STUDY PACK

ON

BUSINESS ADMINISTRATION AND PRACTICES

INTERMEDIATE 1

BUSINESS ADMINISTRATION AND PRACTICES

INTERMEDIATE 1

FOURTH EDITION

CHARTERED INSTITUTE OF PERSONNEL MANAGEMENT OF NIGERIA

CIPM House, 1 CIPM Avenue, Off Obafemi Awolowo Way,
Opposite Lagos State Secretariat, Alausa, Ikeja, Lagos.
Tel: 07001237555
E-mail: info@cipmnigeria.org, exams@cipmnigeria.org
Website: www.cipmnigeria.org
Facebook/X/Instagram/Youtube: @cipmnigeria
LinkedIn: Chartered Institute of Personnel Management of Nigeria

FOREWORD

This fourth edition of the CIPM study pack is one of the learning resources recommended to persons preparing for certification through professional examinations. It is uniquely prepared to meet the knowledge standards of HR certification bodies and/or degree awarding institutions. The study pack is highly recommended to researchers, people managers and organisations responsible for human capital development in its entirety.

Each chapter in the text has been logically arranged to sufficiently cover all the various sections of this subject as itemised in the CIPM examination syllabus. This is to enhance systematic learning and understanding of the users. The document, a product of in-depth study and research, is practical and original. We have ensured that topics and sub-topics are based on the syllabus and on contemporary HR best practices.

Although concerted effort has been made to ensure that the text is up to date in matters relating to theories and practices of contemporary issues in HR, nevertheless, we advise and encourage students to complement the study text with other study materials recommended in the syllabus. This is to ensure total coverage of the elastic scope and dynamics of the HR profession.

Thank you and do have a productive preparation as you navigate through the process of becoming a seasoned Human Resources Management professional.

Olusegun Mojeed, FCIPM, fnli
President & Chairman of the Governing Council

ACKNOWLEDGEMENT

On behalf of the President and Chairman of the Governing Council, Mr Olusegun Mojeed, FCIPM, fnli and the entire membership of the Chartered Institute of Personnel Management of Nigeria (CIPM), we acknowledge the intellectual prowess of Mr. Joseph Olaniyi Ishola in writing this well-researched text for the Business Administration and Practices. The meticulous work of our reviewer, Dr. Oyewole Sarunmi has not gone unnoticed and is hereby acknowledged for the thorough review of this publication.

We also commend and appreciate the efforts of members of the Education Committee of the Institute, under the chairmanship of Mr. Henry Onukwuba, MCIPM for their unflinching support.

Finally, my appreciation goes to my internal project team, led by the Director, Professional Standards and Development, Mr. Gbenga Samuel Odetunde ACIPM, the Team lead, Certification and Licensing, Mr. Samuel Eviewho, ACIPM and Team lead, Professional Examination, Mr. Yinka Oyedere, MCIPM for making this project a success.

Oluwatoyin Naiwo, FCIPM
Registrar/Chief Executive

Contents

CHAPTER ONE
NATURE OF BUSINESS

1.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to:

i. Explain the concept of business;
ii. Identify the need for business;
iii. Classify business activities and clarify the meaning of industry and commerce;
iv. State various types of industry;
v. Explain the activities relating to commerce;
vi. Analyse the organic business functions;
vii. Describe the characteristics of business; and
viii. Discuss business, the society and the law.

1.2 INTRODUCTION

The word business literarily means a state of being busy. A person may be busy playing computer games, watching television or be on social media chatting for pleasure. In such cases, no business activities are involved because the economic element is missing, hence a business is a state of doing something that will yield returns like money, prestige, post and any other thing that can give benefits and satisfaction.

Business can be traced back to creation when God creates heaven, earth, and all things there in, God was and still busy later when Adam and Eve took over the operations of the earth, which keep them busy, and human have been busy doing some kind of activities till date. (Adesanya et.al 2012).

Human life is built around work. People are engaged in some kind of work to earn their livelihood and to acquire wealth. Some activities are inspired by social, cultural, religious and or sentimental requirement of human beings. It is worthwhile to mention that business involves repeated activity and not a single or isolated activity. Moreover, business involves economic activities related to production, exchange, and distribution of goods and services and not their consumption for own use. Therefore, business means all those activities which involve production, exchange, and distribution of goods and services with a view to earning profit. Business includes a wide range of activities like manufacturing, trading, transportation, banking, insurance, warehousing and finance.

1.3 CONCEPTS OF BUSINESS

A concept is an idea, plan or intention conceived in the mind therefore concepts of business can be viewed from two perspectives.

Traditional Concept: The traditional concept explains that the purpose of business is to earn profit through the production and marketing of products. Products may be of different types. For example, physical goods, services, ideas, and information, etc. The main motto of business is to maximize profit only as per the traditional concepts.

Modern Concept: Consumer satisfaction is the central point of the modern concept of business. Profit can be earned by maintaining social responsibility. It strives to include every aspect of human civilization. It views modern business as a socio-economic institution that is always responsible for society. The modern concept of business is, thus, a very broad one. Business is viewed as sub-system of the total social system.

According to Davis and Blomstorm (n.d) "Our modern view of society is an ecological one. Ecology is concerned with the mutual relations of human populations or systems with their environment. It is necessary to take this broad view because the influence and involvement of business are extensive. Business cannot isolate itself from the rest of society. Today the whole society is a business' environment. Moreover, human activities are very important as it's the backbone of the business organization, hence business itself is a social system therefore human activities in business may be divided into two which are:

Economic activities: These are the activities which are related to the production of wealth. Every person is engaged in some kind of work to earn his living. All these activities create utilities. The economic activities can further be classified into three, they are:

(i) **Profession**: A profession is an occupation which involves the rendering of personal service of a specialized nature. The service is based on professional education, knowledge, teaching, and skills e.g., medical education, chartered accountant etc.

(ii) **Employment**: This is when a person undertakes to render personal service under an agreement of employment. The service is rendered for a salary or wage and/or other benefits attached to that job which may be in a government or a private organization.

(iii) **Business:** When a person is engaged in an activity concerned with the production and exchange of goods and services with the objective of earning profits.

Non-economic activities: Are those activities which are in the form of social service etc. These activities are not undertaken with economic objectives. In other words, the element of 'profit' is not found in these activities.

1.4 DEFINITION OF BUSINESS

Defining the term business can be looked at from different dimensions. Business had been viewed differently by scholars, it is viewed as any establishment like manufacturing, production and service-oriented activity, others viewed it as any transaction involving buying and selling or as a task or duty that must be accomplished. Others view business as an organization or enterprising entity engaged in commercial, industrial, or professional activities, this entity can be for-profit or non-profit organizations that operates to fulfill a charitable mission or further a social cause. However, business has been used to cover all activities that are concerned with the production and distribution of goods and services to meet the dynamic and increasing need of the society with the intention to make anticipated profit or other benefits.

Literarily, a simple definition of business is to say that business occurs when a person or organization profits by providing goods or services in exchange for money.

Harney (N.D) defined business as "human activity directed towards producing or acquiring wealth through buying and selling of goods."

"Business is a form of activity pursued primarily with the object of earning profits for the benefit of those on whose behalf the activity is conducted". (DickseyN.D).

Business may be defined as the sum of all gainful human activities, which aim to creates, exchange and possess wealth in the form of physical output and useful services.

Otokiti (2005) view business from two dimensions, economic and functional. From economic angle, business means work, efforts activity and acts of people which connect with the production of wealth, distribution of resources and its creation. While the functional angle of business means, those human activities which involve production or purchase of goods with the objective of selling them at a profit or for a reward. He further states that business is regarded as a function of commerce, industry, and marketing service, economic, organic social and acquisition.

Lawal and Bello (2010) refers to business (in a capitalist economy) as the totality of all activities involved in the production and distribution of goods and services for profit.

Adesanya, et al (2012) opined that business is defined as the activities undertaking by an organization to satisfy human needs and wants with the aim of making profit.

So far, it is clear that 'business is the economic activity of individuals and organizations aimed to earn profit through the production and distribution of goods and services.' The above definition indicates that business activities are undertaking by individual and institutions or organization. Thus, it has been observed that business involves activities performed by individuals and or organization for mutual benefits.

Therefore, 'business is defined as all the activities undertaking by individual and organizations to satisfy human want and needs through exchange with the motives of mutual benefits.'

Needs are basic necessity of life, and their absence may result in harm of ultimately death, like the absence of good, shelter, clothing security, love etc., while wants are desire that man aspire to reach in life which if it's missing may not necessarily cause any harm like being rich or being a governor or president of a nation. In business, mutual benefits occurred when profit is enjoyed by the producer, while satisfaction is the ultimate goal of a customer.

1.5 REASONS FOR BUSINESS

As earlier stated, that business attempts to satisfy human wants and need, through provision of essential goods and services and to make profit and satisfaction enjoyed by the customer, therefore business is essential for these reasons highlighted below:

1. To transform the resources into finished goods and services that will meet the need of mankind.
2. To provide the platform to develop the society.
3. It encourages people to develop their career which eventually leads to managerial efficiency and effectiveness.
4. To create the platform for logical and philosophical thinking that makes human to be creative and innovative.
5. To provide opportunities for self-employment.
6. It assists the consumers in taking a decision in the face of many alternatives.

1.6 BUSINESS ACTORS

There are five major actors that play an active role in business activities:

i. **Entrepreneur** – Person that search for a change especially in production process, respond to it and exploit it as an opportunity.
ii. **Manager** – To administer the business operations profitably.
iii. **Employees** – The workers who perform the actual physical and mental efforts necessary to produce and distribute the goods or render the services to the people.
iv. **Customer** – These are the customers that consume or use the products who equally determine the success and failure of a business enterprise.
v. **Government** – The regulatory body that make law and create an enabling environment for business to operate.

1.7 CHARACTERISTICS OF BUSINESS

The following are the characteristics or features of business:

1. Entrepreneur: An entrepreneur is the person who recognizes the need for a product or service, visualizes a business, take initiatives to establish the business, combine various factor of production and puts them as a business entity.
2. Economic activities: Business includes only economic activities. All those activities relating to the production and distribution of goods and services are called economic activities.
3. Exchange: A business must involve the exchange of goods and services from one person to another with a profit motive. The goods to be exchanged must either be produced or procured from other sources.

4. Profit motive: The profit motive is an important element of business. Any activity undertaken without profit motive is not business. The object of starting a business is to earn profit though there may be losses.
5. Risk and uncertainty: The business involves a large element of risk and uncertainty. The factors on which business depends are never certain, so the business opportunities will also be uncertain.
6. Continuity of transaction: In business, only those transactions are included which have regularity and continuity. Hence isolated transaction will not be called business, even if the person earns profit form that deal.
7. Creation of Utility: The process of storing when they are not required and supplying them at a time when they are needed is called creation of utilities. So, the business creates many utilities in good so that the consumer may use them according to their preference and needs.
8. Organization structure: Every enterprise needs an organization for its successful working seamlessly. Various business activities are divided into departments, sections, and jobs for effective performance.
9. Financing: Business enterprises cannot move a stop without finance; hence the finance is required for providing fixed and working capital.
10. Consumer satisfaction: The ultimate aim of business is to supply goods to the consumers. The goods are produced for the consumers. If the consumer is satisfied, then he will purchase the same thing again.
11. Satisfying social needs: The business should aim at serving the society at large. The business is a socio-economic institution.

1.8 FUNCTION OF BUSINESS

A business must perform a number of functions in order to achieve its objectives. Various business functions are inter-dependent and the efficient performance of all of them is necessary to operate the enterprise efficiently and effectively.

1. Production function: Production function involves transformation of raw materials goods and services and making them useful.

2. Marketing function: Marketing is a process involving activities ranging from getting from producers and sending them to ultimate consumers or users. It involves all efforts to create customers for the products and provide maximum satisfaction to them.
3. Personnel function: Personnel function is concerned with people at work and with their relationship within an enterprise. It aims to bring together people and develop them into an effective organization.
4. Finance function: Finance function is the most important of all business functions. The funds will have to be raised from various sources. The receiving of money is not enough, its utilization is more important.
5. Purchase function: Traditionally, purchase was considered to be a part of production function. However, big organisations have a separate department for undertaking purchase activities.
6. Public relations function: This is a situation when the business becomes more of consumer-oriented hence the public relations department is concerned with creating a favourable impression and image of the business organization on the society.
7. Legal function: Some business houses have a separate legal department in order to advise business on legal issues. The legal department ensures that the business unit complied with various rules and regulations framed by the local, state, and central governments from time to time.
8. Research and Development function: Research and Development (R & D) is an important activity in the modern competitive business world. The R & D department consists of experts from various areas, whose primary job is to experiment with new methods and processes.
9. Advertising and sales promotion function: Although advertising and sales promotion are part of marketing functions, but they assumed a great importance in the wake of increasing competition.

1.9 OBJECTIVES OF BUSINESS

Objectives are those ends that any business organization intends to achieve, and these objectives are highlighted below. Lawal (1993) and Adesanya et al (2012) agreed with Drucker (1968) that there are eight key areas a business organization needs to set objectives, these are:

1. Profitability- Ability to earn some income over expenditure.
2. Productivity: A measure of enterprise ability to produce more goods and services with less input i.e. less costs.
3. Market share, dominance in the marketplace.
4. Innovation: Company ability to innovate new things, e.g., new technology.
5. Social Responsibility: Business organizations should recognize their responsibilities to their customers and the society at large.
6. Managers performance and development: Company make policy to develop and manage talents via training and development program for present and future needs.
7. Employees relations: Companies must seek good employee relations to improve engagement and overall performance.
8. Growth: Physical and financial resources of the company should be developed to enable the company to grow.

Business objectives can also be classified as:

i. Organic objectives: This is basically for the business to survive, grow, gain prestige and win recognition from the society.
ii. Economic Objectives: To earn as much profit as possible
iii. Social Objectives: Business must fulfill its obligations to society, by way of supply of quality goods, avoidance of profiteering and anti-social practices, and providing employment.
iv. Human Objectives: Which are:
    (a) Fair deal to employees.
    (b) Development of human resources.
    (c) Joint participation in decision making.
    (d) Job satisfaction.
v. National Objectives: These are:
    (a) Ensuring social justice.
    (b) Development of small enterprises.
    (c) Production according to national priorities.
    (d) Self-sufficiency and export development.
    (e) Development of skill of personnel.

Mahesh Kumar (N.D) classified business objective into three which are:

1. **Organizational Objectives:** The organizational objectives of management refer to the main objectives required to fulfill the economic goals of any business organization. These objectives are survival, profit, and growth.

   (a) Survival: The basic objective of every business is to survive for a long period in the market.

   (b) Profit: Profit earning is essential for meeting the expenses and for successful continuity of the business.

   (c) Growth: The future growth and development of the business which can be measured in terms of increased sales, increase in number of products, segments etc. The growth potential of the organization must be fully exploited by the management.

2. **Social Objectives:** Every organization is part of the society.

   Thus, it has certain social obligations to fulfill which are:

   (i) Pollution free methods of production.

   (ii) Increasing employment opportunities especially for the economically weaker sections of the society and backward classes.

   (iii) Providing basic facilities to the employees like schools and crèches for their children, medical facilities etc.

   (iv) To supply quality goods and services at reasonable and affordable prices.

   (v) To provide financial support to society by donating for noble causes.

   (vi) To organize educational, health and vocational training programme.

3. Personal Objectives: Employee with different values, experiences and objectives become part of the organization to satisfy their different needs which are:

(i) Financial needs like salaries, incentives, and other monetary benefits.

(ii) Social needs like recognition and value in the organization.

(iii) Higher level needs which include personal goals with the organizational goals.

NOTE:

Objectives should be clear and concise. Goals do not have to be specific right for you to act on but should give you a future target or list of things you want to work on. Objectives need to be SMART, that is Specific, Measurable, Action-oriented, Realistic and Timebound – to accomplish the goals set of the business.

Specific objectives should be as detailed as possible. For the objectives to be measurable, it should be stated in terms of monetary value or quantities. Objectives are clear targets of performance which can be used to evaluate the operation. Action oriented objectives state which actions need to be taken and who will take them. Objectives should be realistic but challenging, with set deadlines in order to be timely.

1.10 CATEGORIES OF BUSINESS

The following are the categories of business:

1. Genetic-business: Genetic business is related to the re-producing and multiplying of certain species of animals and plants with the object of earning profits from their sale. No doubt nature, climate and environment play an important part in these industries, but human skill is also important. Examples of the genetic industry are nurseries, cattle breeding etc.
2. Extractive business: The extractive industry is engaged in raising some form of wealth from the soil, climate, air, water, or form beneath the surface of the earth. Extractive industries supply basic raw materials that are mostly the products of the soil and are usually transformed into many useful products by manufacturing industries e.g., mining, crude oils etc. The products of extractive industry are generally used as raw materials by manufacturing industry which may be classified as follows:

a. *Analytical business:* In this industry, a product is analyzed, and many products are received as final products. For example, in the processing of crude oil, we will get kerosene, petrol, asphalt, waxes, gas, jet fuel and diesel etc.

b. *Processing industry:* In this industry a product passes through various processes to become a final product. The raw materials can be converted into finished products. Examples for the processing industry are sugar industry, cotton industry, etc.

3. Construction Business: This industry is engaged in the creation of infrastructure for smooth development of the economy. It is concerned with the construction, creation, or fabrication of products. Engineering, architectural skills and constructing firms play an important part in construction industry e.g., construction of buildings, dams, roads, etc.
4. Manufacturing business: This business is engaged in the conversion of raw materials into semi-finished or finished goods. This industry creates form by making them suitable for human use. These industries supply machines, tools, and other equipment to other industries too.

5. Synthetic business: In this industry, many raw materials are brought together into manufacturing process to make a final product. Examples of synthetic industry are soaps making, paints, cements, rocks, coal, etc.
6. Commerce: This is the sum of total of all those processes, which are engaged in the removal of hindrance of persons (trade), place (transport and insurance) and time (warehousing) in the exchange (banking) of commodities. They refer to all those activities which are necessary to bring goods and services from the place of their origin to the place of their consumption. It is concerned to be a part of business. It is that activity of business which is concerned with the exchange of goods and services.
7. Online business: Online business or e-business is any kind of business or commercial transaction that includes sharing information across the internet. Commerce constitutes the exchange of products and services between business, groups and individuals and can be seen as one of the essential activities of any business.
8. Franchise Business: A franchise is a right granted to an individual or group to market a company's goods or services within a certain territory or location. The franchisor (the company owner) sells the rights to the franchisee (the company licensed to operate the brand or product), and then typically receives a fee for ongoing support, therefore having a vested interest in the success of each franchise. In other words, it is an agreement or license between two parties which gives a person or group of people the right to market a product or service using the trademark of another business.

1.11 Functions & Role of Law in Business and Society

Law plays a significant role in the operation of business in society. Laws provide rules of conduct and ethical standards that regulate social behavior. Without these rules and standards, society would not be able to efficiently run, and the business world would virtually end (Bushman, 2007).

What is Law?

Law has been defined in many ways. A body or rules of action or conduct prescribed by a controlling authority, and having legal binding force (Melvin, p. 4, 2011), is one or the most generally accepted definitions. Essentially law provides a way of resolving disputes and dealing with individuals who break the rules and regulations set forth from the government.

Role of Law in Business

Since the body of American law is so diverse, business law is broken down into three categories:

i. Criminal and Civil Law: These laws are of criminal or civil nature. Criminal law is for the protection of society of an individual breaking the law. Most violators are subject to fines and possibly imprisonment. Civil laws are designed for individuals to be compensated for losses because of another's action.

ii. Substantive and Procedural Law: Substantive law provides individuals with social rights and duties, while procedural law gives structure for pursuing substantive rights.

iii. Public and Private Law: Public law is the defining framework between an individual and the government. Private law is where individual contract with each other where no specific statutes or regulations are involved. These categories of law are very important to business and society by having guidelines set up for individuals to abide by. These laws were also set up for the protection of society (Melvin, P. 18, 2011).

Law in the world of Business

When starting a business, an individual must attain legal counsel to get the correct paperwork in order for your company to operate correctly and to avoid potential legal liabilities in the future. There are very important legal matters that need to be addressed in agreements and contracts whether you are opening a new business or purchasing an existing. Depending on what type of business the individual is interested in, there can be several extra forms and legal obligations to the business that need to be handled before the business can start operating. Not all registrations need to be handled by legal counsel; some can be taken care of by an accountant and possibly an insurance company depending on the type of business.

After the business is operating, there are many laws the business has to follow on a daily basis. There are federal laws of filing income tax as well as business tax returns to pay the necessary taxes on the business. Most states have income tax and other taxes such as sales tax and use tax also for most businesses. If a business chooses to ignore these laws and regulations, the taxing authorities will come in and enforce these laws by assessing hefty penalties and interest for these tax laws not being followed, and possibly even levying bank accounts and canceling permits and licenses to operate.

They also pull returns in for audit to make sure individuals and businesses are showing accurate information on their income tax returns. At times there are issues that are not agreeable between the taxpayer and the Internal Revenue. When this problem arises, there are tax courts where you go before the judge to plead your case and why you feel your information is correct.

As a public accountant, a person must stay on top of all the law changes that occur. There are laws and acts coming into effect or expiring that can have a major impact on the clients. Being licensed, an accountant is required to have continuing education on a yearly basis to help keep in check with the changes. There are also many ethical standards and code of conduct an individual must maintain as an accountant. One of the main issues with law and accounting today is the reminder that an accountant has an accounting license not a law license and should in no way perform any legal acts for any individuals. With the evolution of the internet and the paperless world, it is becoming more difficult to get actual signatures on forms. The government has changed the laws on having signatures on documents and instead having pin codes, etc. This in turn makes it useful for the accountant of having a signed document from the client which status they are showing accurate information on their returns. We have release forms in your office that clients must sign to give consent to send in their payments, forms, and documents electronically.

1.12 Classification of Businesses

Business can be classified according to:

i. Business Objectives.
ii. Areas of Operations.
iii. Size of the business.
iv. Types of Products.
v. Sectors of the Economy.
vi. By Mode of Ownership.

1.12.1 Classification of Businesses – By Business Objectives

The majority of business organizations can be classified into four main areas according to their reasons for existence:

Profit-making organizations

For-Profit (Commercial) Organizations: Unincorporated Businesses and For-Profit Commercial Organizations: Incorporated Businesses aim to make profits in order to survive, grow and make the shareholders rich, for example Tesco or Carrlefour in UK, Dangote, Unilever, MTN etc. in Nigeria.

Not-for-profit organizations

Types of Business Organizations: In Private Sector: Non-Profit Social Organizations make profit, but maximizing profit is not the main reason for their existence. They have a social goal in mind such as providing educational services for underprivileged children, protecting the natural environment, educating the society about a social cause such as negative effects of smoking cigarettes have on the human body or providing employment to the local community.

Charitable organizations

They generally aim to raise money from the use for a particular cause, mainly supporting the poor. Charities do not make any profit, but they rely on generous donations which they later give away to the needy. Very often they raise money by selling goods donated by famous people such as singers or soccer players.

Public service organizations

State-owned public sector organizations aim to provide a service for people and maintain the proper functioning of the country, for example the Department of Defense.

1.12.2 Classification of Businesses – By Area of Operations

More and more of the world’s largest businesses now operate internationally, meaning that they do business (produce and sell) in more than one country.

On the other hand, there are also many small businesses and micro businesses that operate only in a very small part of the country, or even only in one city.

Now, let’s take a look at the classification of businesses by the area where businesses operate:

Local businesses

Local businesses operate in a small and well-defined part of the country, usually in the area where their owners live. They do not have expansion as a business objective, neither do they make any attempt to expand across the whole country or find more customers. They are fine and comfortable operating locally. For example, small construction companies offering house renovations, carpenters, single-branch convenience stores, hairdressing businesses and beauty salons, small language schools, etc. Their main business objective is to make sufficient profit for the owner to sustain his/her family.

National businesses

National businesses have many branches in one country and operate across most territory of their native countries. However, they make no attempts to establish business operations in other countries. They are fine doing business only in their own country. The main business objectives for national businesses include maintaining sales revenue and market share. For example, large car-retailing firms, retail shops with many branches selling goods in just one country, logistics and security companies, national banks such as First Bank of Nigeria etc.

International (multinational) businesses

International businesses, also called multinational companies, operate in more than one country. They are more than just importers and exporters. They have their headquarters in one country, but offices, factories, and assembly plants in other countries to produce goods and provide services anywhere in the world.

Most head offices though are located in Western European countries, USA, the UK, Singapore or Tokyo while production functions and main operations are based in less-developed countries due to cost-saving initiatives (e.g., outsourcing manufacturing to South-East Asian countries).

The growth of such huge businesses can be explained in a way that these firms have benefited greatly from the freedoms offered by globalization.

The biggest multinationals such as Coca Cola or McDonald's generate annual sales revenues and have wealth that exceeds the size of many countries' entire economies.

1.12.3 Classification of Businesses – By Size of the Business

There are millions of businesses around the world and all of them vary in size, hence it is useful to classify businesses according to their size to have a better understanding of external business environment.

Measuring the size of businesses is helpful to managers as we can make comparisons between various business organizations, and also assess their business growth (or lack of growth) over time. This information of business size is also of interest to other stakeholders such as workers, investors and the government.

The official definition for micro businesses, small businesses and large businesses is easily discoverable from the trade and industry department in your own country.

Let’s take a look at the classification in Nigeria presently:

Micro businesses

It is quite common to make a distinction for a very small business known as micro-enterprise, in addition to measuring businesses only as small companies and big companies. It is because most of the business organizations that exist in the world are micro businesses and very small businesses such as sole traders with either one or no additional workers. Micro businesses employee very few people (if any) and generate low sales revenue compared to other firms in the economy. All the business organizations that employ 10 or less people, generate less than N25,000,000 in sales revenue and have assets based (excluding land and building) less than N5,000,000 are classified as a micro business.

Small businesses

Small firms offer many benefits for the dynamism of an economy such as induction of new ideas or creation of new products. Governments around the world very often support small companies in many ways offering various assistances to entrepreneurs. All of the world’s largest companies like Google, Amazon or Apple had started off as very small firms and had been operating as small firms for many years before starting to grow. All the business organizations that employ 10 and not more than 49 people, generate between N25,000,000 and N100,000,000 in sales revenue and have assets based (excluding land and building) less than N50,000,000 are classified as a small business.

Medium businesses

They hire between 50 and 249 workers, record between more than N100,000,000 in sales revenue and has assets based between N50,000,000 and less than N500,000,000.

Large businesses

Big businesses are usually huge multi-national corporations employing hundreds of thousands of people around the world such as Julius Berger Plc, Guaranty Trust Bank etc. According to the Central Bank of Nigeria (CBN) classification of business size, a large business hires over 250 employees, generates over N500,000,000 in sales and owns an assets based of N500,000,000.

What classification of businesses according to size looks like in other major countries and regions? According to McAdam *et al.* (2004), there is no universal definition of SMEs, and this poses a challenge for studying SMEs. Commonly, the definitions of SMEs fall into two criteria. A quantitative criterion includes size, capital, annual turnover, invested capital, revenue, total assets, market share and so on (Hossain and Kauranen, 2016). Amongst these, the number of employees is the most common since it is available, easy to control and not affected by inflation (Filion, 1990; cited in Buculescu, 2013).

Other qualitative categories such as turnover and balance sheet are also criticized as being suitable explanatory factors because they do not consider the type of the economic sector, and other business aspects (Buculescu, 2013). Furthermore, each country has its definition. In Nigeria, PMI 2012 stated the definition from SMEDAN thus:

TABLE 1: Overview of MSMEs – Definition by SMEDAN

CATEGORY	EMPLOYEES	ASSETS {N'mexl land, Bldg
Micro	0- 10	0-5
Small	10 - 50	5-50
Medium	50 - 150	5-500

While Kocherbaeva et al. 2019, provides classification criteria of enterprises according to size, per the recommendation of the EU Commission as of May 2003 (2003/361/EC) for legal and administrative purposes below:

TABLE 2: Classification of Small and Medium, & Large Enterprises according to Size (Eurostat 2004)

ENTERPRISE	NO. OF EMPLOYEES	ANNUAL TURNOVER IN MLN. EUR	ANNUAL BALANCE SHEET TOTAL IN MLN. EUR	INDEPENDENCE
Micro	1-9	<2	<2	< 25% of capital or share of the other enterprise (i.e., in stock papers)
Small	10-49	<10	<10	
Middle	50 - 249	<50	<43	
Large	>250	>50	>43	

Furthermore, in Vietnam, according to the Government's Decree No., 39/2018 / ND-CP on March 11th, 2018, SMEs are business establishments that are legally registered. They are divided into three levels: micro, small, medium scale according to the total capital (total capital equal to the total assets determined in the enterprise's balance sheet) or the average number of employees per year, which is less than 200. The total capital is the primary criterion.

By comparison, as in table 2 above, European SMEs are classified by the number of employees (under 250 people), and turnover or balance sheet (European Commission, 2003). According to the European Union (EU), SMEs are categories of micro, small and medium-sized enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million Euros.

In Nigeria, as shown in Table 1 above, the Central Bank of Nigeria in its monetary policies circular No. 22 of 1988 defined SMEs as enterprises which have an annual turnover not exceeding Five Hundred Thousand Naira (N500,000). For the sake of clarity, the National Policy on Micro Small and Medium Enterprises (MSMEs) has given a clear distinction of enterprises, based on employment and Assets.

The number of employees in SMEs in the USA, however, can be a maximum of 500 employees regarding business sector (the United States International Trade Commission, 2010), which is double the standard size of European SMEs and much larger than Nigerian and Vietnamese figures.

1.12.4 Classification of Businesses – By Types of Products

We have already learned that businesses take scarce resources (factors of production) and use them in the production process to produce the goods and provide the services that are in high-demand on the market. Without the business activity of many kinds there would be no products and services available for purchase after all.

Here is another classification of businesses. This time, instead of looking at sectors of the economy, we are going to consider grouping various businesses based on the type of product which an enterprise produces. Specifically, we will be considering four different types of business organizations providing: consumer goods, consumer services, producer goods or producer services.

A good is something that you can use or consume like: food, CDs books, cars or clothes. You buy a good with the idea that you will use it, either just once or repeatedly.

A service is something that someone else does for you like: a hairdresser giving you a haircut, a chef fixing you a dinner or even a teacher teaching you about business management. You do not really get something solid, like a book or a CD, but you do get "something done" for you that you need or want.

Type of Product: Consumer Goods

Consumer goods are products sold to the general public, individual customers, rather than to other businesses or governments. They can be further split into two types of consumer goods including durable consumer goods and non-durable consumer goods:

a. Durable consumer goods – Durable goods last for a long time and can be used repeatedly, for example business books, flat-screen TVs, sports cars, designer furniture, gaming computers or leather armchairs.

b. Non-durable consumer goods – Non-durable goods need to be consumed fast right after their purchase. They cannot last for a long time and cannot be reused as they do not last long, for example fresh fruits and vegetables, fruity smoothies, herbal medicine, daily newspapers, or weekly magazines.

Type of Product: Consumer Services

Consumer services are intangible products provided by businesses to the general public, individual customers, rather than to other businesses or governments.

They are not tangible in nature, but their results and outcomes are tangible. Meaning, when taking a bus ride, we can see and touch the bus which transports us from Point A to Point B. But we are not buying that particular bus. We are using a service which that bus (and the bus driver) provides. And this service of 'being moved' from one place to another cannot be touched.

Other examples of consumer services include personal banking, investments and financial services, private education, Michelin-star dining, healthcare, etc.

Type of Product: Producer Goods

Producer goods are physical products that are bought by other businesses or governments to help them produce either their own goods or help provide services.

Examples of producer goods include commercial buildings, computers, machines, tools, delivery trucks and minivans, specialist equipment for putting together the assembly line, etc. Producer goods can also be divided into durable producer goods and non-durable producer goods:

a. Durable producer goods – Durable goods last for a long time and can be used repeatedly, for example a desk and an armchair to furnish the CEOs office, delivery vehicle or security cameras.
b. Non-durable producer goods – Non-durable goods need to be consumed fast right after their purchase. They cannot last for a long time and cannot be reused as they do not last

long, for example email databases of potential customers, industry monthly magazines, fresh fruits, and snacks for weekly board meetings.

Type of Product: Producer services

Producer services are intangible products provided by businesses to other businesses or governments to help them run their businesses on daily basis.

The producer services are not tangible, but their results are. Examples of producer services include legal services, accounting services, security guards, transportation services, corporate banking, etc.

1.12.5 Classification of Businesses – By Sectors of the Economy

Businesses produce a wide range of products (goods and services) to meet the needs and wants of their customers. The goods and services which enterprises produce can be used to classify all the country's businesses into one of five different sectors: primary sector, secondary sector, tertiary sector, quaternary sector and quinary sector.

Business organizations can also be categorized according to the stage of production that they are engaged in, as those five sectors are also the five stages involved in the production process – turning natural resources such as timber into the finished goods such as table or furniture.

The five sectors combined together create an economy. A country and the world where we all live both have an economy. The economy is a measurement of all the wealth and resources in a country and the world. It includes all the things that a country and the world produce as well as all the goods and services that customers buy.

Let's take a look at specific business activities that happen in each of the five following sectors of the economy.

Primary Sector

Businesses that operate in the primary sector are involved in taking natural resources from earth (land or sea), specifically, extraction, harvesting and conversion.

Examples of the extractive industries include coal mining, gold mining or oil extraction. Examples of harvesting industries include agriculture (farming rice or potatoes), fishing or forestry. Example of conversion includes oil which is used to produce petrol or plastics.

Primary sector business activity mainly provides raw materials for secondary sector business activity – turning raw materials into products. Sometimes, companies in the primary sector also sell raw materials as final products directly to final customers – we can buy raw vegetables, fruits, and fish directly from farmers.

Primary sector activities tend to account for a large percentage of output and employment in less economically developed ('poorer') countries. For instance, tea leaves, cocoa beans, coffee beans are sold at relatively low prices in Brazil or Ethiopia. In more developed countries, businesses that operate in the primary sector use mechanization and automation to conduct business activity – farming is done using advanced heavy machinery like tractors while enormous excavators are used for mining iron ore.

As countries develop, there is less and less reliance on the primary sector of the economy when it comes to producing the national output and employment. Meaning, less Gross Domestic Product (GDP) comes from the primary sector and less percentage of the entire population works in the primary sector. It is because developed economies are able to generate higher added value while there is very little value added in primary production.

Secondary Sector

Businesses operating in the secondary sector are involved in manufacturing, processing, and construction of products. They take the natural resources from the primary sector activity and turn them into finished goods. Value is added to the natural resources used during the production process. The output produced in the secondary sector is then sold to customers who might be individual domestic or foreign customers, other businesses, or governments.

Examples of manufacturing include clothes manufacturers, car production companies, publishing firms, furniture making or electronics manufacturers. Examples of processing include breweries and bottlers of beer, milk, cola or wine, energy production companies, food canning or oil refining. Examples of construction include house construction, building entire apartment blocks and tall office towers, or constructing bridges, highways, and railroads.

Medium-economically developed countries tend to have a dominant secondary sector that accounts for a relatively large proportion of the country's national output and employment, for example China. China has created a lot of wealth in the secondary sector because manufactured goods were exported worldwide and earned income for the factory owners. Taiwan, where Foxcom operates (the global leader in manufacturing of consumer electronics producing iPhones for Apple) is another example of growing prosperity.

Tertiary Sector

Businesses operating in the tertiary sector are involved in services. They specialize in providing services to the general population (the final consumers or businesses) either locally, regionally, nationally, or globally.

Examples of industries in the tertiary sector include retailing, transportation and distribution, banking, financial services, finance, insurance, health care, nursing, leisure and tourism, transportation, entertainment, retail, etc. Retail shops, restaurants, banks, cinemas, airlines, hospitals, and schools all provide services.

Tangible goods can also be transformed in the process of providing a service. This happens in a coffee shop like Starbucks or Costa Coffee when the barista prepares a cup of coffee using ingredients such as water, coffee beans and milk.

The tertiary sector is the largest in terms of both employment and as a percentage of Gross Domestic Product (GDP) in the developed countries such as the UK, Singapore, or Japan where most of the people work in services, such as education services in the UK. When there is an increase in the tertiary sector in the country, it means that the country is becoming more economically developed.

Quaternary Sector

Businesses operating in the quaternary sector are involved in intellectual and knowledge-based activities that generate and share knowledge and information. Businesses in this sector invest for further growth and evolution.

Examples of quaternary sector include information communication technology (ICT), Research and Development (R&D), business consulting services and scientific research.

IT companies like Google or Facebook and pharmaceutical companies like Pfizer, Merck or Astra Zeneca all belong to the quaternary sector. They heavily invest in Research and Development (R&D) to create innovative products, develop new production methods, or improve productivity and effectiveness to increase their competitive advantage by being innovative. They all want to remain ahead of the game by inventing new ways of communication or curing diseases.

The quaternary sector exists mainly in very specific regions in highly developed countries, for example Silicon Valley in California where highly skilled workforce lives. IT companies there attract world's best engineers and IT specialists to invent highly advances technological products which are then sold worldwide – this is what Apple does.

New knowledge generation also belongs to quaternary sector, with world's leading universities like Stanford University or Oxford University serving as examples. Boston in the US, which is a home for world's best schools like Harvard University or Massachusetts Institute of Technology (MIT), attracts world's best scholars and researchers to generate scientific innovations. It is the region where the highly educated workforce lives.

This new knowledge is then transferred from universities into businesses – implementing theory into practice.

Sectors of the Economy: Quinary Sector

Business organizations operating in the quinary sector are involved in the highest levels of decision-making in the world economy. Examples of quinary sector include main decision makers in politics, commerce, and the education sector. Company executives from world's leading businesses (the Fortune 500 list) who make decisions for large multi-national companies as well as politicians from world's largest economies (the presidents from world's 20 biggest countries getting together during G20 meetings) all belong to the quinary sector of the economy.

