- **Advance warning**: Employees should know in advance what is expected of them and what the rules and regulations are.
- **Consistency**: Make sure that each time an infraction occurs appropriate disciplinary action is taken.
- **Impersonality**: Make disciplinary actions as impersonal as possible so as to minimize resentment from employees.
- **Privacy**: As a general rule, disciplinary action should be taken in private to avoid the spread of conflict and the humiliation of the concerned employee.

Revision Questions
1. Explain the roles of Human Resource Manager.
2. Discuss the difference between HRM and Personnel Management.
CHAPTER 11
INFORMATION COMMUNICATION TECHNOLOGY (ICT)

This chapter covers definition, main elements, application, benefits and challenges of ICT.

Objectives

By the end of the chapter students should be able to:

- Define ICT.
- Describe the main elements of ICT.
- Illustrate the application of ICT.
- Explain the benefits and challenges of ICT.

Definition

Today we use the term ICT to refer to an entire industry. In actuality, ICT is the use of computers and software to manage information in a number of places including offices. In some organizations ICT is referred to as management information services or MIS or simply information services (IS). The IT department of any organization is responsible for processing, storing, protecting and transmitting the information, and when necessary retrieving it.

According to Information Technology Association of America (ITAA), IT is the study, design, development, implementation and support of management of computer-based information systems particularly software applications and computer hardware. Furthermore, encompassing the computer and information systems industries, ICT is the capability to electronically input, process, store, output, transmit and receive data and information, including text, graphics, sound and video as well as the ability to control machines of all kinds electronically. ICT comprises of computers, networks, satellite communications, robotics, cable television, and automated office equipment.

Main Elements of ICT.

There are three main elements of ICT, namely; hardware, software and Communication.

- Hardware

A computer system is made up of hardware and software. Hardware is the physical medium, for example, circuit board, processor and keyboard. Hardware can be defined as items that you can actually touch or move from one desk to another or from one room to another. We use the hardware to process information. The information processing involves four phases;
**i) Input devices**

Input devices include the keyboard, pointing devices, scanners, reading devices, and digital cameras, audio and video input devices. The input devices are used to capture data at the earliest possible point in the workflow, so that data are accurate and readily available for processing.

**ii) Processing**

After the data is captured, it is processed and transformed from raw facts into meaningful information. A variety of processes may be performed on the data, such as adding, subtracting, dividing, multiplying, sorting, organizing, formatting, comparing, and graphing. After processing the information is output, as a printed report, for example, or stored as files.

**iii) Output devices**

Four common types of output are text, graphics, audio and video. Once information has been processed, it can be listened to through speakers or a headset, printed onto paper or displayed on a monitor. An output device is any computer component capable of conveying information to a user.

The commonly used output devices include:

- Display devices (e.g. monitor)
- Printers
- Speakers
- Headsets
- Data projectors
- Multifunction devices

A multifunction device is a single piece of equipment that looks like a copy machine but provides the functionality of a printer, scanner, copy machine and a fax machine.

**iv) Storage devices**

Storage devices retain items such as data, instructions, and information for retrieval and future use. They include:

- Floppy disks or diskettes
- Hard disks
- Tapes
- Pc cards
- Smart cards
- Microfilm

**Software**

A software is a computer program for example, an operation system, an editor and a compiler.

Software allows the hardware to be used. Software can also be defined as a set of instructions that tells the computer how to behave. Application software can be used for the following purposes:

- As a productivity/business tool.
- To assist with graphics and multimedia projects
- To support household activities, for personal business or for education.
- To facilitate communication as is the case with mobile phones.

**Electronic Communication.**

There are several forms of electronic communication but they all involve the conversion of information to a format suitable for transmission over a particular medium. No matter which format the original information is in, be it on paper as words or graphics, or be it spoken, it is converted by a computer to the binary form of Is and Os. It is digitalized. It is not necessary for you to understand exactly how this is done or what it means, but you should be aware that computers use digitalized data.

A typical example of an electronic communication is the Internet. The development of the internet represents one of the most important breakthroughs in world-wide communication. The internet is a revolution in electronic communications in the last decade of the 20th century which has enabled people to:

- Send messages almost instantaneously to others all over the world (e-mail), and
- Publish information that could be stored on one power computer and accessed readily by someone using another computer (the world wide web)

The internet itself is essentially an international network of computers, cables and satellite links that today it enables millions of computer users to communicate with each other and even conduct business (E-commerce). Access to the internet is provided by gate keeper organizations known as internet service providers.

**Three examples to illustrate the application of ICT**

Almost every day, people are using computers in new ways. Computers are increasingly becoming affordable. They continue to be more powerful as information processing tools as well as easier to use. Here are examples in which IT application is demonstrated.
Computers in Business

One of the first and largest applications of computers is keeping and managing business and financial records. Today, most of the companies keep employment records of their staff in databases that are managed by computer programs. Similar programs and databases are used in such business functions as billing customers, tracking payments received and payments to be made; track supplies needed and items produced, stored, shipped and sold. As a matter of fact, practically all the information companies which are in business involve the use of computers and ICT.

Again many businesses today have replaced cash registers with point-of-sale (Pos) terminals.

These POS terminals not only print a sales receipt for the customer, but also send information to a computer database when each item is sold to maintain an inventory of items on hand and items to be ordered.

Computers in Medical Diagnosis

ICT plays an important role in medical diagnosis in hospitals. For example a scanner takes a series of pictures of the body by means of computerized axial tomography or magnetic resonance imaging (MRI). A computer then combines the pictures to produce detailed three-dimensional images of the body’s organs. In addition, the MRI producers’ images that show changes in the body chemistry and blood flow.

Computers in Science and Engineering

Computers in Science and Engineering using super computers, meteorologists predict future weather by using a combination of the observation of the weather conditions from many sources, a mathematical representation behavior of the atmosphere and geographic data.

In Engineering Computer Aided-design (CAD) and Computer Aided manufacturing (CAM) have both led to the improvement of products in many fields, especially where designs tend to be very detailed. Computer programs make it possible for engineers to analyze designs of complex structures such as power plants and motor vehicle engines. In short then IT has been used in several instances such;

- Data storage, retrieval and processing
- Industrial process control
- Robotics
- Computer-aided design and manufacture
- Worldwide electronic communication (via the internet)
- Scientific measurement
Medical diagnosis using miniaturized instruments
- Electronic point-of-sale (especially in retail environments)
- Electronic funds transfer (by financial institutions or individuals)

**Benefits of Using ICT**

From the discussion above one can observe that there are several benefits which organizations and individuals get from the use of ICT. Some of them are:

- It provides faster calculation and processing of paperwork than people.
- It updates on purchases patterns and preferences of customers.
- It has provided new efficiencies, e.g. ATM in financial institutions.
- It has facilitated new medical advances in surgery, radiology and patient monitoring.
- It has facilitated new medical advances in surgery, radiology and patient monitoring.
- It provides instant distribution of information to millions of people across the world through the Internet.
- It has the ability to integrate office functions easily and speedily. The case in point is that of the association of computers and office machinery such as printers, copiers, scanners and fax machines.
- Secretarial, clerical and administrative staffs have learned to handle integrated software which has enabled them to write letters, memos and reports, access records, and search relevant data bases, all from the one work-station.
- The drafting of reports and other documents is greatly assisted by the powerful editing facilities, word-processing software, supported by the integrating facilities of combined software, enabling financial reports, statistics, charts, pictures and other items to be included in the final version.

**Challenges of Using ICT.**

The use of ICT in the organizations has brought about its own challenges. Some of those challenges are.

- Automated ICT may eliminate office jobs
- ICT may allow organizations to collect personal details about people that violate privacy
- The use of ICT can paralyze communities
- Too much use of ICT may cause repetitive stress injury, techno stress, and other health problems
- Internet can be used to run illegal transactions.
- It may bring about boredom in the operation of standard office systems
Playing games on the computer now and then may make some people antisocial.

Revision Questions
1. Describe the benefits of ICT to office management, communication, commerce, training and production.
2. Discuss the challenges associated with ICT.
CHAPTER 12

PLANNING
This chapter covers definition, process, levels/types, benefits, challenges and strategies of planning.

Objectives

By the end of the chapter a student should be able to:

- Define planning.
- Explain the planning process.
- Describe the levels/types of planning.
- Explain the benefits and challenges of planning.
- Explain planning strategies.

What is planning?

A plan is an explicit statement of intention that identifies both objectives and actions needed to achieve them. Planning is defined as the process of setting objectives of an organization and the means of their achievement.

Planning involves the establishment of objectives and the formulation, evaluation and selection of policies, strategies and tactics required to achieve these objectives. Planning involves the identification of objectives and actions.

Objectives – at the heart of plans are objectives and goals which offer the following benefit:

- Objectives provide unity of purpose.
- Objectives motivate staff to achieve higher performance at work and influence managers rewards.
- Objectives serve as the basis of control – review of performance is based on the ability to successfully achieve the set objectives for the individual manager or organization as whole.

An objective is a statement about the future state that the organization wants to achieve

Action – the statement of actions spells out the tasks required, including who is to carry them out, when and so on. Objectives without actions indicate weak leadership.

Planning involves the formulation of strategies needed to achieve set objectives.

A strategy is about how to position oneself to achieve the purpose, given the broad deployment of the scarce resources available.

Planning also involves the determination of policies. A policy is a general statement that provides guidelines for management decision making. For example a policy may;
• State managers should not do business with certain organizations because of political affiliations
• State when to offer five year guarantee or all products sold
• To give money back to customers with a valid complaints.

Policy is about political will. In the public sector, policy generally expresses the broad purpose of government activity in a particular field, with some desired outcome in mind:

• A specific proposal
• Establishing procedures in order to achieve objectives.
• A direction for change with no specific outcome intended.

It is argued elsewhere that planning is the primary management function from which all activities follow. For instance, planning goes hand in hand with controlling. While planning sets the direction of the organization, controlling ensures that the direction is maintained or warns of the need to choose a new direction.

While plans are being carried out, a review of the implementation process takes place where actual outcomes are compared with plan, and then necessary corrective action may be taken to improve performance and put the plan back on course.

Levels of Planning

Planning is a process which is concerned with defining ends, means and conduct. It takes place at every level of the organization. The common levels of planning are:

• Strategic level planning
• Intermediate level planning
• Operational level planning

i. Strategic Level Planning

Strategic planning is carried by general managers and heads of functions, covering a time horizon 3 – 5 years or more and usually covers policy issues.
The purpose of strategic planning is to achieve business objectives through making long-term relationships between the organization and its environment and by obtaining key resources.

The prime focus of strategic planning includes company mission, long term goals and corporate effectiveness. Its major concerns are competitive position, company values, business success in terms of growth, turnover and profits, and establishing appropriate financial controls. Strategic planning aims at achieving effectiveness in the long term so as to make best choices for the future.

Strategy is concerned with positioning the business in the market; establishing a reputation with customers, employees and other stakeholders and achieving long-term growth through good stewardship of resources.
Strategic planning is designed to ensure that managers pay proper attention to the following crucial matters:

- **Setting an overall vision or mission for the organization** For example National Bank’s mission statement reads to provide the best financial services in Malawi and the region, distinguished by outstanding service, product innovation and sustained economic growth.
- **Establishing the long term aims of the business** in relation to its key stakeholders and the competition.
- **Establishing the policies** that will guide the implementation of decisions and provide standards of integrity and public accountability.
- **Reviewing and adapting as necessary, the decision making** and other mechanisms designed to support the strategy making process
- **Establishing appropriate monitoring procedures** to enable relevant feedback to be supplied to every level of the enterprise.
- **Ensuring appropriate team structures and staff competencies** to enable business operations to function efficiently and effectively.

ii. Intermediate Level Planning

Intermediate level planning is undertaken by departmental managers working together as a team. It has a time horizon (time that elapses between making and executing a plan) ranging from six months to two years. The purpose of intermediate level planning is giving direction to and allocating resources among subunits and functions such as Human Resource, Marketing, Production and Accounts. It is also called tactical level planning.

iii. Operational Level Planning

Operational level planning is undertaken by operating unit managers, supervisors and individual staff, within a time horizon of one year or two years. The purpose of operational planning is to accomplish tasks with available resources to contribute to departmental objectives.

Managers at this level are engaged in the detailed formulation and review of plans, usually in the form of specific targets and budgets, harnessing technology, human resource management, performance measurement, quality issues and feedback.

Operational managers are concerned with the efficient delivery of goods and services and they attempt to make the best use of employee skills, operating procedures and technology in servicing their customers.

The plans at each of the three levels have different purposes. Strategic plans give directions to lower level managers, while intermediate and operational plans are more specific and concrete and translate the strategic plan into action. Effective planning therefore should be based on the coordination and linking of plans between these levels.
In practice many managers are reluctant to make formal plans, and prefer to operate without them, as they tend to deal with problems only when and if they arise.

Some barriers for the managers’ reluctance to plan include:

- **Lack of knowledge about the goals and purpose of the organization.** This problem leads to duplication of efforts and creation of conflicts. Good planning encourages coordination of efforts within an organization.
- **A reluctance by managers to be committed to one set of targets** – he/she may keep various options open and have no specific goals.
- **A fear of blame or criticism for failing to achieve planned targets** – success or failure depends on the ability of the manager to achieve plans. When failure is punished, managers might resent planning to avoid being labeled as failures.
- **A manager’s lack of confidence in himself** to perform his job efficiently and effectively.
- **A manager’s lack of resources** – senior management may fail to provide relevant resources necessary to perform the work. Besides, lack of information about what is going on in the environment, customers, nature of markets, and the competition, may make managers unable to make plans for the future.
- **Lack of consultation/participation of employees** – imposed plans are likely to be resisted by staff and their morale and level of motivation to realize the plans are low, leading to difficulties in implementing them.

Managers should take the necessary steps to overcome the above barriers to good planning through:

- Involving staff at all levels in the planning process.
- Planners must be provided with the information they need
- A system of rewards for the successful achievement of plans might be beneficial. Insufficient rewards may be a contingent to good planning.

The importance of Planning to an organization

- **The purpose of planning is:**
  a. To decide objectives for the organization.
  b. To identify, alternative ways of achieving them.
  c. To select the best alternative for organization. Planning makes individuals and groups to be more effective in their work and in making good decisions.
- **Planning precedes all other management functions.** Targets and objectives contained in the plan have a greater impact on decisions about appropriate organization structure, type of leadership, job design and to set standards and targets of performance for staff.
- **Planning leads to efficient utilization of scarce resources** – it enables managers to set priorities and evaluate the cost of putting the plan into operation. An efficient plan must be cost effective.

- **Planning serves as a control device.** Targets set in the plans are a basis for comparing actual results, noting any deviations from plans and taking corrective action to improve performance.

- **Strategic planning helps firm’s expansion.** Managers prepare for action in the future.

- **Planning gives a sense of direction and purpose to the personnel in the company.** This may lead to improved quality of management, encourages creativity and initiative by tapping the ideas of the management team.

- **Planning is a means of enabling the organization to cope with changes in the environment.** Planning helps the organization to chart the future possible areas necessary for adaptation and survival.

- A well prepared plan drawn up after analysis of internal and external factors and associated business risks **leads to better quality decisions and promotes better management control.**

**Criticisms of Planning**

The effectiveness of planning has faced heavy criticisms from some writers, including Henry Mintzberg (*The Rise and Fall of Strategic Planning*): Mintzberg asserts that:

- Many of the strategic planning models fail to take into account for how strategies are made. Besides, there is little evidence to show that planning activities can be linked effectively to strategy formation.

- Empirical studies have not demonstrated that planning necessarily contributes to improved performance. The problem is that data about planning process is hard to gather.

- Planning may lead to rigidity in the decision making process – planning occurs often in an annual circle.

- Formal planning discourages strategic thinking – people are unwilling to question plans and plans can result in an obsession with control which results from a reluctance to consider creative ideas.

- Defining strengths and weaknesses is actually very difficult due to lack of information – these are likely to be unreliable, all bound up with aspirations, wishes and hopes. Planning is a waste of time without the context of an actual problem.

- Finally there is a problem of predetermination -planning assumes the environment can be forecast and its future behaviors controlled by the plan. The problem is that forecasting cannot cope with discontinuities, such as war.
Environmental Analysis

Strategic planning takes place within the framework of environmental analysis, which provides the organization with a set of basic data/information for setting objectives and formulating strategies for achieving them.

Environmental analysis is the process of monitoring an organization’s **internal factors and external forces to identify strengths and weaknesses (through internal analysis); and opportunities and threats (through external analysis)** which may influence the firm’s competitive advantage.

The term **environment is generally perceived as the set of forces, both inside and outside the organization that can affect its performance.** An organization is viewed as an open system which constantly interacts with and is influenced by the environment. It is typically divided into three distinctive levels:

- **a) Internal environment**—Consists of forces that operate inside the organization with specific implications for managing organizational performance. It requires an organization to assess all its resources—human, material, financial, and physical, so as to determine their adequacy and strategic fit with business objectives/goals. The organization should then develop appropriate strategies that:

  - use strengths to make use of opportunities.
  - take advantage of opportunities by overcoming or avoiding weaknesses.

**Examples of strengths may include:**

- a distinctive competence/competitive advantages.
- cost advantages and economies of scale
- proven management, good competitive skills and abilities.
- adequate financial resources.
- technology and innovation.
- an acknowledged market leader well thought of by buyers
- insulated from strong competitive pressures e.g. through government protection (legislation)

**Examples of Weaknesses may include:**

- poor strategies and no clear strategic direction
- a deteriorating competitive position, say due to obsolete facilities.
- lack of managerial talent and skills
- vulnerable competitive pressures due to falling behind in research and development, threat of substitutes.
- too narrow a product range.
- below average marketing skills and weak market image.
b) **Operating environment** This is referred to as the competitive environment with components that normally have relatively specific and immediate implications for managing the organization. The major components of operating environment are customers, competitors, employees, and regulators.

c) **The general environment**—Is the level of an organization’s external environment with components that are broad in scope and have long-term implications for managers, firms, and strategies. The main components of the general environment are economic, social, political and technological factors. These are known as **PEST** factors and are illustrated below.

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<tr>
<th>POLITICAL / LEGAL FACTORS</th>
<th>ECONOMIC FACTORS</th>
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<tr>
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<td>Business cycles/GNP trends</td>
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<td>Monopolies legislation</td>
<td>Interest rates</td>
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<td>Foreign trade regulations and laws</td>
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<td>Employment law</td>
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<td>Government stability</td>
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<th>SOCIO – CULTURAL FACTORS</th>
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<td>Population demographics</td>
<td>Government spending on research</td>
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<td>Social mobility</td>
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<td>Lifestyle changers</td>
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<td>Levels of education</td>
<td>Speed of technological transfer</td>
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<tr>
<td>Attitudes to work and leisure</td>
<td>New discoveries/ developments</td>
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Figure  SWOT Analysis

**Examples of opportunities** from environmental analysis may include:

- Enter new market segments
- Diversify products
- Vertical integration, strategic alliances
- Complacency among rival firms

**Examples of Threats** from environmental analysis include:

- Likely entry of new competitors/growing competition
- Rising sales of substitute products
- Changing buyer needs and tastes
- Adverse demographic changes
- Adverse government policies.
- Growing bargaining power of customers or suppliers.
SWOT analysis provides the information from which to develop a picture of the organization’s distinctive competence and competitive position. The acronym SWOT stands for **Strengths, Weaknesses, Opportunities and Threats**. Managers can then set objectives and formulate strategies to address these key issues in an attempt to improve the performance and competitive advantage of their organization.

**Benefits of Undertaking Environmental Analysis**

SWOT analysis provides the following valuable benefits to the organization:

- It helps management to respond to critical issues in the environment.
- It enables the organization to explore future conditions of the organization’s environment and to incorporate what it learns into the decision making process.
- It helps management to identify current issues that are significant to the company, assign priorities to these issues, and develop a plan for handling each of them.
- Improved planning and decreased reaction times.
- Avoidance of major surprises – SWOT analysis helps organizations to anticipate major changes in their business circumstances.
- Swifter identification of threats and opportunities – SWOT allows management to respond to changes among their customers, suppliers, workforce and other stakeholders, and they can obtain a head start upon competitors.
- Enhanced self-understanding – it is only by examining the environment that companies can fully understand their own competitive position.

Environment analysis plays a vital role in strategic planning. It helps management to establish organizational direction. The organization’s vision, mission, objectives and strategies are formulated on the basis of the information gathered through SWOT analysis.