They all make very important decisions that shape the world around us and the world's future.

1.12.6 Classification of Businesses – By Mode of Ownership

The most common forms of business ownership/enterprises in use in the Nigeria are:

i. The Sole Proprietorship;
ii. General Partnership;
iii. Cooperative;
iv. Limited Liability Company (LLC); and
v. Corporation.

Sole Proprietorship: A sole proprietorship, also known as a sole trader, is owned by one person and operates for their benefit. The owner operates the business alone and may hire employees. A sole proprietor has unlimited liability for all obligations incurred by the business, whether from operating costs or judgments against the business. All assets of the business belong to a sole proprietor, including, for example, computer infrastructure, any inventory, manufacturing equipment, or retail fixtures, as well as any real property owned by the sole proprietor.

Partnership: A partnership is a business owned by two or more people. In most forms of partnerships, each partner has unlimited liability for the debts incurred by the business. The three most prevalent types of for-profit partnerships are general partnerships, limited partnerships, and limited liability partnerships.

a. **General Partnership:** A general partnership is a business that has more than one owner and that has not filed papers with the state to create a specific entity such as a corporation or limited liability company. In a general partnership, all partners (called general partners) are personally liable for all business debts, including court judgments. Then each individual partner can be sued for the full amount of any business debt (though that partner can, in turn, sue the other partners for their share of the debt), and lastly, each partner has "agency authority" for the partnership - that is, each partner can bind the whole business to a contract or business deal.

b. **Limited Partnership:** A limited partnership has at least one general partner and at least one limited partner. The general partner has the same role as in a general partnership: controlling the company's day-to-day operations and being personally liable for business debts. The role of limited partners, however, differs in a few ways. First**,** limited partners do not play an active role in the business. Second, limited partners are not personally liable, and thirdly, limited partners face slightly different tax rules.

c. **Limited Liability Partnership:** Another kind of partnership, called a limited liability partnership (LLP) or sometimes called a registered limited liability partnership (RLLP), provides all of its owners with limited personal liability. LLPs are particularly well-suited to professional groups, such as lawyers and accountants. Professionals often prefer LLPs to general partnerships, corporations, or LLCs because they don't want to be personally liable for another partner's problems -particularly those involving malpractice claims.

Corporation: The owners of a corporation have limited liability and the business has a separate legal personality from its owners. Corporations can be either government-owned or privately owned. They can organize either for profit or as nonprofit organizations. A privately owned, for-profit corporation is owned by its shareholders, who elect a board of directors to direct the corporation and hire its managerial staff. A privately owned, for-profit corporation can be either privately held by a small group of individuals, or publicly held, with publicly traded shares listed on a stock exchange.

Cooperative: Often referred to as a "co-op", a cooperative is a limited-liability business that can organize as for-profit or not-for-profit. A cooperative differs from a corporation in that it has members, not shareholders, and they share decision-making authority. Cooperatives are typically classified as either consumer cooperatives or worker cooperatives. Cooperatives are fundamental to the ideology of economic democracy.

Limited Liability Companies (LLC): An LLC is similar to a limited partnership in that it provides liability protection to the owners of the business, and the owners have flexibility in deciding how the business will be managed. However, unlike limited partnerships, all of the owners of the LLC have limited liability protection. So, a limited liability partnerships, and other specific types of business organization protect their owners or shareholders from business failure by doing business under a separate legal entity with certain legal protections. In contrast, unincorporated businesses or persons working on their own are usually not so protected.

Each form/ownership has advantages and disadvantages in complexity, ease of setup, cost, liability protection, periodic reporting requirements, operating complexity, and taxation. Also, some business forms have sub-classes, such as the C-corporation, S-corporation, and Professional Corporation. Choosing the right business form requires a delicate balancing of competing considerations.

These forms of business ownership shall be discussed extensively in chapter six of this study pack.

1.13 Different Types of Industry

An industry is a group of companies that are related based on their primary business activities. In modern economies, there are dozens of industry classifications. Industry classifications are typically grouped into larger categories called sectors.

Individual companies are generally classified into an industry based on:

i. Profit/non-profit making;

ii. Public Sector and Private Sector;

iii. Industrial/Sectoral.

1.13.1 Profit and Non-profit Making

One of the biggest differences between for-profit and nonprofit organizations is the way they raise capital for their ventures. Traditionally, for-profit companies seek investors to help start their company and keep it growing. Usually, these investors receive a share of any profits made in return for their investment. Nonprofits, by contrast, seek donations rather than investments. Any individual, organization or institution that gives money to a nonprofit will not receive a share of profits. It's a pure donation rather than an investment.

Purpose

Another key difference between a for-profit and nonprofit organization is the institution's purpose or mission. Generally, for-profit companies seek to provide a product or service to consumers and make a profit by doing so. A nonprofit organization's purpose is to provide a service or benefit to the community with no intention of earning a profit. Instead, they're fully focused on improving the social aspect of their community and not on making money.

Audience

In most cases, for-profit companies have a very specific, defined audience they target with their product or service. Many for-profit businesses perform extensive research and analysis to find their ideal customer and then devote resources to ensuring that a segment of the population knows about the company's product or service. Non-profits usually have a much broader audience. Most must appeal to a market that includes potential donors, the community the nonprofit serves, consumers who will purchase the nonprofit's service or product and volunteers or other stakeholders who work with the organization.

Leadership

The leadership committee that oversees the operations of the company differs substantially from a for-profit company to a non-profit organization. In a for-profit business, often the top leaders have a firm and substantial financial stake in the company's success. This group of leaders may be a single owner, a group of owners or a compendium of stockholders. These leaders are concerned primarily with increasing the company's profits.

In a non-profit organization, the leadership committee is often a board of directors who gain no financial benefit from their affiliation with the company. Instead, they guide the organization by considering how well the company meets the outlined mission and find ways to improve community outreach, recognition, and donations.

Culture

The company culture in a for-profit company is often focused on how to best improve sales and profits. Most organizational discussions and the overall group mindset centre on the best ways to meet their financial goals. In a non-profit organization, by contrast, the culture is often more community minded. Instead of discussing ways to make more money, employees, volunteers, and leaders spend time brainstorming ways in which they can further benefit their community and increase the social effectiveness of their organization's efforts.

Taxes

Tax law differs substantially between for-profit companies and nonprofit institutions. In most cases, for-profit businesses must pay taxes on their business endeavors and profits as stipulated by the federal and state government. Nonprofit organizations must receive a special tax designation from the government, usually by registering as a 501(c)3, but once they've done so, they receive tax benefits not available to for-profit companies. When considering the implications of taxation, it's always best to consult a tax professional for the most up-to-date and applicable information for your situation.

Staff

Generally, the staff for a for-profit company is made up of paid employees, and potentially a few unpaid interns. The employees who work for a for-profit business often do so in order to earn a living for themselves rather than singularly for a commitment to the company's cause or mission. Nonprofits, however, often operate with a team of volunteers and a few paid employees. These volunteers give their time with no compensatory benefit because they believe in the work the organization does and want to provide a service to their community.

Ownership

Another key difference between a for-profit and non-profit organization is ownership. For-profit companies can have a number of different ownership models, but the physical and intellectual property the company uses is technically owned by whoever maintains control of the company. In a nonprofit organization, there are no true owners. It's a publicly owned entity, and none of the physical or intellectual property the organization uses can be taken by a member of the organization as compensation for their work with the institution.

Accountability

Since most nonprofit organizations are tax-exempt, they're required to file information about their financial and business practices with local and federal organizations for accountability purposes. Usually, nonprofits do this annually with a document called IRS Form 990. For-profit institutions are not required to file accountability information since they pay taxes on their earnings and profits. As always, it's best to consult with a tax professional when determining how to maintain compliance.

1.13.2 Private Sector or Public Sector

Most of the countries in the world nowadays have mixed economies. It means that these countries have both private-sector business organizations and public-sector business organizations.

In the private sector of the economy, all businesses are owned and controlled by private individuals, groups of individuals or other private businesses, for example Coca Cola, Jumia, AIICO etc.

In the public sector of the economy, all businesses are owned, controlled and operated by the government, for example Nigeria Television Authority (NTA), China State Railway Group (CRRC), China's largest bullet train maker, or the UK's BBC (British Broadcasting Corporation). The proportions of the private sector compared to the public sector are different in different countries and fluctuate over time.

In countries with a mixed economy dominated by the market forces, most business activity is in the private sector. These economies follow 'a free-market system' where the public sector is very small and most of the economic resources are owned largely by the private sector. There is very little government intervention in markets.

In countries with a mixed economy dominated by the central planning of the economy, most business activity is in the public sector. These economies follow 'a command system' where the private sector has very few businesses and most economic resources are owned, planned and controlled by the state. There is a lot of government intervention in markets.

Let's take a look in detail at business activity in the private sector and the public sector.

Private Sector

The private sector is owned and controlled by individuals and other businesses (yes that is true that companies also own other companies). Private-sector businesses exist primarily to generate profit for the owners. Therefore, businesses only produce the products that consumers need or want to buy, if they can make a hefty profit from doing so. It is the private businesses and their owners who decide the best way of producing their goods and services based on consumer choices that help businesses to decide what and when to produce.

Businesses in the private sector always try to lower their costs in order to make a bigger profit when the products are sold to consumers. Profit is the positive difference between a firm's sales revenue earned from selling products and its costs (various spending).

The goods and services produced by private sector businesses will only be bought by those people who have enough money to pay the price charged, for example only rich families can afford to send their children to expensive private international schools. Other consumers who are not able to afford to buy those products that they want because they do not have enough money, will not purchase from businesses in the private sector as products are too expensive for them.
Businesses in the private sector will differ in size ranging from sole traders and small partnerships to large multinational public-limited companies operating in almost every country on earth.

Public Sector
Business organizations that operate in the public sector are under the ownership and control of the government. It is the government/the state that makes all decisions about what and when to produce, for whom to produce and how much to charge. These decisions are not based on maximizing earnings for the owners but based on the needs of the general public to benefit the whole society.

Public-sector organizations in many countries provide good-enough-quality products that are essential for living such as healthcare (public hospitals), education (public schools) and defense (military). All people in the population also need water, electricity, or gas.

Also, government-owned businesses provide those necessary goods and services because as they would be under-provided or inefficiently provided by the private sector – it would be difficult for a private-sector organization to make a decent profit.

In some cases, the goods and services provided by the public sector are for free (primary and secondary education or bus rides for old people) or at a lower price (low-priced entry tickets to public parks versus expensive entry tickets to amusement parks operated by Disney).

In general, goods and services provided by state-owned enterprises are sold to those consumers who do not have enough money to buy those other goods and services from private-sector companies.

1.13.3 Industrial/Sectoral

Different types of industries form the backbone of a country's economy. They share an interdependent relationship - while a country's economy depends on the industry's performance, industries are equally dependent on a country's economy.

Goods and services are primarily produced or manufactured by three different kinds of industries - primary, secondary and tertiary. You will learn about these industries in detail and how they differ from one another in the following section.

Primary Industry

As the name suggests, primary industry forms the base for the other two types of industries. This industry is concerned about extracting raw materials and products from nature which will later go through modifications to produce the final products and services for consumers or customers. It is the most important segmentation in the industry ladder as without this, others would not exist.

Primary industry is heavily dependent on natural resources and raw materials. This is of more significance in developing countries than in developed countries. Agricultural, mining, fishing, etc. are all parts of the primary industry.

What Types of People Work in the Primary Sector?

Workers, who are also known as "red-collar workers", form the backbone of the primary industry. This industry wholly depends on farmers, fishermen, hunters, and miners.

What Percentage of the Workforce Is Employed in the Primary Sector?

As per the latest studies, around 48.9% of the workforce is employed in the primary sector. As Nigeria is a developing country, its dependence on the primary sector is higher than the other two sectors. Around 43% of the workforce are men, and 62.8% are women.

How Can the Primary Industry Be Classified?

Depending upon resources and materials, the primary industry can be classified into the following sectors:

Agriculture

Agriculture makes up most of the primary industry. Farmers are the pillar of this sector. Based on the goods produced, this sector is further divided into four more categories – food, textiles, raw materials, and fuel.

Aquaculture

The fishing industry consists of a widespread business involving various tasks such as selling, shipping, marketing, preserving, and processing fish products. Fishery is the world's fastest-growing food-producing industry, and it is predicted to grow at an unprecedented rate globally. It also provides for almost half of the world's edible seafood products.

Forestry

Forest holds abundant resources and supplies raw materials for various purposes. It contributes significantly to the national economy as well as the global economy. From a very small necessity such as rubber to large household necessities such as wood for furniture, the forest industry is an important aspect of everyone's life.

Mining

This sector of the primary industry digs deeper than the soil. Its activities include extraction of raw materials from beneath the surface. Oil, minerals, gemstones, metal etc., are derived through the process of mining.

Secondary Industry

Secondary industry is built on the raw materials and products accumulated through the primary industry. Manufacturing and construction are two main parts of this industry. This industry is mostly responsible for making our everyday life easier. It utilizes a lot of energy as heavy machinery and tools are used. People engaged in secondary activities are called blue collar workers.

However, this industry also impacts the environment heavily because of the waste produced from these industries.

What Percentage of the Workforce Is Employed in the Primary Sector?

In Nigeria, about 50-60% of the population is employed in the primary sector.

What Are the Classifications of the Secondary Industry?

The secondary industry has the following segmentations depending on factories and materials:

Manufacturing

Various types of manufacturing industries come under this classification, such as automobiles, aircraft, electronics, and housewares etc.

Construction

Construction industry includes building, renovating, and repairing buildings and structures.

Consumer products

This is one of the primary sub-sections of the secondary industry. From food items to office supplies, this category has the widest range of goods and products available.

Art, Craft & Fashion

Footwear, clothes, and handicraft items also come under secondary industry. This sector procures the raw materials from the primary industry and manufactures products for the end consumers.

Tertiary Industry

Tertiary industry is the service-oriented sector among the three types of industries. It can be said that the goods produced in the previous two sectors are utilised in this sector to provide services. The total percentage of workers in this sector is about 26.8%. This sector jobs are called white collar jobs.

Tertiary industry maximises productivity and potential by combining expertise, knowledge and services with the tools and products produced through primary and secondary industries.

The tertiary industry mostly consists of administrative services, transport, real estate activities, personal services, health, education, and social work etc.

What Are the Differences Between Primary, Secondary & Tertiary Industries?

Concepts of the various types of industries will become even more transparent through the differences discussed in the given table:

PARAMETERS	PRIMARY INDUSTRY	SECONDARY INDUSTRY	TERTIARY INDUSTRY
What does it include?	Essentially includes the agriculture and fishing industry.	Majorly consists of the manufacturing sector	Wholly service-oriented industry
Supplies	Supplies raw materials for manufacturing and construction	Converts raw materials into useful products and goods	Utilizes the products and tools produced through services
Employment	The employment ratio in this industry is higher as Nigeria is a developing country.	Employment ratio is moderate in this sector as it requires special skills and expertise.	Employment is growing swiftly in this sector.
Organisation	This sector is the least organised as it employs conventional methods.	This sector is comparatively more organised as more	This is the most organised among the three types as it utilizes

		efficient and contemporary techniques are incorporated.	sophisticated processes.

As per the thorough description given above, it is clear that the three different types of industries are interdependent on each other. While secondary and tertiary won't exist without primary, the primary has no purpose without the presence of the other two. `

1.14 Failure of Businesses

Failure won't be at the front of many business owners' minds when they launch a company. However, with four in ten UK businesses struggling to make it past five years, it's always worth keeping an eye on the warning signs. Businesses failed due to multiple and differential reasons as discussed below:

Financial problems: - Inadequate working capital, improper accounting record keeping, poor financial disciplines of the owners, fraudulent practices, non-availability of long-term loan etc. are very rampant in Nigeria and this makes it difficult for Nigeria businesses to survive.

Cash flow or crisis management: - When there is more money out than coming in, there is a problem. Even profitable businesses can sink due to poor cash management. Ignoring your cash flow situation often leads to spiraling problems.

A bad idea to begin with: - While having faith in the initial business concept is an important attribute of any entrepreneur, it's often not enough. It is sometimes the case that the unique business idea is not so unique after all and that there is less demand than was originally thought.

Inadequate protection: - Bad things happen to good businesses every day. Examples are flood disaster, fire outbreak, loss of key personnel, theft etc. and protection against risk can help secure the future of the business.

Growing too fast: - Fast, unchecked expansion can be more risky than slow growth for any business. Growing too rapidly brings with it the risk of loss of control and overstretching of the business' resources and financial base.

Managerial Problems: - Inadequate managerial skills, poor financial discipline of the managers, less commitment by managers, poor company policies, poor training facilities, insincerity on the part of management are always the case in most Nigerian businesses.

Technological problems: - Technology is the driving force of today's industrial world. The technological base of many Nigerian firms is too weak to meet the challenges of the time i.e., globalization.

Poor infrastructural facilities: - Most of the Nigerian roads are bad; there is epileptic power supply and lack of good water. This situation leads to increased cost of doing business in Nigeria and makes it very difficult for Nigerian firms to survive.

Unfavourable and unstable government policies: - Some of the policies of government are unfriendly to most firms. The three levels of government in Nigeria always come up with some policies that are very injurious to the private sector.

Wrong choice of business: - In Nigeria, businesses go under because of the inadequate capability and competence of many Nigerian business entrepreneurs.

Weak leadership: A good leader recognises the skills they lack or the jobs they do not have time for and either employs, outsources, or seeks professional advice to fill those gaps. They will also communicate, direct, reward and offer the opportunity for personal growth to their employees, creating a happy, effective, and loyal team. Poor leadership, on the other hand, leads to demotivated and ineffective teams, which can easily cripple a business.

Overdependence on a few big customers: An overdependence on a few big customers could easily lead to business failure if one of them suddenly pulls out – both cash flow and profit will suffer. The temptation could then be to offer discounts to that customer; however, this will only lead to poor margins over the longer term. Minimise your risk by increasing your customer base, diversifying your product portfolio, and encouraging your customers to sign contracts with a reasonable notice period.

Flawed Business Strategies/Model: Failure to control flawed business model or strategies is the most common reason for failure. Unfortunately, some business owners hesitate to recognize the fault on time. The fact is that if caught early, many small enterprises may recover from bad business decisions.

1.15 Planning Against Business Failure

It is imperative to note that businesses do not just grow they are nourished to growth. It was reported that in Nigeria, over 10,000 new businesses are created every year both on a large, medium, and small scale. Before the year ends, 80 percent of the 10,000 new business close down after 4 more years, 80 percent of the remaining surviving businesses face death. So, what you should do to make your business stand the test of time include the following:

Develop a Business Plan: A good business plan allows one to see the present and future of the business at a glance. A business without a business plan is just a mere operation that will shut down with time. Getting a business plan and a bankable one at that for your business is imperative for success. But if you cannot write one, engage someone to do it for you. Note that planning ahead is vital at every stage of the business and should be under constant review. The business plan incorporates your vision for the business.

Availability of adequate capital: - Businesses require adequate capital for a smooth take-off. Adequate capitalization must consider a multitude of set-up and continuation expenses.

Knowing the Market: - Knowing who your customers are and what they actually want, rather than what you believe they want is one of the keys to business survival. Failure to keep in touch with customers through implementation of a practical marketing plan and failing to keep up with changing wants and needs is a recipe for disaster.

Prioritize customer service: To prevent company failure, prioritize customer service. Thus, customer service makes company growth simpler. However, they'll go somewhere if not treated well. So, keeping consumers informed and demonstrating care is beneficial.

Adequate control: - A functional control mechanism must be put in place and must be suitable for the type of operations. It is essential to keep control of the business at every level.

Monitoring changes: - changes are always occurring in the external environment of the business. These changes must be taken note of. What competitors are doing, changes in technology and best practice, changes in government policies as well as changes in customers' buying patterns need constant monitoring.

Legality consideration: -An individual or group of people who intend to establish business in Nigeria must comply first with government regulations, rules, edict etc that guide business, employees, consumers/clients etc.

Operation Location: - Proximity to market, nearness to city and town where the products will be highly demanded, nearness to source of supply of raw materials and power are required for business survival.

Personality and Attributes: - Experienced and skillful managers, loyal and dedicated members of staff, maturity, wisdom, well-balanced emotion, business knowledge and technique and ability to move on with others easily are also panacea for business survival.

Seek Expert Guidance: Business owners and entrepreneurs often need help to seek expert guidance. Even if one believes they know everything about a company, someone may know more. The need to ask questions a lot to sustain the business cannot be over emphasised, as you cannot operate in isolation. There is safety for the business when we seek counsel/advice to avoid avoidable mistakes that can lead to business failure.

1.16 Business Ownership forms

The kind of form the business owner chooses depends on a number of factors such as taxation, control, questions of liability, and the raising of capital. Each form of business structure has advantages and disadvantages that make it a prudent means of conducting business in some circumstances but not in others. The help of a legal professional is essential in evaluating all the factors upon which the choice of business organization is based. Let’s consider the two forms:

Private Enterprises: These are business organizations that are owned and managed by private individuals. Examples include sole proprietorship, partnership, private and public limited liability companies, and cooperative societies.

Public Enterprises: These are business organizations owned and managed by the government. These may be run by the Local, State or Federal government of a country. Examples include public corporations and companies owned by the government such as Water Corporation, Television Authority etc.

1.17 Choice of selection of ownership form

Before we discuss the various forms of business organizations, it is pertinent to first examine the factors that influence the choice of forms of business organization a businessman may choose to establish or get involved in. These factors include the following:

Capital requirement: The amount, source and availability of capital needed by the firm goes a long way in determining the kind of business to be chosen.

Market size: The market size here refers to the extent of effective demand for the products. Market plays a significant role in determining the form of business to operate. This is because the larger the market in focus, the larger the capital requirement to be able to exploit the market and vice versa.

Managerial capability: One of the requirements for successful business operations is managerial prowess. Therefore, a businessman who does not have good managerial ability may choose a form of business organization in which the owner of the business is separated from management of the business.

Registration Requirements: The law specifies certain requirements to be fulfilled for the registration of business organizations. Therefore, the procedures and requirements to be fulfilled for business registration have an impact on the forms of business organization to be chosen. This point will be made clearer when we look at different forms of business ownership.

Risk Bearing: All forms of business activities involve risk taking. The form of business to set up by an individual will be determined by the extent to which an individual is a risk lover or risk averse. For example, an individual who is risk averse will like to be involved in a business in which he will have limited liability.

Ease or difficulty of transfer of ownership and the number of owners: Particularly in a public company, the stock can be easily transferred in part or total at the discretion of the stockholder. The stockholder wishing to transfer (sell) stock does not require the approval of the other stockholders to sell the stock.

The number and extent of availability of factors of production to the firm: for examples raw materials, labour, capital, infrastructural facilities as well as entrepreneurial ability. This is not that available in a sole proprietorship and some partnership forms.

1.18 Business Stakeholder

A stakeholder is a person, group or organization with a vested interest, or stake, in the decision-making and activities of a business, organization or project. Stakeholders can be members of the organization they have a stake in, or they can have no official affiliation. Stakeholders can have a direct or indirect influence on the activities or projects of an organization. Their support is often required for business and project success.

The International Organization for Standardization's ISO 26000 is a set of international standards for corporate social responsibility. It offers the following criteria for identifying a stakeholder:

i. An organization is legally obligated to stakeholders.
ii. They might be positively or negatively impacted by an organization's decisions.
iii. They are likely to express concerns and be involved in the activities of an organization.

Based on these criteria, stakeholders often include customers, employees, investors, suppliers, boards of directors, community members and organizations, and government entities.

Stakeholder capitalism is a system in which an organization prioritizes stakeholders' interests.

The term stakeholder has its roots in horse racing. A stake race is one in which the prize money is derived from the entry fees that horse owners pay to enter the race. The entry fee is called a stake, a synonym for risk. The person or entity that takes care of the entry fees until the prize money is awarded is called the stakeholder. Traditionally, the stakeholder has no financial interest in the outcome of the race.

The chart below shows the 2 types:

Stakeholders are often divided into two groups, internal and external stakeholders.

Types of Stakeholders

Stakeholders can come from a variety of connections to the organization or project. The most common types of stakeholders include the following:

i. Customers usually expect organizations to deliver products of value.
ii. Employees are often project stakeholders, who want to contribute to a project that is related to their job.
iii. Owners supply an organization's equity and capital and are responsible for organizational goals.

iv. Investors are shareholders, who invest in organizations in exchange for financial returns and often receive regular financial reporting on the companies they invest in as well as voting power in major decisions.
v. Creditors, such as banks and bondholders, lend money to an organization to be paid back with interest.
vi. Suppliers are vendors that supply materials and products to organizations and have an interest in their business and the projects they pursue.
vii. Communities have an interest in businesses being healthy, safe, and beneficial to local economies. Businesses create jobs and business for local communities.

Internal vs. External stakeholders

Stakeholders are often categorized into the two main groups of internal stakeholders and external stakeholders.

a. **Internal stakeholders**

Internal stakeholders are those within a company whose interest stems from direct employment, ownership, or investment. Internal stakeholders of a company or project can include employees, project managers, Board of directors, donors and investors. These individuals are often referred to as primary stakeholders, or key stakeholders, because they have a direct stake and important role in the company's or project's success.

b. **External stakeholders**

External stakeholders are those outside of a company who are indirectly affected by its decisions and outcomes. External stakeholders include customers, suppliers, lenders, government agencies, creditors, labor unions and community groups. These entities are also referred to as secondary stakeholders because their stake in the company or project is often more representational than direct.

Examples of stakeholders

Stakeholders exist across industries. For example, in healthcare, stakeholders are those who have a direct interest in healthcare services provided and the decisions made around them.

These include doctors, nurses and other medical professionals; hospitals, clinics and healthcare providers; healthcare IT, medical equipment and other suppliers; governing bodies; nonprofit organizations; and patients.

Another example is a stakeholder in a legal process. There, a stakeholder is an individual or group in temporary possession of money or property while the owner is being determined in court.

In a project setting, the stakeholders are people who have direct influence on whether a project is successful. They include the following: customers, whose satisfaction with a product or project is the end goal of a project plan; project managers, who manage and lead a project; project sponsors, who finance a project; and project team members, who are the employees executing a project, non-state actors (NGOs, civil societies etc.) and the community where the project is located.

Stakeholders vs. Shareholders: What is the difference?

Shareholders are stakeholders who are financially invested in an organization. While stakeholders are interested in a company's overall performance, shareholders have an added interest in the company's stock performance or return on investment. E.g., a company's employees are stakeholders but may or may not own shares of stock.

A shareholder's investment helps fund an organization and its activities. Depending on the size of investment, shareholders can sometimes have more influence on an organization and its projects than stakeholders. Investment can grant shareholders the right to regular financial information about an organization and to participate in business decisions. All shareholders are stakeholders, but not all stakeholders are shareholders.

How to Manage Stakeholders

In the 1984 book, "Strategic Management: A Stakeholder Approach," R. Edward Freeman emphasized the idea that a business is a system that is built on relationships, and no one part of the system can be viewed as an isolated entity. Freeman's stakeholder theory is an organizational and relationship-based management model. It is credited with helping to raise social consciousness in business about the value of treating stakeholders ethically.

Furthermore, in their 1983 article, "Stockholders and Stakeholders: A New Perspective on Corporate Governance," R. Edward Freeman and David L. Reed proposed that for a business to succeed, it must create value or be a value driver for the owners or stockholders. They also said that a business must create value for stakeholders who do not have a direct financial interest in the company's success, because without their help, the business could not exist. According to Freeman and Reed's analysis, the job of the entrepreneur is to find out who the stakeholders are, and determine where their interests intersect with those of the stockholders.

Today, the key components in managing stakeholders include analysis, prioritization, and engagement.

a. **Stakeholder Analysis**

This analysis starts with the process of identifying and ranking a project's major stakeholders. Once stakeholders are identified, stakeholder analysis weighs the demands and influence of those stakeholders, then ranks which ones are most likely to influence or be influenced by the company's actions. This information is used to make more balanced and effective business decisions.

Stakeholder analysis is a central part of stakeholder management, which is a process that studies the varying motives and concerns of stakeholders to cultivate positive relationships. Both internal and external stakeholders must be considered when conducting stakeholder analysis.

Creating a communication plan for keeping stakeholders updated is vital to stakeholders and project management.

b. **Stakeholders' Prioritization**

There is the need to prioritize the major stakeholders. Projects often have several major stakeholders with different interests and values. Once an organization or project has identified and ranked those stakeholders, it often identifies at what stage those different stakeholders should be prioritized and be engaged with. For instance, investors are prioritized at the beginning of a project to elicit their investment. They might also get status reports at set intervals. By contrast, project management best practices recommend that project team members be engaged more regularly as a project progresses.

c. **Stakeholder Engagement**

A successful stakeholder management strategy depends on strong, productive stakeholder engagement. This involves proactive engagement with stakeholders throughout the various phases of a project. A key part of this engagement is learning and meeting stakeholders' expectations and goals. Organizations should document stakeholder interests, consistently follow up with them through a communication plan (as shared above) and provide them with status reports.

The interests and values of stakeholders have a vital influence on modern businesses.

1.19 Expectations of Stakeholders

Businesses rely on their stakeholders for services, marketing, and their bottom line. Each of a company's stakeholders has a role to play, but in return, they have certain expectations. Meeting those expectations and exceeding them is the ideal goal for a business. When the company inspires confidence in its stakeholders, it benefits from their increased support.

However, it may be challenging to ascertain what precisely a stakeholder expects and how to meet those ambitions. Here, are five ways company use to meet their stakeholders' expectations and to ensure they are satisfied with the company performance:

1. **Ensure Clear Communication**

To ensure you are communicating effectively with the stakeholders of your business or project, clearly outline the goals and deliverables beforehand. The best way to ensure investors and stakeholders are happy is if you have outlined the most important factors, they should be looking for in your growth plans. Clearly outlining critical timelines and the most important factors for your business success should be done in advance so that when you are reporting on these topics, your viewers already understand this is a critical performance factor. You should be consistently communicating the same key performance indicators in your report over time and using consistent metrics that are clearly linked to how they impact on your shareholder's unique interest.

2. **Start with Common Goals**

If you want to make stakeholders happy with your company's performance, then start by creating common, achievable goals. Sometimes, we get the idea that the more elaborate the plan, the better the outcome, but this actually hurts many businesses. It's better to start small and avoid biting off more than you can chew to impress stakeholders and ensure business growth and development. It's easier to achieve your goals and meet others' expectations when you create goals that are attainable but challenging.

3. **Deliver on Your key performance indicators (KPIs)**

Ultimately, stakeholders are looking for the positioning that will demonstrate financial growth and will impact their key interests. Unless you are running an impact business, your main KPI will almost always be financial, so be prepared to account for it. This must be explicitly revealed in your reports to capture their interest and continuous support.

4. **Focus on Engagement**

Communication is one of the most effective tools a business can leverage in its relationship with stakeholders. Keep communicating and engaging with stakeholders to make sure everyone is kept in the loop about the company's performance. Please that you cannot over communicate, because the more information you share, the more support and understanding you have.

5. **Offer Full Transparency**

Being transparent about your company's performance is one of the best ways to build trust and keep stakeholders satisfied. Withholding critical financial information will lead to the collapse of any trust. Be open and honest about how your company is performing. If the company is in bad financial health, seek the help you need to fix it and let your stakeholders know you're being proactive to remedy the issue.

1.20 Core Business Functions

Business functions are the activities performed by a business, and these activities demonstrate the purpose of the business. A well-structured business functions ensure a company is successful for its customers, employees, investors, and other stakeholders.

Business functions are divided into two broad categories: core functions and support functions. While support functions (public relations, quality control etc.) don’t directly provide funds to the company, core functions are all directly fund-yielding. It is intended to assist with the fundamental operations. Combined, both functions increase the organization’s efficiency and result in positive feedback. Here, we are focusing on Core business functions which are five key areas that you must execute in addition to your primary function. They are human resources, finance, marketing, sales, and strategy. These are universal functions which mean that they are necessary for the success of any business.

a. **Human Resources**

HR is the function of building and maintaining a successful team of employees who have the skills and experience to achieve the company's primary and core functions.

b. **Finance**

Finance is the function of handling the company's money. This core function exists to ensure that the business spends and invests money properly so that it can continue to operate successfully.

c. **Marketing**

Every business needs its target audience to:

i. Know that it exists,
ii. Understand what it does,
iii. Regard it as being trustworthy, and
iv. View it as a provider of products or services they need.

The core function of marketing is to create brand awareness and engages potential customers.

d. **Sales**

Ultimately, all businesses have products or services to sell. The sales function helps prospective customers see the benefits and features of products and services and then make a purchase.

e. **Strategy**

The strategy function involves all the necessary planning required for growth and success. This function is what businesses use to make choices on product development and workforce planning. Strategy helps ensure that a business have a future plan and can remain competitive.

In addition to these core functions, the support functions are also important to your business. Building upkeep, PR, quality control, maintenance, IT, and customer service are just a few examples. You may determine that additional proprietary functions are necessary for your business operations.

1.21 SUMMARY

Business functions are the activities performed by a business, and these activities demonstrate the purpose of the business. All businesses are different, and they all share a common purpose: to add value to customers. A business is an individual or group of individuals that work together to produce and sell goods and services for a profit. Businesses can either be run for profit, such as restaurants, supermarkets, etc., or non-profit organisations developed to serve a social purpose.

All business organisations have a few common characteristics: the formal structure, aim to achieve objectives, use of resources, the requirement of direction, and the legal regulations controlling them. Based on the factors such as the degree of liability, regulation on tax exemptions, business organisations are divided into the following: sole-proprietorship, partnership, corporations, and limited liability companies**.**

The following aspects determine the nature of business:

i. **Regular process** – the profit-generating processes that are regularly repeated.
ii. **Economic activity** – activities that maximise profit.
iii. **Utility creation** – a kind of utility the goods or services create for the consumer, such as time utility, place utility, etc.
iv. **Industrial/Sectoral -** different types of industries form the backbone of a country's economy.
v. **Capital requirement** – the amount of funding required for the business.
vi. **Goods or Services** – types of goods (tangible or intangible) offered by the business.
vii. **Risk** – the risk factor related to the business.
viii. **Profit earning motive** – the businesses' profit-earning motive.
ix. **Satisfaction of consumers' needs** – based on the consumers' satisfaction.
x. **Stakeholders** - Stakeholders come from a variety of connections to the organization or project.
xi. **Buyers and sellers** – the type of buyers and sellers involved in the business.
xii. **Social obligations** – all businesses have corporate social responsibilities to undertake.

Throughout this lesson, we have explained the nature of business, and discussed the type of business there is and what its overall goals are. Its nature also describes its concept, forms, legal structure, industry, products or services, and everything a business does to reach its goals. We depicted the business' problem and the focus of the company's offerings and how businesses nosedived, pick up and succeed.

1.22 ILLUSTRATIVE AND PRACTICE QUESTIONS

A. THEORY:

a. Explain the concept of business.
b. Identify the need for business.
c. Classify business activities and clarify the meaning of industry and commerce.
d. State various types of industry.
e. Explain the activities relating to commerce.
f. Analyze the organic business functions.
g. Describe the characteristics of business.
h. Discuss business, the society, and the law.
i. Explain the concept of Stakeholders in Business Enterprise.
j. What Are the Differences Between Primary, Secondary & Tertiary Industries?
k. Which type of industry has growing employment opportunities?

B. MULTIPLE CHOICE QUESTIONS

1. Which one of the following may not be a factor behind starting a business: -
(*a*) Size of the firm
(*b*) Routine workload
(*c*) finance
(*d*) Location of business

2. Which of the following is not a function of management?
(*a*) Management is all pervasive
(*b*) Management is multi-dimensional
(*c*) Identification of threats & warnings
(*d*) Location of business**.**

3. Name two broad categories of business activities: -
(*a*) Trade & commerce
(*b*) Trade & Industry
(*c*) Industry & commerce
(*d*) None of these

4. Which one of the following is not an economic objective of the business: -
(*a*) Social environment
(*b*) Survival
(*c*) Profit
(*d*) Growth

5. Which factor doesn't describe management as science: -
(*a*) Systematized body of knowledge
(*b*) Universal validity
(*c*) Ethical code of conduct
(*d*) Principles based on experimentation

6. Earning of a profit is considered to be subsidiary objective of the business: -
(*a*) True
(*b*) False
(*c*) None of these

7. Human activities are of ______ types: -
(*a*) One
(*b*) Two
(*c*) Three
(*d*) Four

8. Economic activities may be classified into business, _____ & employment.
(*a*) Profession
(*b*) Occupation
(*c*) Vocation
(*d*) Work

9. ………….. refers to the process of buying goods and services.
a) Business
b) Employment
c) **Trade**
d) Commerce

10. In employment, return or reward is in form of …………...
a) **Wage**
b) Fee
c) Profit

d) Loss

C. OTHER SITES FOR MCQ PRACTICE

a) https://quizizz.com/admin/quiz/5cf9c2aa8df66c0020c25ef2/nature-of-business
b) https://www.proprofs.com/quiz-school/story.php?title=intro-to-business_2
c) https://www.proprofs.com/quiz-school/story.php?title=unit-1-nature-business

1.23 REFERENCES

Bushman, M. (2007). The Role and Functions of law in Business and Society.

Beugre, C.D. & Offodile, O.F. (2001). 'Managing for organisational effectiveness in sub-Saharan Africa: a culture-fit model'. *International Journal of Human Resource Management* 12(4), pp.535–50.

Boddy, D. (2008). *Management: An Introduction, 4th ed.* Harlow: FT Prentice Hall. [ISBN 9780273711063].

Daft, R.L. (2008). *New era of management.* Mason, Ohio: South Western: Cengage.