**The alternative directions** in which the organization may choose to develop include:

a) **Consolidation strategy**-Involves taking considerable changes in the specific way the company operates, while the range of products and markets remain unchanged. Its main forms are:

- Maintaining share in a growing market
- Competing in a declining market
- Improving quality of a product or service
- Increasing marketing activity
- Improving productivity through cost control and capital investment.
- Consideration is relevant to static, growing or declining markets.

b) **Market penetration**-A firm may take deliberate steps to improve product quality, increase market activity, improve productivity, to gain market share in order to take
advantage of the opportunities that may exist. This strategy is appropriate where the overall market is growing.

c) **Product development**- The company searches for alternatives which build upon the company’s present knowledge and skills. Product development strategy involves maintaining present markets whilst changing and developing new products. It is an appropriate strategy where the organization deals with short life products, fierce competition and is good at research and development.

d) **Market Development**- This strategy involves maintaining present products whilst venturing into new market areas. Market development may include:
- Entering new market segments
- Exploiting new uses for the product
- Spreading into new geographical areas

e) **Selling out**– is called divestment or disinvestment strategy with primary aims of:
- Cost – saving – through discontinuing operations
- Mobilizing cash required to finance profitable ventures.
- Selling out is an appropriate strategy when the internal and external situation has deteriorated to such a degree that the possibility of survival is remote.

f) **Diversification strategy**- Is a direction of development which takes the company away from its present products and markets. Two types of diversification are:

1. **Related Diversification** – development beyond the present products/market but within the bread confines of the industry within which the company operate. For example, a restaurant owner expands his business into hotel business.
2. **Unrelated Diversification** – is development beyond the present industry into products/markets which bear no clear relationship to the present product/market.

**Advantages of Diversification**

Diversification strategy has the following advantages:

- Better control of vital inputs/supplies through backward integrations.
- Better control and access to markets through activities concerning the company’s outputs (forward integration).
- Good access to information.
- Cost – saving advantage – access to cheaper raw materials, labor services, and distribution services.
- Profit or growth advantage and spreading the risk.
- Efficient resource utilization
- Synergy – two or more activities complement each other.
Disadvantage of Diversification Strategy

Diversification strategy has two major disadvantages:

- Problems of management control – it might be difficult to integrate acquired subsidiaries.
- Inefficiencies due to lack of knowledge, skills and experience in managing a new venture

The alternative methods by which the above directions of development might be achieved are:

a) Internal development-This has been the primary method of growth as it enables the organization to acquire skills and to exploit products and compete successfully in the market. The problem of this strategy, however, is that it is a slow method of growth.

b) Acquisition-This is where a parent company buys a subsidiary/company.

Acquisition method of development has the following advantages:

- The company can speedily enter into new markets and new products
- Lack of knowledge to develop certain strategies internally.
- Overall cost advantage through efficiencies which would be difficult to match quickly by internal development
- Increased competition in the market.

The main problem with acquisition method lies in the ability to integrate the new company into the activities of the parent. Besides, acquisition may be more costly than internal growth.

c) Joint development-May take the form of Franchising, Licensing, the use of Agents and Partnership/alliances.

Franchising – is the best known and common type of joint development/mergers. Each of the parties to the franchise agreement has a particular strength or complimentary interest in part of the development process, for example product design, brand name and corporate advertising, manufacturing, distribution and selling. Franchising allows both parties to benefit and use their limited resource more efficiently.

Licensing – involves the sale of patent rights to other manufacturers. It is a means of developing overseas markets without being involved in local manufacture or exporting from the domestic country. Licensing is very important in the retail trade business.

Agents – the use of agents has been a common practice in joint development for many years for two reasons:
• Better use of local knowledge in overseas markets.
• It is the most cost efficient way to operate in overseas markets

**Strategic alliance** – is defined as a cooperative business activity formed by two or more separate organizations for strategic purposes, while preserving their separate identity/autonomy. The benefits of strategic alliance include:

• It can allow participants to achieve critical mass production.
• Parties benefit from each other’s skills and resources
• It can allow skill transfer between participants

Strategic alliances include **joint ventures, partnerships and contracting out (outsourcing)**. **Joint ventures** are separate business entities whose shares are owned by two or more business entities and their assets are formally integrated and jointly owned.

Joint development is a very useful method of growth which offers sharing cost, sharing risk and sharing expertise.

**Revision Questions**
1. Failure to plan is planning to fail. Discuss.
2. Explain the activities involved in planning.
3. Explain planning process.
CHAPTER 13

ORGANIZING AND COORDINATING

This chapter covers definition, process and principles of organizing.

Objectives

By the end of this chapter the student should be able to:

- Define organizing.
- Explain the organizing process.
- Describe principles of organizing.

DEFINITION OF ORGANIZING

Organizing is a process of identifying and grouping activities to be performed and resources in order to achieve the objectives of an organization.

Organizing is important to a company because:

1. It identifies what is to be done and who is to do it.
2. It indicates lines of authority and responsibility by showing who reports to whom and who is in charge of whom and establish channels of communications.
3. It identifies and focuses resources on the objective to be achieved.
4. It provides the basis for coordinating activities necessary for achieving objectives.

ELEMENTS OF ORGANIZING

Organizing involves:

1. Defining jobs to be undertaken by an organization.
2. Dividing tasks: A job is a composition of tasks. The tasks in a job may be related to one another or sequential so that one task cannot be executed without the one preceding it. Organizing involves breaking down the job into tasks and arranging them in appropriate order or grouping them according to their nature. Organizing may involve dividing tasks according to departments of operations such as:
   - Function
   - Process
   - Geographic territory
   - Product
   - Customer

These have been discussed under the topic of organizations (Chapter)

3. Delegating Authority: People who are assigned tasks must be given authority to do them. Authority is the power to make decisions and use resources without seeking
permission from someone else. Every person who is assigned a task has a responsibility to make decisions, take action and control performance.

4. Assigning resources: Every production function requires the use of resources of different types. Organizing involves identifying:
   - Capacity necessary for the level of output. E.g. tools, equipment and technology necessary for production.
   - Raw materials in quantities and qualities required for production during a given period.
   - Labour in terms of knowledge, skills, attitude, numbers required and specialization where necessary.

**PRINCIPLES OF ORGANIZING**

Fayol’s list of management principles include the following which relate to organizing:

1. Division of Labour: Work should be divided in such a way as to allow specialization. An employee should be allowed to do what he is most competent in.
2. Authority /Responsibility Parity: Authority is power, responsibility is the obligation to carry out assigned tasks. Fayol stated that the level of authority should match the level of responsibility one has in carrying out a job.
3. Unity of Command: In organizing, the supervisor should ensure that a subordinate should receive orders from one superior only.
4. Span of Control: Span of control defines the number of subordinates reporting directly to a manager. Where a large number of subordinates report to one manager the span of control is said to be wide and flat where fewer workers report to a manager the span of control is said to be narrow and tall.
5. Order: To promote efficiency all materials and people related to specific kind of work should be located in the same general area.

**ORGANIZING THE ORGANIZATION – ORGANIZATION STRUCTURE**

An organization structure shows positions and interrelationships of functions, responsibilities, authority and communication lines in an organization. Management may be organized in terms of line managers and line – and – staff manager mixed in one system of reporting. (Discussed in)

**ORGANIZING JOBS**

A fundamental part of the organizing functions is:

- Designing and analyzing jobs: Design – Every job must be specifically created and labeled before a worker is selected. Through job design the job content is identified, work methods and the job’s relationship to certain other jobs in the firm one specified.
- Analysis: This is the process of gathering and studying information about jobs and their requirements.
- Job description: A written statement of the duties and responsibilities of a person holding the job.
- Job specification: A statement of the qualification necessary for performing the job.
ORGANIZING INPUT RESOURCES
Organizing production involves:

- Determining standards: That is standard type of material, standard quantity of material, standard labour hours (standard time) required to produce one unit of output.
- When materials should be bought and brought to site or when labour should be employed.

CO-ORDINATING
Although Fayol presented co-ordinating as a third of the five function of Management co-ordination occurs with the other functions at all levels of management. For instance planning at the different levels of strategic, tactical and operational should be co-ordinated if the whole plan is to make sense.
Organizing involves co-ordinating the business functions. For example marketing must provide production with information about demand for a product. Finance will determine when production is feasible especially with regard to resources e.g. the Budget is an instrument of co-ordination.

DEFINITION
Co-ordinating is a process of unifying an entity’s parts so that they form an affective working unit. Co-ordination requires the various functions to work together, to co-operate and communicate.

Types of Co-ordination:
- Vertical co-ordination i.e upwards and downwards co-ordination.
- Horizontal co-ordination as between departments.

WAYS OF ACHIEVING CO-ORDINATION IN AN ORGANIZATION
Co-ordination in an organization may be achieved through:

1. **An appropriate organization structure:** If well designed an organization structure will ensure that all sections of the business are following common objectives.
2. **Clearly defined job descriptions:** This distinguishes one job from another showing interrelatedness among jobs.
3. **Standardized Instructions and procedure manuals:** This helps in ensuring that every employee is doing what is commonly agreed upon.
4. **Regular meetings between departments:** Allow opportunity to discuss shared responsibility resolve differences.
5. **Group on the job training:** Allow staff to develop common approach to solving the organization problems.
6. **Financial reports e.g Budgets preparation of Income Statements and Statement of Financial position** require co-ordination among staff.
7. **Good communication:** To minimise misunderstanding of the motives of various managers.
SYNERGY AND CO-ORDINATION
Synergy is said to be a condition when a combination of two or more factors result in an output that is greater than the sum total of the factors e.g. 2+2=5. Synergy comes about because of the influence of one element over the other, or because one element has exploitable strengths that are greater than the individual. Because of synergy a company can use an advantage to strengthen a weakness.

SUMMARY
This section has covered the definition of organizing. That organizing means bringing up and grouping activities and resources. Elements of organizing include defining jobs, dividing them into tasks, defining and delegating the necessary authority and assigning resources to specific jobs. Five of Fayol’s principles of management relate to organizing i.e.

- Division of Work
- Assigning authority / responsibility
- Unity of command
- Determining span of control
- Order

Organizing involves
- Organizing the organization structure
- Organizing Jobs
- Organizing resources

It has also been observed that co-ordination takes place in all management functions.

Revision Questions
1. Define organizing.
2. Explain the importance of organizing.
3. Discuss organizing process.
CHAPTER 14

LEADERSHIP

This chapter covers the definition, characteristics and theories of leadership.

Objectives

By the end of this chapter the student should be able to:

- Define leadership and leading.
- Describe characteristics of effective leadership.
- Explain theories of leadership.

Definition of leadership - What is leadership?

- Leadership is the process of influencing others to work willingly towards an organization’s goals to the best of their abilities.
- Leadership is a dynamic process whereby one individual influences the other group members to commit themselves freely to the achievement of group tasks or goals.
- Leadership is the use of power to promote the accomplishment of goals and proper maintenance of the group. A leader should share the roles/task with the members of his group through delegation.

Definition of Leading

Leading is the process of directing peoples efforts towards achievement of organization goals and objectives.

Leadership as a dynamic process

Leadership is influenced by the changing requirements of the task, the group itself and the individual members. Consequently, there is no best way of leading, and leaders need to be able to exercise a range of behaviors to maintaining their role effectively. The leaders’ principal role is to influence the group towards the achievement of group goals.

Leaders need to strike the right balance between the needs of people, task and goals in given situations. Research studies conducted over the last 30 years have suggested that there are **four key variables** which are crucial in any analysis of leadership:

1. The Personality of the leader – knowledge, skill, attitudes and how he is referred;
2. The nature of the task or goal-is it complex, routine, sensitive?
3. The nature of the group or team-do it prefer to bled or autonomous?
4. The climate or culture of the organization-is it supportive and enabling?
Leadership comes about in a number of different ways:

- **By appointment to a position of authority within the organization** – leader’s power is derived from the legitimate authority of the position he/she holds. E.g. authority of managers of a company.
- **By election into the leadership position** – some leaders in politics as well as trade unions might be elected by people.
- **By popular choice, through their personal drive and qualities** – charismatic leaders of unofficial groups of people are an example.

The essence of leadership is **follower-ship**. A leader’s authority may technically be removed if the followers cease to acknowledge him/her as their leader. A leader should be able to use the capabilities of subordinates to better effect. The leader must cooperate with the people and maintain good relationships with them.

In modern day businesses, we need ‘leaders who are paradigm thinkers who are able to intergrate what is appropriate from the past with what will be suitable for the future’ (Bennis, Parikh and Lessem, *Beyond leadership*, 1995). These are visionary leaders who are capable of transforming an organization by taking it on to even greater success or by turning it round, from imminent collapse. They must be imaginative, experienced, inventive and analytical.

**Leadership Effectiveness: What Traits are required?**

There is no definite model to describe what makes a leader effective. The focus should be on the content of leadership which results into the development of an effective team performance. The following traits are important in achieving success in strategy implementation and change—vision, motivation, communication and flexibility:

- **Vision**—which provides direction. Leaders must have imagination.
- **Communication**—leadership is predominantly about communication. Leaders need to listen to and trust other people. They must be considerate of other people’s needs.
- **Passion and Motivation**—the most effective leaders are those who inspire others, are able to communicate a sense of meaning and belonging to the organization.
- **Flexibility**—leaders need to be able to tailor their leadership style to the requirements of the task, people and context in which they are leading.

The following roles/functions of leaders will make a big difference to their performance:

- The leader should be an **executive**—he/she should be able to coordinate group activities and develop norms and policies;
- Leader as a **planner**—deciding the means by which goals will be achieved;
- An **expert**—source of key information and specialized skills
Attributes of Visionary Leaders

- The visionary leader is imaginative, experienced, intuitive and analytical
- He/she, seeks reputation for excellence -sees mismatches between how things are done currently and how they can be made more effectively.
- He/she is oriented towards action-they prefer talking rather than planning, listening and observing things and applying ideas and concepts in different contexts.
- Visionary leaders are usually brilliant communicators-enables deeply thought out visions to quickly become shared meanings. They operate as role models, leading by example.
- Practices empowerment of staff to allow managers to lead their departments and feel some ownership for the effectiveness of the organization as whole.
- Visionary leaders are passionate about achievement of goals and are determined to overcome setbacks and to find ways round obstacles. They want to make things happen. They are optimistic, believing that the world is full of opportunities.

The Ingredients of Leadership Decline

The causes for leadership decline are varied and may take the form of an extreme fear of success in others-inertia of the leader who simply runs out of energy, interest, and enthusiasm. John Van Maurik, Discovering the leader in you, 1994) mentions six key ingredients in leadership decline:

- The pressure of power- once promoted, a leader becomes isolated from former peers, and a climate is created in which reality is filtered.
- Inability to continue learning because of the apparent belief that leadership is associated with omniscience.
- Loss of touch with reality -the leader becomes obsessed with issues which are not central to survival and growth of the organization.
- The misuse and over-use of strengths.
- Insensitivity to the organization’s culture and people’s expectations-culture and values may regress to something less successful as the leadership comes under pressure or starts to decline.
- Finally, wear and tear -which may take that toll s the leader loses energy and enthusiasm.

Theories of Leadership

Many theories of leadership have been advanced over years, with each author focusing on a particular set of variables which are perceived to be critical for success in the leadership situation. The main theories of leadership covered in this topic/chapter include:

i) The style approach to leadership;
ii) The trait theory of leadership;
iii) Other theories of leadership (Robert Blake and Jane Mouton’s; Management Grid), Tannenbaum and Schmidt’s Leadership continuum
iv) Contingency theory of leadership.

The Style Approach to Leadership

The styles view of leadership contends that leadership is not all innate gift, a style of leadership appropriate to a given situation could be learned and adopted. This theory arose out of a growing interest in the human factor at work stimulated by Elton Mayo’s research of Human Relations and later developed by social psychologists.

Styles theory looks at leadership as an aspect of behavior at work, rather than of personal characteristics. The approach expresses leadership in terms of authoritarian versus democratic styles or people orientation versus task orientation. The focus is on the leader’s predominant way of behaving in interpersonal relationships within the group. Three theories by Huneryager and Heckman; the Ashridge studies and RinsisLikert will be discussed in this paper.

Huneryanger and Heckman’s Autocratic, Democratic, and Laissez-Faire Leadership Styles

Developed in 1967, Huneryager and Heckman’s theory presents three types of leadership styles – Autocratic style, Democratic style and Laissez faire style.

a. Autocratic Style

The leader determines policy procedures and tasks and roles of members. Decision making is centralized in the hands of the leader. There is little or no employee participation and the manager forces subordinates to work by imposing orders, directives and instructions on them. He uses threat of punishment and penalties to enforce compliance. This style of leadership is common in hospitals and small scale business organizations, sole traders, partnerships and family owned companies. It can also apply in emergencies and crisis situations.

Advantages of Autocratic Leadership Style.

- Quick decisions as the leader does not need to consult nor gain consensus from subordinates.
- Power and authority is vested in the leader-this ensures firm control and enforcement of orders.
- Superior quality decisions -since the leader is more experienced and has a wider view of the organization.
- Strategic focus-the leader is suitably placed to deal with long term, strategic decisions which ensures proper balance between departments.
Disadvantages of Autocratic Leadership

- Lack of employee participation may de-motivate staff leading to low production.
- Poor relationship between the manager and the subordinates, leading to increased job dissatisfaction.
- Poor quality decisions – as the manager is limited to his background and experience. Besides, employees do not contribute their ideas and views, thus limiting the choice of alternative solutions.
- Leads to excessive workload to the leader resulting into inefficiencies such as communication problems and delayed decision as communication tends to be in one direction top–down.
- Risk of abuse of power and authority by the leader.

b. Democratic Style of Leadership

The leader suggests alternatives, but the group decides specific policy, procedure, tasks and roles of members. Group discussion is encouraged by the leader and everyone is free to participate in group decisions. The decision-making process is decentralized and shared by subordinates in participative group action. All members of the group are seen as important contributors to the final decision. This may lead to increased member commitment and to improved quality decisions.

Advantages of Democratic Leadership

- Increased employee morale and motivation among subordinates.
- Job satisfaction is high leading to increased commitment and efforts to implement goals as staff own their decisions.
- Employee participation and empowerment allow contributions and sharing of knowledge and ideas leading to quick and improved quality decisions. Staff have more involvement, direct control over their work and are held accountable for their actions and decisions.
- Promotes employee initiative and creativity leading to improved innovation which may result into efficiency and effectiveness of operations through improved work methods and product/service quality, giving more value to customers.
- Promotes delegation and management by exception, thus freeing more leader’s time to concentrate on strategic issues/decisions as routine ones are delegated to subordinates.
- It may facilitate employee development where their talents and skills can be utilized for maximum production. Employees experience personal growth and maturity in their approach to solving work related problems.
- Good communication and improved leader-member relation leading to reduced conflict, reduced hostility, and more cooperation among subordinates, since the leader is respected and trusted by the employees.
Disadvantages of Democratic Style

- Slower decision –making due to the need for consultation and consensus.
- Diluted accountability for decisions.
- Possible compromises that are designed to please everyone but not the best solution.
- It is time consuming – to attend meetings and to prepare reports.
- It may be expensive – in terms of financial implications for holding meetings or processing information.

C. Laissez Fair Style

In the Laissez faire style, the leader does not take part or direct decisions from the group. The group has complete freedom in determining policy, procedures, tasks and roles of the group members. Laissez faire leadership style is essentially non-leadership and the leader exercises very little control or influence over group members. He functions as a group member who may provide information, advice and direction when asked. An example is the leader of a Research establishment.

Advantages of Laissez-Faire leadership Style

- It offers opportunity for individual development to group members.
- Highly decentralized decision making leading to increased employee motivation and job satisfaction among group members.
- Promotes good quality decisions due to employee contributions, leading to good customer satisfaction and service.

Disadvantages of Laissez-Faire Leadership Style

- Lack of group cohesion and unity towards organizational objectives – without a leader the group may have little direction and lack of control.
- Low level of group productivity and poor member satisfaction.
- Dilutes the leader’s authority and responsibility.

RensisLikert’s Leadership Model

Likert’s model is a further variation of the authoritarian-democratic polarization and the combined concern for task and for people. Four systems of leadership are distinguished by Likert: System 1 to System 4.

System 1:Exploitive- Authoritative System

The leader is very authoritarian, strict autocrat who tries to exploit subordinates using fear and threats. Most decisions are made at the top and the leader maintains a social and psychological distance from the subordinates. The leader uses one way (top-down) communication and has neither confidence nor trust on the subordinates.
The leader rarely seeks ideas and opinions from subordinates in solving work problems. Thus the exploitative – authoritative system of leadership is characterized by the use of hierarchical position power, no team work, use of sanctions for discipline. It may therefore result in poor communication and mediocre productivity.

**System 2: Benevolent – Authoritative Style**
This is basically a paternalistic style of leadership which is similar to exploitative authoritarian style, but the former gives some lee way for employees consultation and allows some decentralization of the decision making process. The leader keeps strict control, uses rewards and interacts with subordinates. The leader has limited confidence and trust in the subordinates.

Most policy decisions are taken at the top, but some upward communication is possible on certain matters where ideas and opinions from subordinates may be sought by the leader. Productivity may therefore range from fair to good.

**System 3: Consultative Group.**

The leader retains the right to make decisions but lends towards a participative involvement with subordinates. He has sound substantial degree of confidence and trust in the subordinates. Subordinates have a moderate amount of influence over the decision making process. The consultative style may result into good communication team work and consultations are encouraged in the setting of goals and in decision making. Consultative style may lead to good productivity.

**System 4: Participative Group.**

The leader directs the group but allows total participation in decision making such as the setting of goals, improving work methods and determining rewards. The leader has complete confidence and trust in the subordinates and makes constructive use of ideas and opinions of subordinates. Besides, communication is very good as people are linked to each other throughout the organization.

This is the ideal system of leadership where through employee participation, growth needs are catered for, and commitment is secured, and results into excellent productivity.

According to Likert, effective leaderships depend on the following features:
- Expecting high levels of performance.
- Being employee – centered, taking time to get to know workers and develop trust.
- Not practicing close supervision
- Operating a participative style of management as a natural style.
The Trait Theory of Leadership

This is leadership theory which is centered on personal traits and characteristics thought essential for effective leadership. The assumption is that good leaders are born with these traits and they are not made.

A study by Ghiselli showed a significant correlation between leadership effectiveness and the personal traits of intelligence, initiative, self assurance, and individuality. Others include physical personality, and social traits. Such factors as judgment, intelligence, courage, sense of humor and dependability may influence leadership effectiveness.

The trait theory has been criticized by many writers who question the fact that leadership traits are inborn, as they can be acquired through learning and experience.

- It is impossible to identify the particular traits or characteristics that separate leaders from non-leaders.
- The approach does not take account of the individuality of the subordinates and other factors in the leadership situation.
- Such a list of traits presumed to describe leadership describes nothing in practice.
- The list of traits is very long calling for a person of extraordinary, supernatural gifts to be a leader.

The great man approach does not help organizations to make better managers or leaders, as it merely attempts to help them recognize a leader when they see one. Some very successful leaders lacked certain of the qualities identified as necessary or many of today’s managers may possess these traits, yet may be incapable of leading people. Finally, there are problems in meaning and measurement of some of the qualities.

The Contingency Theory of Leadership

This is a situational approach to leadership which states that there is no single best way of leading as problems are likely to differ from one organization to another, depending on prevailing circumstances. The theory sees effective leadership as constituting the most appropriate style for the circumstances. Leadership behavior is contingent upon the characteristics of the situation.

Two studies we will focus on are Fred F. Fielder’s Contingency Theory and Professor. John Adair’s Action Centered leadership.

i. Fiedler’s Contingency Model

Fiedler was a leading advocate of Contingency theory. Also known as Situational leadership, the theory accepts that leaders differ in the extent of their orientation to task in relation to people. He studied the relationship between style of leadership and the effectiveness of the work group. In his view group performance is contingent upon the leader adopting an appropriate style in the light of the relative favorableness of the situation, which is in turn determined by the following variables;

- Leader- Member relationships
- Degree of structure in the task
- Power and authority of the position

**Leader-Member relationship** is the extent to which the leader has the support of the group. This is an important variable in influencing the degree of favorability of the situation.

**Task structure** is the extent to which the task can be clearly defined and structured.

Finally, **position power** refers to the amount of power vested in the leader’s position in relation to the leader’s ability to reward and punish subordinates. High task structure and strong positional power also determine the degree of favorability of a leader.

Fiedler identified two styles of leadership:

1. **Psychologically Distant Managers (PDMs)** who maintain a distance from their subordinates by
   - Formalizing roles and relationships between themselves and their subordinates
   - Being withdrawn and reserved in their interpersonal relationships
   - Preferring formal consultation methods than seeking opinion of staff informally.

   PDMs judge subordinates on the basis of performance and they are primarily task oriented and authoritarian. It works best when the situation is either very favorable or very unfavorable to the leader.

2. **Psychologically Close Managers (PCMs)** who:
   - Do not seek formalized roles and relationships with subordinates
   - Are more concerned with maintaining good human relationships at work than to ensure tasks are carried out efficiently.
   - Prefer informal contacts to regular formal staff meetings.

   PCM style works best when the situation is moderately favorable to the leader.

Fiedler argued that the effectiveness of work group depended on the situation which is made up of three particular variables:

- The relationship between the leader and his group – the amount of trust and respect they have for the leader
- The extent to which the task is defined and structured
- The power of the leader to reward and punish is high

The situation is favorable to the leader when:

- The leader is liked and trusted by the group
- The tasks of the group are clearly defined
- The power of the leader to reward and punish with organizational backing is high.
Fiedler concluded by stating that group performance is contingent upon the appropriate matching of leadership style and the degree of favorableness of the situation for the leader. The greatest value of Fiedler’s leadership model lies in its attempt to distinguish and evaluate the key situational variables that influence the leader’s performance.

ii. Functional/Action-Centered Leadership

Professor John Adair, developed the functional leadership model. He sees that leadership is more a question of appropriate behavior than of personality. The model incorporates The concern for task and The concern for people. He believes that effective leadership lies in what the leader does to meet the needs of task, group and individuals. All the three variables must be examined in the light of the whole situation. His theory is illustrated as follows:

![Figure 5. Functional Model of Leadership by Professor John Adair.](image)

**Task functions** - are directed towards task needs and include:

- Setting objectives
- The planning of tasks
- The allocation of responsibilities
- The setting of performance standards
- Initiating, diagnosing and evaluating
- Information seeking, opinion seeking and decision making

**Group Maintenance functions** - are directed towards group needs and include:
• Team building
• Motivation
• Communication
• Encouraging, clarifying
• Peace keeping
• Standard setting

**Individual Maintenance functions** are directed towards the needs of individuals, and include;

• Coaching and counseling
• Training and development
• Goal setting
• Feedback
• Motivation and recognition (rewards).

The total situation dictates the relative priority that must be given to each of the three sets of needs: task, group and individual needs. Effective leadership is about identifying and acting on that priority to create a balance between these needs. Adair’s model encourages a flexible style of leadership, which may be relatively task-oriented, group-oriented, or individual-oriented depending on the circumstances of each situation.

**Other Theories of Leadership**

We now turn to our last two theories of leadership: Jane Mouton and Robert Blake’s Management Grid, and Tannenbaum and Schmidt’s Continuum of Leadership style.

i) **Tannenbaum and Schmidt Continuum of Leadership**

Tannebaum and Schmidt argue that managers adopt either a Task centered (authoritarian) or an Employee centered (democratic) approach. On these polarized dimensions, they constructed a Continuum, along which can be shown a manager’s style in given circumstances.

Leadership is affected by the manager’s style, the nature of subordinates and the situation faced by the leader. They proposed a continuum of possible leadership styles ranging from a totally autocratic one at one extreme to a democratic behavior at the other end, as illustrated below:
1. Manager makes decisions and announces it.
2. Manager “Sells” decision.
3. Manager presents decisions and invites questions.
4. Manager presents tentative decisions subject to changes.
5. Manager presents problem, gets suggestions makes decisions.
6. Manager defines limits, asks group make decision.
7. Manager permits subordinates to function within limits defined by superior.

Tannenbaum and Schmidt maintain that when selecting the most effective style of leadership for a given situation, the following three variables should be analyzed:

- The leader’s own position power personal characteristics and motivation.
- The makeup of the group itself – wants, needs of individual members, their view of the leader (individual or collective) are crucial in determining leadership effectiveness.
- The situation – the task itself and the type of organization, effectiveness of group, and pressure of time.

The continuum is a flexible model which addresses a range of situations. The advantage of the theory is that it gets managers to recognize that management style is a flexible one. The managers have a basic choice between being either authoritarian or democratic and that the best style (the ideal style) is a democratic one. However, this depends on the elements of the leadership situation.
ii). **Blake and Mouton: Management Grid.**

Blake and Mouton attempted to address the balance of management thinking, based on two aspects of managerial behavior, namely:

- Concern for Product (task)
- Concern for people

The grid represents a matrix of potential management styles of leadership. Used as an aid to management development, managers can identify their current style and learn what to do to achieve a better style. The grid uses two dimensions: concern for people and concern for production or task as shown below:

![Figure 7. Blake and Mouton’s Management Grid](image)

The extreme cases shown on the grid are defined by Blake as being:

- **1.1 Impoverished Manager** the manager is lazy, shows little concern for both work and staff. Manager exerts minimum effort targets to get the work done and he has little interest in the subordinates.

- **9.1 Task Manager**- leaders shows total concentration on achieving results. People’s needs are virtually ignored and he expects no interference from them in order to gain efficiency.

- **1.9 Country Club Manager**- The manger is attentive to staff needs and works to develop satisfying relationships. However, little attention is paid to achieving results. It leads to a comfortable, friendly atmosphere since attention is paid to satisfying the needs of people. He is very considerate to people but shows little concern for the task.
5.5 **Middle of The Road**/ The Dampened Pendulum - the leader strives to achieve adequate performance though balancing the necessity to get out work done while maintaining morale of people at satisfactory level.

9.9 **Team leader** - this is a high performance manager who strives to achieve high work accomplishment through committed people who identify themselves with the organizational aims. This style is seen as the ideal, best style since the leader emphasizes both needs. This style leads to goal congruence, improved relationships based on trust and respect for the leader.

**Revision Questions**

1. What is leadership.
2. Discuss the factors a leader must consider to choose appropriate leadership style.
3. Explain the characteristics of effective leadership.
4. Explain the types of leaders.
CHAPTER 15

CONTROLLING

This chapter covers definition, approaches, importance, types, tools of control and qualities of an effective control system.

Objectives:

By the end of this chapter the student should be able to:

- Define control.
- Explain approaches of control.
- Explain the importance of control.
- Identify types of control.
- Identify qualities of an effective control system.
- Explain control tools.

Introduction

This section deals with the meaning of control, the three approaches to control, the importance of control, the control process, the three types of control, qualities of an effective control system and tools of control.

Control

Control is the process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant and deviant deviations. Managers need to evaluate activities, and then compare actual performance with standard performance. A good control system should facilitate achievement of the organisation’s goals.

Control Strategies

Three types of control strategies or approaches have been identified. These are market, bureaucratic and clan.

Market Control

Market control is an approach to control that emphasizes the use of external market mechanisms such as price competition, to establish the standards used in the control system. This approach is used by organizations whose products or services are clearly specified and distinct and that face considerable market place competition. A large manufacturing organization with various divisions for different products would use this approach to control.

Bureaucratic Control

This is the second approach to control that emphasizes organizational authority and relies on administrative rules, regulations, procedures and policies. It relies on standardization of activities, well defined job descriptions, and budgets to ensure that employees exhibit appropriate behaviours. Large organizations use bureaucratic control as a means of standardizing their operations.

Clan Control

The third approach to control, clan control, regulates employee behaviour by shared values, norms, traditions, rituals, beliefs, and other aspects of the organization's culture. It is mainly used by organizations in which teams are common and technology is changing fast.
The Importance of Control
Control is the final link in the management process after the planning, organizing and leading functions have been performed. Control assures achievement of organizational goals. Managers use control to monitor performance, compare actual performance with standard performance and take corrective action where necessary. Without control this is not possible.
Another reason control is important is that it enables managers to delegate and empower employees. Control provides information and feedback on employee performance which reduces the risk on managers being held responsible for mistakes of their subordinates.

The Control Process
The control process is a three-step process involving measuring actual performance against a standard and taking managerial action to correct deviations or inadequate standards. The standards are set in the planning process and where an MBO system is in place, the designated objectives are the standards used in the control process.

Measuring
Measuring is the first step in control. There are two aspects to this i.e how we measure and what we measure. How we measure is concerned with obtaining information. The four common sources of information used to measure actual performance are personal observation, statistical reports, oral reports and written reports. Personal observation is used to obtain first hand, unfiltered information. Although it provides complete information it can be subject to bias and consumes a lot of time. Statistical reports can also be used to measure actual performance but they are limited to situations where numerical data exist. Oral reports through conferences, meetings, one-on-one conversations or telephone calls can also be used to obtain information. This method is very useful where the manager and employees are not similar in the same physical environment. The advantages and disadvantages of this method are similar to those of personal observation. Written reports are the fourth method, of measuring actual performance. These are slower but more formal, comprehensive and precise than oral reports.
What we measure is equally important in the control process as choosing the wrong criteria can have serious negative consequences.

Comparing
This step is concerned with determining the degree of variation between actual performance and standard. A range of variation is common in all activities. These are acceptable parameters of variance between actual performance and standard. Managers are only concerned with deviations that exceed this range.

Taking Managerial Action
The final step in the control process is taking managerial action. Three possible courses of action exist: do nothing, correct actual performance or revise the standards. If performance variation was due to unsatisfactory work, corrective action on actual performance was would be needed. However if the variance was due to an unrealistic standard, then the standard would need correction.

Types of Control
There are three types of control depending on the time they are performed. The first is forward control which focuses on preventing anticipated problems since it takes place before commencement of the actual work. This type of control targets input. For example, screening prospective employees before they are hired. The second type of control is concurrent control which takes place while the activity is being performed. It targets processes and allows managers to correct problems before they become worse. Direct supervision is an example of concurrent control. The third and last control is feedback control which takes place after the
activity has been completed. It targets output and is the most popular type of control. Financial statements are an example of feedback control. The major weakness of this type of control is that it is done after damage has already been done. However feedback provides useful information on the effectiveness of plans. It can also increase employee motivation because people want to know how they performed.

**Characteristics of An effective control system**

An effective control system has the following 10 characteristics:

- Accuracy i.e. it is reliable and produces valid information.
- Timeliness i.e it provides timely information.
- Flexibility i.e. it is flexible enough to adjust to changes and opportunities.
- Understandability i.e it is understood by users.
- Reasonable criteria i.e must be reasonable and attainable.
- Strategic placement i.e it must focus on those factors that are strategic to the organisation’s performance.
- Emphasis on exceptions i.e it should call attention only to the exceptions and not everything.
- Multiple criteria i.e needed to prevent a narrow focus.
- Corrective action i.e it should suggest appropriate corrective action apart from registering deviations.

**Control Tools**

A number of controls can be used to control different aspects of an organisation.

**Financial controls**

Financial controls are tools relying on financial ratios based on accounting statements, breakeven analysis, and the creation of budgets to control organization activities.

A brief look at some of the financial controls:

**Budgets**

The budget is the most popular financial control technique and also one of the oldest tools. A budget is a financial plan listing resources or funds allocated to a particular program, project, product or division. Budgets serve both as plans as well as controls because they provide standards against which actual performance can be compared. A typical organization would have different types of budgets that are combined to form an overall organizational budget.

**Developing a Budget**

The budgeting process begins with development of economic, revenue and profit forecasts. For profit making organizations the revenue would be mainly sales while for non profit organizations it would include donations and other income. Again, the profit forecasts for non profit...
organization would focus on the surpluses or deficits between expected receipts. Budgets can be prepared using either a top-down approach in which managers prepare the budget and pass it downwards or a “bottom-up” approach in which other managers participate in developing the budget. Draft budgets from various departments are received by a budget committee which reviews and consolidates them into a final budget.

In organizations, budgeting is mainly done by middle managers in areas of the organization called responsibility centres. A responsibility centre is any functional unit in an organization having one individual who is responsible for the activities of that unit. The common responsibility centres are profit centres, revenue centres, expense centres and investment centres.

A profit centre is a unit where performance is measured in terms of the difference between revenue earned and expenses incurred. The revenue includes transfers between functional areas within the organization. Revenue centres are where managers are responsible for output and not the cost of producing the goods or services. Regional sales offices in most organizations operate as revenue centres.

Expense centres are units in which expenses are measured and not output of the unit. A legal department, as it has no billings, is an example of an expense centre. An investment centre is where a manager is responsible for the use of assets as well as profits. Each responsibility centre has a financial plan for the budget period which contains a series of budgets such as expense, revenue and profit budgets. Cash budgets are also prepared for responsibility centres.

**Financial Analysis**

Financial analysis is the use of specific techniques to analyze a firm’s financial statements in controlling the liquidity, profitability and overall financial health of the organization. The two commonly used financial statements are the balance sheet and the income statement. The balance sheet is a statement of a firm’s financial position on a particular date. In the top part it shows the assets of the firm and at the bottom the financial structure, i.e. the sources of the firm’s assets. These are liabilities, owner’s equity and retained earnings. The income statement is a financial record summarizing a firm’s financial performance in terms of revenues, expenses and profits over a given time period. The main items in the income statement include revenue or sales, cost of sales, gross profit, operating expenses and net profit.

**Ratio Analysis**

Ration analysis is a performance evaluation technique (1) measuring the liquidity, profitability, extent of debt financing, and effectiveness of the firm’s use of its resources and (2) permitting comparison with other firms and with past performance. The ratios include liquidity, leverage and profitability, ratios. Liquidity ratios measure a firm’s ability to meet its short-term obligations. The current ratio and the acid test ratio are the commonly used ratios. The current ratio compares current assets to current liabilities. The acid test ratio measures the firm’s ability to meet its liabilities at short notice and therefore compares only highly liquid assets to current liabilities.
Leverage ratios measure the extent to which the firm is relying on debt financing. The two commonly used leverage ratios are of current liability to owners’ equity and the debt-to-equity ratio. Profitability ratio measures the firm’s ability to generate revenues in excess of operating and other expenses. The ratios include gross margin percentage \( \frac{\text{net income after taxes}}{\text{sales}} \) and return of investment \( \frac{\text{net income after taxes}}{\text{total sales}} \).

Activity ratios measure the firm’s internal performance with respect to inventory and the collection of accounts receivable. The ratios used include inventory turnover rate \( \frac{\text{cost of goods sold}}{\text{inventory}} \) and average collection period for receivables \( \frac{\text{accounts receivable}}{\text{average daily sales}} \).

Breakeven Analysis

Breakeven analysis is a technique used to determine the number of goods or services that must be produced and sold at a given price to generate sufficient revenue to cover total costs. It is a planning and controlling tool for determining the profitability of a proposed venture or product line. The breakeven point is the point at which total revenue is equal to total cost. It can be computed by using the following formulas:

\[
\text{Breakeven point} = \left( \frac{\text{total fixed cost}}{\text{per-unit contribution to fixed cost}} \right)
\]

\[
\text{Break point (in money)} = \left( \frac{\text{total fixed cost}}{1 - \frac{\text{variable cost per unit}}{\text{selling price}}} \right)
\]

Production controls

Production controls are concerned with the scheduling, timing and routing of a product or project. Production control uses such techniques as Gantt chart, program evaluation and review technique (PERT), and critical path method (CPM) in monitoring actual performance and comparing it with expected performance. The Gantt Chart, developed by Henry Gantt, is a simple visual device for controlling the sequence and timing of work activities. The critical path method (CPM) was developed by Du Pont and Reming Rand to improve maintenance and construction of Dupont’s dispersed plants. The program and review technique (PERT) was developed by the Navy Lockheed and management consulting firm BOOZ, Allen and Hamilton. The CPM and PERT can be used as network scheduling techniques in complex projects involving numerous activities—some sequential and some overlapping.

Organization Controls

Organization control is a control exerted by the organization structure and its planning system and the control of organization members. The first type of controls were covered in the topics on planning, strategic planning and decision making. Controls focusing on organization members is dealt with by performance appraisal programs discussed elsewhere. Another means of organization control is the Management information systems, also discussed elsewhere.
Inventory Controls
Inventory control is a process of balancing the need to have sufficient raw materials, work in progress, and finished goods on hand to meet demand with costs involved in carrying this inventory. The objective of inventory control is to avoid carrying excess inventory and shortages. The common inventory control systems include fixed quantity systems, fixed interval systems, minimum-maximum systems, budget allocation systems, ABC classification systems and material requirements planning (MRP). In a fixed quantity system, inventory is replenished at a specified reorder level. In the fixed interval system, inventory is monitored at designated times and then replenished to some preset amount. In the minimum-maximum inventory control system, inventory is checked at designated times and reorders are made only when an inventory level is below some specified minimum. In the budget allocation method, an overall budget amount is established, and, within these limits department managers are given flexibility to determine the precise mix of inventories they wish to have for their customers. The ABC classification system of inventory control groups accounts for inventory items according to their relative importance.

Inventory items classified as A items are considered more critical and requiring close control. B and C items would be given less attention.

Materials Requirement Planning is a system used in dependent demand situations. MRP is mainly used in production operations involving complex products assembled with parts and materials sourced from outside suppliers. It is a computer-based method to ensure that needed component parts and materials are available at the right time and place without stock piling unnecessary inventory.

Manufacturing resource planning (MRP 11) is an extension of MRP. MRP 11 is an advanced computer-based system that incorporates planning data from different functional areas for use in controlling all of a firms’ resources in response to changing market forecasts.

Other inventory control systems involve economic order quantity and just-in-time. Economic Order quantity (EOQ) is the optimal order size, based on a balancing of the various costs associated with inventory. It is based on the assumption that high inventory levels are associated with both increasing and decreasing costs. Just-In-Time was initially a Japanese inventory control system designed to minimize inventory in production facilities but now it is recognized as a management philosophy aimed at improving profits and return on investment by involving workers in the operations process and eliminating waste through cost reductions, inventory reductions, and quality improvements. JIT seeks to eliminate any kind of waste by providing the right part at the right place at the right time. Parts are produced “just-in-time” for production and not just in case they are needed under the traditional approach. JIT reduces inventory and costs and improves quality.
Quality control

Providing a competitive advantage to an organization and the high cost of product liability litigation are some of the reasons for installing an effective quality control program. Quality control is the process and associated tasks designed to ensure that a good or service meets acceptable standards. It has three components:

1. The good or service must be designed to be at least the minimum appropriate grade for its use.
2. It should confirm to the standards of the design.
3. The consumer should receive the necessary training and service support so that his or her use of the product is satisfactory within reasonable expectations.