Easterby-Smith, M., Crossan, M. & Nicolini, D. (2001). 'Organisational learning: debates past, present and future'. *Journal of Management Studies* 38(7), pp.783–96.

Jackson, T. (2000). 'Management ethics and corporate policy: a cross cultural comparison', *Journal of Management Studies* 37(3), pp.349–69.

Lawal, A.A. & Bello, M.A. (2010). Business policy & strategy management. Lagos: Suhanif Nigeria Enterprises.

Mintzberg, H. (1990). *The nature of managerial work*. Upper Saddle River, NJ: Prentice Hall. [ISBN 9780060445553].

Needle, D. (2004). *Business in Context: An Introduction to Business and its Environment*, 4th ed. London: Business Press. fourth edition [ISBN 9781861529923].

Scholte, J.A. (2005). *Globalization: A Critical Introduction,* 2nd ed. Basingstoke: Palgrave. [ISBN 9780333977026].

Swan, J. & Scarborough, H. (2001). 'Knowledge management: concepts and controversies. *Journal of Management Studies* 38(7), pp.913–21.

Waters, M. (1995) *Globalization*. 2nd ed. London: Routledge. [ISBN 9780415238540].

Kocherbaeva, Ainura, Zeynegul Samaibekova and Kerezkan Isabaeva. 2019. *Leadership and Leaders in Successful Small and Medium Enterprises*. Advances in Social Science, Education and Humanities Research, volume 359, 4th International Conference on Social, Business, and Academic Leadership (ICSBAL 2019), Pg. 89-93.

Ikupolati, P. M. (2012). *Retiring into Your Own Business.* Mbeyi & Associates Nig. Ltd, Isolo, Lagos. Pg. 39

https://www.superbusinessmanager.com/category/business-management/business-organization/classification-of-businesses/

https://msmonline.co.za/wp-content/uploads/2021/03/CHAPTER-14-BUSINESS-STUDIES-GRADE-FORMS-OF-OWNERSHIP.pdf

1.24 RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.

Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard.

Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz.

Fundamentals of Business Administration Management by Caroline Anderson.

CHAPTER TWO
EVOLUTION OF BUSINESS

2.1 LEARNING OBJECTIVES

After you have read and studied this chapter, you should be able to:

i. Explain the development of commerce;
ii. Discuss the evolution of Industry and Industrial revolution;
iii. Explain the industrial revolution elements and stages;
iv. Appreciate the factors that favour Industrial revolution in England;
v. Explain the consequences of Industrial revolution; and
vi. Explain the impact of Industrial Revolution on Business management.

2.2 INTRODUCTION

Evolution of business is highly related to evolution of commerce and is seriously linked with the Industrial revolution. Business evolution can be traced back 3,000 years to India and China, where companies – with structures resembling sole proprietorships, partnerships and corporations held sway. It was at that time that they began entering into contracts and owning property, essentially setting up the basic frameworks of business that we are used to till now. The first few government-backed companies, like the Dutch East India Company and British East India Company, as from 1500 AD started taken on global business challenges and exchanging goods far away from home. It was noticed that after the Industrial Revolution in 1790, business changed every 50 years or so, though shaped by new inventions, trade and changing consumer habits.

2.3 THE DEVELOPMENT OF COMMERCE

Commerce is a very fundamental aspect of business. Commerce involves marketing of products. It is concerned with the buying and selling aspect of business. It consists of trade and aids to trade. It links producer and consumer. In short, it is concerned with the distribution (buying and selling) of goods and services for profit. Many activities enhance commerce as a form of business. Among them are transport, insurance, warehousing, and other allied activities which facilitate trade.

Today's commerce is a modern commerce and consists of a complex and well-developed system of exchange, telecommunication (e-commerce), transportation system, insurance, warehousing, and logistics management. Commerce that has transformed into this sophisticated level of e-commerce evolved gradually over a long period of human existence and activities. The evolution of commerce can be divided into self-sufficient stage, barter stage, market stage, global stage, and e-commerce stage. As recounted by Otokiti (2006) in Enikanselu (2008), the development of commerce can be discussed over a long process of development which can be arranged in the stages below:

i. **The stage of household:** This is the stage where every family/household produces what it needs. It was a period of no trading or commerce.

ii. **The stage of primitive barter:** This is the rudimentary stage of exchange without a medium of exchange. This is the trade of commodities for commodities. It is to trade commodities or services without exchanging money. Services can be traded for commodities or vice versa.

iii. **The rise of trading activities:** This is where there is a medium of exchange and goods and services are exchanged for this generally accepted medium of exchange.

iv. **The era of city/town economy:** This is the product of Industrial Revolution. During this stage, handcraft operations have moved into factories and people move from the rural communities to the town/cities to work in the new factories.

v. **The era of international trade**: - International trade is the trading across national boundaries. It is the act of buying and selling of goods and services between two or more countries. With the advent of the industrial revolution, the firms were looking beyond their domestic market to do business. They now ventured into other countries where business opportunities abound. The act is what is referred to as international trade.

vi. **The era of e-commerce:** With a well-developed system of exchange, organized system of transportation, well developed telecommunication and other allied activities that impacted heavily on commerce, the advent of e-commerce has become the order of the day. You can now trade on your personal computer. Business of millions of Naira or Dollar can be transacted in your room or in your car while your driver is driving. This is the latest stage in commerce.

Looking at this evolution, one can conveniently say that their evolvement is the process of gradual removal of barriers of commerce.

2.4 EVOLUTION OF INDUSTRY

The Industrial Revolution in England between 1760 and 1830 brought about industry life and industrialization. To appreciate the impact of the industrial revolution on human existence, it might be necessary to review the state of the economy before the industrial revolution in the 18th century. Some of the common features of the state of affairs before the industrial revolution according to Enikanselu (2008) are:

i. The most vibrant economic activity of the population was agriculture. Almost everybody that was engaging in economic production were engaged in agriculture. Agriculture was the main stay of the economic activities of most countries.
ii. Handcraft activities are engaged in as past time or spare time.
iii. Those that engaged in what can be regarded as manufacturing at the period were making use of manual labour and solely dependent on their inherent skills.
iv. Every community engages in self-sufficiency because the produced and manufactured goods in a locality were sold within the locality.
v. Trade was at its elementary or rudimentary stage.

Before the industrial revolution, stages of development can be discussed thus:

i) **Stage one:** This is the stage referred to as the handicraft system. Artisans living in a village or community produce the requirements of the village/community.

ii) **Stage two:** This is the stage when the artisans form themselves into associations in a local area within which they operate. They form these associations to protect the interest of their craft and develop their business interest and commercial relations. These associations are called “craft guilds”.

These guilds provided opportunities for the training of new workers and protect the unrestricted entry of new or fresh entrants to the craft. Generally, there was a separate guild for each craft in a town.

Otokiti (2006) in Enikanselu (2008) noted that guilds flourished in the Middle Ages, and that the artisans fell into three categories:

a) **Master Craftsman’s category:** This group established a workshop in which they worked along with their subordinates.

b) **The Journeyman category:** These are craftsmen who have graduated from apprenticeship but have not owned their own workshop. They joined the first category above as workman. They usually work with their masters to earn some money to establish their own workshop.

c) **The Apprentice category**: An entrant into a craft must undergo apprenticeship for about seven years in London. This is the period when he undergoes training on the chosen craft. During this period, he will be introduced to the nitty-gritty of the craft.

These are the three stages of any craft. It should be noted that the apprenticeship system in Britain, is not merely a vocational training, but it is aimed at molding a youth into a good citizen and a good Christian as well as good workman.

iii) **Stage Three:** This stage is referred to as the domestics’ system. The merchants who marketed goods in different places realized that it is necessary to ensure that production is tailored to the needs of markets. As a result of this, they started to enter into contracts with artisans and workers for the supply of goods.

2.5 THE INDUSTRIAL REVOLUTION

Industrial Revolution is the series of fundamental and remarkable great changes in British industry which occurred during the second half of the nineteenth century. The Industrial Revolution was the transition from creating goods by hand to using machines. Its start and end are widely debated by scholars, but the period generally spanned from about 1760 to 1840.These changes had an overwhelming impact on industry and these changes spread to other countries of the world.

The Industrial Revolution was a change in:

i. Industrial method of production, from handwork to work done by machineries driven by power; and
ii. Industrial organization, from work at home to work in factories.

Perhaps what was most unique about the Industrial Revolution was its merger of technology with industry. Key inventions and innovations served to shape virtually every existing sector of human activity along industrial line, while also creating many new industries.

2.5.1 INDUSTRIAL REVOLUTION ELEMENTS

The Industrial Revolution in Britain did not occur suddenly. It was a result of different inventions which totally revolutionized industry and commerce.

These inventions affect firm output substantially to the extent that local areas could not absorb all the outputs from firms. This led to the marketing of these outputs to faraway places which alternately led to international trade. The developments in the transport system at this period also assisted greatly the Industrial Revolution. Without improved transport systems, the Industrial Revolution would have been elusive. An authority noted that the so-called Industrial Revolution was a product of six great and fundamental changes or developments all of which are interdependent. These changes according to him in Enikanselu (2008) were:

(i) **Development of engineering:** This is a major change in the Industrial Revolution environment. There was unprecedented development in engineering skills. Engineers were designing machinery for textiles, for coal mining, for making and repairing steam engines, for making tools and for making locomotives. It was an era of engineering inventions and upsurge.

(ii) **Revolution of Iron-making:** Relevant to one above is the great change in Iron-making and casting. Engineering development needed good iron to get their engineering inventions realizable. There was a fundamental and great change in iron-making, casting and foundry.

(iii) **Use of Steam Power in Textiles:** The use of mechanical devices driven by steam power in textile industries was another fundamental change that came into being during this period. These approaches or devices driven by steam power were applied to both simple and complex operations of spinning and weaving. With the application of power driven by steam to spinning, large surpluses of yarn were piled up with those working on old weaving machines, and the surplus situation led to the development of new power-driven weaving machines. The use of machines gradually spread over to wool, flax, and silk industries.

(iv) **Rise of Chemical Industries:** As a result of power-driven machinery in textiles, it became necessary to effect appropriate changes in the processes of bleaching, dying finishing or printing so that production can keep pace with the output from weaving. This situation led to fundamental changes in the chemical industries. The changes that were witnessed in the chemical industries were due to the revolution in the engineering sector.

(v) **Development of coal-mining:** The fundamental and great change in coal-mining was another major change during the industrial revolution. But it was expected that there would be a great change in coal-mining if the industrial revolution was to be properly on course. The iron and steel industries required by the engineering industries need a large volume of coal to smelt and refine iron ore and pig iron respectively in blast furnaces and for producing the steam power which had already become the power source of industry.

There was no way the coal required to actualize all these could have been gotten without fundamental changes in the coal-mining processes.

(vi) **Revolution in transportation:** Another major change was witnessed in the transportation system. But this was not unexpected because almost all the other changes mentioned above needed an improved transportation to succeed. More importantly, the output from industry was far much more than Britain can consume, so the great need for improved transportation to move these surpluses to other countries of the world.

2.5.2 INDUSTRIAL REVOLUTION STAGES

A little information on the industrial revolutions stages is necessary here:

a. **First Industrial Revolution – Coal in 1765**

The first industrial revolution represents an era that marked the change from an agriculture-based to a production-based economy. Recorded to have started in Great Britain from the late 18th century to the middle 19th century, the first revolution ushered in the use of steam power and waterpower for production.

Other features that characterized the first revolution was the use of steel, iron, and such energy sources as coal, electricity, the steam engine, and petroleum.

b. **Second Industrial Revolution – Gas in 1870**

The second industrial revolution typified a period of technological revolution around the late 19th to early 20th century.

It was an era when mass production was made possible due to advancements in product line technology. This made it possible for mass employment of factory workers and a major increase in the number of middle-class workers.

c. **Third Industrial Revolution – Electronics and Nuclear in 1969**

The third industrial revolution witnessed the use of electronics, computers, information technology, and telecommunications for automating production. Beginning in the mid-20th century, the successes recorded in this era served as a precursor to the fourth industrial revolution.

d. **The Fourth Industrial Revolution (4IR) – Internet and Renewable Energy in 2000**

The fourth industrial revolution is an era that characterizes the combination of biological, digital, and physical worlds in the automation of production.

The fourth industrial revolution was first proposed by Klaus Schwab (Chairman, World Economic Forum) in which he described prevailing technologies of the era. Technologies that will drive the fourth industrial revolution include Artificial Intelligence (AI), Internet of Things (IoT), cloud computing, and nanotechnology. Others are 3D printing, robotics, blockchain technology, and quantum computing. It is an era preceded by the first, second, and third industrial revolutions.

As the development of the Industrial Internet of Things, cloud technology and artificial intelligence continue, a virtual world will merge with the physical world. Predictive maintenance and real-time data will lead to smarter business decisions and work order solutions for a myriad of companies around the world.

We've taken a peek review into its predecessors to understand how we got to the fourth industrial revolution also called 4.0 that we are presently in.

2.6 FACTORS THAT FAVOUR INDUSTRIAL REVOLUTION IN ENGLAND

As noted in history, the industrial revolution occurred first in England. There were certain physical and environmental factors that favoured its occurrence first in England. Some of them, according to Enikanselu (2008) are:

i. The very favourable factor was that there was relative peace in England compared with other European countries. England was free from invasion and no war was in England. Although England participated in these wars, no war was fought on England soil.

   The war in other parts of Europe led to huge demands for goods from other European countries and the demand task English firms to invent better methods of doing things which culminated into the industrial revolution.

ii. Another favourable factor was that England was the only country in Europe which presented one whole market where there were barriers to the movement of goods.

iii. Great Britain enjoyed political and financial stability on account of personal freedom which had been enjoyed by English men since the sixteenth century. This personal freedom aided industrial progress.

iv. England had an agricultural revolution and almost all the small farms were consolidated into big ones making the peasant farmers to be landless and had no alternative but to find employment in cities and industries.

v. There was much money in England through the British merchants who are involved in international trade. The church had lots of money, and also the big England landlords.

All these led to the development of banking which aided the Industrial Revolution.

2.7 CONSEQUENCES OF THE INDUSTRIAL REVOLUTION

The Industrial revolution was a phenomenon which radically changed the whole system of production and left its mark not only on the economic terrain but also on the social and political life of the countries touched by it.

The major consequences of the Industrial Revolution can be grouped into two streams:

(a) **Economic consequences**

i. Mass production;
ii. Growth of capitalism;
iii. Specialization;
iv. Improvement in standard of living;
v. Trade cycles;
vi. Production of goods;
vii. Specialization of labour;

viii. Ownership of factors of production concentrated into few hands;
ix. The employers (capitalist); and
x. The workers.

(b) **Social consequences**

(i) There was rural urban migration leading to a high rate of urbanization, but there was no organized attempt to provide adequate housing to meet the upsurge.

(ii) As a result of (i) above, slums rose greatly. The living condition of the workers was pitiable. Poor sanitary and health conditions and the morales of the workers suffered tremendously.

(iii) The Industrial Revolution led to the emergence of two distinct social classes.

2.7.1 Pros and Cons of Industrialization

There were numerous advancements during the Industrial Revolution, however, the rapid progress caused many issues as depicted below:

Pros

i. Advancements in production.
ii. Growth in innovations and inventions.
iii. Workers earned higher wages.
iv. Improvements in transportation networks.

Cons

i. Deplorable working conditions and child labour.
ii. Unsanitary living conditions and pollution.
iii. Food shortages.
iv. Long hours, inadequate remuneration, and minimal breaks.

The capitalist group was ill-treating the workers. Paying them subsistence wages and exploiting their skill and labour. They were made to pass through harrowing work life. There was natural disharmony between the workers and the capitalist, and this suspicion still subsists till today.

2.7.2 Relation between Imperialism and Industrialisation

In the 19th century, industrialisation helped in starting imperialism, which is the relationship between industrial revolution and imperialism. From 1750 to 1850, witnessed the period of industrial revolution and British imperialism. The role of imperialism was to maximize the country's profits, and most industrialized nations became scavengers in finding nations which they could exploit their natural resources and affordable labour.

By definition, imperialism is the political and economic control over a country. For this to happen, a mighty country takes control over the weaker country to compress their assets dry. The superior power seizes all the natural resources the other countries possess and utilise them for their profits. The consequence leads to the entire ignorance of the weaker country’s culture and government. Because of the industrial revolution, many nations turned to imperialism to fulfill their needs.

1. Effects of New Imperialism

There are positive and negative effects of imperialism, which we will show below:

a) **Positive Effects:**

i. Reduced local fighting.

ii. Humanitarian efforts, like improved sanitation, build hospitals, and increased education.

iii. Economic growth.

iv. New technology, like railroads, dams, telephone, and telegraph.

b) **Negative Effects:**

i. Political and economic power in British hands.

ii. Loss of self-sufficiency.

iii. Cash crops - decrease in food production/famine.

iv. Threats to traditional Indian life.

v. Restrictions on Indian-owned industries.

vi. Second-class status.

2. Facts on Industrialization and Imperialism

The term "**industrial revolution**" can be traced back to 1799 when it was popularised by an English economic historian Arnold Toynbee, who used it to indicate the economic development of Britain from 1750 to 1830 in lectures he gave that year.

The British empire was the biggest empire by the 20th century. Though Britain sits on the bed of coal, until the 18th century, wood was the primary source of energy in this country. The first well-known factory was a water-powered cotton spinning mill.

2.8 THE IMPACT OF INDUSTRIAL REVOLUTION ON BUSINESS MANAGEMENT

According to Enikanselu (2008), the following are some of the consequences of Industrial Revolution on Business Management:

(i) The impressive increase in the size of the market coupled with the complexity in market demands gave management additional challenges.

(ii) The increase in market size led to the emergence of large-scale businesses and the evolvement of high technology business and sub-contracting system.

(iii) The evolvement of high technology led to emergence of new skills and expertise to manage the new technologies.

(iv) Personnel management as a profession emerged to recruit the right skill to manage the new technologies and hold new offices that are emerging in business.

(v) Businesses are managed by specialists who may not necessarily be the owners.

(vi) Finance operations became complex and technical to the level that only fortified personnel in finance areas can manage finance responsibilities.

(vii) It led to the evolution of modern marketing with specialist handling marketing responsibility.

(viii) The government got interested in the affairs of companies and trade unionism started laying its foundation.

(ix) Owner managers were replaced by trained professionals and specialists in the art of managing business establishments.

(x) The public became more informed and conscious of their rights in relation to business firms.

(xi) The "I don't care" attitude of government to worker welfare and living conditions started changing and this posed a new challenge to business managers.

2.9 SUMMARY

The evolution of business is closely related to the evolution of commerce. Commerce is concerned with the buying and selling aspect of business. The stages of development of commerce are the stage of household, the stage of primitive barter, the rise of trade activities and the era of city economy.

The Industrial Revolution in England brought about industrialization. Before the Industrial Revolution, there were three stages of development viz: handicraft system stage, "craft guilds" stage when the artisans in the first stage formed themselves into associations in a local area, and the domestic system stage where production is tailored to the needs of the market.

The Industrial Revolution was a product of six great changes as discussed in this chapter. The factors that favour Industrial Revolution in England include the relative peace in England, availability of one whole market, political and financial stability, among others.

The Industrial Revolution brought about both economic and social consequences and there were notable impacts of Industrial Revolution on business management among which are impressive increase in the size of the market, emergence of large-scale business, evolution of modern marketing, and emergence of new skills and expertise.

2.10 ADDENDUM NOTES

It is noteworthy to stress that two primary factors will shape business in the future, viz. digital transformation, and corporate social responsibility, and they have started to impact businesses, and they will continue to play a much more significant role worldwide.

Firstly, consider the impact of digital transformation. This remains the best way to capture the role of technology in business and society today. Digital transformation is essentially the novel use of digital technology to solve traditional business problems. These digital technologies enable new types of innovation and creativity, rather than simply supporting traditional methods. So, we must think of artificial intelligence, e-commerce, fintech, robotics, Internet of Things, data science etc. which have created entirely new business models, thus making life easy for the public.

When you purchase clothes online, your package is delivered within a day or two. Thus, businesses are constantly researching and looking into new ways of operating, interacting with customers, and driving innovation in the new digital world.

The second major trend in the business world today is the issue of Corporate Social Responsibility (or CSR). Corporate social responsibility is a self-regulating business model that helps a company be socially accountable - to itself, its stakeholders, and the society. This is a broader response to growing concern and knowledge about the role of businesses in society. They are sometimes very big actors and ought to be held accountable for their actions – whether good or bad.

CSR can mean anything from the impact that a business has economically, socially, politically, or environmentally. In other words, it is when a business operates to enhance society and the environment instead of having adverse effects on them.

There is an increasing number of regulations regarding CSR, but the companies themselves have brought forward some CSR policies to escape the prying eyes of State and non-state actors.

Examples of CSR may include a clothing company committing to not use child labour in any part of its supply chain or any company vowing to source its raw materials only from ethical sources. Take Starbucks, for example which has consistently demonstrated a keen commitment to corporate social responsibility, community, and well-being. It has ensured that 99% of its coffee beans are ethically sourced. It is a vital player in environmental consciousness, particularly in its building of stores. It has encouraged its employees to partake in community service.

In Nigeria, the Dangote Group and MTN group have also keyed into this CSR issue which is a growing trend, and companies nowadays will have a hard time avoiding it due to increased consumer awareness and demand for societal and environmental accountability. There are so many possible business trends that may surface within the next 5, 10 and 100 years – some may even be impossible to conceive of now. But that is the beautiful nature of business innovation and creativity.

2.11 ILLUSTRATIVE AND PRACTICE QUESTIONS

A) THEORY QUESTIONS:

1. The development of commerce can be discussed over a long process of development which can be arranged in stages. What are these stages?
2. Distinguish between the era of international trade and the era of e-commerce.
3. a. Explain the Industrial revolution.

   b. The so-called industrial revolution was a product of six great and fundamental changes. Required: List and explain these six stages
4. Briefly explain the factors that favour industrial revolution in England.
5. What are the major consequences of the industrial revolution?
6. Mention the consequences of the industrial revolution on business management.
7. Discuss the two primary factors that will shape business in the future. Give examples. Can you think of other possible factors that might dramatically change the world of business anytime soon?

B) MULTIPLE CHOICE QUESTIONS:

1. Evolution of business is highly related to evolution of __________ and is seriously linked with the Industrial ____________.

- **a) Commerce, revolution**
- b) Economics, evolution
- c) Sales, imperialism
- d) Management, revolution

2. Business evolution can be traced back ______ years to India and China

- a) 2000
- **b) 3000**
- c) 4000
- d) 5000

3. Commerce is a very fundamental aspect of __________. Commerce involves marketing of __________.

- a) Industry, Services
- **b) Business, products**
- c) Selling, goods/services
- d) Business, Commerce

4. Commerce is concerned with the following:

a) Buying and selling aspect of business
b) Trade and aids to trade
c) Links producer and consumers
d) All of the above

5. Today's commerce is a modern commerce and consists of a complex and well-developed system of exchange, telecommunication (e-commerce), transportation system, insurance, warehousing, and ___________________.

a) Management
b) Water boarding management
c) logisticsmanagement
d) All of the above.

6. The evolution of commerce can be divided into__________ stages.

a) Six
b) Five
c) Four
d) Three

7. The Industrial Revolution in England between _____ and _____ brought about industry life and industrialization.

a) 1760, 1380
b) 1750, 1830
c) 1760, 1830
d) All of the Above

8. The Industrial Revolution was a change in industrial __________ of production, from handwork to work done by machineries driven by power; and industrial organization, from work at home to work in ___________.

a) Method, industries
b) System, factories
c) Method, factories
d) All of the above

9. Because of the industrial revolution, many nations turned to imperialism to fulfill their needs. **True** or False?

10. The fourth industrial revolution is an era that characterizes the combination of biological, digital, and physical worlds in the automation of production. **True** or False?

2.12 REFERENCES

Enikanselu, S.A. (2008). Introduction to Business. Lagos: Enykon consult.

Fryer, Victoria. The History of Commerce: From the Silk Road to Modern Ecommerce. https://www.bigcommerce.com/blog/commerce/ (Accessed July 28, 2023).

https://www.vedantu.com/history/industrialization-and-imperialism

Lucia Kohnová and Nikola Salajová (2019). Industrial Revolutions and their impact on managerial practice: Learning from the past. Problems and Perspectives in Management, 17(2), 462-478. doi:10.21511/ppm.17(2).2019.36

Mayer CH, Wegerle C, Oosthuizen RM. The Impact of the Fourth Industrial Revolution on Managers' Sense of Coherence. Int J Environ Res Public Health. 2021 Apr 7;18(8):3857. doi: 10.3390/ijerph18083857. PMID: 33916953; PMCID: PMC8067643.

Otokiti, S.O. (2006). Fundamentals of Business Management. Lagos: The book house company.

2.13 RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.
Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard.
Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz.
Fundamentals of Business Administration Management by Caroline Anderson.

CHAPTER THREE
THE ENVIRONMENT OF BUSINESS

3.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to:

i. Explain the concept of business environment;
ii. Describe the relation between the business and its environment;
iii. Classify business activities and clarify the meaning of internal environment and external environment;
iv. Factors of internal environment;
v. Explain the activities relating to commerce;
vi. Analyse the unpredictable & uncontrollable factors; and
vii. Describe the factors responsible for task environment.

3.2 Introduction

Business is defined as all the activities undertaken by individual and organizations to satisfy human wants and needs through exchange with the motives of mutual benefits. The environment can simply be defined as the surroundings in which people live or work. From a broader perspective, it refers to all conditions and influences affecting the development of an organization (Ogundele, 2005b). Environment also refers to all external forces which have a bearing on the functioning of the business. It refers to those aspects of the surroundings of a business enterprise and circumstances of business unit which affect or influence its activities and operations and decides its effectiveness.

Business organization does not exist in a vacuum; it exists in a world of concrete places and things, natural resources, important abstractions and living persons. The sum of all these factions and forces are called the business environment. Although factors are included and studied under its purview because external factors are beyond the control of the firm, whereas internal factors are controllable in nature. The environment determines what is possible for the organization to achieve. It provides the lifeblood for the organization by providing a market for its products and services and by serving as a source of resources.

For an organization to succeed, it must interact with its environment because it supplies the organizations with inputs (e.g., resources, information etc.), that are necessary for its products. Every organization exists within an extensive and complex environmental network.

Therefore, business environment remains critical to the success or failure of any business organization and if the environment is conducive, naturally it engender an increase in the spate of economic activities and consequently growth of the economy, but where the environment is hostile, it discourages investment, stifles initiatives, and renders the economy stagnant. (Adesanya et.al 2011).

3.3 Nature and Importance of Business Environment

The Business Environment is the total of those interrelationships within and between the business and the society, in other words it's the influences that the environment bears on each business organization (Lawal, 1993).

The environment in which the business organization exists can be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment. (Adesanya et al 2011).

According to Keith Davis, (n.d) "Business environment is the aggregate of all conditions, events and influences that surround and affect it.

Business environment refers to all aspects of the surroundings of business enterprise which affect or influence its operations and determine its effectiveness and success.

3.4 Characteristics of Business Environment

Adesanya et al (2011) characterize business environment as:

a. The environment is complex.
b. Environment is dynamic.
c. Far reaching impact.
d. Environment is multifaceted.
e. Uncontrollability.

However, the business environment is characterized by the following factors:

1. Totality of external forces: Business Environment is the sum total of all the external factors that influence the functioning of the business. Hence, it can be called the comprehensive mega force consisting of all external inputs.

2. Specific and general force: Business Environment is made up of both specific and general forces. Specific forces refer to the customers, competitors, investors etc. which have a direct effect on the day to day working of the business while the general forces refer to social, political, legal, technological, and other forces which indirectly affect the operations of a business.
3. Inter-relatedness: Various elements of the business environment are very closely related to each other. For example, at present there has been an increase in demand for products like nose masks, sanitizer, fruits, and vegetables etc., due to an increase in awareness for good health among the consumers.
4. Dynamic nature: Business environment is dynamic in nature i.e., it keeps on changing. For example, changes in government policies, changes in taste and choice of the consumer, change in technology etc., and such changes could be triggered by internal or external factors.
5. Uncertainty: Business environment is very uncertain as one cannot predict as to what will happen in future especially in case of fashion industry, film industry and information technology, as its dynamic nature makes it all more challenging to handle uncertainty.
6. Complexity: Many forces constitute the business environment. Thus, it becomes very difficult to know exactly the relative influence of a particular force (social, economic, technological etc.) on the functioning of a business enterprise as all these factors are related to one another. Managers constantly need to simplify this complexity as much as possible all the time. For example, if there is a change in demand of a product, it becomes very difficult to determine the separate influence of social, political, technological, economic, or legal forces etc. on such a change.
7. Relativity: Different countries and different religions have different business environment. Thus, business environment is a relative concept. For example, technology in Japan differs from that in India, Pakistan, China etc. Hence, a multinational enterprise must keep this aspect in mind while formulating its policies for different countries.

3.5 Types of Business Environment

There are several approaches to typified or classified factors in a business environment. Sekarah (1989), Lawal, (1993) Aluko, Odugbesan, Gbadamosi and Osuagwu (2003), Ogundele (2005) all classified business environment into two.

a. **Specific and General Environment**

Specific environment refers to that which directly affects achievement of the organization's goals. It normally includes the customers, suppliers, competitors, government agencies, labour unions and others. The specific environment differs from organization to organization but based on the nature of the business. General environments include the economic, political, technological, cultural, social, and ecological factors which envelope the organization. It is to be noted that organizations are in continuing interaction with their specific environments.

b. **Internal and External Environment**

Mintzberg (1979) as stated in Ogundele (2007) further divide the internal and external factors of business environment into four which are organization structure, Micro, Task/Intermediate and macro environment, and these are further explained:

1. Organization structure: According to Mintzberg (1979), complexity and stability which are characteristics of business environment is used to obtain the following situations of business environment which are dynamic, stable, complex, and simple.
2. Micro-Environment: This is otherwise known as Internal Environment which includes all variables that can be manipulated or controlled by the management of the organization for attainment of organizational goal. It consists of the functional structure or the strategic units of that organization which are finance and accounts units, marketing units, production units, human relation units marketing units, production units, human relations units and research and development units.

   These internal factors/variables are referred to as the climate and the managers need skills, experience, and expertise to be able to manipulate them in order to achieve corporate objectives.
3. Intermediate environment: This comprises those systems which span the boundaries between the organization and its general or macro environment. It is also known as Task environment or Direct-action forces which provides a link between the organization and the macro environment. These factors consist of shareholders, customers, competitors, employee, suppliers, creditors, financial institutions, law firm, insurance companies,

debtors, labour union, government, advertisement and public relation, government, advertisement and public relation agencies and the local community.

4. Macro environment: These are the external factors that affect the effective performance of the business positively or negatively hence the business may not be able to change the factors, but it depends on how the manager can cope and adapt to the conditions of the macro factors. The macro factors include economic, political, legal, technological, socio-psychological, market, cultural and ecological factors.

Based on the above, factors in the business environment can be typified into:

1. Internal factors of business environment.
2. Task (Micro) factors of business environment.
3. General (Macro) factors of business environment.

3.5 Internal Factors of Business Environment

Internal factors are those factors which can be controlled by the organization itself, and they can be altered to suit the environment. There are a large number of internal factors which contribute either to success or to failure of the business, hence they either work as a strength or can cause trouble for the organization. The internal factors are as follows:

1. Value system, business policies, laws, and regulations: The value systems of the founders and those at the helm of affairs have important bearings on the choice of business, the mission the objectives of the organization, business policies and practices.
2. Mission and objectives, aims and targets: The business domain of the company, philosophy, business policies, targets and direction of development are guided by the mission and objectives of the company.
3. Company image and brand equity: The image of the company matters while raising finance, forming joint ventures or other alliances entering purchase and sale contracts and launching new products.
4. Management structures and nature: The organization structure, the board of directors, extent of professionalization of management, etc. are important factors influencing business decisions.

5. Human resources: The characteristics of human resources like skill, quality, moral, commitment attitude, etc., could contribute to the strengths and weaknesses of an organization.
6. Internal power relationship: Factors like the amount of the support of top management enjoyed from different levels of employees, shareholders and board of directors have important influence on the decision and their implementation.
7. Other factors like:
   (a) Availability of business resources, productivity and working strength.
   (b) Research and development (R & D) in technological capabilities in order to innovate and compete effectively.
   (c) Financial position and capital structure are also important internal environment factors affecting the business performance, strategy, and decision.
   (d) Method of production and the use of machine and technology.
   (e) Efficiency of labour and management, relationship among employees.

3.7 The Task (Micro) Factors of Business Environment

"The micro or tasks environment is the more specific and immediate environment in which an organization conducts its business". (Dunham and Pierce, n.d).

The micro-environment consists of the forces in the company's immediate environment that affects the performance of the company, and they are more closely linked with the business than the macro factors. The micro factors may affect different firms in a particular industry in different ways. Some of the micro factors may be particular to one firm only. When competing firms in an industry have the same micro factors, the relative success of the firms will depend upon how effectively they deal with these elements. The environment of business is always changing, and it is uncertain.

The micro-environment factors are discussed in detail as follows:

1. Suppliers: Suppliers are the important force in the tasks environment of a business who supply the inputs like raw materials and components to the business.
2. Customers: Customers have a direct impact. A company may have different categories of customers like industrial customers, retail customers, wholesale customers, government as a customer and foreign customers etc. To succeed in capturing customers, a business must

try its best to know what people want and will buy. The consumer's acceptance imposes a constant challenge because non-economic factors in the environment such as attitudes, desires and expectations of people also influence consumer behaviour.

The choice of customer segments should be made by considering the following factors:

(i) Relative profitability.

(ii) Dependability.

(iii) Stability of demand.

(iv) Growth prospects.

(v) Extent of competition.

3. Labour: In big organizations where hundreds of workers are employed, the labour force is organized in the form of trade unions. The trade unions interact with the management for higher wages and bonuses, better working conditions etc. They pressurize the management for higher wages and bonuses, better working conditions etc. They pressurize the management for the fulfillment of their demands and even resort to go on slow tactics strikes, lockouts in order to achieve their objectives.

4. Business Associate: The existence of business allies offers strength to an organization. It is easier to borrow capital from the business associates during the period of emergency. Similarly, arrangements with business associates could be entered into for the supply of raw materials or for the role of finished products.

5. Competitors: Competitors play a vital role in running the business enterprise. Business has to adjust its various operational activities according to the behaviour of the competitors.

6. Regulatory agencies: The regulators include government departments and other organizations which monitor the activities of business like NAFDAC, SON, the local trade association, local council authority etc. Besides, professional bodies such as ICAN, CIBN, CIPM, NIMC etc. may also prescribed certain standards and practices for the business in their respective areas.

7. Firm: The relative success of the firm depends on the relative effectiveness in dealing with various other elements in a particular industry.

8. Marketing Intermediaries: These are the firms that aid the company in promoting, selling, and distributing its goods to final buyers. These are vital links between the company and

the final consumers. Marketing intermediaries include middlemen, marketing agencies, financial and physical intermediaries.

9. Local community: It is any group that has an actual or potential interest in or impact on an organization' stability to achieve its interest. They may be media newspapers, magazines etc., or people living in the area where the business unit is set up.

   Other factors consist of shareholders, creditors, financial institutions, law firms, insurance companies, debtors and government.

3.7 The General (Macro) Factors of Business Environment

A business and its micro-environment operate in a large macro- environment operate in a larger macro-environment of forces that shape opportunities and pose threats to the business. The macro environment of business includes activities which are uncontrollable and need proper nourishment and attention on the part of a business enterprise. It refers to the general and overall environment within which the business entity operates.

The important macro environmental factors are explained as follows:

1. **Economic environment:** Economic environment of business has reference to the broad characteristics of the economic system in which the business operates. The present-day economic environment of business is a complex one because the business sector has economic relations with the government, capital market, household sector and global sector. These sectors together influence the trends and structure of the economy and the form of functioning of the economy vary widely. The design and structure of any economic system is conditioned by socio-political arrangements. Improvements in the national business environment and company upgrading are inextricably intertwined.

   The survival and success of a business enterprise is finally decided by the economic environment and various market conditions. The important external factors that affect the economic environment of a business are as follows: economic conditions, economic system, economic policies, economic growth, interest rates and currency exchange rates.

2. **Political and Government Environment:** Political environment refers to the influence exerted by the three arms of government:

   (i) Legislature (ii) Executive (iii) Judiciary

The legislature decides on a particular course of action. Government is the executive and its job is to implement what is decided by the parliament. The judiciary has to ensure that both the legislature and executive function in public interest and within the boundaries of constitution. Legal and political environment provide a framework within which the business is to function, and its existence depends on the success with which it can face the various challenges constructed out of political and legal framework.

3. **Socio-cultural Environment**: Socio-cultural environment is very comprehensive because it may include the total social factors within which an organization operates. Culture consists of the cultivated behaviour of individuals within a society therefore, socio-cultural factors include people's attitude towards work, social institution, religion and education, family role, ethical issues, and social responsiveness of business.

4. **Geographical environment:** This includes physical features, climate conditions, rainfall, humidity, vegetation, and port locations. For example, trade between two regions, transport and communication depends on geographical factors hence differences in geographical conditions between markets may sometimes call for changes in the marketing mix.
5. **Ecological environment:** This includes natural resources endowments, steepness and direction of slopes, fisheries, forestry etc. are relevance to business. For example, manufacturing depends on physical inputs; mining and drilling depend on natural deposits, while agriculture which depends on nature ecological factors have recently assumed great importance. Government policies aimed at the preservation of environmental purity and ecological balance, conservation of non-replenish-able resources etc. have resulted in additional responsibilities and problems for business, and some of these will increase the cost of production and marketing.
6. **Supplier Environment:** The supplier environment consists of factors related to the cost, reliability, and availability of the factors of production or services that have an impact on the business of an organization. There might be various factors operating under the environment like cost, availability and continuous supply of raw materials, availability of energy and human resources, spare-parts, after-sales services, infrastructural support, and easy availability of the different factors of production, bargaining power of suppliers and existence of substitutes etc. If there is a shortage of any of these things, the business is

affected to a very large extent. If there is no proper supply of raw material or infrastructural inputs like road transport etc., the very existence of the business may be in danger.