American firms were overtaken by Japanese firms because the latter paid more attention to quality by observing Dr. W. Edwards Deming’s quality control programs. US firms that have achieved significant improvements in quality have made quality assurance a corporate philosophy. Each organization stressed that quality assurance was the responsibility of every organization member and not just management or the quality control department.

Management by Exception (MBE)

Management by exception is the practice of examining the financial and operational results of a business, and only bringing issues to the attention of management if results represent substantial differences from budgeted or expected amount. For example reporting only variances exceeding 20%.

The purpose of the management by exception concept is to only bother management with the most important variances from the planned direction or results of the business. Managers will spend more time dealing with larger variances. The MBE concept can be modified so that lower level managers can deal with smaller variances.

Advantages

- The technique reduces the amount of financial and operational results to be reviewed by management, resulting in more efficient use of time.
- The report writer linked to the accounting system can be set to automatically print reports at stated intervals that contain the predetermined exception levels.
- The company’s auditors will make enquiries about large exceptions, so management investigate these in advance.

Disadvantages

- The concept is based on budget and if the budget is not properly formulated, there may be a large number of variances which may be irrelevant, leading to a waste of time to those who will investigate them.
- The concept requires financial analysts to prepare variance summaries and present to management. This leads to more overhead to make the concept function properly.
- The concept requires the command-and-control system where monitoring of conditions and decisions are made centrally.
A decentralised organization structure could be the preferred choice.

Revision Questions
1. Identify and explain the steps in the control process.
2. Describe any four financial control techniques.
3. Explain what is meant by management by exception and why it is used by some companies.
CHAPTER 16
GROUP DYNAMICS AND TEAM BUILDING

This chapter covers dynamics, features, types, benefits, roles, formation, cohesiveness, effectiveness of groups.

Objectives
By the end of this chapter the student should be able to:
- Define group dynamics.
- Outline common features of groups.
- Describe main types of groups.
- Explain the benefits of groups.
- Explain the factors that determine the cohesiveness of groups.
- Describe the stages of group formation.
- Explain the characteristics of effective and ineffective groups.
- Describe team roles.

Definition of Group Dynamics

Group dynamics is the study of groups as well as groups’ processes. Group dynamics is relevant to the fields of psychology, dynamics, and sociology and communication studies. A group on the other hand is two or more individuals who are connected to each other by social relationship. Because members of a group interact and influence each other, a group develops a number of dynamic processes which separate them from a random collection of individuals.

These processes include norms, roles, relations development, need to belong, social influence and effects on behavior. However, the field of group dynamics is primarily concerned with small groups behavior in the working place. In addition, Kurt Lewin (1951) coined the term ‘group dynamics’ to describe the way groups and individuals act and react to changing circumstances.

Common Features of Groups

According to Adair (1986), a work group to be indeed a collection of people for a common purpose, the group members must:

- identify themselves as members.
- engage in frequent interaction.
- make others define them as belonging to a group.
- share common norms concerning matters of mutual interest.
- participate in a system of interlocking roles.
- identify with one another.
- find the team rewarding.
• pursue interdependent goals.
• Have group consciousness.
• act as one toward the outside world.
• feel and share sense of collective responsibility.

Main Types of Groups

Many different distinctions and classifications of types of groups exist. Most research on groups makes the distinction between formal and informal groups. However, in addition to this, we have also primary and secondary groups.

Formal Groups

Formal groups can be permanent or temporary. A permanent group may be a section or a department in an organization. A temporary group could be a task or project group consisting of employees who work together to complete a specific task after which the group will be disbanded. You find such a type of group in a matrix organizational structure. Formal groups are usually appointed for a specific purpose by the management of an organization, and as such have a formal structure. Formal groups are usually characterized by:

• Appointed and approved membership by the organization.
• Members’ compliance with the organization’s demands.
• Organization charts.
• Schedules of authority, responsibilities and duties.
• Company rules.
• Staff and line relationships.
• Unity of command.

Informal Groups

Informal groups develop in a more spontaneous way, and are often based on personal relationships, friendship or common interests where membership is voluntary. These groups arise if the opportunity exists. They are not explicitly set by management and do not figure in the formal hierarchy but rather they are formed to satisfy needs beyond those of doing the task. The said needs could include:

• the need to enhance one’s career
• the need to sustain friendship
• the need to satisfy affiliation needs and to enhance one’s personal status.

The informal groups develop across or outside the formal structure of the organization. These groups can work to support or obstruct the achievement of organizational goals
Primary and Secondary Groups

A further categorization of groups is that between primary and secondary groups. Primary groups are usually smaller and exist where members are in regular contact, for example in work teams/sections.

Secondary groups are larger in terms of membership. The degree of dependence between members is less and they are often more formal.

Within the organization context, it is important to focus on both primary and secondary groups since both have a role to play in individual behavior and performance.

Reasons Why Groups are Formed

It is suggested that organizations function best when members act not as individuals but as members of highly effective work groups.

The reasons why groups are formed in organizations are many and some of them are:

- for the distribution of work – to bring together a set of skills, responsibilities and to allocate them to particular duties.
- for the management and control of work – allow work to be organized and controlled by appropriate individuals.
- for problem solving and decision making – to bring together a set of skills, talents and responsibilities so that the solution to any problem will have all available capacities applied to it.
- for information and idea collection – to gather ideas, information or questions.
- for testing and ratifying decisions – to test the validity of a decision taken outside the group or ratify such a decision.
- for negotiation or conflict resolution – resolve a dispute or argument between levels, divisions or functions.
- for increased commitments and involvements – to allow and encourage individuals to get involved in the plans and activities of the organization.

Working in groups should also increase people’s skills, job satisfaction and motivation.

Cohesiveness of Group Members

A cohesive group is one whose sense of identity is sharply defined and it operates as a tight unit. In a cohesive group, there is no ambiguity about whether a particular person is a member of that group/team or not.

Likewise, outsiders are in no doubt that in attacking one individual member they can expect a total group response. This cohesiveness of group members can be valuable for management as the whole team responds as a unit, though of course the group’s cohesive strength could also be used against the company if the group feels threatened.
Here are some of the factors which can help cohesiveness to develop into a group:

- similarity of work
- physical proximity in the workplace
- the work-flow system
- the structure of tasks
- the group size (smaller rather than larger)
- threats from outside
- the prospect of rewards
- the leadership style of the manager
- common social factors such as age, race, social status etc.

However, the reasons why people develop into closely knit groups are three fold:

- because of those things they have in common.
- because of pressures from outside the group and
- because of their need to fulfill their social and affiliation needs.

**Group Effectiveness**

A key concern for all managers is to ensure that members of groups cooperate and work effectively together in order to achieve the results expected of them, and to give maximum benefit to both the organization and the individual. An effective group or team will demonstrate the following features:

- informal and relaxed atmosphere.
- much relevant discussion with high degree of participation.
  group task or objective should be clearly understood and commitment obtained to it.
- members listen to each other.
- conflict is not avoided, but brought into the open and dealt with constructively.
- ideas are expressed freely and openly.
- leadership is not always with chairperson, but tends to be shared as appropriate.
- the group examines its own progress and behaviour.
- most decisions are reached through consensus with minimum of formal voting.

Ineffective groups on the other hand have the following characteristics:

- bored or tense atmosphere.
- discussion is dominated by one or two people and often irrelevant.
- no clear objectives
- members tend not to listen to each other.
- conflict is either avoided or is allowed to develop into open warfare.
simple majorities are seen as sufficient basis for group decisions, which the minority has to accept.
- personal feelings are kept hidden and criticism is embarrassing.
- leadership is provided by the chairperson.
- the group avoids any discussion about its own behaviour.

**Group or Team Formation or Building**

Groups evolve over time in prescribed stages. A useful way of looking at the development of teams or groups was devised by B. Tuckman (1977) and may be summarized as follows:

**Stage 1 Forming** – Finding out about the task, rules and methods; acquiring information and resources; relying on the leader.

**Stage 2 Storming** – Internal conflict develops; members resist the task at the emotional level.

**Stage 3 Norming** – Conflict is settled, cooperation develops, views are exchanged and new standards (norms) are developed.

**Stage 4 Performing** – Teamwork is achieved, roles are flexible, and solutions are found and implemented.

**Stage 5 Adjourning** – Group disperses on completion of tasks.

In real life, these may blur and may occur rapidly or slowly. The manager will endeavour to bring the group through its first three stages quickly to reach expected performance.

**Group Roles**

One of the factors that will influence the performance of a team or group is the roles individuals play in the team, which start to emerge in the forming stage of the group development. The building of an effective team therefore involves the identification of distinct roles for members. Role differentiation is important when determining the structure and functioning of the work group and the relationships between members. Mullins (1996) defines a ‘role’ as a set of expected patterns of behaviour attributable to a person occupying a particular position.

Belbin (1993) identified the following eight key team roles if indeed the team is to be effective:

**Coordinator**

The coordinator controls the way a team moves towards achieving the team’s objectives, making the best use of the resources available, and recognizing and ensuring that best use is made of each team member’s potential.
Implementer

The implementer turns plans and ideas into practice and carries out plans efficiently and systematically.

 Completer/Finisher

The completer/finisher makes sure that the team is protected as far as possible from mistakes and searches for the work which needs more attention. He or she has a sense of urgency about things and always conscious of deadlines.

Monitor/Evaluator

The monitor/evaluator analyses problems, and evaluates ideas and suggestions, so that they can then make an informed decision and perform well in a quality role.

Plant/Innovator

The plant/innovator is a good source of ideas for the group and is imaginative and creative but may need to be encouraged by other members to contribute. They tend to be individualistic in nature and serious minded but knowledgeable.

Resource Investigator

The resource investigator explores and reports on ideas, developments and resources outside the group, and excels in conducting negotiations.

Shaper

The shaper shapes the way team effort is applied, directs attention to objectives and priorities, and seeks to impose a structure on discussion and their outcomes.

Team Worker

The team worker facilitates the use of the team’s strengths, the use of good communication techniques and the generation of team spirit.

Lately, Belbin has identified a ninth role, namely, the Specialist. The specialist provides expert advice when it is required. The specialist recognises the significance to the team of the combination of professional expertise, particularly in project work.

Revision Questions

1. Explain the characteristics of effective work teams.
2. Explain the roles of team leader and members respectively.
3. Describe the benefits of work teams.
CHAPTER 17

COMMUNICATION

This chapter covers definition, importance, systems, process and barriers of communication and procedures of effective meetings.

Objectives

By the end of this chapter the student should be able to:

- Define communication.
- Explain the importance of communication.
- Identify forms of communication systems.
- Describe the communication process.
- Identify barriers to communication.
- Explain procedures of effective meetings.

Managers carry out critical and indispensable activities in the shape of managerial functions and roles to ensure the survival, growth and success of organizations. Managerial functions refer to planning, organizing, coordinating, leading and controlling and managerial roles are interpersonal, informational and decisional roles. It is perhaps irrefutable that managers cannot undertake any of these interactive functions and roles in the absence of information. Efficient management depends on the availability of appropriate information.

Employees have their own information needs. They need information in order to perform their tasks efficiently and effectively. Additionally employees require information for motivation, job satisfaction, learning and development as well as to fulfill multifarious social needs.

What is Communication?

Communication may be defined as the transfer and understanding of meaning (Boone and Kurtz, 1992). It is the transference a thought or an idea to the other party so that it is understood and acted upon. Effective communication exists only when the receiver understands the idea or a transmitted thought exactly as the sender perceived it.

Organizational Communication

The very definition of organization indicates the significance of communication. According to Schein (2006) an organization is defined as the rational coordination of a number of people for achievement of common explicit purpose through division of labour and function through a hierarchy of authority and responsibility.

Importance of Communication

1. Information Needs of Organizations

From the above definition the following emerge as information needs of organizations:
• Coordination of activities.
  It entails the reconciliation of different objectives to make optimal use of resources
• Clarity of purpose.
  Organizations have a corporate mission, goals and objectives which must be clearly stated
  and communicated to stakeholders.
• Division of labour and functions.
  Different individuals concentrate on different tasks necessitating clear information on roles
  and job descriptions.

2. Information Needs of Management
  (a) Managers carry out critical functions and roles that ensure the survival, growth and
      success of organizations.
Management functions include the following:-
  • Planning
  • Organizing
  • Coordinating
  • Leading
  • Controlling

Information Needs of Employees
  Employees need information from organizations for several reasons:-
  • To perform their tasks efficiently and effectively
  • For motivation and job satisfaction
  • For learning and development
  • To fulfill various social needs
The importance of communication for managers cannot be overemphasized. This is because
everything that a manager does involves communicating. Managers cannot make a decision,
discipline and grievance interview, resolve conflicts, counsel and coach without information.
Managers therefore need to develop effective communication skills.

Forms of communication/communication systems
  (a) Formal Communication System
  • The chain of command necessitates the flow of communication from superiors to
    subordinates.
    This is vertical downward communication system
  • Accountability implies the flow of communication from subordinates to superiors
    following reporting lines
    This is vertical upward communication system

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• Coordination requires communication flow between departments and colleagues and thus needing horizontal flow of information
  This is horizontal or lateral communication system.

Formal or official communication refers to communication that follows the chain of command as described above.

(b) Informal Communication System
  Refers to communication that takes place outside the chain of command for instance grapevine

**Exercise**

1. Discuss why communication is important for organization success. Make reference to the organization you are familiar with.

2. Discuss the advantages and disadvantages of each of communication systems.

**Communication Process**

The two key players in communication process are the sender and the receiver of the message. Messages need to consider the needs and interests of these players. Effective communication is a two-way process and it is best expressed as a cycle. The communication process can be illustrated as below:-

![Communication Process Diagram]

**Components of Communication Process**

The above communication model is made up of eight components:

1. Source or Sender of the Message
   The sender conceives a thought or idea to communicate and how to communicate it. Deciding to communicate and what to communicate is the first stage of the process. For example, you might conceive an idea, think over it for a while and then decide to send it.
2. **The Message Itself**
   The conceived idea or thought is formulated into a pattern or chain of ideas to be communicated to the sender.

3. **Encoding the Message**
   To turn your idea into a message, you select the symbols that will transmit the idea. Words, numbers, diagrams, etc are like a code that the receiver is expected to understand. If the sender’s selection of symbols is inaccurate, or if the receiver does not share it the receiver may not decode it. For effective communication, the sender must attempt to encode the message in symbols that are mutually understood to both the sender and the receiver.

4. **Relaying the Information**
   The sender decides what medium to use. This involves decisions on whether the message should be written for instance a letter, report, proposal, memo, whether visuals are needed to illustrate some of the points and exactly what those visuals should be, or alternatively whether oral communication is the most appropriate medium in the situation.

   **Choice of Medium**
   The choice of medium depends on the factors such as:-
   - The time necessary to prepare and transmit the message
   - The complexity of the message
   - The distance the message is required to travel
   - The need for a written record
   - The need for interaction or instant feedback
   - The need for confidentiality
   - The need for persuasion
   - The cost of transmitting the message

   Relaying the message also involves decisions on the most appropriate channel to use. The route may be a notice board, house journal and telecommunication or computer systems.

5. **Decoding and Interpreting the Message**
   - The receiver needs to understand the message. Sometimes what the message says is not what it means. Reading between the lines, or considering the context of the message may enable the receiver to arrive at the real meaning. The interpretation may be affected by the relationship between the sender and the receiver.

6. **Giving Feedback**
   Feedback is the reaction of the receiver to the sender that indicates to the sender that the message has been received and whether it has or has not been understood. This is a very important stage in the communication process because without it, the sender of the message has no guarantee that communication has been successful.

The feedback may be positive or negative.
A letter confirming receipt of message or action taken as requested is an example of positive feedback. On the other hand, no action, wrong action taken, request for more information, a blank look or no written response provides negative feedback.

Exercise

1. Why is feedback very important
2. Who should be blamed for ineffective communication? Sender or receiver?

Summary of Media and Channels of Communication

1. Media
   Oral
   - Interviews
   - Presentations
   - Meetings
   - Public Address
   - Briefings
   - Informal Discussions
   - Conversations
   - Telephone Calls

2. Written Communication
   - Letters
   - Memoranda
   - Reports
   - Minutes of Meetings
   - Proposals
   - Position Papers

3. Non-verbal Communication
   - (a) Body language
     - Gestures
     - Eye movement
     - Para language
     - Posture
     - Smile
     - Distance
     - Grooming
   - (b) Virtual
     - Charts
     - Diagrams
   - (c) Artifacts
   - (d) Punctuality/Absenteeism

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(e) Grapevine

4. Electronics
   Internet
   E-mail
   Website
   Teleconferencing

Exercise
Discuss the advantages and disadvantages of each medium/channel of communication

The Grapevine
This is an informal communication system in an organization. It is an important source of information in many organizations. However, it can have both positive and negative influences on the performance of an organization. This is because much of its information is accurate and information travels fast. However, grapevine can also spread half truths and malicious rumours. It is therefore the managers responsibility to know how to handle the system for the benefit of the organization through being open minded towards the grapevine as well as reducing the negative effects. There is, therefore, always the need to investigate information from this system in order to verify the truth before taking action.

Negative Aspects of Grapevine
They include escalating conflicts and undermining team spirit in organizations. It can damage the integrity of managers by associating of them with malicious rumours which may be mere propaganda. It can create baseless mistrust and suspicions in organizations which may impact negatively on performance.

Positive Aspects of Grapevine
Grapevine provides alternative channel of communication which transmits information fast as it usually bypasses formal communication channels. Through calculated and deliberate leakage of information it can be used to pilot critical decisions to pre-empt employees’ reaction before the decision is made. The system can also be used to cheaply recruit shopfloor workers through the use of word of mouth to attract applicants. Grapevine can also be used as ventilation therapy whereby employees vent out their grievances and concerns.

The system therefore can bring about employees motivation for the benefit of the organization as well as staff discipline, review of rules, policies and procedures. The system can therefore uncover misdeeds of employees thereby preserving the resources and public image of an organization.
Non-Verbal Communication
We communicate both verbally and non-verbally. Non-verbal communication (NVC) means communicating without using words. Sometimes NVC accompanies words; sometimes it is independent of verbal communication. Sometimes it reinforces what is said verbally; at times it contradicts what is said verbally. Some NVC is intentional but sometimes the sender is not aware of it. It is influenced by culture.

Non-verbal communication is important in face-to-face interactions and communicators need to take control of it for the creation of consistently positive organizational image.

Categories of Non-Verbal Communication
Non-verbal communication may be classified as follows:-

- Body language
  This includes facial expressions, eye contact, gestures, touching, behavior, comfort zones, postures and orientation.

- Tone or vocal characteristics technically called paralanguage.
  Tone of voice or how something is communicated can communicate interest or disinterest, courtesy, concern and a caring attitude or coldness, confidence or lack of it, inferiority complex, professional or carefree attitude, enthusiasm, anger, rudeness or other emotions.

- Appearance
  This is to do with appropriateness in grooming.
  One’s appearance can indicate a serious and professional disposition or a casual attitude.
  What is important is observing appropriate dress code.

- Surroundings
  This concerns the physical context of an interaction and covers such things as size of room, cleanliness, ambience, furniture decoration. These may send the right messages and professional image or not.

It is important to remember that what one does or fails to do, or indeed silence communicates messages which the sender may not be aware of or may be unintentional. Managers therefore need to be mindful of the messages they could be sending.

When non-verbal communication contradicts verbal messages the receiver believes in the non-verbal communication.

Exercise
Discuss the advantages and disadvantages of non-verbal communication to your organization.

Barriers to communication
We noted earlier on that successful management entails effective communication and that ineffective communication can negatively affect organizational performance. Barriers to
communication refer to things that cause breakdown of communication between sender and receiver.

**Exercise**
Outline the problems which can cause communication breakdown between manager and different stakeholders.

Barriers of Communication include such thing as:-

- **Noise**
  Physical or psychological can disrupt the communication, encoding or decoding of message.
- **Distortion**
  As message passes through communication channel it may be expanded or reduced in content to suit one’s vested interests.
- **Poor Timing**
  The message may not get to the intended destination because of poor timing, nighttime, having a bath, in a church, attending funeral, in different time zone etc.
- **Inadequate Information**
  Information gaps can lead to incomplete communication.
- **Information Overload**
  This can lead to problems of decoding, lack of interest and stress.
- **Inappropriate Media and Channel**
  This may lead to sender being unable to receive the message or misunderstand the message.
- **Differences in perceptions**
  There can be no common understanding between the sender and receiver.
- **Pre-conceptions**
  This may encourage the sender and receiver to colour the message with misgivings or negative attitude because of prior experience or knowledge of the other party.
- **Distance**
  The longer the distance to communicate to the higher the risk of message distortion.
- **Poor Interpersonal Relationship between sender and receiver**
  May lead to non-communication or ineffective communication.
- **Hoarse Voice**
  This may distort the message and may cause incomplete or non-communication.
- **Attitudes**
  Negative attitude towards the subject matter of the subject an affect communication.
- **Stereotyping and predictions of behavior or character generalizations**
  And based on a single incident or one’s membership in a group can negatively affect communication.
- **Premature Evaluation and Hallo or Horns Effect**
This affect the way the message is encoded and decoded.

- **Beliefs and Cultural Differences**
  The way in which the message is conceived and interpreted is usually influenced by one’s beliefs and cultural socialization.

- **Emotions**
  Emotions can strongly distort the message that is relayed and the feedback made.

- **Gender**
  Gender-bias and pre-conceptions can affect communication.

- **Ignoring the Receiver**
  Failure to pay attention to or listen to receiver can affect communication.

- **Ignoring Feedback**
  Failure to be receptive to feedback leads to incomplete communication cycle.

- **Language**
  Use of technical jargon when communicating to those who do not understand them can lead to non-communication or ineffective communication.

- **Disorganized Content**
  This can confuse the recipient and hence lack of common understanding between the parties involved in the communication process.

- **Lack of Knowledge**
  Unawareness of the issue being communicated can lead to communication breakdown.

- **Gate keeping**
  Blockage of information to and from certain centres or positions in organization can cause communication breakdown for instance personal secretaries to Chief Executives or Directors.

**Exercise**

Explain how you can deal with these roadblocks to communication.

**Principles of Effective Communication**

- **Completeness**
  Include all facts that the reader/receiver needs to understand the message and for you to achieve your purpose.

- **Conciseness**
  Say all that you have to say in the fewest possible words without sacrificing completeness and courtesy.

- **Concreteness**
  Avoid vague expressions that can lead to uncertainty. Use specific facts and figures. Use active rather than passive words. General words such as large, in due course, several,
soon can lead to uncertainty and can lead to have different meanings to the sender and receiver of the message.

- Clarity
  The receiver of the message should understand what you are trying to convey. The reader should interpret the words with the same meaning you have in mind. Avoid technical jargons, use short familiar words. Write on the level of reader’s understanding.

- Credibility
  You are more likely to persuade people if they like, trust and have confidence in you. Be truthful, sincere and honest.

- Consideration
  Prepare every message with the recipient in mind. Consider receiver’s needs, desires, problems, their possible reactions and handle the matter from their point of view. Be empathetic and audience-centred.

- Correctness
  Use the correct level of language. There are three levels namely formal, informal and substandard. Formal level is used in legal documents and top-level agreements. Informal language is used in business letters, proposals, reports, memos, etc. Substandard English is not acceptable.

Coherence
Related ideas and details must be close to each other. Sentences and paragraphs must be properly connected.

Consideration
Prepare every message with the recipient in mind. Visualize the recipient with their needs, desires, problems, probable reactions etc and construct the message from his/her point of view.

MANAGING MEETINGS
Organizing a meeting demands communication skills particularly interpersonal skills. This is because a meeting is an interactive activity. A meeting is an important mechanism for making decisions, solving problems, making policies, resolving conflicts and grievances, devising plans, making resolutions, communicating important issues, etc.

What is a meeting?
A meeting is the coming together of two or more people for the purpose of discussion which usually leads to the making of a decision. It is necessary for the business of the meeting to be lawful.
There are many types of meetings for different purposes which are held in social or business life.

Examples
1. An informal gathering of friends who are called together by the most active member of the group to plan an excursion to the lake. Such a meeting may have no properly appointed leader and no programme of discussion and will progress haphazardly towards the point where some kind of plan is agreed. No record is made of the meeting and unless some financial obligation is involved, it has no legal standing.
2. At the opposite end of the scale, there can be a meeting of the Board of Directors of a company, which is planned, organized and conducted according to set of rules laid down by law or some legally binding agreement. Failure to comply with the rules governing the meeting can lead to the making of unlawful decisions and even to prosecutions.
3. Much more likely to be within a working person’s experience would be a departmental meeting. This may still be comparatively informally conducted but will probably have a Chairperson and a Secretary, have an agreed list of items for discussion and keep a record of decisions made. Although informal, providing it is held according to certain rules, it may well have legal standing and implications.

Why Hold A Meeting?
Many people seem strongly disinclined to become involved with meetings. Despite this meetings remain one of the most popular and efficient methods of communication. A well-prepared meeting can have a number of advantages over any other way of obtaining participative decision-making.

The main reasons for holding a meeting are as follows:-
- It allows a free but controlled exchange of views on a prescribed proposal or situation.
- It provides an opportunity to produce and apply the background information relevant to a precise subject area.
- It facilitates the formation of reasonable decisions that have at least majority support and may well be binding.
- In addition to the obvious function, the holding of regular meetings can have a good effect on other aspects of staff activity and organization. Such effects are wide ranging. Here are some of those most frequently experienced.
- Meetings provides time for key staff to meet for a serious exchange of views.
• They give participants (and even other staff) a sense of belonging and thus a greater sense of job satisfaction.
• In themselves, meetings provide an excellent training in communication skills.
• They develop cooperation and influence attitudes.
• They provide a legally binding record of decisions made.
• Although meetings often bring such benefits, they also exact a considerable cost in time and money, which has to be controlled very closely. Meetings can escalate conflicts and organization politics.
  • It is necessary to ask the following questions constantly:-
  • Is the proposed meeting absolutely necessary?
  • Is there an alternative method of achieving a similar objective.
  • If so, is the alternative at least as effective and more economical?

Who Should Attend A Meeting?
For official meetings, the membership (usually those entitled to attend and vote) will normally be strictly defined according to a constitution or set of rules. In these cases it is vital to stick to the rules governing membership. Failure to do so could lead to invalidation of all decisions made at that specific meeting and if expenditure of funds is involved possible legal proceedings to recover.

• The membership may be based on official title holders (eg head of department rather than named persons.
• Membership of successive meetings may be by invitation (usually by the Chairperson, to suit the needs by a particular decision.
• Persons may be co-opted for a single meeting or a series of meetings in order to take advantage of their special expertise or interest in a subject.
• Meetings are often held to discuss a matter of wider interest and a general invitation is issued to all and sundry or any person within though large group of people eg vendors at a particular town.

Whatever the occasion it is important to check that only those who are entitled are present and if a vote is taken only those who have a vote should do so.

When Should A Meeting be Held?
Meeting should be held when it is necessary including named and appointed meetings – i.e. meetings scheduled to meet at regular intervals and at particular times. Such meetings need to be cancelled when there is insufficient business.
Where Should A Meeting Be Held?
The choice of a venue of a meeting is very important as it has quite a lot of influence on the likelihood of success.

Here are some useful points to consider:--
1. Size
   Obviously there should be enough seats for all possible attendees. However, to have a room much larger than is needed can cause problems. People do not feel comfortable in too large a space.

**TYPES OF MEETINGS**
Mention has been made already of typical types of meeting that a manager may have to arrange. However, it may be useful to make a brief list of the more important meetings that occur in the commercial world.

In registered companies:--
- Board Meetings
  Company directors possibly meeting weekly.
- Committee Meetings
  May be regular, scheduled or ad hoc.
- Annual General Meetings of Shareholders are called for special business by board or specified number of shareholders.
- Class Meetings
  Ad hoc meeting of shareholders holding single class of shares.

**CONDUCT AND PROCEDURES OF MEETINGS**
Where formal meetings are concerned, the procedures are normally laid down fairly rigidly and the chairperson does not have much room for manoeuvre. It is not unusual for the notices and agendas to have a prescribed format, minutes written to a house style and debate controlled according to a decreed pattern. It is helpful to have an experienced chairperson who can work within a framework of a mechanistic meeting procedure and still encourage good participation and arrive at good conclusions.

Virtually all types of meetings have certain constant features and rules and it is helpful if all participants not just the chairperson, have a good understanding of the correct procedure.
MEETING DOCUMENTATION

1. Notice – Calling a Meeting
   It is vital that all those who are entitled to attend a meeting know when and where it is to be held. Some form of notice is therefore required even for the most informal gathering.
   In general the notice of a meeting should be sent by the secretary to all those entitled to end.
   The day, date, time and place must be clearly stated, together with the purpose for which the meeting has been called.
   The length of notice to be given is laid down in the rules.

2. AGENDA – THE PROGRAMME FOR THE MEETING
   An agenda is a list of items of business, arranged in logical order in a formal situation. The agenda is usually compiled by the secretary in consultation with the Chairperson. The items listed provide a structure for the meeting, enabling members to give some thought to the issues before arrival. Each item would normally be stated succinctly, with any supporting material contained in attached documentation.

Sample Agenda
1. Confirmation of Minutes of previous meeting
2. Matters Arising
3. Correspondence
4. Motions for Discussion
5. Extra Business

CONDUCTING A MEETING
Chairperson and Secretary
These are the two vital officers for any meeting.

Chairperson’s Duties
- Draw up an agenda in consultation with the secretary.
- Ensure that the meeting has been properly convened.
- Make sure that the meeting is quorate (i.e. that the correct minimum number of people is in attendance to comply with the constitution).
- Know the statutory rules and standing orders.
- Conduct the meeting in accordance with the appropriate rules or procedure.
- Announce speakers and ensure that everyone is given the opportunity to speak.
- Move through the items on the agenda, allowing discussion on each item and keeping the discussion relevant to the particular topic.
- Summarise discussion where necessary.
- Seek a seconder after a proposal has been made.
• Have an open-mind not talking too much and not dominating the meeting.
• Use a casting vote where necessary.

Secretary’s Duties
1. Arrangements for meetings
   (a) Before the Meeting
   • The Secretary and Chairperson consult before preparing the notice and agenda.
   • Establish terms of reference i.e. purpose of a meeting.
   • Choose the venue and confirm accommodation required: Check on heating and lighting, catering, seating, absence of noise, ventilation, electrical sockets and visual aids.
   • Consider the time of the meeting, is it convenient for all the delegates?
   • Liaise with executives or assistants to obtain reports or confirmation of proposed attendance.
   • Circulate working papers at least 48 hours before a meeting, in order that participants can be fully briefed.
   • Provide administrative services (when required), secretarial service, photocopying or duplicating, telephone, facsimile.
   • Consider the financial aspects – who pays for the facilities and services?
   • Identify all documents required at the meeting such as:—
     - Minute Book
     - Attendance register
     - Spare copies of the agenda and any documents
     - Files
     - Correspondence
     - Prepare the chairperson’s agenda on the day before the meeting
     - Record the matters that are to be deferred until the next meeting
     - Ensure that delegates receive specific directions i.e. map, room number, etc.

   (b) During the Meeting
   • The secretary should sit where all the proceedings can be heard, probably next to the Chairperson
   • Minutes of the previous meeting are read (unless “taken as read” because they have been circulated)
   • Notes of the proceedings must be taken for preparation of the minutes
   • Be prepared to advise Chairperson on relevant detail as required

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(c) After the Meeting

- Prepare and circulate the minutes or report
- Communicate the committee’s decision to interested parties
- Liaise with individuals who have been asked to take action
- Provide additional information when required
- Carry out follow-up tasks, e.g., correspondence, telephone calls, etc.

GLOSSARY OF MEETINGS

- **Standing Orders**
  - Refer to rules of procedure for contributing to deliberations, minimum numbers of participants, composition of attendees.
  - For example, the size of the quorum, voting procedure, specification of two could be ex-officio members to the meeting.

- **Ex-Officio Member**
  - Refer to someone who is a member of a committee automatically and as a matter of right of jurisdiction
  - This term also means by virtue of somebody’s office
  - For example, a committee constitution may stipulate, lay down a standing order that the treasurer shall be ex-officio member of the finance committee.

- **Quorum**
  - Implies the (bare) minimum number of members that must be present before any binding meeting decisions can be taken
  - The quorum has to be enshrined in the constitution
  - It is sometimes a fixed number and it can either be a two thirds or a one-quarter or some other proportion
  - But it can also be varied by a decision of a superior authority

- **Motion**
  - Refers to a proposal made by a committee member
  - The requirement is that each motion needs a proposer and a seconder – and usually the latter speaks in favour/support of the motion, followed by two speakers with dissenting view i.e. against the motion
  - Subsequently, debate then ensues with the chairperson deciding who shall speak next. Once a motion has been voted upon, it becomes a resolution of the committee
Substantive Motion
- Is a motion that has been amended by a vote of a committee
- The substantive motion in question replaces the original motion, which no longer exists

Point of Order
- It is a question of the correct procedure, which a participant in the meeting may wish to refer to the chairperson for ruling
- Actually, it is a query regarding a possible irregularity in procedure raised by a member and put to the chair
- It may be brought up at any time and must be answered at once and the irregularity must also be rectified immediately
- If for some reason, the chairperson overrules the point of order, then the person who has raised it may challenge the decision via a motion, which must be seconded to stand

Point of Information
- Is a statement put to a member who is presently speaking by another member through the chair
- This sort of interruption requires the permission of both the chairperson and the speaker, who is not obliged to accept the point
- Illustratively, it involves a question of fact which the participant may

Guillotine
- This is a time limit that is imposed on the discussion of a particular point or topic or agenda item
- It is essentially an alternative way to terminate/stop a discussion for the committee to accept a motion that a vote on the issue be taken at once

Executive Committees
- Appointed groups of people who are expected to take decisions in order to get work done promptly, efficiently and smoothly
- Their primary purpose is to cope with problems of emergencies, and to achieve continuity and progress in the activities under the control

An Ad hoc Committee
- A committee that is formed to carry out specific task of a limited period
- In Latin, adhoc means for this purpose
- Experts with specialized knowledge professional expertise, who may be executive or advisory, often constitute the built of such committee

Terms of Reference
- Constitute those aspects about the meeting that lay down the guidelines upon which the committee is to run
- Definition of tasks and provision of specific power constitute one of the major aspects of terms of reference

Mandate
- This is the authority given to a committee to deal with specific problems in a particular way

Co-opted Member
- An extra person appointed by a committee to serve on the committee (usually as a specialist or expert)

Lie on the Table
- A mater is said to “lie on the table” when it is decided on a meeting to take no action

Nem Con
- This means “no one contradicting,” a motion carrying this term is one in which there are no votes against the motion but some members may have abstained

Revision Questions
1. Explain communication process.
2. Discuss the role of communication in management functions.
3. Discuss the roles of chairperson, secretary and members in effective meetings.
4. Discuss common complaints against meetings.
CHAPTER 18

JOB DESIGN AND MOTIVATION

This chapter covers definition of job design and motivation, approaches to job design and theories of motivation.

Objectives
By the end of this chapter the student should be able to:

- Define job design and motivation.
- Identify approaches to job design.
- Explain theories of motivation.
- Identify other approaches to motivation.

JOB DESIGN

Introduction
We use the term ‘Job design’ to include a broad range of approaches to staff satisfaction and motivation. They include job enlargement, job enrichment, job rotation and work measurement just to mention a few. However, job design essentially means specification of job contents, methods, and relationships of jobs in order to satisfy technology and organizational requirements, as well as the job-holder’s needs for social standing, advancement, professional recognition, self-esteem etc.

Objectives
The aim of job design is to enhance productivity/performance and to improve the quality of employee’s working life and job satisfaction.

For a longtime jobs have been designed on the basis of the lowest unit cost. That is, designing tasks or operations and combine them in such a fashion that the lowest level of skill is required. The application of this procedure usually results in highly repetitively operation composed of relatively simple movements requiring little skill, and capable of being learned by a large number of workers in a short period. Jobs of this nature are typically composed of repetitive and unskilled tasks capable of being learned by most industrial workers. These are demotivating, uninteresting and unchallenging tasks. So there was a need to design jobs so that they are both interesting to the jobholder and satisfy his or her order needs.

As quoted by G.A Cole (2006), Sell (1983) identifies the following characteristics as crucial if a job is to satisfy human needs:

- A degree of autonomy over the way tasks are to be achieved.
- Individuals being responsible for their own work, and for the resources they use (e.g. equipment)
An element of variety should be present in the job, so as to permit variations in task, pace and method.
Longer rather than shorter work cycles.
Task repetition reduced to a minimum.
Arrangements to be made to provide feedback on job performance.
Where practicable, the job should enable the completion of a complete item.
Roles should be clear, so that job-holders and others know what is expected from the job.
Every job should have some definite goals to aim for.

Approaches to Job Design
We are going to look at Job enrichment; Job enlargement; Job rotation and work measurement as four main approaches to achieving increased job satisfaction at work through task restructuring.

Job enrichment

The concept ‘job enrichment’ is usually applied to the vertical extension of job responsibilities. It is planned, deliberate action to build greater responsibility, breadth and challenge of work into a job. This implies taking tasks from both senior and junior employees to the jobholder in order to enable him to have more before. A job may be enriched by:

- Giving it greater variety;
- Allowing the employee in the job greater freedom to decide for himself how the job should be done;
- Encouraging employees to participate in the planning decisions of their superiors;
- Ensuring that the employee receives regular feedback on his performance, comparing his actual results against his targets.

Job enrichment attempts to add further responsibilities to a job by giving the job holder decision-making capabilities of a higher order. For example, an administrator’s responsibilities for producing quarterly management reports ended at the stage of producing the figures. These duties were then extended so that he prepares the actual-reports and submitted them, under his own name to the senior management. This alteration in responsibilities not only enriched his job but also increased his work-load. This in turn led him to delegate certain responsibilities to his juniors within the department. These duties were in themselves job enrichment to the juniors and so a cascading effect was obtained.

The main notable benefits of job enrichment are:

- Individual employees experience increased job satisfaction, resulting from increased intrinsic rewards in the job itself.
- Organisations tend to benefit by a reduction in overhead costs caused by absenteeism, lateness, and lack of attention to qualify and other negative features of poor morale.
- If rewarded fairly, it might improve productivity through greater motivation.

One major challenge of job enrichment is that it might lead to changes throughout a job hierarchy. Some job-holders may find that their jobs are threatened by job enrichment programme. Supervisors, in particular, may find that many of their duties have been handed down to members of their team.

**Job enlargement**

Job enlargement is frequently confused with job enrichment though it should be clearly defined as a separate motivation technique. Job enlargement, as the name suggests, is an attempt to widen jobs by increasing the number of operations in which the job-holder is involved. Job enlargement, in contrast to job enrichment, is the horizontal extension of jobs that is to add extra tasks of the same level as before. To take the example of a finance manager, his job could be enlarged by giving him that of administration on top of that which he has already. Thus, he takes a new title of Finance and Administration Manager.

Arguably, job enlargement is limited in its ability to improve motivation since as suggested by Herzberg, to ask a worker to complete three separate tedious, unchallenging tasks is unlikely to motivate him more than asking him to fulfill one single tedious, unchallenging task.

Job enlargement might succeed in providing job enrichment as well, provided that the nature of the extra tasks to be done in the bigger job gives the employee a greater challenge and an incentive. Note that enlarged jobs might also be regarded as ‘status’ jobs within the department, and as stepping stones towards promotion.

**Job rotation**

This is perhaps the most basic form of individual job design. Job rotation involves moving a person from one job to another. It helps to add variety and relieve boredom in the short term because it offers a wide range of tasks to perform. Normally the tasks in question are very similar and once a routine is established a worker can become very bored again.

Job rotation might take two forms:

- An employee might be transferred to another job after a period of say, two to four years in an existing job, in order to give him or her a new interest and challenge and to bring fresh person to the job being vacated.
- Job rotation might be regarded as a form of training. Trainees might be expected to learn a bit about a number of different jobs, by spending six months or one year in each job before being moved on. The employee is regarded as a
‘trainee’ rather than as an experienced person holding down a demanding job. This is commonly practiced in many financial institutions in Malawi.

From the employees’ point of view, job rotation has the advantage of introducing a degree of variety into work. From the organisation’s point of view, the advantages might be more limited, but job rotation might give the employee a greater understanding of how his or her job fits into the work of the firm as a whole.

**Work measurement**

Work measurement is part of work study, and it is a technique used in the examination of human work in all its contexts and which lead systematically to the investigation of all factors which affect the efficiency and economy of the situation under study, in order to effect improvement.

Work measurement like other work study techniques is used in production management basically because of the following reasons:

- To eliminate wasteful work
- To improve working methods
- To increase production
- To achieve cost savings and
- To improve productivity of workers and machines.

It is in view of these reasons that work measurement is associated with job design and its several approaches some of which we have already discussed. As a matter of fact, work measurement is a collection of techniques, particularly time study, aimed at establishing the time taken by a qualified worker to complete a specified job at a defined level of performance.

Work measurement techniques are set out not only to improve methods of working, but also to develop costing systems, production schedules and incentive schemes. So work measurement focuses on measuring or assessing the performance of people, mostly based on standardized method of assessment.

There are a number of advantages of using standardized assessment method of the workers’ performance and some of them are:

- Convenient
- Can be adapted and implemented quickly
- Scoring is done objectively
- Provides for lasting validity
- Provides reference group measures
- Can assess large numbers of workers

However, there are a number of challenges in the using of standardized assessment method and some of them are:
• It measures relatively superficial knowledge or competence
• It is unlikely to match the specific goals and objectives of a program or an organisation.
• It may be cost prohibitive to administer as a pre-and post-test.
• It is more summative than formative.
• It may be difficult to receive results in a timely manner.