7. **Demographic Environment:** Demographic factors include size, growth rate, age composition, sex composition etc. of population, family size, economic stratification of population, educational level, taste, religion etc., all these demographic factors are relevant to business. These factors affect the demand for goods and services. Markets with growing population and income are growth markets because a rapidly increasing population indicates a growing demand for many products.

8. **Technological Environment:** To survive in today's competitive world, a business must adopt technological changes from time to time. Constant innovation is essential because the purpose of every business is to create a customer, and therefore every business enterprise has two basic functions of marketing and innovation.

9. **International environment:** Another environmental factor which is fast emerging as the force to reckon with is the international environment. The international environment is very important for certain categories of industries particularly those which are directly dependent on imports or on global market. This environment refers to foreign policy, both in case of political as well as monetary policy of the country, international trade agreements, foreign market situation (recession or boom), etc.

3.9 Relationship between Business and the Environment

Environment is closely related with business. There is a constant 'give and take' relationship between environment and business. The business receives inputs, information and technology, and the environment and gives it back in the form of outputs, information and technology form the environment and gives it back in the form of outputs (goods and services). If these outputs are accepted by the environment, the environment-business interaction continues but if they are unacceptable to the environment, firms adapt to the environmental requirements and change their operations. More-so the organization has to look after the interests of stakeholders like shareholders, consumers, workers, suppliers etc. The environment also offers threats and opportunities to which organizations have to respond positively.

Ogundele (2005) observed that the interrelationship between business and society is of enormous significance, for a number or reasons:

i. Business is a major institution in society. In addition, business is even a dominant institution in society.
ii. Business has a strong impact on other institutions and actions in society.
iii. What goes on in society has a pervasive influence on business, because business must be sensitive and sensitized to events in society.
iv. The importance of business to society can be traced to the industrial revolution, and its impact on society, thus business institutions have created the productive machines that turn out goods and services.

Moreover, business and environment interaction take place in the following ways:

1. Business is affected by the economic conditions of the environment. During recessionary conditions, for example, firms reduce production or pile their inventories to sell during normal or boom conditions. Business on the other hand, can create artificial scarcity of goods by piling inventories and force the economic conditions to show signs of adversity while it is not actually so. Both business and environment, thus, affect and are affected by each other.
2. The financial environment and the business system act and interact with each other. When financial institutions increase the lending rates, firms may resort to other sources of funds, like bank loans or internal savings (reserves). This may force the financial institutions to lower the interest rates.
3. Firms reconcile the interests of diverse groups and satisfy their demands. The firm's micro-environment consisting of workers, suppliers, shareholders etc., affects the business activities and is, affected by them. Workers demand high wages; suppliers demand high prices and shareholders demand high dividends. If management resolves these demands, it will be positively affected by the environmental forces, but if it fails to satisfy this demand, it becomes a victim of the environment. Growing firms pay high wages and dividends to their workers and shareholders to maintain harmonious industrial relations and a positive business environment interface.

4. Business receives useful information from the environment regarding consumers' tastes and preferences, technological developments, government policies, competitors' policies etc. and provide useful information to the environment regarding its goals, policies, and financial returns. This information is transmitted to the environment through annual reports as a requirement of disclosure practices.
5. The basic function of a business enterprise, input-output conversion, is carried out through active interaction with the environment. It receives inputs from the environment, converts them into outputs through productive facilities which are also received from the environment and sends them back to the environment. Constant feedback is received from the environment to improve its performance.
6. Business-environment interaction is a continuous process. The environment offers threats and opportunities to business systems which they overcome and exploit through their strengths and weaknesses. SWOT analysis helps in integrating external environment with the internal environment. The business and environment, thus, have much to give and take from each other.

Interaction of business with environment can be shown as follows:

a. The continuous interaction of environment with business leads to new expectations from business to the environment in terms of social responsibilities and business ethics and otherwise business in terms of regular supply of inputs at reasonable prices. This involves changes in business and environmental policies and leads to a new level of business-environment interface or business - environment equilibrium.
b. Finally, managers and potential managers must be conscious of the fact that the success of an enterprise depend upon the way we can adjust to the environment (Aluko et al, 2003). Moreover, business and its environment and in turn, to a certain degree environment affect the external forces. Environmental factors are dynamic and so is the business too, however a single business firm may not affect business environment, but business firms together may affect the environment of business.

3.10 Managing the Organizational Environment

One of the key roles of a manager is to monitor and shape the internal and external environments and to anticipate changes and react quickly to them. They monitor the environments through boundary spanning - a process of gathering information about developments that could impact the future of the organization. Managers have access to loads of information through a variety of sources such as customer and supplier feedback; professional, trade, and government publications; industry associations; and personal contacts. Furthermore, managers may work proactively to influence the external environments through lobbying, voting, and using the media to influence public opinion wherever possible or deemed necessary.

The external environment includes all the factors outside the organization which provide opportunities or pose threats to the organization. The internal environment refers to all the factor with an organization which impart strengths or cause weaknesses of a strategic nature. The environment in which an organization exists can, therefore, be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment.

Management of organizational environment can be accomplished in the following ways:

a. Environmental scanning: This is the process of searching out for information that is not available and sorting through the information to interpret what is important and what is not.
b. Scenario development: A scenario is a narrative that describes a particular set of future conditions; managers can develop a scenario of the future in managing the environment. Organization may develop best or worst-case scenario and the middle-grouped alternatives.
c. Forecasting: This is used to speculate how the environmental forces will change in future. Environmental scanning will identify important factors, and scenario development will develop alternative picture for the future.
d. Bench marking: This is the process of comparing an organizational practice and techniques with those of other companies. It entails the collection of information on a company's operations and those of the other company to determine the performance gap.
e. Boundary spanning role: This is the practice where managers learn how to perceive, interpret, and appreciate the environment by interacting with individuals and groups outside the organization to obtain valuable information from the environment.

In the final analysis, the organizational environment is a set of forces and conditions outside the organization's boundaries that have the potential to affect the way the organization operates. Changes in the environment create opportunities for managers to strengthen their organizations. However, other changes pose a threat if organizations are unable to adapt.

As earlier stressed, the task environment is the set of forces and conditions that affect an organization's ability to obtain inputs and dispose of its outputs. These have the most immediate and direct effect on managers because they pressure and influence managers on a daily basis.

Howbeit, forces in an organization's general environment have profound effects on its task environment. These forces are economic, technological, socio- cultural, demographic, political and legal, and global. These forces in the task environment result from the actions of suppliers, distributors, customers, and competitors, and have a significant impact on short-term decision-making.

Therefore, managers must constantly analyze forces in the general environment because these forces affect long-term decision-making and consequently, the internal task environment. Several key areas of the organization's operations should be examined in an internal analysis. Key areas to be assessed include the marketing, financial, research and development, production, and general management capabilities. These areas are typically evaluated in terms of the extents to which they foster quality and support the competitive advantage sought by the organization.

3.11 Analyzing the Business Environment

Business environmental analysis is studying all the factors that affect a business. It is a strategic technique used to identify all internal and external factors that could affect a company's success. This includes things like the political landscape, the economic conditions, the technological environment etc. Also, trends and high-level factors are part of it, while another name for this is environmental scanning. Interest rates, for example, and how they may affect a company's operations. These analyses can help businesses achieve attractiveness in their market.

Organizations need to do environmental analysis because it helps them find opportunities, identify threats, anticipate change, create effective strategies, and make informed decisions to stay competitive and be successful.

The four environmental influences could be described as follows:

1. An opportunity is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position. An example of an opportunity is a growing demand for the products or services that a company provides.
2. A threat is an unfavourable condition in the organization's environment which creates a risk for or causes damage to, the organization. An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an industry.
3. A strength is an inherent capacity which an organization can use to gain strategic advantage. An example of a strength is superior research and development skills which can be used for new product development so that the company can gain a strategic advantage.

4. A weakness is an inherent limitation or constraint which creates strategic disadvantages. An example of a weakness is overdependence on a single product line, which is potentially risky for a company in times of crisis.

An understanding of the external environment, in terms of opportunities and threats, and the internal environment, in terms of opportunities and threats, and the internal environment, in terms of strengths and weaknesses, is crucial for the existence, growth, and profitability of any organization.

A systematic approach to understanding the environment is the SWOT analysis. Business firms undertake SWOT analysis to understand their external and internal environments, SWOT, which is the acronym for strengths, weaknesses, opportunities, and threats, through the analysis, the strengths and weaknesses existing within an organization can be matched with the opportunities and threats operating in the environment so that an effective strategy can be formulated. An effective organizational strategy therefore is one that capitalizes on the opportunities through the use of strengths and neutralizes the threats by minimizing the impact of weaknesses, so that an effective strategy can be formulated.

Also, organisations employ PESTLE Analysis, which is the most widely used tool for conducting a complete business or industry environment analysis. It refers to the factors that are political, economic, social, technological, legal, and ecological. The various components of a PESTLE analysis are stated below:

i. Political issues refer to the level of government intrusion into an organization's operations. Primary concerns include taxes, tariffs, regulations, elections, security, and political stability.
ii. Economic factors include the overall health of the economy like growth, employment, exchange rates, inflation, and interest rates.
iii. Social cultural issues are shifts in age, demographic changes, changing attitudes toward safety and health, customer preferences, and technical improvements etc.

iv. Technological factors involve research and development, robotics, automation, and any other type of technological advancement. New technologies are referred to as "technological disruption." It could change the cast of leading competitors dramatically.
v. Legal issues involve regulatory laws, employment, health, and safety policies. Customer safety and discrimination laws can also have an impact on a company's capacity to operate.
vi. Ecological factors include climate change, weather, air quality, pollution, and natural disasters. Note that changes in the environment threaten some industries more than others.

There are four key steps that must be followed managers in completing a business environment analysis report. These key steps include analyzing environmental factors, considering how to monitor these factors, analyzing the impact of these factors, and developing strategies to keep up with these factors.

3.12 Organizational Approaches to Environmental Challenges

Since business organizations do not exist in a vacuum, it is essential to determine how organizations respond to environmental pressures and what factors affect their responses and what factors hinders their responses.

i. Acquiescence: In this case the organization fully conforms to institutional pressure.
ii. Compromise: Partial conformity with institutional pressure, this is a diplomatic game characterized by avoidance of institutional pressure through concealment, non-conformity, and symbolical responsiveness.
iii. Defiance: Active rejection of institutional norms.
iv. Manipulation: Attempt to actively change or exert power over institutional pressures.
v. Environmental scanning: This is to systematically scan the environment in order to identify opportunities and threats. The objective is to make use of opportunities and avoid threats.
vi. Strategic Planning: Effective strategic planning can provide a cushion to ward off adverse environmental change.

3.13 SUMMARY

The modern business manager operates in a more dynamic environment. The change in the environment has been rapid and unpredictable. Economic variables have been complex both in form and impact on the practice of business in Nigeria. Consumers and clients have been showing complex behaviours both in local and international markets.

In contemporary Nigerian business environment, performance of Nigerian companies is predicated on factors such as low-sales, high cost of production, low capital utilisation, lack of foreign exchange to source needed inputs, poor power supply, and low quality of goods and services, among others.

Business environment is the sum total of all external and internal factors that influence a business. Business establishes, grows, or operates and dies in the environment. It exchanges resources in the environment. It collects inputs i.e., man money, materials, machines etc. And provides output i.e., goods and services in the environment. Environment means surrounding. The business environment is defined as a force that affects organizational performance.

Micro-environment is also known as operating environment. It consists of the company's immediate environment that affect its performance. It includes customers, suppliers, intermediaries, competitors etc. The micro-environment consists of the elements that directly affect the company.

According to Kotler, (1980) "Macro environment create forces that create opportunities and pose threats to the business unit. It includes economic, demographic, natural, technological, political, political, and cultural environments."
Task Environment of an organization is the environment which directly affects the organization from attaining business goals. In brief, task environment is the set of conditions originating from suppliers, distributors, customers, stock markets and competitors which directly affects the organization from achieving its goals.
(Dess & Beard, 1984).

3.14 ILLUSTRATIVE AND PRACTICE QUESTIONS

A) THEORY QUESTIONS:

1. Explain the concept of business environment.
2. Describe the relation between the business and its environment.
3. Classify business activities and clarify the meaning of internal environment and external environment.
4. What are the factors of internal environment?
5. Explain the activities relating to commerce.
6. Analyse the unpredictable & uncontrollable factors.
7. Describe the factors responsible for task environment.
8. What are the various factors that influence business environment? Or explain the internal and external factors of business environment.
9. What is business environment? Or what do you understand by the concept of business environment?
10. Define the term Business Environment
11. Examine the characteristics of business environment.

B) MULTIPLE CHOICE QUESTIONS:

1. Business is defined as all the activities undertaken by __________ and ______________ to satisfy human wants and needs through exchange with the motives of mutual benefits.
   a) Individual, organisations
   b) Organisations, departments
   c) Individuals, industry
   d) Firms, businesses.

2. The environment can simply be defined as the ______________ in which people live or work.
   a) Perimeter
   b) Boundary
   c) Surroundings
   d) All of the above

3. From a broader perspective, _________________ refers to all conditions and influences affecting the development of an organization.
   a) Surroundings
   b) Environment

c) Perimeter
d) Margin lines

4. Environment also refers to all ______________ forces which have a bearing on the functioning of the business.

a) Political
b) Ecological
c) External
d) Internal

5. Environment refers to those aspects of the ___________________ of a business enterprise and circumstances of business unit which affect or _____________ its activities and operations and decides its ________________.

a) Surroundings, empowers, effectiveness.
b) Effectiveness, surroundings, influence
c) empowers, effectiveness, surroundings,
d) Surroundings, influence, effectiveness.

6. If the environment is conducive, naturally it engenders an increase in the spate of economic activities and consequently growth of the economy. **True** or False?

7. Where the environment is hostile, it discourages investment, stifles initiatives, and renders the economy stagnant.**True** or False?

8. Adesanya et al (2011) characterize business environment as:

a) complex.
b) dynamic.
c) Uncontrollably.
d) multifaceted.

9. The business environment is characterized by the following factors except______________________.

a) Relativity
b) Uncertainty
c) Inter-relatedness
d) Centricity

10. Business environment is classified into________.

a) Four
b) Three
c) Two
d) Five

3.15 REFERENCES

Auster, C. & Choo, C.W. (1993). ‘‘Environmental scanning by CEOs in two Canadian industries’’. *Journal of the American Society for Information Science and Technology,* 44(4), 194-203.

Dess, G.G. & Beard, D.W. (1984). ‘‘Dimensions of organisational task environments’’. *Administrative Science Quarterly*, 29(1), 52-63.

Duncan, R.B. (1972). ‘‘Characteristics of organisational environments and perceived environmental uncertainty’’. *Administrative Science Quarterly*, 17, 313-327.

Grant, R.M. (1999). ‘‘Contemporary strategy analysis’’. 2nd ed. Oxford: Blackwell Publishers.

Kotler, P. (1980). Marketing management. New Delhi: Prentice Hall of India.

Otokiti, S.O. &Awodun, M.O. (2003). ‘‘The master strategist: Management with style in a turbulent business environment’’. Lagos: Pumark Nigeria Limited.

RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.
Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard.
Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz.
Fundamentals of Business Administration Management by Caroline Anderson.

CHAPTER FOUR
THE ORGANIC BUSINESS FUNCTIONS

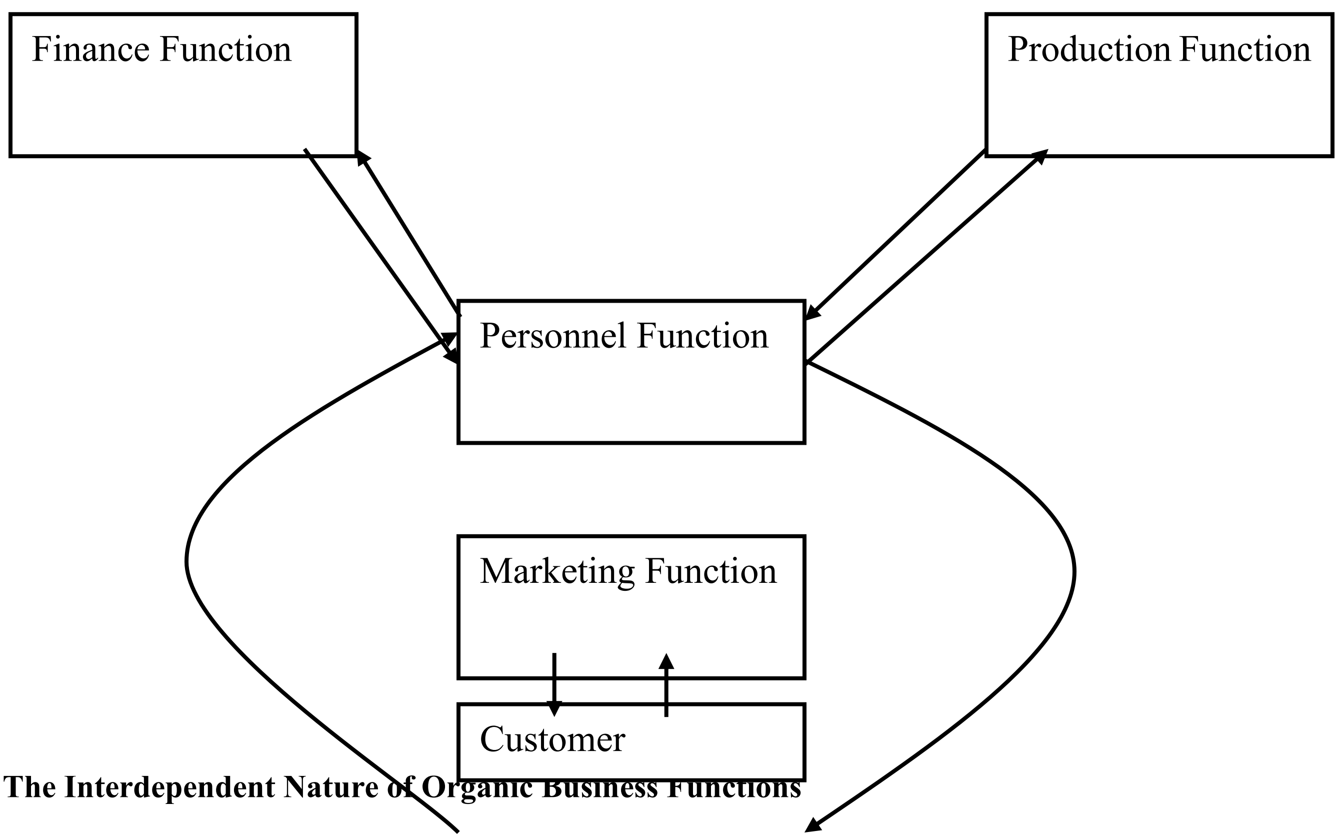
4.1 LEARNING OBJECTIVES

After studying this chapter, students should be able to:

i. Explain the production function and its importance;
ii. Describe the finance functions and its significance;
iii. Explain the role and importance of personnel management; and
iv. Discuss the indispensability of marketing function in Business Enterprises.

4.2 INTRODUCTION

In business, there are major functional areas of operation namely: Production, Finance, Personnel and Marketing. These functional areas are interdependent. Through the use of financial input into the business, supply of needed raw material and physical facilities are made possible. The marketing or sales function is saddled with the responsibility of selling finished products or services to the ultimate consumer. Information generated in the form of feedback from customers' responses are relayed to the production department. The personnel function involves bringing together of human resources of an organization to achieve the objectives of the business. The interdependent natures of these functional areas are diagrammatically illustrated below:



The Interdependent Nature of Organic Business Functions

Source: Ayodele & Stephen (2009).

4.3 THE PRODUCTION FUNCTION

4.3.1 INTRODUCTION

Production function is an important function in all the industrial or manufacturing enterprises. Most of the other activities in these enterprises revolve around this function. Therefore, it is essential that production function is managed properly so that it may contribute effectively to the objectives of the enterprises.

4.3.2 MEANING OF PRODUCTION

Production means the conversion of raw materials into finished products with the help of certain processes. Production is the process of transforming raw materials (inputs) or purchased components (inputs) into finished products (outputs) for sale. Production is the process of creating and expanding wealth, it is a complex system of men, machines, materials, and structure which are designed to produce a product or service of economic value to the society (Stevenson, 1999).

4.3.3 PRODUCTION MANAGEMENT

This has been defined as the function of business which selects, designs, operates, controls and up-dates a production system. It involves planning, organizing, directing, and controlling the activities relating to the production functions.

The production functions involve the effort of the production manager and the production engineer. While the production engineer designs the physical equipment and processes, the production manager organizes the use of these equipment and other resources of men, materials, and money.

4.3.4 FUNCTIONS AND SCOPE OF PRODUCTION MANAGEMENT

Production management involves a wide range of activities from the plant location to the packing of products to be distributed by the marketing department of the enterprise. Production management has a very wide scope, and it includes the following operations:

(i) **Design of Product:** It is the top management which determines the product to be produced by the firm. But the designing of the product is the responsibility of the production manager.

(ii) **Design of Production System:** Production system is the framework within which the conversion of inputs into output occurs. There are three basic kinds of production systems, namely, process production, job production and intermittent production. The choice of a production system will depend upon the type of product to be produced and the scale of production carried out by the firm.

(iii) **Production planning and control:** Production planning makes available the physical system and guides operations in such a way that human, material, and other resources are converted to finished goods. Production control on the other hand, encourages the comparison of actual with planned output so that adjustments are made in the system when necessary.

(iv) **Selection of Location:** Plant should be located in such a place where production and distribution costs are the minimum.

(v) **Selection of Plant and Equipment:** The choice of plant and equipment depends upon (a) what is available or what can be made available (b) what is economically reasonable. The quality of output, life of the machine and adaptability of the facilities are also important considerations.

(vi) **Factory Location and Layout:** Businesses are established to satisfy some environmental needs so that reasonable profits are made to enable the business continues to survive. It is therefore very necessary that factories are sited in places where it would be convenient and economical to operate such a business.

In most African nations, factories are concentrated in few big cities. In Nigeria, before the creation of more states industries were concentrated in and around the former regional capitals – Lagos, Ibadan, Enugu, Kaduna, Benin. However, there was also a fair concentration of business institutions in few commercial cities like Kano, Port Harcourt, Onitsha, Warri, etc.

In all cases, entrepreneurs' decisions to locate their factories in certain areas are influenced by a number of factors as discussed below.

4.3.5 Factors That Determine the Volume of Production

i. The quantity and quality of factors of production,

ii. The size of market,

iii. The nature of the product,

iv. Availability of raw material,

v. Management,

vi. Storage facilities,

vii. Division of labour,

viii. Attitude of the workers,

ix. The level of technology,

x. Government policy etc.

4.3.6 Factors Influencing the Choice of the Production System

The major factors affecting Production system is explained in the 6 points below:

1. **Nature of product/service demand:**

Production systems exist to produce products/services of the kind that customers want, when they want them, and at a cost that allows the firm to be profitable. The place to start in analyzing production systems, therefore, is the demand for products and services. Of particular importance are the patterns of demand.

2. **Degree of Vertical Integration:**

One of the first issues to resolve when developing production processing designs is determining how much of a product/service the company will produce and how much it will buy from suppliers. Vertical integration is the amount of the production and distribution chain, from suppliers of components to the delivery of finished products/services to customers, that is brought under the ownership of a company.

3. **Product/Service and Volume Flexibility:**

Flexibility means being able to respond fast to a customer's needs. Flexibility is of two forms, product/service flexibility, and volume flexibility. Product/service flexibility means the ability of the production system to quickly change from producing one product/service to producing another. Volume flexibility means the ability to quickly increase or reduce the volume of products/services produced. Both of these forms of the flexibility of production systems are determined in large part when the production processes are designed.

4. **Degree of Automation:**

A key issue in analyzing production processes is determining how much automation to integrate into the production system. Because automated equipment is very expensive and managing the integration of automation into existing or new operations is difficult, automation projects are not undertaken lightly.

5. **Level of product/service quality:**

In today's competitive environment, product quality has become the chief weapon in the battle for world markets of mass-produced products. The choice of the production process is certainly affected by the desired level of product quality. At every step of process design, product quality enters most of the major decisions.

For many firms, the issue of how much product quality required is directly related to the degree of automation-integrated into the production process. Automated machines can produce products of incredible uniformity. And with proper management, maintenance, and attention, products of superior quality can be produced with automated production processes at low production costs.

6. **Degree of Customer Contact:**

For most services and some manufacturers, customers are an active part of the processes of producing and delivering products and services. The extent to which customers become involved in the production systems has important implications for the production processes. There is a wide range of degrees of the interaction of customers with the production system.
For example, at one extreme are barbershops, hair salons, and medical clinics. Here the customer becomes an active part of the production, and the service is performed on the customer. In these cases, the customer is the central focus of the design of production processes. Every element of the equipment, employee training, and buildings must be designed with the customer in mind.

4.3.7 Factors Influencing Factory Location

1) ***Easy integration***

   Most factories are located with the intention to enable them to be easily integrated with other groups of companies especially those in related industry. For example, a large number of insurance firms in Lagos have their corporate offices in Lagos Island, in Lagos State.

2) ***Availability of labour***

   The availability of certain amenities in big cities usually draws job seekers to the cities. It is easier for factories to source adequate labour and in the required skills and training among them.

3) ***Availability of living accommodation***

   One thing most people consider after food is shelter. This also influences their decision to take up certain appointments. Organizations consider the availability of housing for staff use when locating the factories.

4) ***Availability of amenities***

   Organizations operate in environments and therefore cannot isolate their staff from community life. A location becomes more attractive the more it has necessary amenities e.g., hospitals, shops, markets, restaurants etc.

5) ***Availability of transportation***

   Most factories are sited in places where transportation would continue to be available to facilitate the movement of both raw materials and finished goods.

6) ***Availability of services***

   Entrepreneurs usually consider availability of services like electricity, water, drainage, waste disposal, etc. when deciding on factory location.

7) ***Availability of materials***

   Factories will operate with maximum convenience if located near the source of raw materials. This will reduce the cost of such materials and it will also result in low price for finished products.

8) ***Physical expansion***

   As organizations grow, their facilities and structure may need some expansion. This is only possible if there is adequate room for this on site. Most organizations, therefore, consider this when siting the factory. For example, Lagos State University occupies so much land that physical expansion could never be a problem in the next fifty years.

9) ***Political conditions***

Sometimes, the political situation influences the location or siting of the factory. The entrepreneur must ensure they have good knowledge of this situation before deciding on location of the factory.

10) ***Environmental laws***

Entrepreneurs must obtain good knowledge of the environmental regulations to see how these will affect the location of their factories. For example, firms whose production processes involve high pollution, or the use of explosives are usually located in remote areas or far away from residential areas. Perhaps this is one of the reasons why NAFDAC insists on inspecting factories before approving their products as fit for purchase and consumption in Nigeria.

4.3.8 Quality Control

Quality control is the management activity geared towards ensuring that the actual quality of the output conforms to the required standards.

The practice is often to view the standard for a product in terms of appearance, performance, function etc.

Purposes of Quality control

(i) To establish quality standard.
(ii) To assess conformity in production processes.
(iii) To take corrective actions.
(iv) To ensure continuous improved standards in product and production processes.

Inventory Control

This deals with the control over raw materials, work-in-progress, finished products, stores, supplies, tools and so is included in production management. The raw materials, supplies etc. should be purchased at right time, right quality, in right quantity, from right source and at right price.

Method Study

This is the process of subjecting work to systematic critical scrutiny in order to make it more effective and/or more efficient. It involves the use of those techniques which are concerned with work environment and work measurement. Standard method should be devised for performing the repetitive functions efficiently. Unnecessary movements should be eliminated and suitable positioning of the workers for different processes should be developed.

Inspection

Quality control essentially involves inspection. The inspection department works as an active device to prevent rejects in the production system. It is concerned with finished goods, raw materials, tools, spare parts and indeed all manufacturing processes.

Areas where inspection takes place:

The receiving room appears to be the starting point for raw materials coming into the organization. Other components are also inspected at the entry point.

Inspection is also carried out at the various stages of the production process.

It is also done at any point where the production process is transferred from one department (or unit) to the other.

Finally, finished goods are inspected as they leave the production line.

Research and Development

Research means critical investigation in order to acquire new knowledge. Applied research explores information for the practical problems in mind and thus is directed to achieve immediate solutions to practical problems. Development comes after applied research. It involves design and fabrication of new products and then testing their usefulness, keeping in view the needs and demands of customers.

4.3.9 TYPES OF PRODUCTION SYSTEM

Production system is the framework within which the conversion of inputs into outputs occurs. The main types of production systems used in modern industries are discussed below:

1) **Job Production**

It is the traditional form of production. It consists of small-scale production to meet customers' individual requirements. It is also called "one off" or "make complete" production. The important thing, however, is that it involves the manufacture of a single complete unit by an operator or group of workers. Examples of job production include ship, aircraft, and bridge building. Job production ensures that the customer's specification is adhered to in the production of the goods.

Characteristics of Job Production

i) The production facilities are organized according to the customer order.

ii) The products produced are non-standardised and heterogeneous in nature.

iii) General purpose machines like sharpeners, grinders and drills are used.

iv) Variable path materials handling equipment like lifts, trucks, cranes, carts, etc. are used.

v) Inventories of raw materials and in-process are very high.

Advantages of job production

i) It forms a good training ground for managerial positions in terms of technical knowledge and experience.

ii) It possesses some technical economies. Sometimes it uses multi-purpose machines.

iii) It may thrive in highly diversified dynamic and flexible organizations.

iv) Because of general purpose machines and facilities, a variety of products can be produced.

v) The full potential of operator can be utilized.

Disadvantages of job production

i) It requires highly skilled personnel – e.g., the foreman, and the workmen.

ii) Managerial problems increase with the increase in technology.

iii) The price of the product rises with rise in cost of production.

iv) Production planning is complicated.

2) **Batch production**

It is usually the most common type of production. Batch production method requires that work on any production is divided into parts of operations and each operation is taken to an end throughout the whole batch before the next operation is commenced. Some examples of batch production methods include electronic equipment, transformers etc.

Characteristics of Batch production

i) Use of specialists, those who specialize in making certain specifications are employed.

ii) Intermittent production, production stoppages to allow for adjustments of machines, hence it is time-consuming.

iii) Machines that could produce different sizes have to be acquired.

iv) A huge stock of inventories because various specifications could be accepted.

Advantages of Batch production

i) It encourages specialisation of labour.

ii) It requires low capital investment.

iii) It makes easy the work of production control department.

iv) Cost per unit is lower as compared to job other production.

v) Better utilization of plant and machinery.

Disadvantages of Batch production

i) Cost of materials directly affects production quantity.

ii) Idle time occurs.
iii) As a result of the idle time, large stocks of work in progress occur.
iv) This further results in high cost of storage for firms.
v) Material handling is complex because of irregular and longer flows.

3) **Flow production (Mass production)**

Flow production involves the continuous and progressive processing of materials. It is a kind of production method that eliminates non-producing time (no lost time).

It is characterized by continuous production of goods of more or less identical nature. It makes use of one purpose machinery whose assembling, and use is so carefully timed, sometime to less than one-minute waiting time. In other words, as the work on a batch is completed to stage, it is passed to the next stage without completing work on the whole batch. Examples of flow production include, flour mills, beer, soft drink, textile etc.

Characteristics of Flow Production

i) Production through assembly lines.
ii) Economy of large-scale production as a result of mass production.
iii) Costly system of operation machines and manpower requirements make the cost of production exorbitant.
iv) Dedicated special purpose machines having higher production capacities and output rates.

Advantages of Flow production

i) It has the advantage of large-scale economies.
ii) It encourages effective inspection activities.
iii) It results in reduced prices of products.
iv) The cost of production is usually low.
v) Increases the skill of specialized workers.
vi) Minimum stock and simplified production control result in savings on storage expenses.
vii) Increased production and reduction of waste may result.

Disadvantages of Flow production

i) It limits the range of products available to consumers.
ii) A technical problem in one of the operations can cause a total breakdown of the whole operations.

iii) It does not work in the absence of a large market.
iv) It fails to allow flexibility of specialized plants.
v) Mass market is not usually guaranteed.
vi) Requires that inspection be done at each stage – this increases the cost of inspection.

(4) **Continuous Production**

When a very large volume of non-discrete, highly standardized output is desired, a continuous system is used. No variety in output and no need for equipment flexibility in continuous production. Usually, the operation is around the clock e.g. petroleum products, steel, sugar, etc.

Characteristics of continuous production

i) Production lines are used i.e., machines for successive operations on a product are placed side by side.
ii) Machine capacities are balanced because operation on a machine may take more time than the others.
iii) Fixed-path materials handling equipment is used because of predetermined sequence or operations.
iv) Special purpose machines are used which are capable of performing specific operations only. The use of special purpose machines is justified by large scale production.

Advantages of Continuous production

i) Standardization of product and process sequence.
ii) Higher rate of production with reduced cycle time.
iii) Higher capacity utilization due to line balancing.
iv) Manpower is not required for material handling as it is completely automatic.

Disadvantages of Continuous production

i) As this type of production is on a large scale, it cannot fulfill individual taste.
ii) Flexibility to accommodate and process a number of products does not exist.
iii) Very high investment for setting flow lines.

(5) **Project Production**

This is one in which large and complex production processes are involved because of the large scale of operation. It embraces in full all the characteristics of the other types of production. The commonest example of a project production situation is to be found in large scale construction work and complex industrial operations.

4.3.10 PRODUCTION PROCESSES

Lawal (2012) points out that "production process is the process of transforming inputs into marketable goods and services; it varies from one organization to another. Some manufacturing systems turn out finished products; others refine raw materials and prepare them for manufacture, still others assemble parts to produce a new product".

Generally, three production processes are available, namely, analytic, synthetic, and conditioning process.

i) **Analytic process:** To analyse means to break down, hence, analytic process means producing by breaking down raw materials into component parts and making use of the parts. One or more products may be extracted via analytic process. Examples are oil refining industries, meat packaging plants, mining industries, etc.

ii) **Synthetic process:** To synthesize means to put together. Synthetic process means combining raw materials to arrive at the finished products.

iii) **Conditioning process:** This is where the shape, dimensions, or density of the material are altered by various means, depending on the product that is desired. Nothing is added to the original materials; instead, the material is given shape and form. Plastic products are made in this way. Conditioning adds to the value of a material by giving it a desired form. This can be done by forming, pressing, molding, turning, and shaping.

4.3.11 PLANT LAYOUT

Plant layout may be defined as the arrangement of machines, equipment, and all other physical components within available floor space. Plant or factory layout should be efficient to achieve economy and efficiency in the operation of the plant. Plant layout is a continuous process. It must be flexible enough to be changed quickly and with less expense and fewer hold-ups of operations.

OBJECTIVES OF PLANT LAYOUT

A good factory layout is directed towards the following objectives:

i) To minimize materials handling and transportation. This will lead to economical handling of materials.

ii) To ensure optimum utilization of men, space and machines and equipment.

iii) To ensure efficient supervision of workers.

iv) To boost employee morale by providing employee comfort and satisfaction.

v) To ensure efficient planning and control over the equipment and processes.

TYPES OF PATTERNS OF PLANT LAYOUT

The types of patterns of plant layout are three. These are process layout, product layout, and fixed position layout.

Most organizations predominantly use one or more of the three basic patterns of layout.

a. **Process layout:** Under this layout, machine and equipment of the same functional type are grouped together.

b. **Product layout:** Under this, the basic organization of the layout is dictated by the product. The equipment is arranged as per sequence of operations required to manufacture a product or a part.

c. **Fixed position layout:** Under this layout, the complete job is done at a fixed station with materials, men and machinery brought to the location as incase of big factory machines, hydroelectric turbines, locomotives, airplanes, and ships. These types of layouts are used for complex products.

4.3.12 PROBLEMS OF PRODUCTION FUNCTION IN NIGERIA

The problems of production of tangible and intangible goods are many. In recent years, many problems have surfaced to make production management activities more complex than what it should ordinarily be. Banjoko (1988, 2002, and 2009) discussed the production management problems in Nigeria. These problems include:

i) Problem of coping with high cost of production.
ii) The problem of frequent power failures and the poor state of other infrastructural facilities.
iii) Shortage of essential raw materials.
iv) Problem of equipment replacement as a result of scarcity of spare parts.
v) Unfavourable government regulations on industrial policy.
vi) Poor customer purchasing power as a result of high cost of domestic production.
vii) Stiff competition from other related industries from developed countries.
viii) Incessant spate of industrial relations problems between labour unions and management of manufacturing organizations.

4.3.13 SOLUTION TO PRODUCTION FUNCTION PROBLEMS IN NIGERIA

Banjoko (2009) proffers the following alternatives as solution to aforementioned problems of production management in Nigeria:

a. The need for a stable political and socio-economic environment.

b. Removal of infrastructural, social, and political constraints for the purpose of realizing the full potentials of the manufacturing sector.

c. Stable and credible policies and programmes that will instill confidence in investors and encourage unrestricted inflow of foreign capital.

d. Reduction of tariff on major raw materials as a way of reducing the high cost of production.

e. There is a need to devise an appropriate industrial policy that would emphasize drastic reform in the manufacturing sector.

f. Recognition of the manufacturing sector as a major tool for sustainable growth and development of the economy.

g. There is a need to encourage banks to allocate more funds to the production sector of the economy.

4.4 THE MARKETING FUNCTION

4.4.1 DEFINITON OF MARKETING

Marketing has been defined in various ways. It is a human activity involving exchange processes usually intended to satisfy the needs and wants of target customers.