MOTIVATION

Definition of Motivation

Motivation refers to "the process by which people seek to satisfy their basic drives, perceived needs and personal goals, which trigger human behavior" (Cole Management Theory and Practice, 2005).

Motivation is the mental process by which people chose desired outcomes, deciding how to go about them, assessing whether the likelihood of success warrants the amount of effort that will be necessary, and setting in motion the required behavior.

This driving force within individuals determines a person’s behavior and the resulting performance to fulfill some need or expectation. Thus stimulus gives rise to a response (behavior) which leads to an outcome. There is a link between the level of motivation and the achievement of organizational goals. Managers should reward employees towards higher performance in order to achieve maximum output from them.

The subject of motivation is a complex one. People differ in terms of what motivates them and motivation is also influenced by many factors, ranging from money to satisfaction of some needs.

Theories of Motivation

Many theories have been put forward to address the subject of motivation. F. Taylor of the Scientific Management School saw motivation in economic terms-a fair day’s work for a fair day’s pay. On the other hand, the Human Relations theory, through Professor Elton Mayo’s Hawthorne Studies, focused on the worker and the importance of social relationships at work as a major motivating factor. The studies indicated that motivation can be influenced by individual’s membership of a group. For purposes of our analysis, theories of motivation shall be discussed in two broad categories:

i. **Content Theories**- which focus on satisfaction of human needs as pre condition for achieving desired outcome

ii. **Process Theories** -which stresses on the importance of rewards in influencing individuals efforts to meet some desired performance standards
Content Theories of Motivation

The Content Theories which try to answer the question of what motivates people include A. Maslow’s hierarchy of needs, Herzberg’s Two Factor theory, and D. Mc Cleland’s N- Arch theory.

i) Maslow’s Hierarchy of Needs
Maslow suggested that human needs can be arranged in a hierarchy of relative prepotency i.e. there are levels of needs which range from the basic physiological need at the base to self-actualization needs at the apex of the triangle as illustrated below:

```
PHYSIOLOGICAL NEEDS

5
SELF –
ACTUALIZATION
NEEDS

4
ESTEEM NEEDS

3
LOVE NEEDS

2
SAFETY NEEDS

1
```

Each level of need is seen to be dominant until satisfied before the next level of need become a motivating factor.

1) **Physiological Needs** - are the basic needs which arise from a person’s instinct to stay alive. Survival needs include food, water, sleep, shelter, sex, and air.

2) **Safety Needs** - Once physiological needs have been met safety needs emerge and dominate behavior. These are security needs which generally protect people from physical harm and natural dangers. Security needs include order, predictability, and freedom from threat, and job security.

3) **Love Needs** - are social needs for affection, belonging and relationships. Once people’s safety needs have been met, they will strive for this next tier of need (Love needs) in the hierarchy. Love needs relate to affectionate relationships with others and status within a group.
4) **Esteem Needs**- are needs for status, recognition independence, and respect from others, for competence, achievement, confidence, and appreciation. People want to feel a certain pride in themselves, that they are useful as individual. Besides, there is a need for the respect of others and appreciation.

5) **Self-Actualization Needs**- are for the fulfillment of personal potential, the desire to become what one is capable of becoming, to realize his/her potential.

**The Relevance of Maslow’s Hierarchy of needs Theory of Motivation**

The theory of motivation presented by Maslow is a well known one in management circles and it had great impact in influencing development of later theories of motivation. Developed in 1954, Maslow’s theory suggested that people are in a continuous state of motivation and that the nature of motivation is variable and complex. The theory has been commonly used in a variety of disciplines.

- It has been universally accepted as the key to understanding what motivates people in the workplace.
- The theory provided and early useful framework for discussions about the variety of needs that people may experience at work, and the ways in which their motivation can be met by managers.

However, the theory has been criticized by some writers on the following grounds:

- The systematic movement up the hierarchy of needs does not seem to be a consistent form of behavior for many people.
- Empirical verification for the hierarchy is hard to come by.
- Maslow may simply have reflected American middle class values and the pursuit of good life, he did not cover fundamental universal truths about Human psychological.
- It is difficult to predict behavior using the hierarchy, the theory is too vague – it is impossible to define how much satisfaction one has to achieve before one progresses to the next level in the hierarchy.
- Application of the theory in work contexts presents various difficulties.

**ii) Frederick Herzberg’s Two Factor Theory of Motivation**

Herzberg, in his interview of 203 Engineers and Accountants of Pittsburgh, USA in 1950, identified the factors which cause job dissatisfaction and those which cause job satisfaction. People were subject to recall events which had made them feel good about their work and others which made them feel bad about it. He distinguished between **Hygiene factors and Motivator factors.**

**Hygiene Factors**- are factors which prevent/minimize dissatisfaction, but do not lead to motivation. They are maintenance factors which are related to the context (environment) of work and they include:

- Company policy and administration.
- Salary
• The quality of supervision
• Interpersonal relations
• Working conditions
• Job security

Motivator Factors - are factors which give rise to satisfaction and are intimately related to the content of the work. Motivators include:

• Achievement
• Recognition
• Work itself
• Responsibility
• Advancement

The distinction between motivators and hygiene factors is that motivators can bring about positive satisfaction, whereas the hygiene factors only serve to prevent job dissatisfaction. Managers should ensure that both hygiene factors and motivators are satisfied if employees are to be contented and motivated.

Herzberg considered better job design as an important factor in influencing the level of motivation. The job should provide sufficient challenge and interest for the employees. Herzberg specified three ways in which jobs can be redesigned to improve motivation:

ii. Job Rotation

Planned change to the work to enable staff members exchange positions with the intention of breaking monotony in the work, offer variety and learning experience as well as providing fresh job challenge.

iii. Job Enlargement

The process of increasing the number of operations in which a worker is engaged to help him move away from narrow specialization of work.

iv. Job enrichment

The planned process of upgrading the responsibility, challenge and content of the work.

Relevance of Herzberg’s of Motivation

Herzberg’s most important contribution is his assertion that work itself is a potential motivator. Job satisfaction is derived from achievement and responsibility within the job itself rather than money. However the short coming of Herzberg’s theory is that it does not apply to unskilled or semi-skilled workers with boring and repetitive jobs.

Having said this, it must be noted that Herzberg’s Motivator- Hygiene theory was generally well received by practicing managers and consultants for its simple but vivid
distinction between factors inducing positive satisfaction and those causing dissatisfaction.

iii) David McClelland’s N-Arch Theory of Motivation.

In 1972, D.C. McClelland developed his human needs theory based on three types of needs:

- **The Need for Achievement** - He indicated that for some people, the sense of getting all, progressing or being promoted is very important in influencing their level of motivation. He regards N-Arch as the key factor in employee motivation.

- **The Need for Power** - Some people are driven by a need to make a strong impression on people and events.

- **The need for affiliation** - A sense of belonging to a group produces meaningful relationships which have greater impact on staff motivation. The work situation provides for this need.

McClelland regarded N-Arch as a key motivator which is influenced strongly by an individual’s personality and the environment in which he/she operates. He associated the different type of needs with people at different levels of the organization. People at senior management level of the organization’s hierarchy have a strong drive for power, middle management are likely to have achievement needs, while people at the lower levels often have a strong drive for affiliation which is facilitated by good friendships and mutual understanding.

McClelland’s model of employee motivation is useful in the following ways:

- Appropriate incentives can be directed to encourage satisfactory performance based on the individuals’ level of management.
- He draws attention to the fact that when people are not satisfied with their work lives they become frustrated.
- The model may have important implications for management training and development.

His made a greater contribution to our understanding of motivation at work. However, the model’s emphasis on n-arch would tend to produce task-oriented managers that have little concern for people and relationships.

**Process Theory of Motivation**

Process theories analyze how outcomes are pursued by individuals. This approach assumes that man is able to select his goals and choose the paths towards them by a conscious or unconscious process of calculation. In an attempt to answer “what motivates people?” the process theory takes a contingency approach - there is no best way to motivate people. Two theories we shall examine are Vroom’s Expectancy theory and Handy’s Motivation Calculus.
i) Vroom Expectancy Theory of Motivation

Published in 1964, the expectancy theory suggests that people are motivated by the expectation that certain actions will achieve an outcome they see as desirable. He saw a connection between effort, performance and rewards-extra effort will lead to better performance, and improved job performance will lead to outcomes. The connections of these variables are explained in terms of valence, instrumentality and expectancy.

- **Valence** – is the strength of preference for a particular outcome which may be positive, zero or negative as outcomes may be desired, avoided or considered with indifference
- **Instrumentality** – the extent to which the individual perceives that effective performance will lead to desired rewards. For example, improved performance in the present job will lead to promotion.
- **Expectancy** - is the extent of the probability that a particular effort or action will lead to a particular outcome.

Vroom postulated that motivation to perform a certain act depends on the product of the valences for the outcomes times the expectancies. It is illustrated as follows:

**Figure 9 Vroom’s Expectancy Theory of Motivation**

Effort alone may not lead to effective performance, such factors as the individuals own characteristics-personality, knowledge, skills and the way in which one perceives his role - prospect of promotion, constraints of the job, and organization style length of service all come into play in staff motivation.

Rewards may be categorized into:

- **Intrinsic Rewards** - those gained from fulfilling higher level needs (self esteem, personal growth) and an individual can exercise personal control.
- **Extrinsic Rewards** - those provided by the organization, and are outside the control of the individual, such as pay, promotion, and working condition.
Characteristics of Vroom’s Expectancy Theory

The main features of expectancy theory include:

- It takes a comprehensive view of the motivational process
- It indicates that people will perform better when they expect that their behavior will lead to desired outcomes
- It implies that job satisfaction follows effective job performance not vice versa.
- It has led to developments in better job design incorporating such intrinsic factors as variety, autonomy, task identity and feedback.

ii) C. Handy: Motivational Calculus

Charles Handy presented motivational calculus theory which is similar to Vroom’s Expectancy theory. He argued that a decision to act will depend on three factors:

- The individual’s own needs
- The desired results-the expectancy that E factors will lead to a particular result

According to Handy, people decide how much E to invest by doing a calculation, weighing up the strength of the need, the expectancy that E will lead to a particular result, and the instrumentality of that result in reducing the need the model is presented as follows:

![Handy’s Motivational calculus.](image)

Practical Implications of Expectancy Theory of Motivation

In practice the Content and Process theories of motivation are extremes, managers would need a combination of motivational approaches to deal with varied situations. The following elements of process theories can be derived:

- Managers need to know what particular rewards and outcomes are important to staff. Different people have different needs.
- Different rewards are needed for different people if individual needs are to be met everyone must be treated fairly and equitably.
• The meaning of different levels of performance should be clear and specific, and the desired levels should be reasonable and achievable
• The relationship between performance and reward should be clear, explicit and understood by all employees
• Job pay and reward schemes should be designed so that individuals have the opportunity to achieve desirable performance and enable them to satisfy their own needs.

EQUITY THEORY OF MOTIVATION

The core of the equity theory is the principle of balance or equity. As per this motivation theory, an individual’s motivation level is correlated to his perception of equity, fairness and justice practiced by the management. Higher is individual’s perception of fairness, greater is the motivation level and vice versa. While evaluating fairness, employee compares the job input (in terms of contribution) to outcome (in terms of compensation) and also compares the same with that of another peer of equal cadre/category. D/I ratio (output-input ratio) is used to make such a comparison.

<table>
<thead>
<tr>
<th>Ratio Comparison</th>
<th>Perception</th>
</tr>
</thead>
<tbody>
<tr>
<td>O/I a &lt; O/I b</td>
<td>Under-rewarded (Equity Tension)</td>
</tr>
<tr>
<td>O/I a = O/I b</td>
<td>Equity</td>
</tr>
<tr>
<td>O/I a &gt; O/I b</td>
<td>Over-rewarded (Equity Tension)</td>
</tr>
</tbody>
</table>

Negative Tension state: Equity is perceived when this ratio is equal. While if this ratio is unequal, it leads to “equity tension”. J. Stacy Adams called this a negative tension state which motivates him to do something right to relieve this tension. A comparison has been made between 2 workers A and B to understand this point.

Referents: The four comparisons an employee can make have been termed as “referents” according to Goodman. The referent chosen is a significant variable in equity theory. These referents are as follows:

• Self-inside: An employee’s experience in a different position inside his present organization.
• Self-outside: An employee’s experience in a situation outside the present organization.
• Other-inside: Another employee or group of employees inside the employee’s present organization.
• Other-outside: Another employee or employees outside the employee’s present organization.
An employee might compare himself with his peer within the present job in the current organization or with his friend/peer working in some other organization or with the past jobs held by him with others. An employee’s choice of the referent will be influenced by the appeal of the referent and the employee’s knowledge about the referent.

**Moderating Variables:** The gender, salary, education and the experience level are moderating variables. Individuals with greater and higher education are more informed. Thus, they are likely to compare themselves with the outsiders. Males and females prefer same sex comparison. It has been observed that females are paid typically less than males in comparable jobs and have less salary expectations than male for the same work. Thus, a women employee that uses another women employee as a referent tends to lead to a lower comparative standard. Employees with greater experience know their organization very well and compare themselves with their own colleagues, while employees with less experience rely on their personal experiences and knowledge for making comparisons.

**Choices:** The employees who perceive inequity and are under negative tension can make the following choices:

- Change in input (e.g. Don’t overexert)
- Change their outcome (Produce quantity output and increasing earning by sacrificing quality when piece rate incentive system exist)
- Choose a different referent
- Quit the job
- Change self-perception (For instance - I know that I’ve performed better and harder than everyone else.)
- Change perception of others (For instance - Jack’s job is not as desirable as I earlier thought it was.)

**Assumptions of the Equity Theory**

- The theory demonstrates that the individuals are concerned both with their own rewards and also with what others get in their comparison.
- Employees expect a fair and equitable return for their contribution to their jobs.
- Employees decide what their equitable return should be after comparing their inputs and outcomes with those of their colleagues.
- Employees who perceive themselves as being in an inequitable scenario will attempt to reduce the inequity either by distorting inputs and/or outcomes psychologically, by directly altering inputs and/or outputs, or by quitting the organization.
PRACTICAL IMPLICATIONS OF EXPECTANCY THEORY

In practice the content and process theories of motivation are extremes, managers would need a combination of motivational approaches to deal with varied situations.

The following elements of process theories can be derived:
- Managers need to know what particular rewards and outcomes are important to staff. Different people have different needs.
- Different rewards are needed for different people if individual needs are to be met everyone must be treated fairly and equitably.
- The meaning of different levels of performance should be clear and specific, and the desired levels should be reasonable and achievable.
- The relationship between performance and reward should be clear, explicit, and understood by all employees.
- Job pay and reward schemes should be designed so that individuals have the opportunity to achieve desirable performance and enable them to satisfy their own needs.

OTHER CONSIDERATIONS ON MOTIVATION

In this last part of the essay/chapter, we will look at the importance of pay, better job design, and employee participation in motivating employees to achieve organizational goals.

PAY AS A MOTIVATOR-Do we live to work or work to live?

Many people see pay as a motivator because it enables them to buy things they want. Motivation is therefore strongly linked to pay. The harder we work, the more rewards we get. Some of the general aims of a good payment system include:
- To ensure suitable staff may be recruited and retained into the organization.
- Facilitate the deployment of staff to ensure maximum productivity.

The payment system influences the recruitment, deployment, and performance levels of staff. Therefore the payment systems need to:
- Attract staff of the right calibre into the organization.
- Encourage staff to make full use of their capabilities and develop their potential to achieve organization’s objectives.
- Reward staff in accordance with their contribution so as to encourage staff to stay with the organization.

Performance related pay has been an accepted payment system in many organizations for a long time. It may be related to individual based systems-related directly to performance levels against agreed standards. Pay thus provides a strong incentive to meet performance
targets. Team based systems have a number of benefits in improving team performance through encouraging cooperation, flexible working and multi-skilling and a lever for organizational change.

Organizational based systems are bonus schemes based on performance of the organization in meeting its objectives. Profit sharing and employee share ownership, schemes enable employees to have a direct stake in the overall performance of the organization, produces greater sense of ownership of the business, resulting into greater overall commitment to goals. Besides pay, the provision of fringe benefits such as medical scheme, Housing allowance, Car utilities and domestic servants can also contribute towards increased employee motivation.

**BETTER JOB DESIGN**

Better job design leads to job satisfaction which in turn leads to employee motivation. Job satisfaction refers to the attitudes and feelings job holders have towards their work. Job dissatisfaction can have harmful effects on the motivation and performance of the employee at work. It may result in low morale, high labor turnover, skills wastage, absenteeism, high accident rates, poor time keeping and a lack of commitment to quality.

Job satisfaction can be influenced by two factors:

- **Intrinsic influences**—factors rising from the performance of the job itself, such as job variety, challenge, autonomy and independence.
- **Extrinsic influences**—factors which fall outside the doing of the job, such as pay/salary, fringe benefits, leadership style and employee integration into the work group.

Better job design can improve employee motivation. According to Herzberg job design should take into account such elements as job rotation, job enlargement and job enrichment.

- **Job Rotation** is the systematic moving of workers from one job to another to add variety, training experience, interest and afford a change from boring routine. It also makes employee more flexible. However, managers should take note of the following problems associated with job rotation;
  1) Imposed job rotation may be resisted by staff
  2) It may require extensive training making it more expensive.
  3) Problems with change over situation – the office may be left in a mess and tasks left unfinished.

- **Job Enlargement** refers to ways of making a job less boring by introducing variety through increasing the number of tasks an employee has to perform. It is the horizontal enlargement of a job through the inclusion of related tasks to one’s central task. It may result into substantial gains in employee performance and improved morale as the employee becomes fully occupied. He can also utilize his potential skills and talents in performing the additional new tasks. The disadvantages of job enlargement includes:
  i. Increased workload to the employee, but no guarantee of improved job satisfaction motivation.
ii. It is more expensive as employee may require additional equipment, floor-space and training.

iii. Staff may become familiar with the additional tasks, thus wearing off the motivation effects.

- **Job Enrichment** is similar to job enlargement and it involves the vertical extension of a job aimed at making it fuller and more personally involving and challenging. It offers an opportunity to the worker for greater achievement and recognition in job performance and increased worker involvement. Besides, job enrichment promotes delegation, challenge and autonomy to the employee, leading to improved training and development:
  
  - Job enlargement permits employee participation and increased freedom as the worker decides the pace and methods of doing the work.
  - It provides a more natural, meaningful work allowing the employee to feel responsible and accountable for their work performance.
  - It provides the worker with greater contact with customers.

However, the disadvantages of job enrichment include:

- New technology leads to office automation making enrichment less relevant.
- Increased overhead costs – equipment, training and remuneration/rewards – leading to reduces profits.
- Workers may feel threatened by excessive demands and pressures caused by the new tasks.

**EMPLOYEE PARTICIPATION**

Participation is about involving people in the decision making process that affects their work. Employee participation may have the following benefits:

- The subordinate will become more efficient
- He/she will be more conscious of the organization goals.
- He/she will be able to raise his/her planning targets to reasonable challenging levels.
- He/she will be able/ready to take appropriate control actions when necessary.
- It may lead to employee empowerment and improved decision making effectiveness of the organization – contribution of skill, ideas knowledge, and experiences leading to improved innovation and greater willingness to accept change.
- Lastly employee motivation may lead to better flow of information, better relationships and improved, morale, which result into increased productivity.
Exercise

a. People come to work for money. Discuss.

b. Explain eight ways that a manager can use to motivate employees in an organization of your choice.

Other Considerations on Motivation

In this last part of the essay/chapter, we will look at the importance of pay, better job design and employee participation in motivating employees to achieve organizational goals.

ii) Pay as a Motivation-Do we live to work or work to live?

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i. Increased workload to the employee, but no guarantee of improved job satisfaction motivation.

ii. It is more expensive as employee may require additional equipment, floor-space and training.

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- He/she will be more conscious of the organization goals.
- He/she will be able to raise his/her planning targets to reasonable challenging levels.
- He/she will be able/read to take appropriate control actions when necessary.
- It may lead to employee empowerment and improved decision making effectiveness of the organization – contribution of skill, ideas knowledge, and experiences leading to improved innovation and greater willingness to accept change.
- Lastly employee motivation may lead to better flow of information, better relationships and improved, morale, which result into increased productivity.

**Revision Questions**
1. Explain approaches to job design.
2. How can you design jobs to motivate employees according to Two-factor Theory.
3. People come to work for money only. Discuss.
4. Explain practical ways in which a manager can motivate team members.
CHAPTER 19

ORGANISATIONAL CULTURE

This chapter covers definition, importance, development, components, types and factors that reveal the type of organizational culture.

Objective

By the end of this chapter the student should be able to:

- Define organizational culture.
- Explain the importance of organizational culture.
- Explain the development of organizational culture.
- Identify the components of organizational culture.
- Identify types of organizational culture.
- Identify factors that reveal the type of organizational culture.

Organizational culture

Organizational or corporate culture is the pattern of values, norms, beliefs, attitudes and assumptions that may not have been articulated, but shape the ways in which people behave and get things done. Values refer to what is believed to be important about how people and the organizations behave. Norms on the other hand are unwritten rules of behavior.

Organisational culture may also be defined as an idea in the field of organizational studies and management which describes the psychology, attitudes, experiences, beliefs and values (personal and cultural values) of an organization. It has also been defined as the specific collection of values and norms that are shared by people and groups in an organization and which control the way they interact with each other and with stakeholders outside the organization.

Culture on its own has several definitions, some of which are:

- ‘The unique configuration of norms, values, beliefs and ways of behaving that characterize the manner in which groups and individuals combine to get things done’ (Eldridge and Crombie, 1974)

- ‘A system of informal rules that spells out how people are to behave most of the time’ (Deal and Kennedy, 1982).

- ‘The commonly held beliefs, attitudes and values that exist in an organization. Put it more simply, culture is ‘the way we do things around here’ (Furnham and Gunter, 1973)
• ‘A system of shared values and beliefs about what is important, what behaviours are important and about feelings and relationships internally and externally’ (Purcell et al, 2003).

Summing up the various definitions of organizational culture, Furnham and Gunter (1973) list the following areas of agreement on the concept of culture:

• It is difficult to define it
• It is multi-dimensional, with many different components at different levels.
• It is not particularly dynamic, and ever changing (being relatively stable over short periods of time)
• It takes time to establish and therefore it also takes time to change a corporate culture.

The importance of organizational culture

Furnham and Gunter (1993) suggest that culture represents the ‘social glue’ and generates a ‘we-feeling’, thus counteracting processes of differentiations which are an unavoidable part of organizational life. They emphasize that organizational culture offers a shared system of meanings which is the basis for communications and mutual understanding. In their view, if these functions are not fulfilled in a satisfactory way, culture may significantly reduce the efficiency of an organization.

The development of organizational culture

The values and norms which are the basis of culture are formed in four ways.

Culture is formed

• By the leaders in the organization, especially those that have shaped it in the past. Most employees identify themselves with visionary leaders how they behave and what they expect.
• Around critical incidents – important events from which lessons are learnt about desirable or undesirable behavior.
• From the need to maintain effective working relationships among organization members, and this establishes values and expectations
• By influences from the organization’s environment. The external environment may be relatively dynamic or unchanging.

Culture may also be learned over a period of time. Schein (1984) identifies two ways in which this learning takes place.

• By the trauma model, in which members of the organization learn to cope with some threat by the erection of defence mechanisms.
• By positive reinforcement model, where things that seem to work become embedded and entrenched.
The components of culture

As already observed from the definitions of culture earlier, organizational culture can be described in terms of values, norms, artefacts and leadership style.

Values
According to Schiffman and Kanuk (1994), values help to determine what we think is right or wrong, what is important and what is desirable and undesirable. Values are beliefs in what is best for the organization. The values of an organization may only be recognized at the top level or they may be shared throughout the organization, in which case the organization may be described as value driven. The stronger the values, the more they will influence the employees’ behavior.

The values may not always be articulated. There are also implicit values which are deeply rooted in the organisation’s culture and are reinforced by the behavior of management and can be influential. Some of the most typical areas in which values can be expressed, implicitly or explicitly are:

- Performance
- Competence
- Competitiveness
- Innovation
- Quality
- Customer service
- Teamwork, and
- Care and consideration for people

Norms
Norms are the unwritten rules of behavior. We are talking here about the rules of the game which provide informal guidelines on how to behave. Norms tell people what they are supposed to be doing, saying, believing, even wearing. They are never expressed in writing and if they were written, they would be policies or procedures. Norms are passed on by word of mouth or behavior and can be enforced by the people’s reactions if they are violated. That is, we control others by the way we react to them.

Some of the aspects of behavior that norms refer to are:

- how managers treat the members of their team and how the juniors relate to their team and how the juniors relate to their managers.
- the prevailing work ethics e.g. work hard, play hard, come in early, knock off late etc.
- status – how much importance is attached to it.
- ambition - naked ambition is expected and approved of or a more subtle approach is the norm.
• formality – a cool, formal approach is the norm, forenames are/are not used at all levels.
• anger – openly expressed, hidden but expressed through other means.
• approachability – managers are expected to be approachable and visible; everything happens behind closed doors.
• power – recognised as a way of life; executed by political means.

Artefacts
Artefacts are visible and tangible aspects of an organization which hear, see or feel. They may include such things as:

• the working environment
• the tone and language used in letters and memos
• the manner in which people dress each other at meetings or over telephone.
• the welcome given to visitors and the way telephonists handle outside calls.

Artefacts can indeed be very revealing.

Leadership style
It is also known as Management style. It describes the approach managers use to deal with people in their teams, departments or organization as a whole. There are many styles of leadership, however leaders may be classified in extremes as follows:

Charismatic/non-charismatic
Charismatic leaders rely on their personality and inspirational qualities. These are visionary leaders, goal-oriented and good communicators. Non-charismatic leaders rely mainly on their know-how, quiet confidence and analytical approach to dealing with problems.

Autocratic-democratic
Autocratic leaders impose their decisions, using their position to force people to do as they are told. Democratic leaders encourage people to participate and involve themselves in decision-taking.

Enabler – Controller
Enablers inspire people with vision of the future and empower them to accomplish team goals. Controllers manipulate people to obtain their compliance.

Most managers adopt an approach somewhere between the extremes. Some will vary it from time to time according to situations, while others stick to the same style whatever happens.

Classification of organizational culture
Several methods have been used to classify organizational cultures. Some of them are outlined below:
Harrison
Harrison (1972) categorized what he called ‘organisation ideologies’ and these are:

- Power-orientated – competitive, responsive to personality rather than expertise;
- People-orientated – consensual, management control rejected;
- Task-orientated – focus on competency, dynamic
- Role-oriented – focus on legality, legitimacy and bureaucracy

Handy
Handy (1981) based his classification of organizational cultures on that of Harrison, with the exception that he preferred the word ‘culture’ to “ideology” as culture conveyed more of the feeling of a pervasive way of life or set of norms. His four types of culture are:

- The power culture
  The power culture is one with a central power source that exercises control. There are few rules or procedures and the atmosphere is competitive, power – orientated and political.

- The role culture
  The role culture is one in which work is controlled by procedures and rules. Roles are more important than people who fill them; position power predominates, expert power tolerated. This culture serves the cause of structure.

- The task culture
  The task culture focuses on completing the job. Individuals’ expertise and contributions are highly valued. Expert power predominates but both personal and position power are important. The unifying force of the group is manifested in high levels of collaboration. So the aim of the task culture is to bring together the right people and let them get on with it. This culture is adaptable and teamwork is important.

- The person culture
  It is about a loose collection of individuals – usually professionals who share common facilities but pursuing own goals separately. Here power is not really an issue since members are experts in their own right. This type of culture serves the individual, so the individual is the central point.

Schein
Schein (1985) identified the following four cultures:

- The power culture – one in which leadership resides in a few and rests on their ability and which tends to be entrepreneurial.
• The role culture – one in which power is balanced between the leader and the bureaucratic structure. The environment is likely to be stable and roles and rules are clearly defined.
• The achievement culture – one in which personal motivation and commitment are stressed action, excitement and impact are valued.
• The support culture – one in which people contribute out of sense of commitment and solidarity. Relationships are characterized by mutuality and trust.

Williams, Dobson and Walters
Williams et al (1989) redefined the four categories listed by Harrison and Handy as follows:

• Power orientation – one in which organizations try to dominate their environment and those exercising power strive to maintain absolute control over subordinates.
• Role orientation – one that emphasizes on legality, legitimacy and responsibility, hierarchy and status are important.
• Task orientation – this one focuses on task accomplishment. Authority is based on appropriate knowledge and competence.
• People orientation- one in which the organization exists primarily to serve the needs of its members. Individuals are expected to influence each other through example and helpfulness.

Recognising organizational culture

There are several factors that are both a source of organizational culture and its manifestation. Here are some of the ways in which managers recognize the dominant culture of their organization:

<table>
<thead>
<tr>
<th>Source/means</th>
<th>examples/manifestation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisation Mission Statement</td>
<td>‘To be a leading training institution in accountancy in Malawi’</td>
</tr>
<tr>
<td>Corporate aim</td>
<td>‘To provide overall superior service and good value for money in the hotel industry in Malawi’ (Sunbird hotels)</td>
</tr>
</tbody>
</table>
• Policy statements  ‘We will compete vigorously but fairly in the market place.

• Organisational rituals  Formal address to staff by CEO or other senior managers. Induction programmes for new comers

• Organisation logos  Company logos (e.g. PAEC) other logos (e.g. Red Cross) Brand name (e.g. coke)

• Procedures/rules  Rules about dress, hairstyles, hats, beer drinking safety procedures.

It is important to note that employees are not the only group who are affected by an organisation’s culture in that they are most likely its recipients, as well as those who help to shape it, but it also affects other stakeholders. Of the other customers, the group we call ‘customers’ do not only experience the culture from the outside the company, but they are even more influential in its development than say employees because the customer is the customer is the centre of every organisation activities. It is the customer who determines the success or failure of any organization.

Finally, it is important to note that culture is not static but dynamic. So an organization culture adopting one of the types of organization culture identified earlier on in our discussion, is unlikely to hold on to it forever. A combination of both external and internal events will eventually bring about change, and a new culture will emerge.

Revision Questions
1. What is culture.
2. Explain the characteristics of difference types of organizational culture according to Handy.
3. Discuss the factors that identify and classify organizational culture.
4. Explain the factors that influence organizational culture.
CHAPTER 20
MANAGING CHANGE

This chapter covers definition, sources, types, process and causes of resistance to change. It also covers mitigation strategies to resistance to change and the role of Learning Organization in managing change.

Objective
By the end of this chapter the student should be able to:
- Define change.
- Identify sources of change.
- Explain types change.
- Describe the process of change.
- Identify elements that can be affected by change in organizations.
- Explain causes of resistance to change.
- Explain strategies to mitigate resistance to change.
- Explain the role of a Learning Organization in managing change.

Definition of change.
Change means to alter, modify or amend something. In an organization the elements that can be changed include; the process, product, people, technology, place, culture, structures, etc.

The Organization and change management

The environment in which the organization operates is dynamic. In order to survive, grow and succeed an organization must adapt to the external demands placed upon it by environmental forces. For example changes in technology, economic conditions, world competition and government policies and plans impact upon the operation of an organization. The organization must be responsive to change for it to develop and succeed in future. Change is an inescapable part of both social and organizational life. In this chapter, the main focus is on the management of organizational change which comes about through:

Types of change
Martin (2001) has identified four ways in which change maybe experienced by an organization, depending on the scale of change and degree of planning involved. The change matrix is as follows:
DEGREE OF PLANNING

Figure 11. Martins Change Patterns

1. **Surprise Change** - refers to changes that are unplanned and relatively minor. For example, a rise in interest rates by the central bank may force commercial banks to adjust loan repayment schedules.

2. **Incremental Change** - situations that can be anticipated and are relatively minor. An example can be changes in the design of a component implemented by the organization to improve quality.

3. **Strategic Change** - refer to major planned events aimed at positioning the organization more effectively in relation to its environment.

4. **Crisis Change** - represents unexpected and serious change.

The vertical axis represents the scale of the change impact which can be **adaptive** - relatively small scale changes which do not present much danger to the organization or fracturing. **Fracturing** represents major events where the scale of change is very large and so significant to seriously damage/change the organization.

The horizontal axis represents the degree of planning required. **Planned change** represents events that management intends to occur, and where the organization may have a predetermined response; that is to say, planned change. On the other hand **unplanned change** represents unexpected events that arise but can never be completely eliminated from an organization’s environment. Managers are responsible for anticipating events and minimizing the possibility of the unexpected rising.
Change process

Three-step change model by Kurt Lewin

According to Kurt Lewin, planned change involves three stages. The stages are:

1) Unfreezing stage.
   It involves reducing forces that maintain current behaviors and which provide recognition of the need of change and improvements to occur.

   It means getting rid of existing practices and ways of working which stand in the way of change. The unfreezing process focuses upon entrenched rules culture, structure, systems, processes etc.

2) Movement/Change Stage
   This involves development of new altitudes or behaviors and implementation of change

3) Re-freezing Stage
   The change is stabilized at the new level where reinforcement helps to establish new norms.

Factors that drive change

According to Robbins (2002), there are six forces that drive change:

- **Changing nature of the workforce**- ageing workforce, greater cultural diversity, increasingly professional skilled workforce, and many new entrants with inadequate skills.
- **Developments in technology**- examples are computers and mobile communication, quality management programs, process re-engineering programs.
- **Economic shocks**- fluctuations in interest rates, foreign currency, and stock market crashes.
- **Competition**- from mergers and consolidations, global competitors, growth of specialized retailers and niche players.
- **Social trends** increase in university attendance, delayed marriages by young people, increase in divorce rate, smaller household size.
- **World Politics**- September 11, stock market crashes, removal of trade embargo, collapse of soviet bloc.

We live in an age of discontinuity. Since 1970’s we have experienced rising oil prices, economic shocks, developments in technology and globalization of world politics and economics have continued to improve changes on organizations.

Successful organizations will be the ones that can change in response to the competition say by developing new products, being flexible and by recruiting responsive workforce that can adapt to rapidly and radically changing conditions. Organizations must respond
to the external environment of which they are a part. Besides, changing organizations will affect the nature of managerial work:

- **The changing nature of business** - the growth of service industries and the decline of manufacturing industries, acquisition, public sector organizations affected by privatization, increasing globalization of international companies.

- **Changes in the composition of the workforce** - higher proportion of staff being employed for their knowledge rather than strengths or skill, an increasing number of old workers, the employment of more women and an increasing number of part-time members of staff.

- **Changes within organization** - organizations are becoming smaller, greater flexibility in the use of labor through distance working and improved with staff, engagement of subcontractors, self-employed staff and greater entrepreneurial activity in looking for new products and business opportunities. Hierarchies of authority will be shorter and networking will become wider.

### Managing Planned Change

Most planned organizational change is triggered by the need to respond to new challenges or opportunities presented by the external environment or in anticipation of the need to cope with potential future problems. Planned change involves activities that are proactive and purposeful and goal-oriented. The goals of planned change are:

- It seeks to improve the ability of the organization to adapt to changes in its environment.
- It seeks to change employee behavior – success or failure of an organization is due to things employees do.

Examples of planned change include efforts to stimulate innovation, empower employees and introduce work teams. Planned change is also concerned with changing the behavior of individuals and groups in the tasks they perform and in their interactions with others. What can be changed? Planned change should focus on Structure, Technology, Physical setting and People.

**Changing structure** - involves altering authority relations, coordination mechanisms, job design or similar structural variables. Changing conditions demand structural changes; the organization might need to modify its structure e.g. a shift from a simple structure to a team-based structure. It may also involved redesigning jobs, work schedules, job descriptions redefined, jobs enriched or flexible hours introduced.

**Changing technology** - encompasses modifications in the way work is processed and in the methods and equipment used – say automation or computerization. Rising competition and the need for innovation often require companies to introduce new equipment, tools, operating methods in order to compete more effectively. Automation is a technological change that replaces people with machines and it continues to be a change
option today e.g. expanding use of personal computers and more sophisticated management information systems.

**Changing the physical setting** - covers altering the space and the layout arrangements in workplaces. Management should consider work demands, formal interaction requirements, and social needs when making decisions about space configuration, interior designs and equipment placement, lighting, noise, decorations, and color schemes.

**Changing people** - involves changes in employee attitudes, skill, expectations, perception and behavior, through communication, decision making and problem solving, aimed at making stuff work more effectively together.

**The Problem of Peoples Resistance to Change**

Studies of individual and organizational behavior indicated that organizations and their members resist change. Effective management of change requires an understanding of the resistance that frequently meets it. Resistance to change may be positive - provides stability and predictability to behavior or negative - it is a source of conflict, it hinders adaptation and organizational progress.

Resistance to change manifests itself in many ways: Overt, implicit and deferred resistance.

- **Overt Resistance** - change is proposed and employees quickly respond by voicing complaints, threatening to go on strike. Resistance is immediate.

- **Implicit Resistance** - loss of loyalty to the organization, loss of motivation to work, increased errors and mistakes, increased absenteeism due to sickness. Implicit resistance is more difficult to recognize.

- **Deferred Resistance** - results into a minimal reaction at the time change is initiated, and resistance surfaces weeks, months or even years later. Deferred resistance may become the “straw that breaks the camel’s back” as reactions to change can build up and then explode later in a response that seems out of proportion to the change action it follows.

**Sources of Resistance to Change**

For analytical purposes sources of resistance can be individual or organizational.

**Individual Source**

This category of resistance to change resides in basic human characteristics such as perception, personality and needs. Some of the reasons people resist change are:

- **Loss of control** - change is threatening when it is done to us we feel powerless or out of control. Managers should therefore involve staff so that they feel more in control and more committed to the change.
• **Excess Uncertainty** - People resist change when there is too much uncertainty, and when they don’t know where the next step takes them. To resolve this problem try to update the team with information you can share.

• **Surprise Factor** - People are likely to resist change which is imposed on them. People feel unprepared for decisions/outputs imposed on them. To avoid this problem, choose appropriate timing for information releases. Give advance warning so that staff can adjust to it.

• **The Difference Effect** - The greater the difference between the change and our own routines, habits and known, the more is the resistance to change. Managers need to review whether they need to change everything around them or their team and determine what routine ways of working that can remain unchanged.

• **Loss of Face** - Some people may feel threatened with the change and might defend old ways of working to avoid losing face. To get around this problem, managers should put the old ways of working in perspective and should try to help the team to feel positive about the new ways of working.

• **Concerns about future competence** - When change is being introduced people are concerned about whether they have the skills required of the future. The result of this determines the reasons why change should be avoided. To resolve this problem, managers should identify the skills that will be needed and how they can help staff develop new competencies.

• **Ripple Effects** - Change can affect people’s plans and expectations both in and out of work, though unrelated to the core of the change. Managers should find out from staff possible ripple effects and should show sensitivity towards them.

• **More work** - For some people change may imply more work and more effort fear that they may be working excessive hours. Managers should provide support to individuals or groups of workers and reward their effort.

• **Past Resentments** - The likelihood of a grievance held about something that happened in the past surfacing when staffs are asked to do something new, and this may hinder the change. Managers should carefully listen to and observe staff, air these sentiments and try to repair the damage.

• **Sometimes the threat is real** - During change there are winners and losers, as opportunities for some open up and doors close for others. The survivors of change experience the loss of the old ways of working. Managers should avoid giving false promises to others, communicate the bad news very enough and give the staff the opportunity to let go of or mourn the old.

**Organizational Source**

Most organizations are generally conservative to change, and actively resist it e.g. public agencies, educational institutions, and majority of business firms are some examples of organizations which resist change.

Six major sources of organizational resistance to change are:

• **Structural Inertia** - Built in mechanisms to produce stability, say in recruitment and selection of new staff as well as in their training – these tend to reinforce
specific role requirements and skill. When change is being introduced this structural inertia acts as a counterbalance to sustain stability.

- **Limited focus of change** - Organizations comprise a number of interdependence subsystems, so that making change in one system will affect the others. So limited changes in subsystems tend to get nullified by the larger system.

- **Group inertia** - Group norms may act as a constraint to change. An employee who belongs to a trade union may be likely to resist change if all norms dictate so.

- **Threat to expertise** - Changes in organizational patterns may threaten the expertise of specialized groups e.g. the introduction of computers in the accounts may be resisted by some people who do not have computer skill.

- **Threat to established power relationships** - If change implies a redistribution of decision making authority, it can threaten long established power relationships within the organization. For instance, the introduction of participative decision making or self-managed work teams’ may be threatening to supervisors and middle managers.

- **Groups that control significant resources** - Often see change as a threat e.g. in terms of a reduction in the budget or a cut in staff size. They may feel threatened by changes that may affect future allocations.

**Overcoming Resistance to Change**

We have discussed already the ways in which individual resistance to change can be handled. Kotter and Schlesinger (1979) suggested five tactics managers can use to deal with the problem of organizational resistance to change:

a) **Education and communication** – Resistance can be reduced through communicating with employees to help them see the logic of a change. This helps to clear up misunderstandings arising from misinformation or poor communication. This can be achieved through discussions, intranet sites, and group presentations.

b) **Participation** – It is argued that employees cannot resist a change decision in which they personally participated. Employee involvement can reduce resistance, obtain commitment, and increase the quality of the change decision.

c) **Facilitation and Support** – Managers should offer a range of supportive efforts to reduce resistance to change – such as employee counseling, skills training, or short paid leave of absence.

d) **Negotiation** – involves exchanging something of value to lessen the resistance e.g. a specific reward package for powerful individuals.

e) **Manipulation and Coercion**

**Manipulation** refers to covert attempts to twist and distort facts to make them appear more attractive, withholding undesirable information and creating false rumors to get employees to accept a change.

**Coercion** is the application of direct threats or force upon the resistors e.g. a threat to close down plant if employees do not agree to pay cut.
Contemporary change issues

In this last part, we focus attention to the issues of innovation and learning organizations. Innovation is about initiating or improving a product, process. Innovation may range from small incremental improvements up to radical breakthroughs that lead to significant improvements.