Kotler (1997) has also defined marketing as a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others.

Marketing is closely related with the exchange process which provides satisfaction to people in a given society. Its main focus is to satisfy ***needs*** and ***wants***. To the marketer, needs refer to desires that have not been met, while wants simply explain the form in which the need can be satisfied.

Basically, we can say that the Industrial Revolution (about 1750) brought about specialization and improved technology that resulted in mass production. This of course gave rise to increased productivity with more goods being made available at lower prices. The implication of this is that there was a need to find markets that could absorb the additional output.

We can distinguish between product-oriented definition and consumer-oriented definition of marketing thus:

a. Product-oriented definition

The firms following product-oriented marketing aim at producing goods and services according to the availability of technical know-how with them. They produce such types of products which they think they can produce and sell easily. That means manufacturers following this approach do not care for the requirements of the consumers. The *American Marketing Association* adopted this approach in its definition of marketing. It defined marketing "*as the performance of business activities that direct the flow of goods and services from producers to consumers or users*". This definition does not consider the role of consumers in influencing the production system of a business enterprise.

b. **Consumer-oriented definition**

This definition takes into consideration the satisfaction of human wants. American Marketing Association offers this definition: *Marketing is the process of planning and executing the conception, pricing, promoting and distribution of ideas, goods and services to create exchanges that satisfy individual and organization goals.*

Lawal (2012) defined marketing as "*a set of individual and organizational activities aimed at facilitating and satisfying needs through the process of creating and exchanging product and value with others*".

These two definitions take into consideration the satisfaction of human wants.

4.4.2 FUNCTIONS OF MARKETING

Marketing performs the following tasks in an organization:

1. ***Market description***

   This is the process of defining the potential customers and their characteristics using the following questions as basis:

   i. Who are they?
   ii. Where do they live?
   iii. Where do they buy?
   iv. How often do they buy?
   v. And in what quantities?

   Answers to these questions are provided by market research and other related activities.

2. ***Purchasing motivation***

   The objective of this task is to define those factors that influence customers purchasing behavior; for example, the following questions must be answered.

   ii. Why do the customers buy?
   iii. What factors influence their decision to buy?
   iv. What can adversely affect exchange in the marketplace?

1. ***Product development and modifications***

   The marketer has a duty to always match his product with the market in which it is to be sold. This function becomes necessary given that both the environment and customer needs continuously change. New products are developed, or existing ones modified in response to changes in customer needs and wants.

2. ***Physical distribution***

   This is the function that sets the stage for possession utility, through the provision of time and place utility. In other words, it involves activities that ensure that goods are moved from point of production to point of consumption at the time and in the form, they are needed. These activities can be broken down into:

i. Inventory management;

ii. Transportation;

iii Warehousing;

iv Materials handling;

v. Order processing.

1. ***Marketing communication***

Marketing communication refers to the function of marketing that handles the transmission of information from the producer to the consumer. Information needed by the consumer includes: where the product or service can be obtained, for how much? when is it available? How is it used? What is it made of? what are the advantages and disadvantages of the product? etc. Specific tasks performed in respect of communication are sales promotion, advertising, personal selling, and publicity.

2. ***Marketing transaction***

Transaction in marketing describes any or all the activities that take place at the exchange point. They include demonstrations, discount arrangements, credit arrangements, guarantee and warranties etc. These activities serve to enhance purchase decisions.

3. ***Post transaction***

The marketer believes that his responsibility does not terminate immediately when the purchase action or exchange process is completed. This is where a marketer differs from seller. The seller's objective is to make sales and build revenue, while the objective of marketing is the provision of satisfaction.

4. ***Marketing research***

It is the intelligence service of the organization. Marketing research helps in analyzing the buyers' habits, relative popularity of a product, effectiveness of advertisement media etc.

4.4.3 DISTINCTIONS BETWEEN MARKETING AND SELLING

Marketing is different from Selling in the following respect:

1. Marketing is profit-oriented while selling is more of sales-volume oriented.
2. In marketing, emphasis is on consumers' wants, while in selling emphasis is on the product.

3. In selling, product is first made and attempts at encouraging the customer is made while marketing first determines what the consumers want and attempts are made to satisfy such wants.
4. Marketing is a wider term and includes selling.

4.4.4 IMPORTANCE OF MARKETING TO SOCIETY

1. It makes transfer, exchange and movement of goods and services possible.
2. It provides employment opportunities for the populace.
3. Standard of living of citizens are raised and maintained.
4. It is a source of income to organizations and society at large.
5. It makes the development of the economy possible.
6. It serves as a source of new ideas i.e., ideas on better ways of doing things.
7. Information gathered through marketing research helps managers in making vital decision.

4.4.5 MARKETING CONCEPT

In the early days of marketing, producers hardly remembered to consider products from the standpoint of the consumers. They rather concentrated on their own views of products – the consumers' needs and wants were not considered. This practice could easily be described as "selling". It is a poor marketing practice for a producer to believe that he can always produce whatever he likes because the consumers will buy them.

Modern marketing, however, has shifted from this practice. It recommends that some philosophy be allowed to guide the marketing efforts. The marketing concept is the belief that a business must determine and satisfy customer needs in order to make a profit. Certainly, the marketing concept begins with the customer. It then refers to ***those philosophies guiding marketing efforts*** that enable them to respond suitably to different changes and challenges from the business environment, so that the organization survives and grows through profit making.

Organizations therefore pursue marketing activities under any of (or some of) the following marketing concepts.

(a) ***The production concept***

The underlying philosophy in this practice encourages the producer to believe that consumers will buy more of those products that are always available and affordable and therefore management should concentrate on improving production and distribution efficiency as a way of attracting more customers. Goods produced under this philosophy may be inferior goods e.g., many companies whose products are not registered with NAFDAC.

(b) ***The product concept***

The product concept is essentially about the belief of the producer that when a good quality product is manufactured at reasonable prices, consumers will normally buy it even where the producer has put in only a minimum marketing effort.

A company guided by this philosophy invests funds and efforts in the continuous product development or modification and other improvements to cut costs. Most firms in this group produce high quality goods or services. In Nigeria, firms in this category include, Cadbury Nigeria Plc, Nigerian Breweries Plc, Guinness Nigeria Plc, Nestle Foods Nigeria Plc, PZ Industries Plc.

(c) ***The selling concept***

This concept is in existence where a producer believes that his product or service is such that people may not buy until they are seriously persuaded to through personal selling and other promotional efforts. It is characteristic of unsought good (e.g., insurance, political party candidates).

(d) ***The marketing concept***

Firms guided by this concept are those that believe that it is only through determining and satisfying the needs and wants of the target markets that their goals can be achieved. This situation compels such firms to strive to be more efficient and effective than competitors. It is a concept that focuses greatly on the need of customers. To this end, it can be called "civilized marketing".

(e) ***The societal marketing concept***

This philosophy holds that apart from satisfying customer needs and wants more effectively than competitors, a firm guided by it has to ensure that it often considers society's well-being in its operations. It must consider the following when formulating marketing policies:

i) How to satisfy the society (human welfare) in its operations.
ii) How to identify and satisfy the needs and wants of the consumers.
iii) How to make profit that will also satisfy the needs of the company (taking care of its ownership, management and workforce as well as encourage growth).

Companies operating under this concept usually cut a good image for themselves and they experience sure growth through increased sales and loyalty e.g., Union Bank Plc, Chevron, Mobil Oil, MTN etc.

4.4.6 MARKETING MIX

As marketers make decisions on how to satisfy their customers, they are creating a marketing mix or blend of features that will differentiate them from their other competitors. Such decisions are indeed made from time to time to respond to the needs of the intended customers or audience.

Firms develop marketing mix in order to achieve marketing and company goals, by satisfying a target group of consumers.

The marketing mix can be defined ***as the set of controllable variables which the firm blends from time to time in order to effectively respond to the needs of the intended customers or audience.***

Hughes (1978) notes that the marketing strategist mixes these ingredients to create a broad battle plan for a product.

Therefore, the total purpose of the marketing mix is embedded in the belief that a producer should:

i) be able to produce the product that will meet the needs of the consumer.
ii) fix a reasonable price for the product.
iii) be able to introduce the product effectively to the target market.
iv) Having achieved all these, he then ensures that the product gets to the consumer at the right time and where he or she needs it.

The process of the ingredients (the four ingredients) being put together as required is also known as 4P's. The four ingredients are Product, Price, Promotion and Place (Distribution).

(a) PRODUCT

Schewe (1980) defines a product as the focus bringing buyers and sellers together to make an exchange. As part of the marketing mix, the firm must produce a product that can attract the attention of the customer who then acquires the product for use. This is achieved by blending the following elements at different levels: quality, features, packaging, branding, after-sales service, durability, warranties, guarantees etc.

A product could therefore be said to be the totality of what a firm has to offer to its target market, including how the product is communicated to the customers or clients and the value attached to the product.

Products are assessed at three levels.

i) The most basic level is the core product which deals with what the buyer is really buying.
ii) The next product level is the actual product that is built around the core product with five main characteristics: quality level, features, design, brand name and packaging.

iii) The final level is the augmented product that is built around the actual product through additional consumer services and benefits.

1. New Product Development

A Product is not just a physical object, but what consumers perceive it to be (Mc Daniel Jr. 1980). It is not a good marketing practice for a firm to continue to rely on its existing products without making efforts to develop new ones or modify the existing ones. Aside from being good at developing new products, an organization has to be good at managing the existing ones, bearing in mind the effect of changes in competition, technology and tastes of consumers.

Kaufman (1980) defines a product as a good or service that an individual or an organization buys in order to obtain a measure of satisfaction. Because every product goes through a life cycle with different stages, the firms are faced with two kinds of challenges. The firm is to continuously search for means of replacing the declining products with new ones (i.e., new product development). The second challenge involves effective managing of the existing product through various levels in the cycle (i.e., product life cycle strategies).

New products in this context will refer to original products of the organization, product improvements, product modifications, and new brands developed by the firm through the efforts of its Research and Development Unit.

2. Steps in New product Development

(a) **Idea generation**

A good starting point in new product development is monitoring the needs and wants of customers through customer surveys, focus group discussions, letters and complaints sent in by them. Other sources of ideas include the sales force and dealers. A company may also decide to watch competitors' products in order to ascertain which ones are currently attracting the customers. Scientific discoveries are also a good source of ideas for new products.

The Nigerian Raw Materials and Research Council for example, had in the past discovered certain raw materials that sparked off thoughts of manufacturers along the lines of related products. Ideas are sometimes gathered through marketing research firms, universities, or management consultants.

(b) **Idea screening**

Through idea generation, a large number of ideas are collected but they have to be pruned at the second state – idea screening. This is the stage at which poor ideas are identified and dropped as early as possible. The purpose of this is to reduce the ideas to a reasonable size and to avoid spending much money on an idea, which would be dropped at a later stage.

In screening, management should try as much as possible to avoid dropping ideas that would have otherwise been accepted or allow rather poor ideas to reach advanced stages in the process. Rating factors are used in selecting ideas to be pursued, e.g. company personality and good-will, personnel facilities, research and development etc.

(c) **Concept development and testing**

Having passed through the screening stage surviving ideas can now be developed into product concepts. Product concept is an elaborated version of the idea expressed in meaningful consumer terms. Consumers usually form particular pictures of an actual or potential product and this is called the ***product image.*** After the ideas have been translated into concepts, they are compared and the best chosen.

The next step is to test the chosen concepts. Chosen concepts are usually tested with an appropriate group of target consumers. Testing takes the form of making consumers react to certain questions, answers to which would help the firm determine which product concepts appeal most to the target consumers.

(d) **Marketing strategy development**

The firm needs to develop a marketing strategy that will enable it to introduce the product to the market.

(e) **Business analysis**

Every management has some objectives that shape its business activities. Once a product concept is chosen and strategies planned for it, management must review the sales, costs, and profit projections, in order to ascertain if they satisfy the company's objectives. It is only after this that the product can move to the development stage.

(f) **Product development**

The product concept goes into the Research and Development (R&D) department to be developed into a physical product. This stage takes time (days, weeks, months, or years) depending on the type of product. In development, the R & D must ensure that the required functional and physiological characteristics, as originally conceived, are taken into consideration.

(g) **Market testing:**

At this stage, a small volume of the product is introduced into the market to know how consumers and distributors will react to it. This also helps management to determine the size of the market. It is only sensible that where heavy investment cost is involved, market testing must be carried out to avoid making a costly mistake. The method of testing differs with the type of product. A firm that wishes to test a frequently purchased consumer product, for example, may want to estimate trial, first, repeat, adoption, and frequency of purchase.

(h) **Commercialization**

The essence of market testing is to gather adequate information to help management decide whether or not to launch the product. Where the product is confirmed acceptable to the consumers, management takes steps to commercialize (i.e., launching or producing in a large quantity). In doing this, four kinds of decisions have to be taken, that is, when (timing), where (geographical strategy), to whom (target market prospects), and how (introductory marketing strategy).

PRODUCT LIFE CYCYLE

The product life cycle concept in marketing refers to stages a product will pass through before disappearance from the market. The stages are:

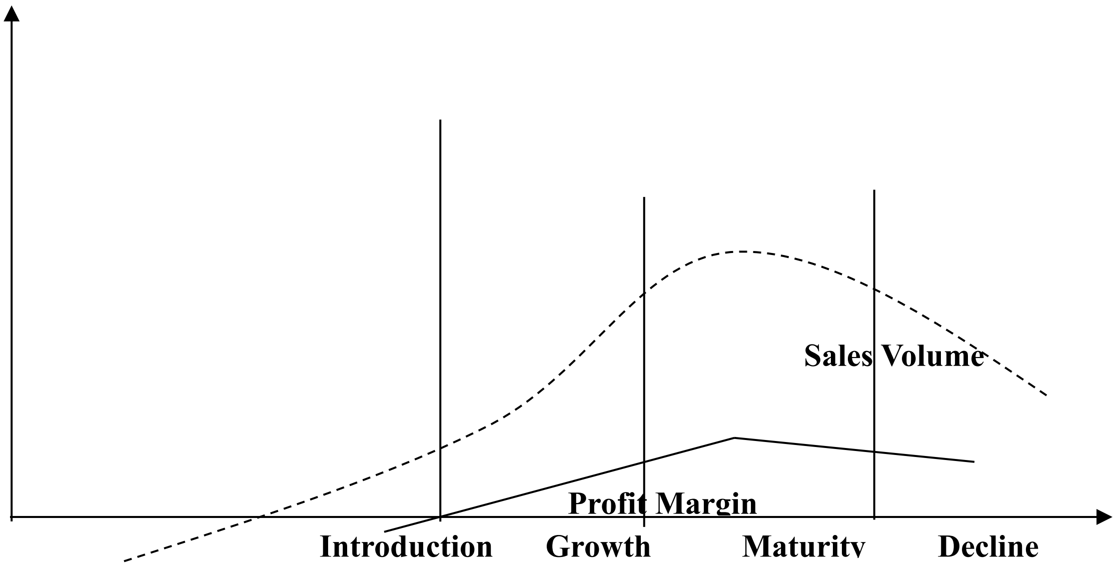
1. **The Introduction stage:** At this stage, the product is new. More money is spent on promotion to create awareness for the product. This stage is characterized with slow growth, high cost, limited distribution, and low competition.
2. **The Growth Stage:** This is the stage at which product's sales rise quickly. This follows a successful introduction stage. Demand will begin to grow while the total market size expands quickly. There is increased sales and profit due to product awareness. Research and Development money is at this stage recovered, more distributors come in to spread the product and there is low price as a result of economy of scale.

3. **The Maturity Stage:** This is a stage where the product is well known. Sales grow slowly or level off at this stage. The slowdowns in sales growth result in firms having many products to sell. Competitors begin to mark down prices, increase their advertising and sales promotion, and increase their research and development budgets to discover a better version of the product. The effect of these steps is a drop in profit. Weaker competitors drop leaving the industry with only well-established competitor.

4. **The Decline Stage:** Sales and profitability begin to decline due to product obsolescence, changes in the customer's attitude or taste, over-familiarity with the product, or the emergence of a better product elsewhere in the market. At this stage, it is dangerous to increase investment on the product. Investment at this stage can only be at a minimal level to match the sales. The goal here is to maximize short term profit.

   These stages can be illustrated diagrammatically as follows:

Figure 1: Diagram Depicting Product Life Cycle, Sales, and Profit Levels.



Source: Lawal (2012)

(b) PRICE

The term "Price" is used to mean the money value of any product or service. It is the amount of money a customer has to pay in exchange for the product or service. Price is important because it is the only element of the mix that produces revenue. Others generate cost.

Price is one thing that can make a product succeed or fail (Ohanemu, 1998). Consumers, who see the price of a product as too high, usually reduce their patronage and vice versa. Sometimes high price helps to confer the image of high quality. The market should understand the behaviour of the target market before setting price as an action in the marketing mix.

Pricing must take the various stages of product life cycle into consideration. Pricing is a continuous exercise throughout the life of a product. However, it requires a lot of care and must not be done haphazardly. It is based on certain considerations.

OBJECTIVES OF PRICING ACTIVITIES

1. **Maximization of profit:** It is the price that is able to yield maximum profit for the company both in the short run and long-run.
2. **To maintain or improve the share of the market:** A marketing manager operating in a competitive environment would like to hold a larger percentage of the target market.
3. **To meet or prevent competition:** Some companies set their products prices deliberately low so as to hedge out their competitor.

4. **Pricing Structure:** Marketing manager must be careful between setting process and profit maximization.
5. **Growth:** The need to grow with all the attendant benefits. Indirectly, growth has to do with profitability and others.
6. **Avoidance of Government Investigation and Undue Control:** Government may like to intervene if there is arbitrary pricing for a particular product.

THE FACTORS THAT INFLUENCE PRICE DETERMINATION FOR A PRODUCT

1. **Nature of demand:** The level of demand experienced by a producer goes a long way in determining prices. All pricing decisions are, in the end, dependent on the level of market demand and on what the market will bear.
2. **Cost of Production:** The selling price must cover production, administration and distribution costs and a reasonable profit margin.
3. **Nature of Market:** This also determines the pricing policy of the firm. The management can charge different prices in different markets with the help of product differentiation.
4. **Terms of Sale:** The selling price is also influenced by term of sale transactions. For instance, goods sold on credit basis will be charged higher prices than goods sold on cash basis.
5. **Substitutes:** Availability of substitutes and their prices must be taken into consideration while fixing the prices. If the prices fixed are higher than the prices charged by the competitors, the buyers are likely to switch over to the rival products.
6. **Government Policy:** This is also an important factor to be considered in price fixation. When the maximum prices of certain products are fixed by the government, the firm cannot cross the ceiling.
7. **Scale of operations:** Size of the firm and the nature of production process will determine the prices to be fixed. A big concern which is using modern techniques of production will be producing at a lower cost, it will be able to fix the prices at a lower level as compared to those operating on small scale and using old techniques of production.
8. **Objectives of Company:** The pricing policy of a company must be set in line with the overall objectives of the firm. The pricing decision must indicate clearly which corporate objective it is set out to address.

PRICING STRATEGIES

According to Lawal (2012), Pricing strategies include:

1. **Market penetration strategy:** A considerable price reduction in order to gain acceptance and thus create the spread of the product in the market.
2. **Market Skimming:** Setting a product price high initially and later reducing the price to improve sales. It is used mostly for newly introduced products so that consumers will not react negatively to an increase in price. When the price is reduced, consumers may see it as

an advantage for more patronage. However, this strategy may work for prestigious products where increased price is attributed to greater prestige.

3. **Loss leader pricing:** Where a product is sold at a lower price, probably at a loss in order to attract customers who might then buy other items at normal price. It is used when consumers resist prices charged by sellers in order to encourage sales of other products by the producers.
4. **Promotional Pricing:** Short-term reduction in prices intended to attract an increase in sales. It may be used during dull seasons.
5. **Demand oriented:** Setting prices on the basis of levels of demand for the product.
6. **Competitive Pricing:** Setting prices on the basis of the activities of competitors.
7. **Cost Oriented Pricing:** A strategy based on cost of production. It can be cost plus or markup pricing.

(c) PROMOTION

Every product needs to be announced. Promotion entails activities that are aimed at communicating the merits of the product and encourage target customers to patronize it. The objective in promoting a product or service is to bring into the conscious mind of prospective customer's information about the existence of the product and its capabilities. It is also aimed at bringing existing or potential customers from a state of relative unawareness to a state of actively adopting the products or service. The principal methods of promotion i.e., advertising, personal selling, sales promotion, mass selling, public relations and publicity are the major elements that make up a promotion mix.

PROMOTION MIX

1. **Advertising:** This is defined as any paid form of non-personal presentations of ideas, goods or services to a target audience by an identified sponsor through a mass medium. The aim is to communicate persuasive information about the products, services, or ideas to the target market. The purpose of advertising is to increase company sales and/or profit over what they otherwise would be.
2. **Personal selling:** This is a direct face-to-face communication between sellers and potential customers. It may take the form of field selling whereby salespersons are engaged to communicate with one or more prospective buyers in order to facilitate the exchange of product for money. Personal selling may also take the form of executive selling. It is useful where customers are clustered around a specific area.
3. **Sales promotion:** This is an activity and/or material that acts as a direct inducement, offering added value or incentives for the product to resellers, salespersons, or consumers. Sales promotion consists of short-term incentives to encourage purchase or sales of a product or services. Among the more popular ones are coupons, premiums, buying allowances, free goods for distributors and dealers, sale discount, gifts, and special bonuses for members of the sale force.

4. **Mass selling:** Mass selling is a method of communicating with large numbers of customers at the same time e.g., advertising and publicity. Personal selling is more flexible than mass selling but when the target market is large and dispersed, mass selling may be less expensive.
5. **Public relations:** This is any communication geared towards creating goodwill for an individual or an organization. It is created primarily to build prestige or a unique image for an organization in the eye of the public.
6. **Publicity:** Another promotional tool that is rapidly gaining influence through its indirect impact is publicity. This is communication through mass media for which no payment is made by the sponsor. Hence, publicity can be created anytime a company, or an organization create events and news around a marketable entity. Among the commonest forms of publicity are press releases or news items, photographs, feature stories, news conferences and work visits.

(d) PLACE (DISTRIBUTION)

Activities involved in the distribution of the product are referred to as place in the marketing mix. Firms make products available and accessible to consumers through activities in distribution.

The nature of each product determines the type of strategies that will be employed at different levels to influence the target market. Some of the activities include transportation, storage, material handling etc.

The marketing mix is an essential tool for marketing management, but its success will require that a serious effort be made to use the variables at different levels taking into consideration other factors that influence purchase decisions.

Place is the aspect that deals with how goods or services get to the reach of the consumers. It includes company activities that make the product available to target consumers. It is concerned basically with channels of distribution and physical distribution.

The channels of distribution involve selecting the best channel by which to ensure the movement of goods or services from the firm to their ultimate consumer. Several channel options are available, i.e., direct marketing channel moves goods directly from manufacturer to consumer. An indirect channel utilizes intermediates or middlemen such as wholesalers and retailers. Physical distribution covers a set of activities aimed at achieving the physical movement of goods or services to consumers. It involves order, processing, warehousing, and transport related activities.

The marketing mix constitutes the company's tactical tool kit for establishing strong positioning in target market. They are tools which a winning company uses to meet customer needs economically, with conveniences and generate effective communication.

4.4.7 MARKETING RESEARCH

Marketing research is the intelligence service of a business enterprise. It means the careful and objective study of product design, markets, and transfer activities such as physical distribution and warehousing, advertising, and sales management.

Marketing research is a systematic and intensive investigation of all phases of marketing on a continuous basis with a view to have a better understanding and knowledge about the present and future marketing problems for satisfaction of the customers' needs. Marketing research is a wider term and includes market research. Market research merely deals with the discovery of the capacity of the market to absorb a particular product. Other areas covered by marketing research include location of the market, nature of the market, product analysis, sales analysis, time, and place and media of advertising, personal selling, and channels of distribution.

Marketing Research vs. Marketing Information System

Marketing Information System (MIS) is broader in scope as compared to marketing research. Marketing research is basically an important aid in the development of marketing information system. However, the differences between the two are listed below:

i) **Purpose:** Marketing research aims at solving problems, whereas MIS is concerned with both preventing and solving problems.
ii) **Continuity:** Marketing research is continuous but conducted on a project-to-project basis, while MIS is a continuous process.
iii) **Orientation:** Marketing research focuses on past and present information, whereas MIS is oriented towards the future.
iv) **Data:** Marketing research mainly deals with external data (i.e., from customers, field staff, publications, etc.), but the management information system handles both external as well as internal data.
v) **Use of computers:** Marketing research may not be based on computers. But Management Information System is necessarily based on computers.

OBJECTIVES OF MARKETING RESEARCH

Marketing research is usually conducted to achieve the following objectives:

1. To know the demographics and psychographics of customers.
2. To find out the impact of promotional efforts.
3. To know customers response to a new product.
4. To forecast sales.
5. To anticipate competitive mood.
6. To probe "what went wrong". This happens when the product is having some special problems.

4.5 THE HUMAN RESOURCEFUNCTION

4.5.1 INTRODUCTION

Managers achieve organizational goals through people. This simple situation underscores the importance of human resources in any enterprise. The manager must know how to make best use of employees in the enterprise, so that he would have the benefit of maximum achievement of the organizational goals. It is therefore very important that he must be interested in people, their problems and what they need, so that they can be happy to put in their best. In all, he must try to create a conducive environment which will encourage their individual best efforts in performing organization tasks.

As important as the human assets in the organization are, they are usually the main source of the manager's problems. In other words, it is the aspects of the manager's task that always test his capabilities.

4.5.2 DEFINITION OF HUMAN RESOURCES MANAGEMENT

Personnel management is broadly the task of management that has to do with effective management of employees such that they are utilized for the achievement of organizational goals. This is achieved through a process of bringing individuals and organizations together so that their various goals are met. Managers of human resources are often involved in planning to meet company's human resources needs, recruiting and selecting employees, training, and developing workers, and appraising employee performance as well as overseeing their status and rewards.

Personnel management is the part of the process of management that is concerned with the maintenance of human relationships and ensuring the physical well-being of employees so that they give the maximum contribution to efficient working. Personnel management may be defined as the efficient and effective mobilization, development, and utilization of people or personnel towards the attainment of organizational and individual objectives. Thus, personnel management is concerned with all activities related to planning and sourcing employees, making efforts to retain them, utilize for the attainment of the organizational and personal objectives.

Personnel management has been defined variously by management writers as follows:

(i) Personnel management is the planning, organizing, directing and controlling of the procurement, development, compensation, integration, maintenance and separation of human resources to the end that individual, organizational and societal objectives are accomplished-(E.Flippo).

(ii) Personnel / Human resources management is the function performed in organizations that facilitates the most effective use of people (employees) to achieve organizational and individual goals. – (Ivancevich and Glueck).

(iii) Human Resources management encompasses those activities designed to provide for and coordinate the human resources of an organization - (Byars and Rue).

(iv) Personnel Management is the administrative activities related to acquiring workers, preparing them for work, overseeing their performance and providing compensation – (Rachman et al.).

4.5.3 THE ROLE OF PERSONNEL/HUMAN RESOURCES DEPARTMENT

Managers in charge of personnel and human resources departments in organizations perform the functions discussed below.

However, the actual personnel functions performed will vary from one to the other, depending on the size, the business of the firm and its complexity. Personnel/Human resources departments may perform some or all of these functions:

i. **Personnel policy**

The department participates in the formulation and implementation of personnel policies which become basic guidelines for employer-employee relations.

ii. **Staffing the organization**

One important personnel/human resources function is the staffing of the organization. The department determines the manpower needs of the organization and takes steps to satisfy these, by recruiting and selecting new employees. Continuous efforts are made to accommodate the staff with the use of suitable personnel management techniques – job evaluation, job description, job specification etc.

iii. **Orientation, training, and development**

It is the responsibility of the personnel department to identify training needs, design and implement training programmes for new and incumbent employees. The effectiveness of these programmes are continuously evaluated to detect new needs.

iv. **Industrial relations**

The Personnel and human resources department plays an important role in the collective bargaining negotiations, it ensures liaison with the trade unions, and helps management in solving problems of employee grievances, discipline etc. It also advises management on the laws governing employer-employee relations.

v. **Compensation**

Compensation is the process of providing equitable and fair remuneration to the employees. The department fixes the salary levels after determining the general nature and conditions of employment in the organization.

vi. **Employee safety and welfare**

The personnel department performs the task of providing a good quality and safe working environment. In addition, it oversees the clinic, canteen, and provides counseling services to staff where necessary.

vii. **Record keeping and administration**

It is the job of the personnel department to keep records concerning employees in the organization. From time-to-time management could call for data that aids decision making.

viii. **Promotion, transfer, and discharge of employees**

These functions are performed by the personnel department as they become necessary. The important thing about it is that care must be exercised to avoid wrongful dismissal that might lead to legal action. All the above operative functions are influenced by the major managerial functions which the head of personnel and human resources is involved in as a manager. These functions include planning, organizing, directing, and controlling.

4.5.4 HUMAN RESOURCES POLICY

Policies are a guide to action. Personnel policies are, therefore, guides to action as to personnel/human resources management tasks. In other words, they provide the general standards or basis on which decisions are taken. They are general instructions implemented through the application of procedures planned course of action.

Organizations are encouraged to formulate personnel policies because of their inherent benefits:

BENEFITS OF HUMAN RESOURCES POLICY

i. Uniform decision and actions

Departments and groups in the organization are made up of people. The problems of individuals also differ. Personnel policies help to ensure that decisions and actions taken at all levels at different times on personnel matters are uniform.

ii. Programmed decisions

Policies themselves are the main basis for programmed decisions. With this, managers can act with confidence without constant reference to their superiors.

iii. Better control

Because policies lay emphasis on the relationship between the employers, management and employees, organizational members operate with reduced rate of friction or conflict. This makes control easy.

iv. Confidence

Written policies create awareness. Employees and managers tend to know exactly their positions in the organization, and with this they approach tasks with confidence.

v. **Steady course of action**

People guided by the same policy act the same way when performing similar tasks. With this trend, it is possible for an employee to predict what another would do if confronted by the same problem.

QUALITIES OF A SOUND HUMAN RESOURCES POLICY:

For a personnel policy to be effective, it must have certain characteristics' as follows:

i. **Fairness and equitability**

A personnel policy that will achieve its objective must be fair and equitable to all related groups in its environment. Injustice and unbalanced treatment of individuals and groups in organization is usually a source of demotivation.

ii. **Adequacy**

A personnel policy must be adequate in terms of covering all necessary areas including present and potential sources of problems.

iii. **Simplicity**

Personnel policies should be stated in easy-to-understand language, devoid of technical terms.

iv. **Focus on objectives**

Policies are guide to actions which are meant to achieve certain objectives. It is therefore absolutely necessary that they are related to these objectives. That is, it should be a link between various functions, resources, and the objectives.

v. **Reasonable flexibility and stability**

A sound personnel policy must be reasonably flexible and stable. The extent of flexibility is that which enables it to adapt to changing environment. Similarly, the extent of stability is that which ensures that the policy is not changed overnight. Personnel policies can however be formulated around the following functions: social responsibilities, employment, promotion, development, and industrial and human relations.

4.5.5 THE SCOPE OF HUMAN RESOURCES MANAGEMENT

The scope of personnel management is best described by the Human Resources System (HRS). The HRS consists of all the interrelated and interdependent activities, which are involved in the management of personnel. In order to fulfill the firm's personnel needs, the personnel manager must perform tasks in a wide variety of functions. These include:

1. Manpower planning

The first step in any management endeavour is to plan and so it is with staffing an organization. People represent the most important resource to an enterprise and for them to be utilized effectively, management must plan, when and how to bring them into the organization. Planning is a critical step; and is necessitated in human resources management to enable an organization to have adequate employees at the right time and in the right places so that work activities can go on effectively.

Manpower planning has been defined as a process designed to ensure that the human resources needs of an enterprise will be constantly and appropriately met. It is therefore meant to help management achieve the optimum utilization of human resources in the achievement of present and future organizational goals.

Objectives of Manpower Planning

According to Rao and Rao (1996), the objectives of human resources planning include the following:

i. To recruit and retain the human resources of required quantity and quality.
ii. To foresee the employee turnover and make arrangements for minimizing turnover and filling up of consequent vacancies.
iii. To meet the needs of the programmes of expansion, diversification etc.
iv. To foresee the impact of technology on work, existing employees, and future human resources requirements.
v. To improve the standards, skills and knowledge ability, discipline etc.
vi. To assess the surplus or shortage of human resources and take measures accordingly.
vii. To maintain congenial industrial relations by maintaining optimum level and structure of human resources.
viii. To minimize imbalance caused by non-availability of human resources of right kind, right number, in right time and right place.
ix. To make the best use of its human resources.
x. To estimate the cost of human resources.

Manpower Planning Process

Effective manpower planning is concerned with the following:

1. ***Determination/analysts of organizational goals***
   Human resources planning cannot be done in isolation of the organizational plans. The manpower planner should analyse what corporate objectives are on the ground for which human resources are required, e.g., establishing a new plant in a nearby city.

2. ***Translation of organizational goals into manpower needs***

A plant is made up of various departments with different needs of manpower. Manpower needs also come in different levels, e.g., Engineers, Accountants, Salespeople etc. The needs of the various departments as to levels and quantity of manpower are determined in this step.

3. ***Determination of overall current manpower stock in the enterprise***

The third step involves determining the current stock of human resources in the enterprise. The immediate future manpower needs are represented by the needs forecast for the new plant. Steps are taken to find the difference between the two situations.

In the event of a shortfall, recruitment will be an appropriate option. If surplus becomes the situation, transfers, demotion, and probably retirement may be used by management. Sometimes, there may be need to modify the organizational goals to accommodate surplus manpower with no prejudice to growth of the enterprise.

However, most manpower planning exercises result in shortfall situation as a large number of organizations will always want to keep only a reasonable number of staff.

4. ***Correction of the shortfall***

Depending on the situation, the human resources planner will have to consider the following options, evaluating each and every one of them. The essence of this is to weigh the advantages and disadvantages of the options in the face of the current corporate objectives. Options available include:

- i. Recruiting new hands to fill the new needs.
- ii. On-the-job training.
- iii. Transfers.
- iv. Promotion.

In a case of surplus, the following options will be considered:

- i. Discharging the less hardworking or unproductive employees.
- ii. Demotion.
- iii. Modifying the corporate objectives.

5. ***Implementation***

The carefully chosen option is implemented at this stage. Any option that will be implemented must be that which gives the enterprise the best benefits in its efforts to achieve the organizational goals.

6. ***Evaluation***

The final step in manpower planning is that of evaluating the actions taken as handled in the course implementation, to see how far the corporate objective is being achieved. For example, as the new plant takes off, do all the levels of employees perform their tasks satisfactorily? Are there new needs for human resources arising from operations? Do all the employees exhibit appropriately the required skills in performing tasks? Etc. On observing any deviation, efforts must be made by the human resources planner to effect further rectifications as early as possible.

Benefits of Manpower Planning

Manpower planning is not only done for the human resources department, but for all other departments in the organization. The several pay offs of such exercise include:

i. It gives the human resources department and manager a clear view of future human resources needs of the enterprise. This situation enables them to make adequate provision for the required skills now and for the future.
ii. Manpower planning helps for the advancement and development of employees through training and development etc.
iii. Having planned for human resources, it becomes certain that only the most essential staff are employed. This usually reduces personnel costs.
iv. Through human resources planning, individual needs of the employees such as promotions, better employment conditions, transfers, etc. are satisfied.
v. As human resources planning is being done, other physical facilities in the enterprise, (canteen, clinics, quarters, stores, etc.) are simultaneously being planned for.
vi. It helps to check redundancy since its occurrence is foreseen and steps taken to check it in time.
vii. It enables management to estimate total salary bills which form a major input in budgetary computations.
viii. It acts as a control on corporate planning of the enterprise. Most companies would not want to diversify or expand beyond a point where they anticipate unavailability of the required skilled manpower.

Factors Affecting Good Manpower Planning

i. Most managers who are involved in manpower planning are misled into emphasizing short-term objectives. The result, however, is that manpower planning is usually seen as a cost centre.

ii. One problem that affects manpower planning is the attitude of employers to it. They usually feel it is unnecessarily expensive, insisting that manpower will always be available when needed by the enterprise.

iii. The quality and quantity of human resources existent in the enterprise and in the overall business environment will directly affect human resources planning.

iv. Trade unions also resist human resources planning as they usually feel it increases the task of employees and paves way for outsiders to join the enterprise.

v. Inadequacies of information are a major problem of human resources planning. There are no timely, accurate and efficient data that would produce very effective results.

2. **RECRUITMENT OF EMPLOYEES**

Recruitment is different from selection. Recruitment is one of the steps undertaken in the employment process. Once it is confirmed that an enterprise needs some employees, and the various skills needed are also known, steps are taken to find where the required human resources are available. Also, there will be a need to determine how to make them get interested in joining the organization.

Recruitment has been defined as the process of creating a large pool of applicants who are willing and able to work for the enterprise, from which qualified candidates for job vacancies can be chosen.

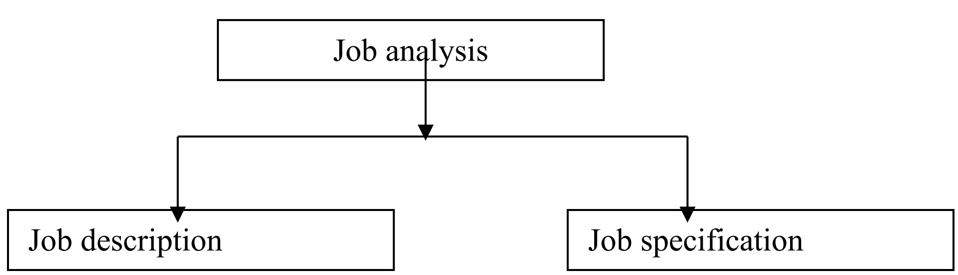
The essence of recruitment is to ensure that a large number of potentially qualified people are assembled. As soon as it is decided by an enterprise to recruit, job analysis must be conducted incorporating necessary information.

JOB ANALYSIS

This is the breaking down of the tasks, abilities and responsibilities required of a particular job, and the desired knowledge, abilities, and skills which the job demands. Management will always need to know the kind of personnel required for the job and the number of persons to be employed.

Job analysis forms basis for job description and job specification as shown below:

Relationship between job analysis, job specification and job description



Source: Ohanemu, C.N. (2002).

i. **Job Description**

Job description is an exercise which summarizes the tasks, duties, and responsibilities required for a job. The emphasis is on the job.

ii. **Job Specification**

This refers to the different knowledge, skills and abilities required for the purpose of performing the job satisfactorily. In job specification, emphasis is on the employee.

Job Analysis Process

According to Rao and Rao cited by Ohanemu, C.N. (2002). "Jobs can be analysed through a process which consists of 5 basic steps including: collection of background information, selection of job to be analyzed, collection of job analysis data, developing a job description, job specification and employee specification." These steps are discussed below:

i. **Collection of background information**

This involves studying the organization chart, job specifications and existing job descriptions.

ii. **Selection of job to be analysed**

Since it is not possible to analyse all the jobs, it is usually the practice to select some of the jobs for analysis. Such jobs must, however, be representative of all the jobs.

iii. **Collection of job analysis data**

At this stage, the analyst collects data on features of the job, human resources, and employee behavior requirements.

iv. **Developing a job description**

Job description has to do with describing the contents of the job in terms of functions, duties, responsibilities, etc. Job descriptions serve the purpose of setting a standard of what duties and responsibilities the incumbent performs.

v. **Developing a job specification**

Employee specification is an extension of the job specification. It specifies educational and physical qualifications, experience required, to show that candidates with certain qualifications meet the minimum requirement as contained in the job specification. For example, the possession of OND Mechanical Engineering shows that a candidate at least has some basic knowledge of mechanical engineering.

Sources of Information for Job Analysis

i. **Observation**

The analyst can obtain information for job analysis by simply observing the incumbents as they perform their various tasks.

ii. **Job manuals**

Particularly for new jobs, the job manuals usually contain the duties and responsibilities of each job position.

iii. **Interviews**

The people on the job or their supervisors can be interviewed to obtain information about the job, for the purpose of job analysis.

iv. **Questionnaires**

Questionnaires can be designed and administered among the workforce. This provides information on job requirements through the answers given by them.

v. **Long time records by the workers**

It is also a way of obtaining information for job analysis if workers are instructed to keep records of what they do, on a daily basis. This record will form comprehensive information after some time.

Sources of Employees' Recruitment

When recruitment is decided on, people to fill the vacant positions can be taken from inside or outside the organization.

(a) ***Internal Sources of recruitment***

- i. Serving or present employees.
- ii. Retired, or retrenched staff.
- iii. Casual employees.
- iv. Friends of the enterprise e.g., dependent of a deceased staff.

The techniques used for internal sources include circular, staff notices, promotions, transfers, job posting etc.

Advantages of internal sources of recruitment

i. It helps to improve employee morale.
ii. It is a technique of motivation.
iii. With it management has the opportunity of better assessment of the internal candidates than external candidates.
iv. It is less expensive.
v. It reduces cost of training, induction, and orientation.
vi. It also saves the company the burden of long period of adaptability for the employees.
vii. Sometimes it is used to satisfy the trade unions.

viii. With the internal sources system, most employees feel sure their employment is stable.
ix. The time wasting in external recruitment is avoided.

Disadvantages of Internal sources of recruitment

i. It may result in in-fighting.
ii. It does not allow new blood to be injected into the organization.
iii. One major disadvantage of the practice is that it results in favouritism in promotion and other techniques.
iv. Employee victimization may also become a common feature.
v. It produces a crop of employees whose knowledge, skills, experienced and exposure are limited to the organization.

(b) ***External Sources of recruitment***

Organizations that envisage rapid growth, or whose nature of business demands a large number of technical, managerial and skilled workers, may benefit more from external sources of recruitment.

External sources of recruitment include:

i. Employment agencies/labour offices/consultants.
ii. Educational institutions.
iii. Secondment.
iv. Trade unions.
v. Casual applicants.

Technique for external sources of recruitment is advertisement.

Advantages of external sources of recruitment

i. External sources of recruitment make possible for the injection of new blood into the organization.
ii. It is less expensive than training employees to become professionals.
iii. Employees of different backgrounds and experience are brought together in the process of work activity.
iv. It reduces employee costs since new employees are placed on a minimum scale.

Disadvantages of external sources of recruitment

i. It is more expensive than internal recruitment.
ii. It may result in the demoralization of the employees.
iii. It requires longer adjustment and orientation time for the new employees.
iv. It is time consuming.

3. SELECTION OF EMPLOYEES

The objective of recruitment is to gather a pool of qualified and willing candidates to apply for vacant positions, whereas the objective of selection is to choose the person who can most successfully perform the job from the collection of qualified candidates. In other words, selection decision is meant to sort out the weaker candidates and select those considered to possess particular abilities to perform the tasks that the jobs demand. Selection is usually preceded by human resources planning, job analysis and recruitment.

STEPS IN THE SELECTION PROCESS

Selection procedure differs with firms. Companies differ in the way they go about it, depending on their size, nature of business, the number of vacancies to be filled or sometimes government regulations regarding the industry. Generally, there are steps that can be said to be popular among business organizations. These steps are as follows:

1. **Job Analysis**
   Job analysis (job description and job specification) must be completed as the first step in selection.
2. **Recruitment**
   Recruitment involves the technique of stimulating a large number of qualified candidates to apply for vacant positions.
3. **Completion of application form**
   The essence of the application form is to extract necessary information from the applicant. It serves the purpose of presenting the required information about the candidate in a more systematic way than any detailed application letter.
4. **Written examination**
   The behavior of an applicant towards the job must be tested. This is achieved with the use of the written examination after screening the candidates on the basis of information provided in the application forms. Written examinations may test English, General knowledge, or Aptitude.
5. **First contact interview**
   In a large number of cases, the applicant usually has the opportunity of having a preliminary interview with the enterprise or its representatives. This may be formal or informal, but the important thing is that it helps solicit necessary information directly from the applicants. It also makes it easy for the applicant's suitability to be initially assessed. In a way, it is meant to size up the candidate and it is usually brief. By its nature, it may

determine whether the candidate will still be allowed to proceed with the other parts of the process or not.

6. **Group discussion**

This is not very common, but large organizations use the technique especially when they attempt to fill a lot of vacancies. It involves setting a stage for selected candidates to sit as a group and discuss either a given case study or a subject matter. As each candidate makes his or her contributions, the panel moderates, observes and assesses them. The candidate's performances are recorded, and they are in the end judged according to merit.

7. **Test**

Tests form the next hurdle that candidates pass through in the selection process. A test has been defined as a sample of behavior given under standardized conditions with the aim of measuring performance as a basis for employment decision. Test solicits further information that makes it possible for applicants to be properly assessed.

Tests include:

vi. Psychological tests
vii. Personality test
viii. Intelligence test
ix. Test of interest
x. Situation test
xi. Judgment test
xii. Attainment test

8. **Interviewing**

The final interview is meant to compare all information obtained from the previous processes with those obtained at the interview. Various types of interviews include:

i. Structured and patterned interview
ii. Non-directive or unstructured interview
iii. Group interview
iv. Stress interview

9. **Medical examination**

There is need to ascertain what qualities certain jobs require, e.g., stamina, clear vision, tolerance, etc. It is only through medical examination that it would be known whether candidates actually possess these qualities as required by the jobs for which they are being considered.

10. **Reference evaluation**

It is the practice that candidates give the names of their referees in application forms. Necessary information about the candidate are usually confirmed from these referees. It is a very useful process as it reveals some information, particularly where it is handled with all sincerity. It may be done through mails, telephone calls or personal visit to the referees.

11. **Offer of employment**

Having done this, the next step takes the form of deciding on whom to offer the appointment based on merit. A letter of offer of appointment is sent to the chosen candidate stating date and time of resumption, salary, conditions of service, working hours, leave matters, probation period, etc. A letter of offer of employment should be in duplicate or a slip is attached where the candidate will sign to signify acceptance.

12. **Placement**

Placement takes place immediately a candidate reports for duty in the organization. It implies the assignment of an employee to a position in an organization. It entails writing out appointment letters, receiving the new staff in assumptions of duties, getting the new staff to feel at home and settle down in the organization and on the job,

13. **Orientation and induction**

This is the process by which the employing organization familiarizes new employees with employing organization. It encompasses formal and informal activities like developing appropriate attitudes, skills, forming new interpersonal relationships and accepting the organization's culture and norms and required behavior patterns of the work situation by the new employees.

4. TRAINING AND DEVELOPMENT

Definition and Meaning

Training is the process or procedure through which the skill, talent and knowledge of an employee is enhanced and increased. A successful Training Programme must contribute to the growth of the employees. Every training programme must be need-based and must be well-designed to achieve set targets and objectives.

Development is a long-term educational process utilizing systematic and organized procedures by which managerial personnel learn conceptual and theoretical knowledge for general purpose.

Training is designed for short-term stated purpose like the operation of some piece(s) of machinery, while development involves a border educating for long-term purposes.

OBJECTIVES OF TRAINING AND DEVELOPMENT

i. To achieve high performance of the employees.
ii. To impart knowledge, skills, and capabilities to new and old employees.
iii. To broaden and equip employees to carry out future expected role.
iv. To bring about team spirit and high morale in the organization.
v. To help in adapting to changing work environment and technology.

TYPES OF TRAINING

1. **On the Job Training:** As its name implies, this is generally used where few people need to be trained at the same time.
2. **Conferences and Discussions:** This helps to communicate ideas, procedures and standards and is usually used for professional, scientific, or supervisory personnel.
3. **Classroom Method:** This method is concerned with all those studies that are done in the classroom.
4. **Apprenticeship Programme:** An apprenticeship programme is commonly seen when an individual undertakes to learn technical skills by being coached or trained by a specialist in that field.
5. **Correspondence/Online Courses:** In this modern day of technological breakthrough, correspondence/online courses have emerged to complement regular classroom courses provided by companies. Employees usually undertake these courses to help upgrade them.

THE IMPORTANCE OF TRAINING AND DEVELOPMENT

i. Training contributes to employee's morale.
ii. Training helps to reduce staff or Labour Turnover.
iii. It improves quality and helps in human resources planning.
iv. Training leads to increase in performance and productivity.
v. It helps in preventing manpower obsolescence.
vi. It boosts job satisfaction and the activities of employees.

THE PROBLEMS OF TRAINING AND DEVELOPMENT

i. High cost of funding.
ii. Training consumes time of both new and existing employees.
iii. Training may disrupt work.
iv. Experienced and professionally qualified training officers are not easy to obtain.
v. Standard methods of training are not always applicable to company practice.

5 PERFORMANCE APPRAISAL

Meaning

Performance appraisal is the process of examining the post-performance of an employee, considering the suitability of the employee for promotion and salary review as well as determining how the performance of the employee can be improved (Lawal, 2012). It is the systematic examination, evaluation, and description of employee's performance as to how well they are doing or have done on the job (Odueyungbo, 2009).

Performance appraisal simply put is the procedure whereby every organization takes stock of its human resources with regards to its present performance, the likes, and dislikes of each individual his or her strength and failures and his or her potentials for growth. It is the evaluation of the appraisee performance in his or her job.

Performance appraisal is indispensable to any organization. This is because an organization needs to assess its employee's performance to determine whether capable standards of performance are being maintained.

TYPES OF APPRAISALS

There are two main types of appraisals:

ii. **Confidential Appraisal system:** In confidential appraisal, performance appraisal outcomes are not communicated to the employees or subordinates.

iii. **Open Appraisal system:** In this type, the appraisee is told what his strengths and weaknesses are, his contributions and failures.

OBJECTIVES AND IMPORTANCE OF PERFORMANCE APPRAISAL

i. To create Self-awareness.
ii. To instill a sense of achievement in the individual.
iii. It helps in rating job performance.
iv. It guides the training and development of both the employees and organization.
v. It helps to determine increment in salary.
vi. Performance appraisal helps to discover potential or hidden talents.
vii. Information provision for controlling and carrying out important manpower planning, sub-systems like training, promotion, selection, transfers, lay-offs etc.
viii. Records keeping about ratings will enable management and individual argue their cases in case of any double talk or sharp practices on the part of the organization.
ix. It helps management or supervisors in taking decisions regarding his or her subordinates.

6. **WAGES AND SALARY ADMINISTRATION**

Every employee who has supported the purpose of the business expects adequate compensation for their efforts in order to satisfy their personal desires and needs. Compensation is all rewards for services rendered by people at the workplace. This takes the form of direct financial payments plus indirect payments plus incentives individuals receive in an organization plus non-compensation rewards like pleasant work environment.

The compensation package has three major components - Wages and Salaries, fringe benefits and incentive schemes.

OBJECTIVES OF WAGES AND SALARY ADMINISTRATION

A sound wage and salary administration are aimed at the following:

a. To attract and retain the services of competent employees.
b. To pay employees according to the content and difficulty of the job.
c. To reward employees according to their effort and merit.
d. To improve morale and productivity.
e. To satisfy the employees as to how and why they are paid.
f. To facilitate payroll administration budgeting, wage, and salary control.
g. To promote employee organizational flexibility, including promotions and transfers.
h. To promote industrial peace.
i. To improve the standards of living of the workers.

FACTORS AFFECTING WAGE AND SALARY STRUCTURE

a. Government legislation and public policy e.g., minimum wage legislation
b. Supply and demand conditions for labour.
c. The demand from the trade union.
d. Influence of comparative wages and salary with other organizations in the same industries
e. The firm's ability to pay.
f. The economic situation of the country.
g. Employees productivity i.e., when productivity increases appreciably, high wages is possible.
h. Qualifications and experience of the employees.
i. The cost and length of training.
j. Job description i.e., demands of the jobs.

METHODS OF DETERMINING COMPENSATION

i. Agreement between the employer and the employee, especially during interview.
ii. Collective agreement between the management and the trade union.
iii. The decision of the arbitration panel which is either voluntary or compulsory.
iv. Minimum wage Board.
v. Government directives.

COMPONENTS OF COMPENSATION

The commonly used compensation plans are:

1. Wages:

a) A wage is the payment made to manual workers. It is expressed as a rate of pay per hour of production. It is also a financial reward based on time units. The wage rate is multiplied by the number of units worked. Wages are usually paid to workers whose work schedule is irregular e.g., factories workers, farm labourers, Gardeners etc.

b) **Salaries:** A salary is a fixed periodical payment to a non-casual employee. It is expressed in annual terms, implying a relatively permanent employment relationship, though paid on monthly intervals. Salaried workers are considered as Staff of the organization.

c) **Commissions:** They are monetary rewards based on direct measure of productivity. People who sell product and services are often paid a commission e.g., salespersons, professionals etc.

2. **Employee's benefits:** These are additional monetary or non-monetary rewards in the form of allowances such as housing and transport allowances, furniture, utility, meal subsidy, medical, recreational facilities, discount on purchase of company's products, education assistance to the staff children, long service awards etc.

3. **Incentives:** are rewards designed to encourage and reimburse employees for efforts beyond normal performance expectations.

7. **EMPLOYEES' SAFETY**

An employer is legally obliged to provide a safe working place for their employees. The factories Act of 1987 now Cap. 126 of the laws of the Federation of Nigeria, 1990 provides some basic significant provisions which cover the health, safety and welfare of those employed in factories. The three main provisions of the decree are highlighted below:

a. Health provisions:

ii. Keeping the factory in clean state.
iii. Avoiding overcrowding.
iv. Providing fresh air.
v. Ensuring sufficient sanitary convenience.
vi. Draining off wet floor.

b. Safety provisions:

i. Making the factory safe for work.
ii. Avoiding employment of inputs liable to cause bodily injuries.
iii. Safety rules and regulations must be strictly enforced.
iv. Employees should be trained in safety management and fire prevention.

c. Welfare provisions:

i. Adequate supply of drinking water.
ii. Washing facility.

iii. Cloak room.
iv. Medical facility such as: First aid.

8 CONTROL OF PERFORMANCE

This involves the process of identifying employees whose performance is consistently below the standard set by the management and taking corrective measures to restore the performance to an acceptable level. In modern organizations, the following strategies are often used to reduce the incidence of low performance:

a. **Transfer:** This means movement of an employee from one job to another, one unit to another or one shift to another and may involve a new geographical location. It may be initiated by the organization or by the employees with the approval of the organization. Transfer is used to achieve the following objectives: to rectify the mistakes in the selection and placement process, to eliminate interpersonal conflict, to prevent incidence of fraudulent practices, as a substitute to demotion etc.
b. **Promotion:** This involves placement of an employee to a position having higher pay, increased responsibilities, more privileges, increased benefits, and greater opportunities for promotion to serve as a major incentive for superior performance. It must be based on merit and untainted by favoritism.
c. **Demotion:** This is a compulsory reduction in an employee's rank or job title within the organizational hierarchy of a company. A demotion may also lead to the loss of other privileges associated with a more senior rank and/or a reduction in salary or benefits. Alternatives to demotion are resignation, which is voluntary withdrawal of employment by a worker, lay-off which involves temporary or permanent removal of an employee from the pay-roll or retirement with guarantee of some kinds in form of pension and social security.
d. **Motivation:** Just as organizations want certain types of behaviour from employees, employees also have certain wants that the organization is expected to supply. These include pay, security of job, belongingness, credit for work done, a meaningful job opportunity to advance, conducive working conditions, competent and fair leadership.
e. **Discipline:** Effective discipline depends on the level of motivation and sound leadership. The two basic forms of discipline are **Positive Discipline** which refers to fostering of cooperation and a high level of morale so that written and unwritten rules and conditions are obeyed willingly and **Negative Discipline** which means control by force: by threats and dismissal for the least diversion from company's rules.

4.6 THE FINANCE FUNCTION

4.6.1 INTRODUCTION

The finance function deals with the procurement of money at the time it is needed and its effective utilization in the enterprise.

Money is the life blood of business enterprise as it is required to purchase machines and materials, to pay wages and salaries to employees and to allow credit facilities to customers. An important requirement for the success of any business organization is the provision of sufficient amount of funds or capital. This is one of the reasons why companies employ financial managers or controllers of finance to manage the finance function effectively and efficiently.

4.6.2 DEFINITION OF FINANCE

Finance can be defined as management of money. It is the management of the inflow and outflow of money by a business organization, individual or government agent. It can be defined as the effective acquisition and application or utilization of funds to achieve the desired objectives.

Finance is a very important organic business function because all other organic business functions i.e., Marketing, Production and Personnel depend on finance function.

The finance manager must have a system's view of the whole business enterprises and determine the appropriate finance need of his organization.

4.6.3 THE MAIN COMPONENTS OF FINANCE FUNCTIONS

Finance is the lifeblood of any organization. Finance function therefore entails:

1. Planning for the acquisition of funds needed by the enterprise.
2. Sourcing the finance need of the organization. Businesses need finance for:
    - Fixed capital to provide for the basic infrastructure necessary for the running of the business.
    - Working capital to provide for the running cost.
3. To acquire or procure the needed funds.
4. Ensuring the finances of the organization are judiciously managed. That is to utilize the acquired funds to make a maximum contribution towards the efficient operation of the business organization.
5. Introduction of an effective internal control system to safeguard the resources of the organization.

4.6.4 FUNCTIONS OF FINANCIAL MANAGER

The financial manager is a specialist in the area of Business finance. The functions of Financial Manager are as follows:

1. **Formulation of Objectives:** The setting of objectives of the finance department is the basic function of financial manager. These objectives must be in tune with the overall objectives of the organization.
2. **Estimating the Financial Requirement:** The financial requirements must be carefully estimated. A business requires funds both for long-term and for short-term. Estimating the requirement of funds involves the use of techniques of long-range planning. The financial

management must prepare budgets for various activities to estimate the financial requirements of the business.

3. **Determining Structure of Capital:** The capital structure denotes the kinds and proportions of different securities. Once the requirement for capital funds has been estimated a decision regarding the kinds and proportion of various sources of capital has to be taken.
4. **Procurement of Finance:** The decision to tap various sources of finance will mainly depend upon the capital structure decided by the management. The management can raise finance from various sources like shareholders, debenture-holders, banks, other financial institutions, and public deposits etc. The choice of the source or sources of finance should be made very carefully as every source involves different costs and conditions.
5. **Investment Decisions:** The funds procured by the management are to be prudently invested in various assets to optimize the return on investment. The long-term funds require a careful assessment of various alternatives through capital budgeting and opportunity cost analysis.
6. **Disposal of surplus:** It is an important area of financial management where a large number of considerations have to be taken into account. The management must decide how much to retain for ploughing back and how much to distribute as dividend among shareholders out of the surplus of the company.
7. **Management of Cash:** Availability of cash is necessary to maintain liquidity in the company. Cash is required to pay off creditors, purchase stock of materials, pay labour and to meet day-to-day expenses. The finance manager has to see that all the departments of the enterprise get the required cash in time.
8. **Financial Controls:** Evaluation of financial performance is an important task of financial management. The overall measure of evaluation is Return on Investment (ROI). The other techniques of financial control and evaluation include budgetary control, cost control, internal audit, break-even point analysis and ratio analysis. Financial control also involves the evaluation of the borrowing and lending policies of the company.

4.6.5 THE THREE CORE DECISION AREAS IN FINANCIAL MANAGEMENT

There are three core decision areas in financial management. These are:

1. **Investment Decision**: This involves the profitable utilization of the firm’s funds. The investment decision required a careful analysis of various investment opportunities that are available to the firm from time to time and the use of selection criteria to determine which ones to accept and which ones to reject. Investment decisions involve risk because the future benefits assisted with investment project are not known with certainty.
2. **Financing Decision:** This decision deals with the mode of financing or capital structure, that is, where the money for running the organization is going to come from. In essence, the financial manager is concerned with determining the best method of acquiring the needed funds from a number of alternative means available, i.e. whether to get internally

through the initial capital provided for running the organization together with retained profits or it may be sourced externally through short-term, or medium-term or long-term sources.

3. **Dividend Decision:** This deals with retaining the division of earnings between payments to shareholders and reinvestment in the company. It is about how profits accruing from various investments are to be utilized. The financial manager must decide whether the firm should distribute a portion and retain the balance. The dividend policy should be determined in terms of its impact on the shareholders' value. The optimum dividend policy is one that maximizes the market value of the firm's share (Pandey, 2002).

4.6.6 SOURCES OF BUSINESS FINANCING

Sources of business financing are the process of obtaining funds for business firms. They defined various avenues from where sourcing for funds are possible, but not guaranteed.

There are three main sources of financing available to business organizations. These are:

1. SHORT-TERM SOURCES

Short-term methods of finance are suitable for funding shortages in working capital. They should not, if it can be avoided, be used to finance long-term investments. Short-term financing entails obligations or debts that have maturity dates of less than one year. Examples are:

i. **Trade credit or open account:** It is the oldest, simplest and the commonest form of short-term financing where the seller extends credits to the customers. The customers do not sign a formal instrument; the credit is based on the seller's credit investigation.

ii. **Overdraft facilities:** Commercial banks sometimes allow their customers to overdraw their accounts up to a certain limit, overdraft interest is charged on the day-to-day overdrawn position. Bank overdrafts are usually available for up to one year but can be rolled over and the customer will repay the borrowed amount plus interest on the loan overdrawn.

iii. **Notes payable:** These are payable to commercial banks, individuals, or firms. Examples of note payable are promissory notes, an unconditional written promise to pay on demand or at a specified date a sum of money to order or bearer. The maker will endorse the note to the bank, individual or company. The bearer in whose favour the notes are drawn is the payee.

iv. **Specialist institution's short-term loans:** Some specialist institutions such as cooperative banks, merchant banks, development banks etc., also provide short-term funds by mobilizing customer's savings into profitable short-term investments.

v. **Accounts Receivable Financing:** Accounts receivable financing involves either pledging or factoring receivable. Under pledging arrangement, the receivables have resources to the borrower. Factoring or selling receivables account involves the purchases of accounts receivable by the lender, generally without recourse to the borrower.

vi. **Accruals and Income Deferral:** Accruals are amounts owing for services rendered to the firm for which payment has not been made. The deferments of taxes and wages payments are the most common sources of accruals. Whereas Deferred incomes are incomes for good or services which firm has agreed to supply in future e.g., advance payments.

vii. **Bills Discounting:** A bill of exchange is normally prepared by the suppliers of good (creditor) for endorsement or acceptance by the customer (debtor).

viii. **Franchising:** This is the power or authority given to another to sell a company's goods or services in a certain area.

ix. **Commercial Paper:** Commercial papers are unsecured short-term issued by large, financially strong corporations to raise short term funds. They can be sold through dealers or directly by the issuers to banks, life insurance companies, business firms etc.

x. **Borrowing from friends, relatives, and cooperative society:** A person can source for business financing from friends, relative and cooperative societies. This type of business financing is common to sole proprietorship form of business organization.

2. MEDIUM-TERM SOURCES

Medium term sources are financing sources payable within one year to five years duration, although there is no hard and fast rule. Medium term sources include:

i. **Lease Financing:** Lease is an agreement for the use of the asset for a specified rental fee and period without necessarily owing it. The owner of the asset is called the lessor and the user is called the lessee. There are two types of lease agreement:

(a) **Sale and Lease Back:** This is where a company sells an asset to another party and at the same time makes provision that, that party will lease it back to the company.

(b) **Direct Lease:** In this case a financial institution purchases an asset and leases it to the company on request by the company. It may be:

Operating Lease: This is a short-term lease cancellable by the lessee.

Financial Lease: This is a long term non-cancellable lease. Here the lessee maintains and services the assets and cannot cancel the lease until after the agreed time. He must continue to pay the agreed rent also and enjoys the return too.

ii. **Hire Purchase Agreement:** a hire purchase agreement is a credit sale agreement by which the owner of the asset or supplier delivers assets (goods, plant and equipment etc) to a person or business in return for his undertaking to pay agreed amount at specified intervals for certain period, and on the understanding that at the end of that period, when the payments are completed, the assets become his absolute property.

iii. **Bank Loans:** These are usually provided by commercial banks for the purchase of fixed assets. This method is suitable for small and medium-scale enterprises.

iv. **Mortgage:** An alternate to sale and lease back is mortgaging. It may be possible for a company to arrange to borrow money by means of a mortgage, which is the transfer of a legal or equitable interest in a specific immovable properly for the payment of a debt.

v. **Venture Capital:** Venture capital represents funds invested in a new enterprise.

3. LONG-TERM SOURCES

Debt maturing in more than five years as the case may be, is often called long-term debt. The sources of long-term funds can be many and diverse. They include:

i. **Ordinary Shares:** This is one of the three important securities used by the firms to raise funds to finance their activities. Ordinary shares may be issued at par i.e. at discount, or at premium, when it is issued at a price over and above their nominal value.

ii. **Debenture:** A debenture is a written acknowledgement of indebtedness given under company seal. It is a long-term promissory note. Debentures are issued with a maturity date. They generally retired after seven to ten years by installments.

iii. **Preference Shares:** As the name suggests, preference shares have prior claim to profit than ordinary shares. Some preference shares have a cumulative feature, requiring that all previous years outstanding preference dividends be paid before any dividend to common shareholders is announced. Preference shares could be redeemable with a maturity date or irredeemable, that is, perpetual without maturity date.

iv. **Retained Earnings:** These are profits made by the business organization in the previous accounting year that are not distributed to shareholders as dividends. These retained earnings can be ploughed back into the business as a source of capital. It is a very cheap source of capital since it is interest free, especially when compared with other sources of capital.

4.6.7 CAPITALISATION

Capitalization of a company is the sum total of all long-term funds available to the company. It comprises share capital, reserves, debenture capital and long-term borrowing of the company. In other words, capitalization represents the permanent investments in a company. If a company does not have proper capitalization, it may be either over-capitalized or under-capitalized.

1. **Over-Capitalization**

   It is the capitalization under which the actual profits of the company are not sufficient to pay interest on debentures and borrowings and a fair rate of dividend to shareholders over a period of time. In other words, a company is said to be over-capitalized when it is not able to pay interest on debentures and loans and ensure a fair return to the shareholders.

   Effects of over-capitalization

   i. It results in reduced earnings for the company. This means the shareholders will get lesser rate of dividend.

   ii. Market value of shares will go down because of lower profitability.

iii. The reputation of the company will be reduced. Because of this the shares of the company may not be easily marketable.
iv. There will be no certainty of income for the shareholders.
v. Reduced earnings may force the management to follow unfair practices. It may manipulate the accounts to show higher profits.

2. **Under-Capitalization**

A company is said to under-capitalized when the company is earning exceptionally high profits as compared to other companies or the value of assets is significantly higher than the capital raised.

Effects of under-capitalization

i. The profitability of the company may be very high. As a result, the rate of earnings per share will go up.
ii. The value of the shares in the market will go up.
iii. The financial reputation of the company will increase in the market.
iv. The shareholders can be expecting higher dividend regularly.
v. Because of higher profitability, the goodwill of the company will be increased.
vi. The workers of the company may be tempted to demand higher wages and other benefits.

4.6.8 FACTORS AFFECTING A COMPANY'S CHOICE OF FINANCE

i) **Length of the Project:** The general rule in financing is that the maturity of the finance should match the length of the project it is to be used for. Therefore, a long-term investment requires long-term finance, and a short-term investment requires short-term finance.

ii) **Pattern of Cash Flow:** This generally means how long the investment period last before cash flow commences. A long period during which a company has to spend money without generating any revenue will present problems in terms of liquidity. This can be alleviated by using financing whose pattern of repayments fits the projects cash flow. The best source of finance in terms of liquidity is equity since the annual dividend can be small or zero and can be varied according to circumstances.

iii) **Level of Risk:** A project with a high level of risk will probably require some form of equity finance, the use of debt with the burden of interest and capital repayment, whatever the outcome of the project would substantially increase the risk of insolvency.

iv) **The Cost of Finance:** Clearly a company should seek to minimize the cost of finance it raises, this is important because the cost of finance would affect the value of the company.

v) **Debt Capacity:** The ability to use debt finance for a new project can be valuable in terms of the tax savings on debt's interest. An important feature of the project which in fact determines debt capacity is the type of asset involved and their values as security for loan.

vi) **Control:** Existing shareholders will only maintain their level of control over an organization if retained earnings or right issues are used for finance. Any other external finance will to a certain extent involve loss of control.

vii) **The Need for Future Finance:** Many projects do not just need capital initially but require additional finance for future expansion. The use of convertibles may be attractive in these situations.

4.7 SUMMARY

Production is the conversion of raw materials into finished products with the help of certain processes. It is the process of transforming raw materials (inputs) or purchase components (input) into finished products (output) for sale.

The types of production systems are Job production, Batch production, Flow (mass) production, continuous production, and project production.

Personnel function deals with the task of management that has to do with the effective management of employees such that they are utilized for the achievement of organizational goals. Some of the activities involved in personnel management are Manpower planning, Recruitment, Selection, Placement, Induction, Training and Development amongst others.

Marketing function has to do with human activity involving exchange processes usually intended to satisfy the needs and wants of target customers. Its main focus is to satisfy needs and wants. Marketing is different from selling, in that the emphasis of marketing is on the consumer's want while in selling, emphasis is on the product.

Finance is the management of the inflow and out flow of money by a business organization, individual or government agent. The financial manager must make investment, financing, and dividend decisions. There are three main sources of finance viz: short-term sources, medium term-sources and long-term sources.

4.8 ILLUSTRATIVE AND PRACTICE QUESTIONS

A) THEORY QUESTIONS

1. Why has staffing become an important managerial function in big concerns? Who is responsible for the performance of this function?
2. What do you understand by the term "personnel management"? Discuss the various roles of personnel department of a big enterprise.
3. Why is manpower planning necessary in an organization? Describe the main phases involved in manpower planning.
4. What is meant by recruitment? How does it differ from selection?
5. According to many Japanese management experts, merit-based promotion leads to dissatisfaction of all except one, hence the resulting effect is negative, seniority-based promotion has the distinct advantage of satisfying all in due course of time. Discuss in brief.
6. State in brief the principal functions of a finance manager.

7. What is meant by capitalization? Explain the consequences of over-capitalization and under-capitalization.
8. Discuss the sources from which a large sized industrial enterprise can raise capital for financing its long-term requirements of capital.
9. Explain the modern concept of marketing. What is meant by the marketing mix of a firm?
10. What is meant by marketing research? How can it be used by the management for improving the marketing effort?

B) MULTIPLE CHOICE QUESTIONS

1. In business, there are major functional areas of operation namely:
   a) Production,
   b) Finance,
   c) Personnel
   d) Marketing.
   e) All of the above

2. The major functional areas of operation in business are interdependent.
   a) True
   b) False
   c) Don't know
   d) None of the above

3. **______________**is concerned with the design and delivery of advice and financial products.

   a) Human resource planning
   b) Financial services
   c) Marketing mix
   d) None of the above

4. **______** provides a conceptual and analytical framework for financial decision making.
   a) Human resource management
   b) Financial management
   c) Marketing management
   d) Nine of the above

5. **______** is responsible for assessing customer wants and needs.

   a) Marketing
   b) B. Operation
   c) Finance
   d) Human resource

6. Operation management provide desired utilities of

a) Form
b) B. Place
c) Possession
d) All of the above

7. **_________** is the management of systems that creates goods and services.
a) Operations
b) B. Finance
c) Marketing
d) All of the above

8. Human resource management consist of
a) Collective bargaining
b) B. Contract negotiation
c) Grievance handling
d) All of the above

9. **___________** is that part of management concerned with people at work.
a) Finance
b) Operation
c) Marketing
d) None of the above

10. The personnel function involves bringing together of human resources of an organization to achieve the objectives of the business. – **True** or False

4.9 REFERENCES

Adebayo, O.I, Ogunyemi, P.O., &Ojodu, H.O. (2003). Introduction to Business management. Lagos: Abelejo Ventures.

Akinsulire, O. (2002). Financial Management. Lagos: Ceemol Nigeria Limited.

Ayodele, A.D. & Stephen, O.O. (2009). Introduction to Business Management. Lagos: High Rise Associate Ventures.

Chhabra, T.N. (2011). Principles and practice of management. Sarak, Delhi: Gagan Kapur Publishers.

Inegbenebor, A.V., & Esosa Bob Osaze (1999). Introduction to Business. Lagos: Malthouse press limited.

Kotler, P. (1998). Marketing Management: Analysis, planning and control. (4th ed.). Prentice Hall International Edition.

Lawal A.A. (2012). Management in Focus. Lagos: NAS printing Company.

Odueyungbo, F. (2009). Business Management – A practical Approach. Lagos: Nolachild Associates.

Ohanemu, C.N. (2002). Fundamentals of Business Administration. Lagos: Rockfields Publishing.

Pandey, I.M. (2002). Financial Management. New Delhi: Vikas publishing house PUT Ltd.

RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe
Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard
Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz
Fundamentals of Business Administration Management by Caroline Anderson

CHAPTER FIVE
BUSINESS ANALYSIS AND EVALUATION TOOLS
5.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to:

i. Explain the concept of SWOT Analysis;
ii. Describe the relation between SWOT and PEST;
iii. Classify business activities/issues by using SWOT Analysis template;
iv. Explain the concept of PEST;
v. Analyse the PEST Variation;
vi. Explain the concept of financial analysis; and
vii. State the various types of financial analysis.

5.2 INTRODUCTION

Business analysis is a well-curated actionable method(s) of identifying business needs and finding solutions to business problems. Solutions could include anything from upgrading software systems to process improvement, organizational change, or development of new policies. The person charged with the responsibility of carrying out this task is called a Business Analyst. It is used to identify and affect the need for change in how organizations operate.

A business analyst is a person responsible for identifying and defining business problems that will maximize the quality of the organization's output. The business analyst role cuts across every level of the organization as they seek to proffer the best solutions to problems as it affects the individual unit.

5.3 MEANING AND NATURE OF BUSINESS ANALYSIS & EVALUATION TOOLS AND TECHNIQUES

Before the company embarks on any project or makes an investment decision, it is essential to start with business analysis. The business analysis process is broadly divided into several steps. Each of these steps involves tasks to perform, laid down principles and documents to produce. The frequency and order of occurrence are not static; it usually depends on the project.

The following are steps to conducting a business analysis:

i. Collect Background Information.
ii. Know who the Stakeholders are.
iii. Identify the Business Objectives
iv. Evaluate your options.
v. Determine the project requirements.
vi. Define the scope of operation.
vii. Business Analysis Plan.
viii. Initial implementation through sampling.

Fundamentally, there are 3 types of Business analysis which we can categorize into −

a) **Strategic Analysis** − Strategic business analysis deals with pre-project work. It is the method or process of identifying business problems, devising business strategies, goals and objectives helping the top management. It provides management information reporting for an effective decision-making process.
b) **Tactical Analysis** − It involves knowledge of specific business analysis techniques to apply at the right time in the appropriate project.
c) **Operational Analysis** – In this type of Business analysis, we are focused towards the business aspect by leveraging information technology. It is also a process of studying operational systems with the aim of identifying opportunities for business improvement.

For each type of analysis, there are a set of tools which are available in the market and based on organizational needs and requirements, these are to be used. However, to materialize business requirements into understandable information, a good business analysis will leverage techniques such as Fact-Finding, Interviews, Documentation Review, Questionnaires, Sampling and Research in their day-to-day activities.