Innovations encompass product innovations, new production process technologies, new structures or administrative systems and new plans and programs relating to the organization. There are three key variables that make organizations become more innovative are cultural, structural, and human resources.

- **Culture** - Innovative organizations encourage a culture of experimentation in order to excel, they are risk taking and reward success and tolerate mistakes.

- **Structural Variables** - are the most important potential source of innovation which include such factors as:
  1. Organic structures which positively influence innovation, such they facilitate flexibility adaptation and cross fertilization of ideas.
  2. Long tenure of office for managers is associated with innovation in that it provides legitimacy and knowledge of how to accomplish task to obtain desired outcomes.
  3. Innovation is nurtured where there are resources - all adequate resources allow an organization to purchase innovations and bear the cost of its institution.
  4. Inter-unit communication is high in innovative organizations due to use of committees, task forces, cross-functional teams.
  5. Cultures - innovative organizations encourage a culture of experimentation, risk taking and innovation.

- **Human resources** - innovative organizations actively promote the training and development of staff, offer high job security, and encourage staff to become champions of change. As champions of change employees have high self-confidence, persistence, and energy, tendency to take risks, and display transformational leadership. Employee autonomy helps them introduce and implement innovations.

Creating a Learning Organization

A learning organization is one that has developed the continuous capacity to adapt and change. Organizational learning is a fundamental requirement for the organizations sustained existence. Learning organizations use **double loop learning** - when an error is detected, it is corrected in ways that involve the modification of the organizations objectives, policies and standard routines.
Characteristics of a Learning Organization

Senge (1990) summarizes five basic characteristics of learning organization as follows:

- There is a shared vision upon which everyone agrees
- People discard their old ways of thinking and the standard routine they use for solving problems or doing their jobs.
- Members think of organizational processes, activities, functions and interactions with the environment as part of a system of interrelationships.
- People openly communicate with each other cross vertical and horizontal boundaries without fear of criticism or punishment.
- People sublimate their personal self-interest and fragmented departmental interests to work together to achieve the organizations shared vision.

The idea of learning organization acts as a remedy for three problems faced by traditional organization:

- **Fragmentation** - based on specialization creates walls and chimneys that separate different functions into independent and often warring fiefdoms.
- **Competition** - an emphasis on competition often undermines collaboration among members and between divisions.
- **Reactivity** - misdirects management’s attention to problem solving rather than creation.

In conclusion, it can be stated that a learning organization is an ideal model that builds on a number of concepts such as Total quality management, Organizational culture, Transformational leadership, and Knowledge management. The key steps to making a learning organization are:

- **Establish a strategy** – to show explicit commitment to change, innovation, and continuous improvement.
- **Redesign the organizations structure** - since the formal structure can be a n impediment to earning the redesign of structure can help flatten it, increase cross functional teams, and reinforce interdependence between people.
- **Reshaping the organizations culture** - learning organizations are characterized by risk taking, openness and growth. Management must set the tone, for the organizations culture by its strategy and behavior.

If properly implemented, the concept of the learning organization helps organizations to deliver better financial performance.

**Revision Questions**

1. Discuss the significance of organizational change.
2. Using the organization you are familiar with discuss the factors that necessitate organization change.
3. Discuss why people have the tendency to exist change.
4. Explain the ways in which you can reduce resistance to change.
CHAPTER 21

CORPORATE GOVERNANCE

This chapter covers the definition, components and practices of corporate governance. It also covers the concept of whistle blowing, professional values and ethics and the strategies to manage social responsibility and ethics.

Objectives

By the end of this chapter the student should be able to

- Define corporate governance.
- Identify components of corporate governance.
- Explain the concept of whistle blowing.
- Describe corporate governance practices.
- Explain professional values and ethics.
- Explain the strategies to manage social responsibility and ethics.

Definition of Corporate Governance

- Corporate governance is the system by which organizations are directed and controlled.
- It is a set of relationships between a company’s directors, its shareholders and other stakeholders.

Corporate governance is based on a number of concepts such as transparency, independence, accountability and integrity, and provides the structure through which objectives of a company are set, strategies formulated, and performance is monitored.

Transparency - means corporate disclosure to stakeholders of information in the financial statements and narrative statements such as the director’s report and operating financial review, environmental and social reports.

Transparency and openness are necessitated by the agency theory which states that directors and managers act as agents for the shareholders who are the owners. Corporate governance frameworks aim to ensure that directors/managers fulfill their responsibilities as agents by requiring disclosure of information. Directors must tell the truth and not mislead shareholders through probity and honesty.

Accountability - means that directors are answerable for the consequences of their actions. Corporate governance codes emphasize that the board of directors are accountable to shareholders and to other stakeholders such as employees, customers, government, and to the community within which the organization operates. Directors as agents are answerable to the shareholders and must account for the resources and money
gained while working on their principal’s behalf. They have a fiduciary duty towards the shareholders.

Fiduciary duty is duty imposed upon certain persons because of the position of trust and confidence in which they stand in relation to each other. Directors have a duty to exercise their powers bona fide in what they honestly consider to be the interests of the company. This duty is owed to the company and not individual shareholders. The elements of fiduciary duty are performance, obedience, skill no conflict of interest, and confidence.

Performance – directors have a contractual obligation to perform the agreed legal task. Directors are selected on the basis of their personal qualities, and must perform their tasks themselves, and should not delegate it to another to avoid compromising quality standards.

Obedience -Directors must act strictly in accordance with their shareholders instructions, provided the instructions are lawful and reasonable. Directors must ensure the organizations system and values are balanced, taking into account all stakeholders.

Skill – The director is expected to maintain the standard of skill and care expected of person n his/her profession.

No conflict of interest – directors, as agent owes to his/her principal (shareholder) duty to put himself in a situation where his/her on interests does not conflict with those of the principal.

Confidence and benefit -Directors must keep in confidence what he/she knows of his/her principal’s affairs, even after the agency relationship has ceased. Any benefit must be handed over to the principal. Directors must account to the principal for any other benefits. Any commission or reward accepted as an inducement to make the contract is considered to be bribe and the contract is fraudulent.

Independence-is n important concept in relation to the directors. They should be free from anterior influence in order to monitor the company effectively and promote the interests of shareholders and other stakeholders. They must conduct themselves professionally and ethically. He should make good decisions that enhance the prosperity of the company, through good judgment so as to provide good direction.

Integrity- means straightforward dealing and completeness. The financial resorts presented to the shareholders should be honest, and should present a balanced picture of the state of the company’s affairs. The integrity of reports depends on the integrity of those who prepare/present them. A director must be someone of high moral character, trustworthy, and honest. Integrity is an essential principle of the corporate governance relationship. Ethical codes stress the importance of good public perception of competence and integrity. Directors must therefore promote the company’s reputation which directly affects the price of shares.
The Concept of Whistle Blowing

Whistle blowing refers to moral obligation to employees to disclose and report to management any behavior which is or may be unethical.

The Case for Whistle Blowing

- The employee has a morale duty to blow the whistle to the company and society as a whole.
- If a person sees a wrong, it might be the tip of the iceberg, unearthing more serious offences.
- It prevents people with unacceptable behavior not to get away with the wrong done, they should be brought to book.
- People consider that conscience is more important than job security - one must blow the whistle irrespective of personal consequences.
- Whistle blowing is a Statutory responsibility.

The Case against Whistle Blowing

- Whistle blowing is none of your business, just concentrate on doing your job.
- Fear of being misinterpreted - what might be seen as a breach of company rules or policy may turn out to be perfectly legitimate.
- Some are reluctant to blow the whistle due to a snitching mentality - it is considered bad to tell tales on others. Besides, there is a danger of one losing one’s job.
- Sometimes the employee could be on dangerous legal ground - by blowing the whistle it may be construed as a breach of contact or may render the whistle blower liable to criminal action.

Whether to blow the whistle or not is usually a matter for individual judgment or conscience. To some extent it depends on the value of rewards attached for whistle blowing.

Corporate Governance Practice

The Role of the Board

The corporate governance codes outlined above seem to indicate important points regarding the role of the board:

- The board should be responsible for taking major policy and strategic decisions.
- Directors should have a mix of skills and their performance should be assessed regularly.
- Appointment should be conducted by formal procedures administered by a nomination committee.
For the board to act effectively, its role must be defined carefully and board members must meet frequently - the role of the board is “to define the purpose of the company and the values by which the company will perform its daily existence and to identify the stakeholders relevant to the business of the company”. (South African King Report)

According to the SA King Report the role of the board include:

- It is collectively responsible for promoting the success of the company by directing and supervising the company’s affairs.
- It provides entrepreneurial leadership of the company, within a framework of prudent and effective controls which enables risks to be assessed and managed.
- Sets the company’s strategic aims ensuring that the necessary financial and human resources are in place for the company to meet its objectives and review management performance.
- Sets the company’s values and standards and ensure that its obligations to its stakeholders are understood and met.
- Board is responsible for making strategic decisions such as mergers and takeovers, acquisitions and disposals of assets of the company, investments, capital projects and bank borrowing.
- The board plays an important monitoring role:
  a. Monitoring the chief executive officer
  b. Monitoring human capital – morale, training, succession and remuneration.
  c. Monitoring risks, control systems and governance.
- Managing potential conflicts of interest
- Ensuring that there is effective communication of its strategic plans internally and externally.

**Characteristics of an effective board**

- Clearly strategy aligned to capabilities.
- Vigorous implementation of strategy
- Key performance drivers monitored
- Effective risk management
- Focus on views of city and other stakeholders
- Regular evaluation of board performance

On the other hand some boards are the rubber stamps characterized by:

- makes clear decisions
- Listens to in – hour expertise
- Ensure decisions are implemented.

**Weaknesses of Rubber Stamp Board**

- Fails to consider alternatives
- Dominated by executives
• Relies on fed information
• Focuses on supporting evidence
• Does not listen to criticism
• Role of Non – executive Directors is limited.

Directors’ terms of employment

Legal responsibilities- Directors have a duty of care to show reasonable competence and may have to indemnify the company against loss caused by their negligence.

• A director is expected to show the degree of skill that may reasonably be expected from a person of his knowledge and experience.
• A director is required to attend board meetings when he is able. He is entitled to leave the routine conduct of the business in the hands of its management if they appear to be competent and honest.
• Conflict and disclosure of interests as agents, directors have a general duty to avoid a conflict of interest. Directors owe a fiduciary duty to avoid a conflict of duty and personal interest. They must not obtain any personal advantage from their position as directors without the consent of the company for whatever gain or profit they have obtained.

The company may take the following action against a director for breach of duty:

• Director may have to account for personal gain.
• The contract may be rescinded by the company.
• The court may declare the transaction as ultra-vires or unlawful.
• Time limit appointments – under the company’s constitution or the director’s service contract, the chief executive or board chairman may be for a fixed period. Ordinary directors may have to retire from the board on reaching a retirement age 65 or 70, and may or may not seek re-election. Non – executive directors normally serve two three – year terms. Service contracts set out terms and conditions of director’s appointment and companies are required to keep contracts to be available for inspection by shareholders

• Retirement by rotation – directors are often required to retire from the board and seek re – election, once every three years. The companies’ constitution or articles prescribe the roles on rotation.
• Departure from office – a director may leave office in the following ways:
  
i) Resignation (written notice many be required)
ii) Not offering himself – for re – election when his term of office ends
iii) Death
iv) Dissolution of the company
v) Being removed from office
vi) Being disqualified by virtue of the constitution or by the court.
Directors may be disqualified from serving on the board under the company’s constitution for bankruptcy, suffering mental disorder, or being absent without permission.

- Insider dealing/trading – It is a criminal offence to use insider information to buy or sell shares in a stock market. Insider information is information that is specific and precise, has not yet been made public, and if made public would have a significant effect on the share price.

**Board Members and Roles**

Most governance coders require separation of the roles of board chairman and chief executive office, and inclusion of independent non-executive directors.

The key issues for consideration on board membership include:

a) Size – boards must be of the right size to permit ease of operation and coherence of decision making.

b) Inside/outside mix – must be of the right proportion

c) Diversity – male/female mix ethnic minorities or professions

**The Role of the Chairman of the Board**

The board chair heads the board of directors. The is expected to create favorable conditions for overall board and individual director effectiveness.

The chairman is responsible for:

- Running the board and setting its agenda to ensure focus on strategic matters.
- Ensuring the board receives accurate and timely information, necessary for sound decisions and effective monitoring of the company.
- Ensuring effective communication with shareholders. He should ensure the board develops and understanding of the views of major investors.
- Ensuring that sufficient time is allowed for discussion of controversial issues. There should be enough time for the board to consider critical issues.
- Taking the lead in providing an induction program for new directors – the program should be comprehensive formal and tailored
- Taking the lead in board development the chairman is responsible for addressing the development needs of the board as a whole and enhancing the effectiveness of the whole team.
- Facilitating board appraisal – the chairman should ensure the performance of the whole board, board committees and individuals is evaluated at least once a year.
- Encouraging active engagement by all the members of the board.
- Reporting in and signing off accounts
Characteristic of an effective Chairman

An effective board chairman:

- Upholds the highest standards of integrity and probity.
- Leads board discussions to promote effective decision making and constructive debate
- Promotes effective relationships and open communication between executive and non-executive directors
- Builds an effective and complimentary board, initiating change and planning succession.
- Promotes the highest standards of corporate governance.
- Ensures a clear structure, and the effective running of board committees.
- Establishes a close relationship of trust with the CEO, providing support and advice whilst respecting executive responsibility.
- Provides coherent leadership of the company.

The Role of the Chief Executive Officer (CEO)

- The CEO is responsible for leading, the management team at and below board level in developing objectives and strategy.
- He/she is responsible for running the organization's business, and for proposing and developing the group's strategy and overall commercial objectives in consultation with the directors and the board.
- He/she is responsible for implementing the decisions of the board and its committees.
- Reviewing the business's organizational structure and operational performance.
- He/she is in charge of the management team and is answerable to the board for its performance.
- Investment and financing – the CEO is responsible for examining major investments, capital expenditure, acquisitions and disposals and for identifying new initiatives.
- Risk management – the CEO will be responsible for managing the risk profile of the organization in line with the risk appetite accepted by the board.
- Board committees – the CEO will make recommendations to be discussed by the board on remuneration policy, executive remuneration and terms of employment. All corporate governance reports require the roles of board chairman and chief executive officer to be held by two different people.

The Role of Non-Executive Directors (NEDS)

Non-executive directors have no executive responsibilities. They provide a balancing influence, and play a key role in reducing conflicts of interest between management and shareholders. They provide reassurance to shareholders that management is acting in the interests of the organization.
The role of non executive directors can be summarized as follows:
- NED’S should contribute to and challenge the direction of strategy.
- They should scrutinize the performance of executive management to meet goals and objectives, and monitor the reporting of performance.
- NED’S should satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust.
- Finally, NED’S are responsible for determining appropriate levels of remuneration for executives and are key figures in the appointment and removal of senior managers, and in succession planning.

Advantages of Non-Executive Directors

NED’S can bring a number of advantages to a board of directors:
- They may have external experience and knowledge which executive directors do not possess.
- They can provide a wider perspective than executive directors.
- They are a comfort factor for third parties – investors and creditors.
- NED’S are well suited to play the following roles:
  1. They are a confident for the chairman and other directors.
  2. They may intervene to make the board run more effectively.
  3. They may take steps to remove the chairman or chief executive officer.

Problems with Non-Executive Directors

The following are some of the problems connected with the NED’S:
- NED’S may lack independence – they may be linked to the company as suppliers or customers.
- Prejudice in certain companies against widening the recruitment of NED’S.
- High caliber NED’S may gravitate towards the best – run companies, rather than in needy ones.
- NED’S may have difficulty imposing their views upon the board – their views can easily be dismissed by executive directors.
- NED’S cannot prevent trouble – may fail to warn early on potential problems.
- NED’S face limited time to devote to the role.
- NED’S can damage company performance by weakening board unity and stifling entrepreneurship – they may be included on the board for political reasons rather than maximization of financial performance.

Unitary Board versus Multi-tier Board

Different countries have different institutional arrangements for board structure. The choice is between a unitary board structure and a multi tier board. In Germany, there is a system of dual board made up of:
- The supervisory board – member representative come from workers, shareholders and institutional investors (banks). The board has no executive function; its primary responsibility is to safeguard stakeholder’s interests.
Members are required to possess right knowledge, abilities and experience, and they are sufficiently independent.

- **Management board** – is an executive board composed entirely of managers. It is responsible for running of the business

In Japan, there are three different types of board of directors:

- **Policy boards** – are concerned with long term strategic issues.
- **Functional boards** – are made up of senior executives with a functional role.
- **Monocratic board** – have few responsibilities and have a more symbolic role.

**Advantages of Board**

Unitary board structure offers the following advantages to the organization:

- It is a more involved approach – all participants have equal legal responsibility for management of the company and strategic performance.
- Better decisions are made – as the board takes all views of independent directors who are be given restricted access to information.
- The presence of Non – executive directors with different perspectives and view points to question the actions and decisions of executive directors provides checks and balances, leading to better decisions.
- It promotes better relationships and cooperation between different types of directors.

**Disadvantages of Unitary Board**

Unitary board structure has the following limitations:

- Asking a non – executive or independent director to be both manager and monitor is too awkward and demanding a task.
- It is time consuming for non – executive directors – terms of time spent in board meetings and the commitment required to obtain sufficient knowledge about the company.
- The unitary board system makes no specific provision for employees to be represented on the management board.
- The unitary board emphasizes the divide between shareholders and the directors; the general meeting is the only place where shareholder grievances or concerns can be heard.

**Advantages of Multi-tier Board**

- The main argument in favor of multi – tier boards is the clear and formal separation between the monitors and those being monitored.
- The policy board has the capacity to be an effective guard against management inefficiency, it can deter fraud and irregularities.
- The supervisory board system takes into account the needs of stakeholders, other than shareholders, specifically employees, who are clearly important stakeholders in practice.
Disadvantages of Multi-tier Board

The problems with multi-tier boards are:

- There may be confusion over authority, resulting into lack of accountability.
- In practice the board may not be as effective as it seems in theory due to board restricting information and due to infrequent liaison.
- The supervisory board may not be as independent as would be wished. Besides, members of the supervisory board can be shareholder representatives.

Directors Remuneration

Adequate remuneration should be paid to directors in order to attract individuals of sufficient caliber and to retain and motivate them to achieve higher performance levels. Corporate governance codes emphasize that:

- Director’s remuneration should be set by remuneration committee consisting of independent non-executive directors.
- Remuneration should be dependent upon organization and individual performance.
- The financial accounts should disclose remuneration policy and the packages of individual directors.

Due to the major corporate abuses for a large number of years, it has been the tendency of paying directors excessive salaries and bonuses, corporate governance provisions have targeted director’s remuneration. The remuneration committee a key role in establishing remuneration arrangements for directors.

The remuneration committee needs to determine a clear policy on remuneration and it must be independent. It should be staffed by independent non-executive directors to prevent executive directors from setting their own remuneration levels. Remuneration policy must be put in place, clearly stating:

- The pay scales applied to each director’s package.
- The proportion of the different types of reward within each package basic pay, benefit in kind, pension.
- The period within which they are payable
- Transparency of director’s remuneration, including pension rights, in the annual accounts.

In the case of benefits in kind, the remuneration committee should consider the benefit to the director and the cost to the company of the complete package. A number of corporate governance jurisdictions prohibit loans to directors. Recent corporate scandals have included instances of abuses of loans e.g. $408 million to Bernie Ebor’s, CEO of Worldcom. The UK combined code states that as a general rule, only basic salary should be pension able.
On service contracts most corporate governance guidelines suggest that service contracts greater than 12 months need to be carefully considered to contain terminal payments. The board or shareholders should determine the remuneration of non-executive directors within limits prescribed by the company’s constitution. Remuneration disclosures in the annual accounts should include:

- Remuneration policy
- Arrangements for individual directors.
- The duration of contracts with directors; notice periods and termination payments under such contracts

**Directors Dealing in Shares**

Directors may be awarded shares with the company with limits on when they can be sold in return for good performance. The UK combined code states that shares granted or other forms of remuneration should not vest or be exercisable in less than three years. The code prohibits offering of share options to non-executive directors to avoid compromising their independence.

Finally, corporate governance provisions require the board to maintain a regular dialogue with shareholders, particularly institutional shareholders, through the annual general meeting – this is the most important forum for communication. Consideration of the stakeholders will depend on their legal responsibilities and the extent these are viewed as partners.

**Professional Value and Ethics**

**Definition of Ethics.**

- Ethics is concerned with right and wrong and how conduct should be judged to be good or bad.
- It is about how we should behave towards other people.

Ethics must be a fundamental aspect of the organization’s mission. Managers responsible for strategic decision making should consciously apply ethical rules to all of their decisions. Ethical assumptions underpin all business activity as well as guiding behavior.

**Ethical Issues in Business**

Companies in Europe have come to be seen more as public property with non-owners having a legitimate interest in influencing the decisions that other managers make. A key issue for a manager is to understand and influence the ethical stance that the organization is taking.

According to Johnson and Scholes, ethical issues concerning business and other organizations exist on three levels; the macro level, corporate level and individual level.