Functional and Non-Functional Requirements

We can breakdown a requirement into two principal types like Functional and Non-functional requirements.

For all the technology projects, functional and non-functional requirements must be segregated and separately analyzed.

To define the proper tool, an appropriate technique might be a daunting challenge, whether you are making a brand-new application or making a change to an existing application. Considering the right technique for the functional process is an art by itself.

5.4 OBJECTIVES OF BUSINESS ANALYSIS & EVALUATION TOOLS AND TECHNIQUES

These are the widely objectives of the business analysis process. Each company's needs and situations are different, however, hence there may be some variance.

i. Get oriented: Make sure to clarify the business analyst's role, determine the stakeholders' perspective, and get familiar with the project's history.
ii. Name the primary business objectives: Identify the primary stakeholders' expectations, reconcile conflicting expectations, and make sure the objectives are clear and actionable.
iii. Define the project's scope: You need a clear and complete statement of the project's scope—a rough roadmap of all the steps the project participants must follow.
iv. Create a business analysis plan: List timelines, steps, and deliverables.
v. Define requirements: You need concise, clear, and actionable requirements, based on analyzing the information gathered so far.
vi. Support the technical implementation: Since many solutions require using software, the business analyst needs to work closely with IT teams.
vii. Help implement the solution: This step involves creating clear documentation and training end-users.
viii. Assess value: Did the project work? How much progress did the organization make? Are there any needed follow-ups?

5.5 USES OF BUSINESS ANALYSIS & EVALUATION TOOLS AND TECHNIQUES

Here are important reasons for using Business analysis methods:

i. It helps you to understand the structure and the dynamics of the company.
ii. It allows you to understand current problems in the target organization.
iii. It helps you to identify improvement potentials and recommend solutions to enable an organization to achieve goals.
iv. It helps you to identify and articulate the need for change.
v. To maximize the value delivered by an organization to its stakeholders.

5.6 FORMS OF BUSINESS ANALYSIS & EVALUATION TOOLS AND TECHNIQUES

Business analysis has taken a significant turn in the last few years with the creative approaches of the best business analysis techniques. The main objective of these techniques is to get the best results as a business solution. Here are some of the most sought-after business analysis techniques:

i. SWOT Analysis.
ii. BPEST Analysis.
iii. Financial Analysis.
iv. MOST Analysis.
v. CATWOE Analysis.
vi. Process Flow Diagram.

5.7 SWOT ANALYSIS

The SWOT analysis is an extremely useful tool for understanding and reviewing the company's position prior to making decisions about future company direction or the implementation of a new business idea. A SWOT analysis can be completed by an individual within the organization (provided they can take an overview of the current situation) but is often best completed in a team or group. The discussion itself is informative, and the quality of the output is better if perceptions are gathered from a number of people. (Dodd & Graham, 1998).

The PEST analysis is a tool to evaluate external factors. It is often helpful to complete a PEST analysis prior to a SWOT analysis, although it may be more useful to complete a PEST analysis as part of, or after a SWOT analysis. A SWOT analysis measures a business unit; a PEST analysis measures trends and changes in the market.

A SWOT analysis is a subjective assessment of information about the business that is organized using the SWOT format into a logical order that helps understanding, presentation, discussion and decision making.

The four dimensions are a useful extension of a basic two heading list of pros and cons. The SWOT analysis template is normally presented as a grid, comprising four sections, one for each of the SWOT headings: Strengths, Weaknesses, Opportunities, and Threats. The SWOT template below includes sample questions, whose answers are inserted into the relevant section of the SWOT grid. The questions are examples, or discussion points, and obviously can be altered depending on the subject of the SWOT analysis. Note that many of the SWOT questions are also talking points for other headings - use them as you find most helpful and make up your own to suit the issue being analyzed.

A SWOT analysis can also be used to examine different aspects of the business, in our case examining the businesses solutions, customers, capabilities and organizational capabilities. Each represents a different element of the business and requires a separate assessment. In the template provided, we suggest specific questions that need to be answered relevant to each aspect of the business. As you work with this framework, you may add questions that are relevant to the specific context of your business. Importantly, the SWOT analysis can include many different ideas that make it difficult to process decisions. It is therefore useful to define the relevant level of significance you will consider when including a factor before completing the analysis. That said, it is important that you identify at least one factor to go in each box, even if you cannot determine the relative importance of a factor. At the evaluation stage you will be better able to determine this and will have to do this when you use the summary sheet to incorporate the most important elements and prioritize the outcomes. The first time you perform a SWOT analysis it can be challenging, but like most things, the more you do it, the easier it gets.

	Strengths (internal)	**Weaknesses (internal)**
Opportunities (external)	**Obvious natural priorities** Likely to produce greatest ROI (Return on Investment).	**Potentially attractive options** Likely to produce good returns if capability and implementation are viable.

	Likely to be quickest and easiest to implement. Probably justifying immediate action-planning or feasibility study. Executive question: "If we are not already looking at these areas and prioritizing them, then why not?"	Potentially more exciting and stimulating and rewarding than S/O due to change, challenge, surprise tactics, and benefits from addressing and achieving improvements. Executive questions: "What's actually stopping us doing these things, provided they truly fit strategically and are realistic and substantial?"
Threats (external)	**Easy to defend and counter.** Only basic awareness, planning, and implementation required to meet these challenges. Investment in these issues is generally safe and necessary. Executive question: "Are we properly informed and organized to deal with these issues, and are we certain there are no hidden surprises?" - and - "Since we are strong here, can any of these threats be turned into opportunities?"	**Potentially high risk** Assessment of risk crucial. Where risk is low, then we must ignore these issues and not be distracted by them. Where risk is high, we must assess capability gaps and plan to defend/avert in very specific controlled ways. Executive question: "Have we accurately assessed the risks of these issues, and where the risks are high do we have specific controlled reliable plans to avoid/avert/defend?"

SWOT Analysis Template

Here is a larger illustration of a SWOT analysis that can be used to enhance questions in your template.

<table>
<tr><td colspan="2">Subject of SWOT Analysis: (define the subject of the analysis here)</td></tr>
<tr><td>Strengths
□Advantages of proposition?
□Capabilities?
□Competitive advantages?
□USP's (unique selling points)?
□Resources, Assets, People?
□Experience, knowledge, data?
□Financial reserves, likely returns?
□Marketing - reach, distribution, awareness?
□Innovative aspects?
□Location and geographical?
□Price, value, quality?
□Accreditations, qualifications, certifications?
□Processes, systems, IT, communications?
□Cultural, attitudinal, behavioural?
□Management cover, succession?</td><td>Weaknesses
□Disadvantages of proposition?
□Gaps in capabilities?
□Lack of competitive strength?
□Reputation, presence, and reach?
□Financials?
□Own known vulnerabilities?
□Timescales, deadlines, and pressures?
□Cashflow, start-up cash-drain?
□Continuity, supply chain robustness?
□Effects on core activities, distraction?
□Reliability of data, plan predictability?
□Morale, commitment, leadership?
□Accreditations, etc?
□Processes and systems, etc?
□Management cover, succession?</td></tr>
<tr><td>Opportunities
□Market developments?
□Competitors' vulnerabilities?
□Industry or lifestyle trends?
□Technology development and innovation?
□Global influences?
□New markets, vertical, horizontal?
□Niche target markets?
□Geographical, export, import?
□Market need for new USP's?
□Market response to tactics, e.g., surprise?
□Major contracts, tenders?
□Business and product development?
□Information and research?
□Partnerships, agencies, distribution?</td><td>Threats
□Political effects?
□Legislative effects?
□Environmental effects?
□IT developments?
□Competitor intentions - various?
□Market demand?
□New technologies, services, ideas?
□Vital contracts and partners?
□Obstacles faced?
□Insurmountable weaknesses?
□Employment market?
□Financial and credit pressures?
□Economy - home, abroad?
□Seasonality, weather effects?</td></tr>
</table>

Market volume demand trends? Seasonal, weather, fashion influences?	

5.8 PEST ANALYSIS

What is PESTLE Analysis?

PESTLE analysis, which is sometimes referred as **PEST analysis,** is a concept in marketing principles. Moreover, this concept is used as a tool by companies to track the environment they're operating in or are planning to launch a new project/product/service etc. (Malkiel & Graham, 2000).

PESTLE is a mnemonic which in its expanded form denotes P for Political, E for Economic, S for Social, T for Technological, L for Legal and E for Environmental. It gives a bird's eye view of the whole environment from many different angles that one wants to check and keep track of, while contemplating on a certain idea/plan.

The framework has undergone certain alterations, as gurus of Marketing have added certain things like an E for Ethics to instill the element of demographics while utilizing the framework and researching the market.

PEST analysis (political, economic, social and technological) describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is part of an external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro-environmental factors to be taken into consideration. It is a strategic tool for understanding market growth or decline, business position, potential and direction for operations.

There are certain questions that one needs to ask while conducting this analysis, which give them an idea of what things to keep in mind. They are:

i. What is the political situation of the country and how can it affect the industry?
ii. What are the prevalent economic factors?
iii. How much importance does culture has in the market and what are its determinants?
iv. What technological innovations are likely to pop up and affect the market structure?

v. Are there any current legislation that regulate the industry or can there be any change in the legislations for the industry?
vi. What are the environmental concerns for the industry?

All the aspects of this technique are crucial for any industry a business might be in. More than just understanding the market, this framework represents one of the vertebras of the backbone of strategic management that not only defines what a company should do, but also accounts for an organization's goals and the strategies stringed to them.

It may be so, that the importance of each of the factors may be different to different kinds of industries, but it is imperative to any strategy a company wants to develop that they conduct the PESTLE analysis as it forms a much more comprehensive version of the SWOT analysis.

It is very critical for one to understand the complete depth of each of the letters of the **PESTLE**. It is as below:

1. **Political:** These factors determine the extent to which a government may influence the economy or a certain industry. [For example] a government may impose a new tax or duty due to which entire revenue generating structures of organizations might change. Political factors include tax policies, Fiscal policy, trade tariffs etc. that a government may levy around the fiscal year, and it may affect the business environment (economic environment) to a great extent.
2. **Economic:** These factors are determinants of an economy's performance that directly impacts a company and have resonating long term effects. [For example] a rise in the inflation rate of any economy would affect the way companies price their products and services. Adding to that, it would affect the purchasing power of a consumer and change demand/supply models for that economy. Economic factors include inflation rates, interest rates, foreign exchange rates, economic growth patterns etc. It also accounts for the FDI (foreign direct investment) depending on certain specific industries who're undergoing this analysis.

3. **Social:** These factors scrutinize the social environment of the market, and gauge determinants like cultural trends, demographics, population analytics etc. An example of this can be buying trends for Western countries like the US where there is high demand during the holiday season.
4. **Technological:** These factors pertain to innovations in technology that may affect the operations of the industry and the market favorably or unfavorably. This refers to automation, research and development and the amount of technological awareness that a market possesses.
5. **Legal:** These factors have both external and internal sides. There are certain laws that affect the business environment in a certain country while there are certain policies that companies maintain for themselves. Legal analysis takes into account both of these angles and then charts out the strategies in light of these legislations. For example, consumer laws, safety standards, labor laws etc.
6. **Environmental:** These factors include all those that influence or are determined by the surrounding environment. This aspect of the PESTLE is crucial for certain industries particularly for example tourism, farming, agriculture etc. Factors of a business environmental analysis include but are not limited to climate, weather, geographical location, global changes in climate, environmental offsets etc.

PEST Analysis method and examples, with free PEST template

The PEST analysis is a useful tool for understanding market growth or decline, and as such the position, potential and direction for a business. A PEST analysis is a business measurement tool. Like mentioned above, PEST is an acronym for Political, Economic, Social and Technological factors, which are used to assess the market for a business or organizational unit. The PEST analysis headings are a framework for reviewing a situation, and can also, like SWOT analysis, and Porter's Five Forces model, be used to review a strategy or position, direction of a company, a marketing proposition, or idea. Completing a PEST analysis is very simple and is a good subject for workshop sessions.

PEST analysis also works well in brainstorming meetings. Use PEST analysis for business and strategic planning, marketing planning, business and product development and research reports. You can also use PEST analysis exercises for team building games. PEST analysis is similar to SWOT analysis - it's simple, quick, and uses four key perspectives. As PEST factors are essentially external, completing a PEST analysis is helpful prior to completing a SWOT analysis (a SWOT analysis - Strengths, Weaknesses, Opportunities, Threats - is based broadly on half internal and half external factors).

Pest variations

The PEST model, like most very good simple concepts, has prompted several variations on the theme. For example, the PEST acronym is sometimes shown as STEP, which obviously represents the same factors. Stick with PEST - nearly everyone else does.

More confusingly (and some would say unnecessarily), PEST is also extended to seven or even more factors, by adding Ecological (or Environmental), Legislative (or Legal), and Industry Analysis, which produces the PESTELI model. Other variations on the theme include STEEP and PESTLE, which allow for a dedicated Ethical section. STEEPLED is another interpretation which includes pretty well everything except the kitchen sink: Political, Economic, Social and Technological - plus Ecological or Environmental, Ethical, Demographic and Legal. (White, Sondhi & Fried, 1998).

It's a matter of personal choice, but for most situations the original PEST analysis model arguably covers all of the 'additional' factors within the original four main sections. For example, Ecological or Environmental factors can be positioned under any or all of the four main PEST headings, depending on their effect. Legislative factors would normally be covered under the Political heading since they will generally be politically motivated.

Demographics usually are an aspect of the larger social issue. Industry Analysis is effectively covered under the Economic heading. Ethical considerations would typically be included in the Social and/or Political areas, depending on the perspective and the effect. Thus, we can often see these 'additional' factors as 'sub-items' or perspectives within the four main sections.

Keeping to four fundamental perspectives also imposes a discipline of considering strategic context and effect. Many potentials 'additional' factors (ethical, legislative, environmental for example) will commonly be contributory causes which act on one or some of the main four headings, rather than be big strategic factors in their own right. The shape and simplicity of a four-part model is also somehow more strategically appealing and easier to manipulate and convey.

Ultimately you must use what version works best for you, and importantly for others who need to understand you, which is another good reason perhaps for sticking with PEST, because everyone knows it, and you'll not need to spend half the presentation explaining the meaning of STEEPLED or some other quirky interpretation.
If you have come across any other weird and wonderful extended interpretations of PEST, you can share them.

Political • ecological/environmental issues • current legislation home market • future legislation • international legislation • regulatory bodies and processes • government policies • government term and change • trading policies • funding, grants and initiatives • home market lobbying/pressure groups • international pressure groups • wars and conflicts	**Economic** • home economy situation • home economy trends • overseas economies and trends • general taxation issues • taxation specific to product/services • seasonality/weather issues • market and trade cycles • specific industry factors • market routes and distribution trends • customer/end-user drivers • interest and exchange rates • international trade/monetary issues
Social a) lifestyle trends b) demographics c) consumer attitudes and opinions d) media views e) law changes affecting social factors f) brand, company, technology image g) consumer buying patterns h) fashion and role models i) major events and influences j) buying access and trends k) ethnic/religious factors l) advertising and publicity	**Technological** • competing technology development • research funding • associated/dependent technologies. • replacement technology/solutions • maturity of technology • manufacturing maturity and capacity • information and communications • consumer buying • mechanisms/technology • technology legislation • innovation potential • technology access, licensing, patents

m) ethical issues	• intellectual property issues • global communications

On which point (thanks D Taylor), let's informed of one such variation, which featured in 2010 coursework: PEST LIED. The PEST element represents the usual factors - Political, Economic, Social and Technological. The LIED add-on stands for Legal, International, Environment and Demography. Suggestions of origin gratefully received, and any other variations of the PEST model.

5.9 FINANCIAL ANALYSIS

Financial Analysis is defined as being the process of identifying financial strength and weakness of a business by establishing relationship between the elements of balance sheet and income statement. The information pertaining to the financial statements is of great importance through which interpretation and analysis is made. It is through the process of financial analysis that the key performance indicators, such as, ***liquidity, solvency, profitability*** as well as the ***efficiency*** of operations of a business entity may be ascertained, while short term and long-term prospects of a business may be evaluated. Thus, identifying the weakness, the intent is to arrive at recommendations as well as forecasts for the future of a business entity. (Dodd & Graham, 1998).

Financial analysis focuses on the financial statements, as they are a disclosure of a financial performance of a business entity. ***"A Financial Statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show assets position at a moment of time as in the case of balance sheet or may reveal a series of activities over a given period of times, as in the case of an income statement."***

Since there is recurring need to evaluate the past performance, present financial position, the position of liquidity and to assist in forecasting the future prospects of the organization, various financial statements are to be examined in order that the forecast on the earnings may be made and the progress of the company be ascertained.

The financial statements include I*ncome statement, balance sheet, statement of earnings, statement of changes in financial position and the cash flow statement.*

a) ***The income statement***, having been termed as profit and loss account, is the most useful financial statement to enlighten what has happened to the business between the specified time intervals while showing, revenues, expenses gains and losses.
b) ***Balance sheet*** is a statement which shows the financial position of a business at certain point of time. The distinction between income statement and the balance sheet is that the former is for a period and the latter indicates the financial position on a particular date.

However, on the basis of financial statements, the objective of financial analysis is to draw information to facilitate decision making, to evaluate the strength and the weakness of a business, to determine the earning capacity, to provide insights on liquidity, solvency, and profitability and to decide the future prospects of a business entity.

Types of Financial Analysis

There are various types of financial analysis. They are briefly mentioned herein:

a) ***External analysis:*** The external analysis is done on the basis of published financial statements by those who do not have access to the accounting information, such as, stockholders, banks, creditors, and the general public.
b) **Internal Analysis:** This type of analysis is done by finance and accounting department. The objective of such analysis is to provide the information to the top management, while assisting in the decision-making process.
c) ***Short term Analysis:*** It is concerned with the working capital analysis. It involves the analysis of both current assets and current liabilities, so that the cash position (liquidity) may be determined.
d) ***Horizontal Analysis:*** The comparative financial statements are an example of horizontal analysis, as it involves analysis of financial statements for a number of years. Horizontal analysis is also regarded as **Dynamic Analysis**.
e) **Vertical Analysis:** It is performed when financial ratios are to be calculated for one year only. It is also called **Static analysis**.

An assortment of techniques is employed in analyzing financial statements. They are: *Comparative Financial Statements, statement of changes in working capital, common size balance sheets and income statements, trend analysis and ratio analysis.*

a) **Comparative Financial Statements:** It is an important method of analysis which is used to make comparison between two financial statements. Being a technique of horizontal analysis and applicable to both financial statements, income statement and balance sheet, it provides meaningful information when compared to the similar data of prior periods. The comparative statement of income statements enables one to review the operational performance and to draw conclusions, whereas the balance sheets, presenting a change in the financial position during the period, show the effects of operations on the assets and liabilities. Thus, the absolute change from one period to another may be determined.

b) **Statement of Changes in Working Capital:** The objective of this analysis is to extract the information relating to working capital. The amount of net working capital is determined by deducting the total of current liabilities from the total of current assets. The statement of changes in working capital provides the information in relation to working capital between two financial periods.

c) **Common Size Statements:** The figures of financial statements are converted to percentages. It is performed by taking the total balance sheet as 100. The balance sheet items are expressed as the ratio of each asset to total assets and the ratio of each liability to total liabilities. Thus, it shows the relation of each component to the whole - Hence, the name common size.

d) **Trend Analysis:** It is an important tool of horizontal analysis. Under this analysis, ratios of different items of the financial statements for various periods are calculated and the comparison is made accordingly. The analysis over the prior year's indicates the trend or direction. Trend analysis is a useful tool to know whether the financial health of a business entity is improving in the course of time, or it is deteriorating.

e) **Ratio Analysis:** The most popular way to analyze financial statements is computing ratios. It is an important and widely used tool for analysis of financial statements. While developing a meaningful relationship between the individual items or group of items of balance sheets and income statements, it highlights the key performance indicators, such as, *liquidity, solvency, and profitability* of a business entity. The tool of ratio analysis performs in a way that it makes the process of comprehension of financial statements simpler, at the same time, it reveals a lot about the changes in the financial condition of a business entity.

It must be noted that financial analysis is a continuous process being applicable to every business to evaluate its past performance and current financial position. It is useful in various situations to provide managers with the information that is needed for critical decisions. The process of financial analysis provides information about the ability of a business entity to earn income while sustaining both short term and long-term growth.

f) **Financial ratios** are very powerful tools to perform some quick analysis of financial statements. There are four main categories of ratios: liquidity ratios, profitability ratios, activity ratios and leverage ratios. These are typically analyzed over time and across competitors in an industry.

i. ***Liquidity ratios*** are used to determine how quickly a company can turn its assets into cash if it experiences financial difficulties or bankruptcy. It essentially is a measure of a company's ability to remain in business. A few common liquidity ratios are the current ratio and the liquidity index. The current ratio is current assets/current liabilities and measures how much liquidity is available to pay for liabilities. The liquidity index shows how quickly a company can turn assets into cash and is calculated by: (Trade receivables x Days to liquidate) + (Inventory x Days to liquidate)/Trade Receivables + Inventory.

ii. ***Profitability ratios*** are ratios that demonstrate how profitable a company is. A few popular profitability ratios are the breakeven point and gross profit ratio. The breakeven point calculates how much cash a company must generate to break even with their startup costs. The gross profit ratio is equal to (revenue - the cost of goods sold)/revenue. This ratio shows a quick snapshot of expected revenue.

iii. ***Activity ratios*** are meant to show how well management is managing the company's resources. Two common activity ratios are accounting payable turnover and accounts receivable turnover. These ratios demonstrate how long it takes for a company to pay off its accounts payable and how long it takes for a company to receive payments, respectively.
iv. ***Leverage ratios*** depict how much a company relies upon its debt to fund operations. A very common leverage ratio used for financial statement analysis is the debt-to-equity ratio. This ratio shows the extent to which management is willing to use debt in order to fund operations. This ratio is calculated as: (Long-term debt + Short-term debt + Leases)/ Equity.

DuPont analysis uses several financial ratios that multiplied together equal return on equity, a measure of how much income the firm earns divided by the amount of funds invested (equity).

A **Dividend discount model** (DDM) may also be used to value a company's stock price based on the theory that its stock is worth the sum of all of its future dividend payments, discounted back to their present value. In other words, it is used to value stocks based on the net present value of the future dividends.

5.10 MOST Analysis

The term MOST stands for four components, namely –

i. M-Mission
ii. O-Objective
iii. S-Strategy
iv. T-Tactics

The MOST analysis is a standard business analysis model and one of the best business analysis techniques. The business analysts evaluate what an organization does and plans to achieve in the near or distant future.

5.11. CATWOE Analysis

CATWOE is an acronym for:

i. C-Clients

ii. A-Actors
iii. T-Transformation
iv. W-World View
v. O-Owner
vi. E-Environmental Constraints

CATWOE is a general thought process of business analysis to understand what the organization is trying to achieve. It carefully pinpoints what the problem areas are and how the solution will affect the business and its associated people.

5.12 Process Flow Diagram

A process flow diagram (PFD) is commonly used in manufacturing, chemical and process engineering to identify the flow of plant processes. Also, it can be used in other sectors to help stakeholders understand how their business operates.

A PFD is best used to:

i. Document a flow of a process.
ii. Study the process to make replacements and improvements.
iii. Improve understanding and communication channels between stakeholders.

5.13 SUMMARY

The SWOT analysis is an extremely useful tool for understanding and reviewing the company's position prior to making decisions about future company direction or the implementation of a new business idea. A SWOT analysis can be completed by an individual within the organization (provided they can take an overview of the current situation) but is often best completed in a team or group. The discussion itself is informative, and the quality of the output is better if perceptions are gathered from a number of people (Dodd & Graham, 1998).

PESTLE analysis, which is sometimes referred as PEST analysis, is a concept in marketing principles. Moreover, this concept is used as a tool by companies to track the environment they're operating in or are planning to launch a new project/product/service etc. (Malkiel & Graham, 2000).

PESTLE is a mnemonic which in its expanded form denotes P for Political, E for Economic, S for Social, T for Technological, L for Legal and E for Environmental. It gives a bird's eye view of the whole environment from many different angles that one wants to check and keep track of while contemplating on a certain idea/plan.

The framework has undergone certain alterations, as gurus of Marketing have added certain things like an E for Ethics to instill the element of demographics while utilizing the framework while researching the market.

PEST analysis (political, economic, social and technological) describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is part of an external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro-environmental factors to be taken into consideration. It is a strategic tool for understanding market growth or decline, business position, potential and direction for operations.

Financial Analysis is defined as being the process of identifying financial strength and weakness of a business by establishing relationship between the elements of balance sheet and income statement. The information pertaining to the financial statements is of great importance through which interpretation and analysis is made. It is through the process of financial analysis that the key performance indicators, such as, ***liquidity solvency, profitability*** as well as the ***efficiency*** of operations of a business entity may be ascertained, while short term and long-term prospects of a business may be evaluated. Other business analysis tools include MOST Analysis, CATWOE Analysis and Process Flow Diagram (PFD).

5.14 ILLUSTRATIVE AND PRACTICE QUESTIONS

A) THEORY

1. Explain the concept of SWOT Analysis.
2. Describe the relation between SWOT and PEST.
3. Classify business activities/issues by using SWOT Analysis template.

4. Explain the concept of PEST.
5. Analyse the PEST Variation.
6. Explain the concept of financial analysis.
7. State the various types of financial analysis.
8. Does the culture of a country have an effect on the PESTEL analysis? Explain in details.

B) MULTIPLE CHOICE QUESTIONS

1. ______________________ is a well-curated actionable method(s) of identifying business needs and finding solutions to business problems.
    a) Business Professional
    b) Business Analysis
    c) Business Analyst
    d) None of the above
2. The person charged with the responsibility of carrying out this task is called a _______________.
    a) Business Professional
    b) Business Analysis
    c) Business Analyst
    d) None of the above

3. There are 3 types of Business analysis which we can categorize into:
    a) Strategic Analysis
    b) Tactical analysis
    c) Operational analysis
    d) All of the above

4. The widely objectives of the business analysis process include any of the following:
    a) Get oriented
    b) Name the primary business objectives
    c) Define the project's scope
    d) Define requirements
    e) All of the above

5. Some of the important reasons for using Business analysis methods include the following except:
    a) helps to understand the structure and the dynamics of the company.
    b) Allows one to understand current problems in the target organization.
    c) Helps one not to identify and articulate the need for change.
    d) To maximize the value delivered by an organization to its stakeholders.

6. Some of the most sought-after business analysis techniques include the following with the exception of:
    a) SWOT Analysis
    b) BPEST Analysis
    c) Financial Matrix Analysis
    d) Process Flow Diagram

7. The four pillars of SWOT Analysis is:
    a) Strength, Weakness, Opposition, Thread
    b) Strength, Weakness, Opportunity, Threat
    c) Stretch, Weakness, Opposition, Threat
    d) None of the Above

8. Used to describe a framework for the analysis of macroenvironmental factors:
    a) PEST Analysis
    b) SWOT Analysis
    c) Case Analysis
    d) None of the above

9. A process flow diagram (PFD) is commonly used in **_______________**, chemical and process engineering to identify the flow of plant processes.
    a) Manufacturing
    b) Production,
    c) Quality Control
    d) Technological
10. A Process Flow Diagram is best used to:
    a) Document a flow of a process.
    b) Study the process to make replacements and improvements.
    c) Improve understanding and communication channels between stakeholders.
    d) All of the above

5.15 REFERENCES

Dodd, D. & Graham, B. (1998). *Security Analysis*. John Wiley & Sons, Inc.*ISBN 0-07-013235-6.*

Malkiel, B.G. & Graham, B. (1998). "Security Analysis," The 1934 Bible Of Value Investing, Long Ago Put His Finger On The Most Dangerous Words In An Investor's Vocabulary. *New York Times, January 2, Business Section Humbling Lessons*.

White, G. I.; Sondhi, A.l.& Fried, D. *(1998). The Analysis and Use of Financial Statements.* John Wiley & Sons, Inc.*ISBN 0-471-11186-4.*

RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe
Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard
Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz
Fundamentals of Business Administration Management by Caroline Anderson

CHAPTER SIX
THE LEGAL FORMS OF BUSINESS OWNERSHIP

6.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to:

i. Distinguish between public and private enterprises;
ii. List the main features and describe the advantages and disadvantages of a Sole Proprietorship;
iii. List the main features and describe the advantages and disadvantages of partnership;
iv. List the main features and describe the advantages and disadvantages of Joint Stock Company (private and public);
v. List the main features and describe the problems and suggested solutions of a corporation;
vi. Explain a Cooperative Society, its features, advantages and disadvantages; and
vii. Explain Franchise and list its advantages and disadvantages.

6.2 INTRODUCTION

When a new business is to be started, one of the first decisions that must be made is whether to operate as a sole proprietorship, a partnership, or a corporation. These are the three principal legal forms of business organizations, and each has advantages and disadvantages. The form of organization that is finally chosen will depend on various factors, among which are the nature of the commodities to be produced, the way in which capital is to be raised, and most importantly, the probable size of the new enterprise. Below is a detailed explanation of the forms of business organization.

6.3 CLASSIFICATION OF BUSINESS ORGANIZATIONS ACCORDING TO THEIR OWNERSHIP

1. **PRIVATE ENTERPRISES: -** These are business organizations that are owned and managed by private individuals. Examples include sole proprietorship, partnership, private and public limited liability companies, and cooperative societies.

2. **PUBLIC ENTERPRISES**: **-** These are business organizations owned and managed by the government. These may be run by the Local, State or Federal government of a country. Examples include public corporations and companies owned by the government such as Water Corporation, Television Authority, Nigerian National Petroleum Corporation (NNPC) etc.

6.4 DETERMINANTS OF THE CHOICE OF FORMS OF BUSINESS OWNERSHIP

Before we discuss the various forms of business organizations, it is pertinent to first examine the factors that influence the choice of forms of business organization a businessman may choose to establish or get involved in. These factors include the following:

i. **Capital requirement:** The amount, source and availability of capital needed by the firm goes a long way in determining the kind of business to be chosen.

ii. **Market size:** The market size here refers to the extent of effective demand for the products. Market plays a significant role in determining the form of business to operate. This is because the larger the market in focus, the larger the capital requirement to be able to exploit the market and vice versa.

iii. **Managerial capability:** One of the requirements for successful business operations is managerial prowess. Therefore, a businessman who does not have good managerial ability may choose a form of business organization in which the owner of the business is separated from management of the business.

iv. **Registration Requirements:** The law specifies certain requirements to be fulfilled for the registration of business organizations. Therefore, the procedures and requirements to be fulfilled for business registration have an impact on the forms of business organization to be chosen. This point will be made clearer when we look at different forms of business ownership.

v. **Risk Bearing:** All forms of business activities involve risk taking. The form of business to set up by an individual will be determined by the extent to which an individual is a risk lover or risk averter. For example, an individual who is a risk averter would like to be involved in a business in which he will have limited liability.

vi. **Transfer of Ownership:** The ease or difficulty of transfer of ownership and the number of owners is a great determinant in the form of business organisations to be chosen.

vii. **Factors of Production:** The number and extent of availability of factors of production to the firm e.g., raw materials, labour, capital, infrastructural facilities as well as entrepreneurial ability.

6.5 BASIC FORMS OF BUSINESS OWNERSHIP

There are six major types of business organizations. They are: -

1. Sole proprietorship: - This type of business is usually owned by a single individual.
2. Partnership: - This is usually owned by 2 – 20 persons. If it is a banking business, it is usually owned by 2 – 10 persons.
3. Private limited liability company: - Owned by 2 – 50 persons.

4. Public Limited Liability Company: - owned by 7 persons or more.
5. Public corporation: - Owned by government.
6. Cooperative societies: owned by any number of persons.

6.5.1 THE SOLE PROPRIETORSHIP

Sole proprietorship is the oldest, simplest and the commonest form of business ownership. A sole proprietorship is a business owned by one individual who has exclusive control over it. The success or failure of the business will depend on the talent of the owner and consequently, the owner alone bears the results of the operation. Typically, the proprietor alone with a few employees operates the proprietorship. He normally raises all his capital from personal resources or by borrowing from friends, relations or his bank and he is responsible for all his decisions.

Sole proprietorships are likely to be small. They include almost all forms of establishments such as repair shops, service stations, retail stores, restaurants, boutiques, salons etc.

CHARACTERISTICS OF SOLE PROPRIETORSHIP

i. Ownership: - It is a business owned by one individual.
ii. Liability: - The liability in one-man business is unlimited.
iii. Sources of capital: The capital outlay usually comes from personal savings, or by borrowing from friends, relations or bank and grants (loans from government).
iv. Motive for business formation: - To make profit and pride of ownership.
v. Legal status of the Business: - The business is not a legal entity.

ADVANTAGES OF SOLE PROPRIETORSHIP

The most cited advantages of a sole proprietorship apart from being one's own boss are as follows:

i. **Few legal barriers:** It is easy to start and to liquidate without consulting anyone else. This is because there are few legal barriers that cannot readily be dealt with by anyone who has the qualities of a businessman or woman.
ii. **Ownership of all profits:** The sole proprietor is entitled to all the profits from the business.
iii. **Low organization cost:** since no formal legal documents are required in order to form a sole proprietorship, the organizational cost is low. The only cost may be the cost of obtaining a license from the council or state.
iv. **Quick decision making:** -Since there is no other person to whom matters need to be referred, the sole proprietorship can make quick decisions to meet new situations. This provides flexibility and makes it possible to meet new situations promptly.

v. **Personal commitment:** Since he or she is the owner of the business, he or she will attend to all the details which a manager may not be committed enough to do. He or she has a strong incentive to put his best efforts into the business because he or she receives all profits and must bear all losses.

vi. **Secrecy:** The sole proprietorship is not in any way legally required to disclose his or her statement of account at the end of the financial year.

vii. **Tax savings:** Typically, the sole proprietorship is not subject to any special type of taxes. The basic taxes he or she may pay are those on his or her earned income. The earned income of the proprietor is taxed as personal income.

DISADVANTAGES OF SOLE PROPRIETORSHIP

i. **Limitation of size:** The fund-raising power of the sole proprietor is limited to the amount one person can raise. Generally, this is not enough to permit large scale operations.

ii. **Lack of managerial skills:** The sole proprietor must assume the management of the entire business, even though he may not be an expert in some aspects of its operations. There are always difficulties in management resulting from the need to be jack of all trades. Though he or she can hire assistants, he has no one with whom to share the ultimate responsibility.

iii. **Retaining good employees:** Since the sole proprietor may not normally make provision for long-term incentives, good employees may not be willing to stay when they know that there are better conditions of service elsewhere.

iv. **Lack of continuity**: The whole life of the business is likely to depend on the owner. If he or she must relinquish it because of ill health or death, there is often no one who can step in and take his place. As a result, a successful business may have to be terminated and liquidated, usually with heavy losses to the owner or his heirs.

v. **Technological progress**: Technological progress is often out of the reach of the sole proprietor because he or she does not have the required funds for such development. This tends to lower their level of efficiency and as a result, limit the size of their market.

vi. **Unlimited liability**: - The owner bears all the risks and losses of the business alone.

REASONS FOR CONTINUED EXISTENCE OF SOLE PROPRIETORSHIP DESPITE THE PRESENCE OF LARGE BUSINESS ENTITIES

i. Sole proprietorship requires small capital.

ii. It can be easily set up as it does not require any formality.

iii. The overhead cost is relatively low.

iv. There is customer loyalty, good relationships, and patronage.

v. Pride of ownership and strive for success.
vi. The policies of the business can be easily and quickly changed to accommodate recent trends in the business environment.
vii. Perilousness involved in this type of business is very low.
viii. It displays a variety of goods, thereby making the customer to purchase at wish.
ix. It is a channel of distribution of goods to the remote areas and serves as supplier to large firms.

6.5.2 PARTNERSHIP

Partnership is defined according to section 1 of the Partnership Act 1890 (UK General Public Act), as a relationship which subsists between persons carrying on a business in common with a view to making profit. It is a business for the purpose of profit making through a partnership deed. This agreement could be either written or orally stated. The number of partners is limited to twenty. The capital is jointly contributed, and profit shared on an agreed basis as contained in the partnership deed. The most common types of partnerships are those in retailing, partnerships of Doctors, Dentists, Lawyers, Engineers, Chartered Accountants etc.

CHARACTERISTICS OF PARTNERSHIP

i) It is usually owned by 2 to 20 partners; but 2 to 10 in the case of banking business.
ii) The partnership must be registered with the Registrar of company.
iii) At least one of the partners must have unlimited liability.
iv) If one of the partners dies or leaves the association, the partnership dies or dissolves automatically.
v) Withdrawal of capital by one partner must be approved by other partners as laid down in the partnership deed.
vi) Partnership is not a legal entity.
vii) It is easy to form because there is no need for any legal formalities.

It is pertinent to note that in some professions like Law, Medicine, Accounting etc. are exempted from this, as more than twenty can form partnerships.

TYPES OF PARTNERSHIP

There are two major types of partnership: General/Ordinary and Limited Partnership.

1. **General/Ordinary partnership:** This is the most common form of partnership. In this case, all partners have equal responsibilities.
2. **Limited Partnership:** This type of partnership is not so well run, and it must have a legal basis. Here, all partners do not take an equal part in the management of the business. The liabilities of the partners are limited to the capital contributed into the business. However,

in compliance with the partnership law, the partner who is active and has unlimited liability in the business is the overall risk bearer.

KINDS OF PARTNERS

1. **Active Partner:** This partner takes an active part in the formation, financing and running of the business.
2. **Dormant or Sleeping Partner:** This partner only contributes his financial resources in the formation and running of the business. He does not involve himself in the day-to-day management of the business.
3. **Nominal or Passive Partner:** This kind of partner only exists in name or word, as he does not contribute financial resources to the business. His name is only used in the formation of the business.
4. **Secret Partner:** This is a partner who takes an active part in the management of the business. However, the public does not know that he is a partner in such a partnership agreement.

PARTNERSHIP DEED

Partnership deed can be defined as a written agreement, rules and regulations that guide and govern members of partnership. The deed contains the following items:

i) Name of business.
ii) Names of the partners.
iii) The place of business.
iv) The description of the nature of business.
v) The amount of capital contributed by each partner.
vi) The role of each partner in the business.
vii) The method by which profits and losses are to be shared.
viii) The compensation, if any, to be received by each partner for services rendered to the business.
ix) The rights and obligations of the partners.
x) Interests to be paid on capital and drawings of the partners.
xi) How long the business shall last.
xii) Procedures for the admission of new members.
xiii) The limitations of liability of one or more partners.
xiv) How matters affecting the business shall be resolved.
xv) Arrangement for the dissolution of the business.

WHERE THERE IS NO PARTNERSHIP DEED

Where there is no partnership deed, section 24 of partnership Act of 1890 will be invoked, which states that:

i) Profit and loss sharing are equal among partners.
ii) No partner shall be entitled to interest on capital.
iii) No partner shall be entitled to salary.
iv) No partner will be permitted to draw any money from the business fund.
v) Each partner should contribute equal capital.
vi) Any partner who is engaged in a business similar to that of the partnership will be obliged to account to the firm for all benefits accrued therefrom.
vii) Any partner who loans money to the business will be entitled to 5% interest on such a loan.
viii) All partners are entitled to have access to the book and record of the business.

ADVANTAGES OF PARTNERSHIP

1. Greater capital or financial resources.
2. Greater specialization and diversified managerial talents.
3. Better credit rating than the sole proprietorship.
4. Less government regulations.
5. Taxes are paid on individual partner's income only.
6. Opportunity for extending the business and for increasing its efficiency by exploiting the benefit of division of labour.
7. Joint and better decisions can be easily taken by partners.
8. The more partners, then the more talents that will be available to the partnership.

DISADVANTAGES OF PARTNERSHIP

1. **Unlimited Liability:** Each partner is individually liable for all the debts of the business and the liabilities of the owners are not limited to the amount contributed into the business.
2. **Not a Legal Entity:** Partnership does not have separate legal entity different from owners.
3. **Disagreement:** Disagreement among the partners can lead to dissolution especially if some fundamental issues are at stake.
4. **Limited Life:** This means that the partnership dies at the death or bankruptcy or resignation or retirement of one partner.
5. **Limited Capital:** It is difficult to acquire long-term loan because of lack of continuity.
6. **Qualified partners:** Difficulty in finding qualified and agreeable partners.
7. **Decision making:** Delay in decision taking because of the need to consult with every partner.

8. **General Agency:** Any action taken by one partner is legally binding on all the other partners. Therefore, there is a possibility of entering a partnership with someone whose business judgment is poor.

DISSOLUTION OF PARTNERSHIP

A partnership is said to be fully dissolved when all the assets have been distributed and the debts of the partnership are discharged.

A partnership can be dissolved for any of the following reasons:

1. ***Court order:*** A decree from a court of law saying that the partnership should be dissolved.
2. ***Technical Insolvency:*** A partnership may also be dissolved when it becomes technically insolvent. That is to say, the business is unable to pay its debts as they come due.
3. ***Mutual Agreement:*** The partners can mutually agree to dissolve the partnership for any reason other than disagreement.
4. ***Completion of an assignment:*** If the partnership was formed to perform a specific project, it can be dissolved on the completion of such project.

6.5.3 LIMITED LIABILITY COMPANY

In an ideal free economy, business operations take the form and shape of limited liability, which primarily allow investors to invest tremendous amounts of money as they deem fit.

A company can be defined as an association of people who agreed to, and jointly pool their capital together to establish a business venture distinct from owners. Limited Liability Company is also called Joint Stock Company. It exists in law and absolutely independent of the owners. This implies that the owners have limited liability. That is, their liability is limited to the amount of capital they have invested in the company. Limited Liability Company can own property, make contracts, borrow money, sue, and can be sued and it has an indefinite life not dependent on the life of its owners. Companies and Allied Matters Act (CAMA) LFN, 2004 stated necessary and desirable information about limited liability in Nigeria.

TYPES OF LIMITED LIABILITY COMPANIES

Two major types of limited liability companies are easily identified. They are:

1. **Private Limited Liability Company:** This type of company is one whose membership is limited to fifty, whereas the minimum membership is two. It is otherwise known as a closed company. The company can neither request nor subscribe for shares from the general public, and the holder of the company shares cannot transfer such shares without

the knowledge of the registrar of companies. Besides, such shares cannot be sold on the stock exchange market, and this explains why it is called a closed company.

This form of business organization can be formed by a family. In forming the business, the business name, nature of the business, site of the business, membership as well as the type of product to be produced will be included in the charter or agreement of association. This charter will then be registered with the registrar of companies.

FEATURES OF A PRIVATE LIMITED COMPANY

1. It is established by two to fifty persons.
2. It is managed by Board of Directors headed by a Chairman.
3. Limited Liability up to the number of shares held.
4. Members of the public cannot be invited to subscribe to shares.
5. Payment or shares of profits is on the basis of the number of shares held.
6. There is a restriction on transfer of shares.
7. It does not require by law to publish its financial statements at the end of the year.
8. The shares are not quoted on the stock exchange.
9. Voting right is according to the number of shares held.

2. Public Limited Liability Company

This type of company can be formed by a minimum number of seven persons, while it has no maximum number. It is otherwise known as an open company. This means that its shares are available for sale to the public and it is usually through the stock exchange. The shareholders are the real owners of the company and are free to transfer their shares to other people. The liability of shareholders is limited to the amount invested in the company.

FEATURES OF A PUBLIC LIMITED LIABILITY

1. It has a minimum of seven owners but has no upper limit.
2. The public can subscribe to its shares.
3. Shareholders can transfer their shares on the stock exchange market.
4. It is managed by the Board of Directors through appointed Managing Director.
5. The liability of the shareholders is limited.
6. It is a legal entity different from the owner.
7. Dividend is paid to shareholders on the basis of the shares held.
8. Required by law to prepare its financial statement on an annual basis.

9. It can commence business as soon as both certificate of incorporation and certificate of trading are obtained.

ADVANTAGES OF LIMITED LIABILITY COMPANY

1. It enjoys a separate legal entity distinct from the owners.
2. The liability of the owners is limited to the amount invested in the company.
3. Death or withdrawal of a shareholder does not end the business.
4. It is easy to expand business because of the availability of large capital.
5. There is an opportunity for the employees to acquire shares in the company and thus become co-owners.
6. The interests of the shareholders in the business are safeguarded as no secret profit can be made.

DISADVANTAGES OF LIMITED LIABILITY COMPANY

1. The formalities and requirements by law for the establishment of a limited liability company are very cumbersome.
2. Public limited liability companies lack privacy because it is required by law that the company must publish its account for public consumption.
3. The managers of the business are not always the owners of the business.
4. Huge capital is required for the formation and running of the business.
5. Disagreement between shareholders and members of the Board of Directors may bring the company's progress to a halt.
6. Delay in policy and decision making as it takes a long time for the members of the Board of Directors, which is the decision and policy making body to convene a meeting and take decision.

THE FORMATION OF A LIMITED LIABILITY COMPANY

By Nigerian Law, before a company commences business, it must be duly registered with the Corporate Affairs Commission (CAC). The Companies and Allied Matters Act governs all the procedures concerning the formation, registration, and the filing returns of all documents of all Joint stock companies.

To facilitate the procurement of their incorporation, both the private and public limited liability companies must file the following documents with the CAC.

MEMORADUM OF ASSOCIATION

This is a set of regulations laid down to guide the company and its members. Also spelt out in specific terms are the relationship between the company and the outside community. They are:

(1) The name of the company with the word (PLC) if it is Public Limited Company.
(2) The registered office or location of the business.
(3) The type of business it is set up to do.

ARTICLES OF ASSOCIATION

Articles of Association contains the rules and regulations for conducting the internal affairs of the company such as:

(1) Appointment and removal of directors.
(2) The procedures or the issue and transfer of shares.
(3) The rights and responsibilities of shareholders.
(4) The procedure for auditing and accounting for the company's business.

CERTIFICATE OF INCORPORATION

After a thorough examination of all the necessary documents by the Registrar of Companies, a certificate of incorporation is issued to the company concerned. It is only after this is done that the company is regarded as a corporate body and is authorized to commence business.

TERMINATION OF A CORPORATION

A primary characteristic of a corporation is that it can have a perpetual existence, but this does not mean that a corporation must exist forever. A number of circumstances can bring about an end to its existence.

While discussing the termination of a corporation, a clear distinction must be made between "liquidation" and "dissolution". Liquidation is the conversion of the corporation's assets to cash and the distribution of such funds to creditors and shareholders. Dissolution is the actual termination of the corporation's existence as an artificial person.

6.5.4 PUBLIC CORPORATIONS

DEFINITION

Public corporations are corporate business enterprises established by specific statutes for the provision of certain commercial, social and welfare services. Their powers, duties and matters relating to finance and personnel are usually contained in the legislative acts, decrees, or edicts which established them. The organization of a public corporation is similar to that of a private business enterprise. It has a legal charter, capital stock, a board of directors, as well as a management body which is responsible to the board. It is distinct from the government that created it.

Like a private company, it provides goods and services to the public on a commercial basis. Its independence from external managerial and financial controls enables it to achieve objectives reached by the conventional government departments.

Public corporations are of two main types:

1. Clientele or social and welfare service corporations, e.g., Federal Radio Corporation of Nigeria, Nigerian Television Authority, Federal Housing Authority, Pilgrims Welfare Board, and the Health Management Board etc.
2. Public utility corporations, e.g., Nigerian Ports Authority, Power Holdings Company of Nigeria (PHCN), Nigerian Railway Corporation, Lagos State Water Corporation and Nigeria Airways etc.

Purposes and functions of public corporations

In general, the following reasons are often stated to justify the establishment of public corporations.

1. They undertake the provision of some essential public utilities or social and welfare services which private individuals may not be able to provide because they require huge capital investment, e.g., water, telecommunications, gas, electricity, etc.
2. Some public corporations may be used by the government as instruments for rapid economic development of the country, e.g., steel, petroleum, gas, and hydroelectricity industries. These enterprises are expected to generate revenue which can be used for financing development projects and welfare programmes.
3. Some of the corporations are set up in order to provide services which government departments cannot handle efficiently. This is because certain features of the organization of these government departments do not make for economic efficiency. The running of enterprises like PHCN, the railways, and the airways, is similar to running a private business.
4. For the sake of national security and economic survival, the state does not allow establishments which provide essential services to be wholly owned by private individuals and foreigners. Instead, they are state owned, e.g., oil and gas, ammunition, steel and electricity corporations.
5. Public enterprises are sometimes set up in order to prevent unscrupulous private businessmen from exploiting the people. Such businessmen may impose unduly high charges on their products and services since their primary motive is to make as much profit as possible.

6. Public enterprises provide employment opportunities for the people.
7. Public enterprises may be used as a device by the state to prevent the concentration of wealth or the means of production and exchange in the hands of a few individuals or groups.
8. Finally, public corporations provide essential and basic utilities and services to the public at reasonable costs.

Characteristics, Structure, and Organization of Public Corporations

Public corporations have been identified by scholars as having the following principal characteristics:

1. They are state-owned.
2. They are created by specific government statutes which define their powers and relations with other government institutions.
3. They have a legal personality, i.e., they have a life of their own, can sue and be sued, hold property, enter into contracts etc.
4. In theory, public corporations are independently financed through their own revenue and loans.
5. They are not subject to parliamentary financial scrutiny, such as that to which departments of government are subjected.
6. Their employees are not civil servants but are employed directly by, and subject to conditions determined by, the corporations.
7. Public corporations are usually administered by boards which are appointed by ministers.

PROBLEMS OF PUBLIC CORPORATIONS AND THEIR SOLUTIONS

Problems

The performance of public corporations in Nigeria remains far below the hopes and expectations of many people, for many reasons:

(1) **Lack of adequate finance**

The inability of some public corporations to operate profitably or secure the necessary subsidy from the government causes inefficiency and low productivity.

(2) **Bad management and impropriety**

Poor financial management, misuse of funds, bribery and corruption among officials, and waste of scarce resources, lead to the inability of many corporations to be viable and efficient.

(3) **Inadequate control and accountability**

Problems arise over what should be the boundary of relationships between the minister and the board. The minister may, by using his powers and influence excessively, destroy the *raisond'etre* (i.e., reason existence) of the board.

(4) **Ineffective supervision and control by the legislature**

As a consequence of its unwieldy size, excessive load of work, crippling time constraints, and lack of appropriate technical expertise, the legislature is not a suitable body for the effective supervision of industrial or commercial enterprises such as public corporations.

(5) **Political interference**

Some ministers and politicians may use the corporations for undue partisan interests. In some cases, personnel may be political appointees who are not professionally qualified.

(6) **Inconsistent policies**

A corporation's board of directors may change rather rapidly, resulting in frequently changing, inconsistent policies.

(7) **Nepotism and favouritism**

These vices, when they are indulged in by the boards, contribute to the inefficiency of the corporations.

Suggested Solutions

1. **Appoint only suitable members to the board**

The board of a public corporation, being a policy making organ, should be composed of persons of suitable educational qualifications, ability, experience, and integrity. They should not be selected primarily on the basis of their political standing or affiliation.

2. **Strengthen autonomy of boards**

The autonomy of the board in personnel matters, particularly staff recruitment, salaries, and conditions of service, should be strengthened.

3. **Provide adequate financial base**

An adequate financial base for public corporations should be provided by the government. This will enable the corporations to operate at an optimum level and to minimize the frequency with which they ask the government for funds.

4. **Tighten up control and accountability**

   There is a need to tighten up control and accountability. Public corporations should be compelled to regularly render properly audited reports and accounts to the government.

6.5.4. CO-OPERATIVE SOCIETIES

A co-operative society is any group formed by people with common interest who contribute money in the form of capital to promote the business interest of members. It is a voluntary association of people who have common needs and interests. The welfare of the members is taken into consideration in any of its dealings, in a co-operative society there is a high standard of democracy. Enikanselu *et al* (2000)4 defined cooperative society as a "form of business organization established by unlimited number of persons, who voluntarily associate themselves together on the basis of equality of voting right for a common purpose, based on some internationally acceptable principles.

Features of Co-operative Society

A co-operative society has the following characteristics:

1. **Democracy:** Each member has only one vote regardless of contribution made to the society.
2. **Profit distribution is based on patronage:** Any surplus is distributed among members according to the purchases made. i.e., amount of goods purchased.
3. **Private ownership:** It is owned by private individuals, that is, it is not owned by the government.
4. **Promotion of members' Interest:** It is set up by the people with common interest in order to promote their business interest and for the provision of other welfare benefits.
5. **Open and voluntary membership:** Any person can be a member. Thus, membership is open to everybody who is interested in becoming a member. There is no restriction on membership.
6. **Perpetual existence:** A co-operative society is similar to a limited liability company, as it can exist in perpetuity.
7. **Registered under co-operative law:** Most co-operative societies are registered under the co-operative law.
8. **Limited liability:** The liability of members is limited to the amount contributed to the society.

9. **Controlled and managed by a committee:** A Committee is set up by the members to manage and control the affairs of society.

History of Co-Operative Movement

The idea of co-operative was introduced as an alternative to competition in the nineteenth century. The first earliest attempt at co-operation in production to achieve a measure of success was that of Robert Owen 1771-1858. In 1844, a movement was successfully launched by the Rochdale pioneers, a group of 28 weavers for the benefit of members. The success of the retail co-operative society really dates to the formation of the pioneer. It was only in 1880 that the movement was firmly established, and progress was very rapid after that date.

Moreover, the farmers of Denmark were the first to form farmers' co-operative society in order to enable them to enjoy the advantages of large-scale production. It also spread to such countries like New Zealand and Republic of Ireland.

In Nigeria, the first co-operative society dated back to the period 1922. It was formed to provide cocoa farmers the opportunity to sell their products at fair prices. Co-operative societies have now developed in terms of size and numbers. They can be found among workers in both private and public sectors. Even market women and peasants are also participating in co-operative societies.

TYPES OF CO-OPERATIVE SOCIETY

1. **Retail Co-operative Society:** This is established and managed by a voluntary group of retailers in order to make goods readily available to members at reduced prices. The members pool their resources together in order to purchase in bulk and then sell the goods at reduced price to members.

   Features of retail Co-operative society

   a. Bulk purchase of goods.
   b. Sales of goods in small quantities to members.
   c. Goods are sold to members at reduced prices.

2. **Producers' Co-operative Society:** This is an association of producers of similar goods who have come together to promote the production, marketing, and sales of their products. They enjoy large scale buying of raw materials and equipment at reduced prices. Members are taught new techniques of production and the factors of production to produce goods at reduced prices.

   Features of producer co-operative society

a. Producers of similar products form it.
b. The society enjoys large scale buying of raw materials.
c. Engages in joint marketing of products.

3. **Wholesaler Co-operative Society:** This is made up of wholesalers who pool their resources together to purchase goods in larger quantities from the producers and sell in small quantities to the retailers. Wholesale co-operative society buys in bulk at reasonable prices from the manufacturers.

Features of wholesale co-operative society

a. It is formed by small-scale wholesalers.
b. It buys in bulk at reasonable prices.
c. Sells in small units to retailers.
d. Members pool resources together.
e. It has more bargaining power.

4. **Consumers Co-operative Society:** This is formed by consumers who pool their resources together to enable them buy goods directly from the producers at cheaper price. This form of co-operative society deals mostly in consumer goods.

Features of Consumer Co-operative Society

a. It is established by consumers.
b. It buys in bulk and distributes to members.
c. The surplus is distributed to members in proportion to patronage.
d. It settles dispute among members.

5. **Credit and Thrift Society:** This is a society in which members make contributions to a fund and out of which they apply for loan. The interest charged on the loan is usually very low. It solves the problem of getting a loan from the bank at higher interest rate.

Features of Credit and Thrift Society

a. It is formed by low-income earners.
b. Members are encouraged to cultivate saving habits.
c. Settlement of dispute among members.
d. Provides loan facilities to members at low interest.
e. Surpluses are distributed as dividends to members.

6. **Multipurpose Co-operative Society:** This is a co-operative movement, which combines all the functions of all other co-operative societies. They engage in different forms of ventures that members consider profitable and is of interest to the society and members. It engages in any business that a co-operative can do without changing its law. This ensures greater profitability for the society.

Features of multipurpose co-operative society

1. It combines all the functions of all other co-operative societies.
2. It embarks on diversification.
3. It engages in any profitable business.

Advantages of Co-operative Society

1. **Profit is exempted from tax:** The profit of co-operative societies is not subject to income tax of 30% in Nigeria.
2. **Operates on democratic basis:** All the members have equal rights in decision making process and management of the society.
3. **Provision of loan facilities to members:** Members find it very easy to obtain loans from the society, which would have been difficult to get from financial institutions.
4. **Educating members:** They provide training to members on new techniques. Members are enlightened through regular monthly meetings.
5. **Encourage joint marketing of products:** They organize joint marketing, transportation, and distribution of their products.
6. **Encouragement of savings habit:** Co-operative society encourages their members to cultivate the habit of saving which will help them to get the needed capital to start their own business or acquire necessary assets.
7. **Collective use of factors of production:** Members combine factors of production to produce goods at reduced price. This is peculiar to producer cooperative society.
8. **Perpetual existence:** Co-operative societies can exist for a long period of time. It is a going concern organization.
9. **Limited Liability:** The liability of members of the society is limited to the amount contributed by members.
10. **Pooling of resources for investment:** They pool resources together to invest in different areas of investment opportunities to improve the living standards of members.

Disadvantages of Co-operative Society

1. **Misappropriation of funds:** People who are appointed as members of the committee to take charge of the society usually embezzle the fund, which may lead to winding up. This is very rampant in Nigeria.

2. **Inefficient management:** The committee members are not specialists in the area of management. Weak and inexperienced management is the bane of co-operative society. Most of the management teams are working on part term basis. It lacks personnel with business acumen.
3. **Low returns on investment:** The profit distributed to members is very low. There is a low return on investments.
4. **Problems in loan recovery:** It is very difficult to recover loans given out to members. Inability to recover loans tends to destabilize the society.
5. **Insufficient capital:** The capital available for investment is very low. Most of the members are low-income earners therefore there is no enough funds for mobilization by the society.
6. **High level of illiteracy:** There is widespread illiteracy among members which makes their education and training very difficult.
7. **Unnecessary government interference:** Political intervention and unnecessary government control are problems facing co-operative society.

6.5.5 FRANCHISES

The form of business ownership that combines sole proprietorships, partnerships and corporations is the franchise. A franchise is an agreement whereby someone with a good idea for a business (franchisor) sells the right to use the business name and to sell a product or service (the franchise) to others (franchisee) in a given country. The franchisee usually agrees to operate a business developed by another. Some of the best-known franchises are in Fast Foods and Hotel and Tourisms. Examples include McDonalds, Sheraton Hotels, Best Western Hotels etc.

Advantages of Franchising

1. Provision of management and marketing assistance by the franchisor.
2. Personal ownership despite the agreement with the franchisor.
3. Instant recognition is guaranteed, particularly with well-established Franchisors.
4. Financial assistance and advice from the franchisors.
5. Historically, franchising experiences a lower failure rate.

Disadvantages of Franchising

1. Large set up costs resulting from fees for franchises.
2. Shared profit: The franchisor usually demands for royalty on franchise’s revenue.
3. Management regulations.
4. Coat tail effects: The failure of fellow franchises may affect your own business.
5. Restriction on selling particularly in reselling of franchises.
6. Fraudulent franchisors living on the fortune of the franchises.

6.5.7 SUMMARY

For a business to have legal status, it must adopt a legally recognized form of ownership. In this chapter we discussed all of the lawful forms of business ownership.

The oldest and the most common form of business ownership is the sole proprietorship. Proprietorships and partnerships are relatively easy to organize in legal terms. Both permit the owners considerable freedom to operate. Both necessarily subject the owners to substantial risks, unlimited liability, and limited business existence.

A limited liability company is a legal entity, separate and distinct from its owners, the shareholders. It can own, buy, and sell property, may sue and be sued and may be public or private.

There is a greater permanence than in other forms of ownership. The disadvantage is that it is more difficult to start because of its legal requirements. Also, a heavier tax burden is imposed on a corporation, and it is subject to more government control but despite these disadvantages, it has proved attractive to investors.

The two main types of limited liability company are private limited liability company and public limited liability company. Some of the requirements for the formation of a limited liability company include Memorandum of Association, Articles of Association, and the Prospectus amongst others.

Another form of ownership is the Cooperative Society which is a group formed by people with common interest who contribute money in form of capital to promote the business interest of members. It is a voluntary association of people who have common needs and interests.

A public corporation is one organized by the government for the purpose of conducting public affairs. They are established by the government to generate revenues for government for political reasons. They are maintained by public revenue and do not possess shareholders.

Franchise is a form of ownership whereby someone with good idea for a business (franchisor) sells the rights to use the business name and to sell a product or service (the franchise) to others (franchisee) in a given country.

ILLUSTRATIVE AND PRACTICE QUESTIONS

A) THEORY

1. Mention the advantages and disadvantages of the following:
    a. Sole Proprietorship

b. Partnership

c. Joint Stock Company

2. A business organization is an enterprise that produces goods and services for consumers as well as creates employment for the unemployed. What do you understand by the word "enterprise" in the above statement?
3. Adduce reasons for the inefficiency and ineffectiveness of public corporations in Nigeria. What would you suggest for improved performance?
4. A number of different circumstances can bring about an end to a corporation's existence. List and explain any four of such.
5. What do you understand by the word "Franchise"? Explain its main advantages and disadvantages.
6. Describe cooperative societies by highlighting its:
   a. Classifications
   b. Roles in the society.
7. In what ways does the cooperative association differ from a corporation?
8. Compare and contrast the features of the various forms of ownership.

B) MULTIPLE CHOICE QUESTIONS

1. There are three principal legal forms of business organizations which are:
   a) Sole proprietorship,
   b) Partnership
   c) Corporation
   d) All of the above

2. Business organizations are classified according to their ownership, which are:
   a) Private enterprises
   b) Public enterprises
   c) (a) and (b)
   d) Public-Private enterprises

3. The business organizations that are owned and managed by private individuals is called __________________.
   a) Private enterprises
   b) Public enterprises
   c) (a) and (b)

d) Public-Private enterprises

4. Examples of private enterprises include the following except:
   a) sole proprietorship, partnership,
   b) private and public limited liability companies
   c) cooperative societies.
   d) NIMASA

5. ___________________ are the business organizations owned and managed by the government.
   a) Private enterprises
   b) Public enterprises
   c) (a) and (b)
   d) Public-Private enterprises

6. Public enterprises may be run by the Local, State or Federal government of a country.
   a) True
   b) False
   c) Not Sure
   d) All of the above

7. Examples of public enterprises include public corporations and companies owned by the government such as:
   a) Water Corporation,
   b) Television Authority,
   c) Nigerian National Petroleum Corporation (NNPC)
   d) All of the above

8. A partner whose association with the firm is unknown to the general public is called:
   a) **Secret Partner**
   b) Sleeping Partner
   c) Active Partner
   d) Nominal Partner

9. In a cooperative society the principle followed is:
   a) Multiple votes
   b) No vote
   c) One share one vote
   d) **One man one vote**

10. A corporation can:

a) own property
b) enter into contracts
c) sue and be sued
d) all of the above

6.5.8 REFERENCES

Adebanjo, I.O. (2003). Introduction to Business management. Lagos: Mobit Nigeria Limited

Companies and Allied Matters Decree 1990. Federal Government Press Lagos.

Enikanselu, S.A. et al (2000) Principles of cooperative, Lagos: Panaf Publishing Inc.

Gene Burton and Manab Thakur (1997). Management today – principles and practice. Tola McGraw – Hill

Ishola, K.A. (2012). Foundation in Accounting. Ilorin: Lavagark Nigeria publishers.

Lawal, A.A. (2012). Management in Focus. Lagos: NAS printing company

Longe,F.(2015). Amplified & Simplified Economics. Lagos: Longe ventures.

Owualah, S.I. (1999). Entrepreneurship in small business firms. Lagos: G-mag Investment Limited.

Oyediran, O. *et al* (2014). New Approach Government, Malaysia: BHS Book Printing Sdn. Bhd.

UK General Public Act. https://www.legislation.gov.uk/ukpga/Vict/53-54/39/contents

RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.
Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard.
Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz.
Fundamentals of Business Administration Management by Caroline Anderson.

CHAPTER SEVEN
FORMS OF BUSINESS COMBINATIONS

7.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to:

i. Explain the concept of business combination;
ii. Identify the causes of business combination;
iii. State various types of business combination;
iv. Explain the concept of merger;
v. State various classification of merger;
vi. Explain the concept of acquisition;
vii. Identify the motives for acquisition;
viii. Explain the concept of integration;
ix. State the various types of integration;
x. Explain the concept of consolidation;
xi. Explain the concept of absorption;
xii. Explain the concept of takeover & various types; and
xiii. Explain the concept of conglomerate.

7.2 CONCEPT OF BUSINESS COMBINATIONS

Business combinations are combinations formed by two or more business units, with a view to achieving certain common objective (especially elimination of competition); such combinations ranging from loosest combination through associations to fastest combinations through complete consolidations.

Business Combination scan be defined as "To combine is simply to become one of the parts of a whole; and a combination is merely a union of persons, to make a whole or group for the prosecution of some common purposes." (Close, 2000).

A business combination is essentially an event or transaction where an acquirer acquires control of either one or more business. Furthermore, a business can be defined as a set of integrated assets and activities which are capable of being managed and conducted with an intention of offering a return to the investing members or other participants, owners, and members.

Generally, business combinations refer to transactions in which one company gains control, or at least controlling interest, in another company. A business combination can be aptly defined as amalgamation of the assets of two or more business entities for their consolidation as a single entity under single ownership. A business combination can be managed easily through the way of a voluntary acquisition, a merger, or a hostile takeover. In many cases, a preferred means of managing a business combination might be acquiring a controlling amount of stock.

CAUSES OF BUSINESS COMBINATIONS:

Causes of business combinations – at a glance

1. Wasteful competition
2. Economies of large scale organization
3. Desire for monopoly power
4. Business cycles
5. Join stock companies
6. Influence of tariffs
7. Cult of the colossal (or Respect for bigness)
8. Individual organising ability

Some of the outstanding causes leading to the formation of business combinations are described below:

(i) Wasteful Competition:

Competition, which is said to be the 'salt of trade', by going too far, becomes a very powerful instrument for the inception and growth of business combinations. In fact, competition, according to Haney, is the major driving force, leading to the emergence of combinations, in industry.

(ii) Economies of Large-Scale Organization:

Organisation of production on a large scale brings a large number of well-known advantages in its wake – like technical economies, managerial economies, financial economies, marketing economies and economies vis-a-vis greater resistance to risks and fluctuations in economic activities. Economies of large-scale operations thus become, a powerful force causing increased race for combinations.

(iii) Desire for Monopoly Power:

Monopoly, a natural outcome of combination, leads to the control of market and generally means larger profits for business concerns. The desire to secure a monopolistic position certainly prompts producers to join together less than one banner.

(iv) Business Cycles:

Trade cycles, the alternate periods of boom and depression, lead to business combinations. The boom period i.e. prosperity period leading to an unusual growth of firms to reap rich harvest of profits results in intense competition; and becomes a ground for forming combinations. Contrariwise, Depression, the times of economic crisis-with many firms having to only option to close down-prompts business units to combine to ensure their survival.

(v) Joint Stock Companies:

The corporate form of business organization is a facilitating force leading to emergence of business combinations. In joint stock companies, control and management of various corporate enterprises can be concentrated in a 'small group of powerful persons through acquiring a controlling number of shares of different companies.

(vi) Influence of Tariffs:

Tariffs have been referred to as **"the mother of all trusts".** (A trust is a form of business combinations). Tariffs do not directly result in combinations; they prepare the necessary ground for it. In fact, imposition of tariffs restricts foreign competition but increases competition among domestic producers. Home producers' resort to combinations, to protect their survival.

(vii) Cult of the Colossal (or Respect for Bigness):

In the present-day world, business units of bigger size are more respected than units of small size. Those who believe in the philosophy of power and ambition compel small units to combine; and are instrumental in forming powerful business combinations, in a craze for achieving bigness.

(viii) Individual Organising Ability:

The scarcity of organizing talent has also induced the formation of combinations in the business world. Many times, therefore, combinations are formed due to the ambition of individuals who are gifted with organising ability. The number of business units is far larger than the skilled business magnates; and many units have to combine to take advantage of the organising ability of these business brains.

7.3 TYPES OF BUSINESS COMBINATIONS

Types of Combinations:

1. Horizontal Combination: It is also known as parallel or trade unit integration. It is affected by units engaged in manufacturing similar products or rendering similar services.It involves the bringing together of competing firms under single ownership and management. Also referred to as voluntary combination, it is an association of two or more business units of the same nature under a single management. Both the business units involved in combination are engaged in the same activity and their combination is, therefore, referred as horizontal combination. The key objectives of this business combination are the same as those of a vertical combination.

For instance, if two or more sugar mills are combined under the same management, it will be a case of horizontal combination. Tata Iron and Steel Ltd and associated cement company are the illustrations of horizontal combination.

The benefit of horizontal combination is as follows:

(i) It eliminates wasteful inter-firm competition in the same line of industry.

(ii) It helps in achieving economies of large-scale production and distribution.

(iii) It can control supply of the product and market prices.

Horizontal combination may lead to the point of view of following evils:

(i) It creates a monopoly which is harmful from the point of view of the customers.

(ii) There may be restriction of output and exploitation of customers.

(iii) It gives rise to concentration of economic power.

2. Vertical Combination: It is also known as sequence or industry or process integration. It arises because of integration of those business enterprises which are engaged in different stages of production of a product. In other words, it implies combination under single control of enterprises in different stages of manufacturing the product. This is a business combination wherein various departments of large industrial units come together under single management. Under this business combination, all the stages, from purchase to selling of product, are linked by units.

The aim of vertical integration is to gain self-sufficiency as regards raw materials and distribution of finished products. Two or more business units engaged in successive stages of production, or producing articles leading to the same final product, may combine together and manage all stages of production and the distribution of the final product.

For example, in cotton textile industry, there may be a combination of units engaged in successive stages of cloth manufacturing. Such as spinning, weaving, bleaching, and finishing of cloth. Vertical combination may result from backward or forward integration. Manufacturers at successive stages in production may integrate backward up to the sources of raw materials or they may expand through forward integration to retail selling of the finished product. Thus, the basic objective of vertical combination is either to secure an assured supply of raw materials and other requirements or to create steady market for the products manufactured. The former objective is fulfilled by backward integration and the latter is realized by forward integration.

The advantages of vertical integration are as follows:

(i) It reduces the dependence on other enterprises in the industry and helps in achieving self-sufficiency.

(ii) It eliminates the intermediate profits and thus reduces the cost of production.

(iii) There is steady production as a result of a regular supply of raw materials and regular sales.

(iv) Products of higher quality can be obtained because of the control achieved.

(v) Economies in storage, transport and handling of materials may be achieved.

Vertical integration may lead to the following evils:

i) It does not eliminate competition as in the case of horizontal integrations.

ii) The size of the business may grow, and it may bring grow and it may bring in flexibility of operations.

iii) Since its processes are interdependent, a slight interruption in one process may dislocate the entire production system.

iv) It gives rise to the concentration of economic power.

3. Lateral Combination: It refers to the integration of business units producing and selling different but allied products. The lateral combination may be either convergent or divergent. Convergent lateral combination arises when firms producing different products but supplying to a common user join together.

For example, brick manufacturers, stone supplier, cement supplier, and wood supplier may integrate with a construction company.

Divergent lateral combination represents combination of one supplier of a common raw material with different users.

The example of divergent lateral integration is provided by a flourmill supplying flour to a number of units like bakery, confectionary, and hotel.

The main benefit of lateral integration is that both the supply of raw materials and availability and existence of demand are ensured to the new combination. Benefits of centralized control of various units are achieved. Under divergent integration, markets are diversified, and risks are scattered.

Lateral combination may be:

(a) Convergent lateral combination:

In convergent lateral combination, different industrial units which supply raw materials to a major firm, combine together with the major firm. The best illustration is found in a printing press, which may combine with units engaged in supply of paper, ink, types, cardboard, printing machinery etc.

(b) Divergent lateral combination:

Divergent lateral integration takes place when a major firm supplies its product to other combing firms, which use it as their raw material. The best example of such combination may be found in a steel mill which supplies steel to a number of allied concerns for the manufacture of a variety of products like tubing, wires, nails, machinery, locomotives etc.

(c) Diagonal (or Service) Combinations:

This type of combination takes place when a unit providing essential auxiliary goods / services to an industry is combined with a unit operating in the main line of production. Thus, if an industrial enterprise combines with a repairs workshop for maintaining tools and machines in good order; it will be affecting diagonal combination.

(d) Circular (or Mixed) Combinations:

When firms engaged in the manufacture of different types of products join together; it is known as circular or mixed combination. For example, if a sugar mill combines with a steel works and a cement factory; the result is a mixed combination.

4. Diagonal Combination: It means integration of a main activity or process with ancillary activities and services. A diagonal business combination involves two or more business entities performing subsidiary services combining themselves under a single management. The key objective of this amalgamation is to make the business unit large and self-sufficient.

For instance, a newspaper company may integrate with a transport company to ensure quick delivery of the newspaper to different parts of the country, or an automobile plant may combine with a power generating unit. Thus, diversification of activities is diagonal. The purpose of diagonal integration is to ensure smooth and timely availability of ancillary services which are essential for the continuous working of the main units.

5. Circular Combination: When there is integration of business units which remotely connected with one another in their production and sales, furculum integration is achieved.

The remote connection may be found between products requiring similar manufacturing processes or using the same marketing or trade channels.

This business combination type involves different business units coalesce themselves under a single management. For instance, a shoes industry combining with cloth and sugar industry exemplifies mixed combination. The key objective of this benefit is securing the benefits of administrative ability by way of common management.
Circular combinations are created to build up big industrial empires. Business house of Tata's, Birla's and D.C.M. - all in India - are the illustrations in this regard. For instance, the D.C.M. group controls the units engaged in textiles, chemicals, fertilizers, sugar, electronic goods, business machines, etc.

6. Associations: The term association is meant for voluntary union of traders for the purpose of safeguarding the interest of all the members therein. Broadly speaking, association may be classified into two types; namely trade associations and chambers of commerce.

a. Trade Associations: A trade association may be defined as an association of business units engaged in a particular trade or industry, or a group of closely related trades. It is a voluntary and non-profit organization of business units which are competitors. They are formed for the promotion of the economic interest of their members. In fact, the trade association is a combination of businessmen, engaged in a particular line of business for the promotion of their common interest, growth of friendly relations and exchange of news and views pertaining to their business activities.

The name of the association is usually after the nature of the business conducted by the members. The members include businessmen engaged in the same line of business in a particular region. Some of the associations at the all India level are: All India Manufacturers Organisation, All India Organisation of Employers, All India Marketing Association, Indian Jute Mills Association, Indian Sugar Mills Association, Indian Paper Mills Association, etc.

Trade associations at the regional level include: Bombay Mill Owners Association, Bombay Printing Press Owners Association, Ahmedabad Cotton Mill Owners Association etc.

The trade associations perform the following functions: -

i) Educating members so as to improve efficiency.

ii) Preventing cut-throat or unfair competition.

iii) Promoting and extending trade through ‘legislative work’.

iv) To provide market information to members with regard to customer preferences, expectations, market opportunities etc

v) Providing information relating to emerging business opportunities.

vi) Rendering advice on technical matters and legal issues.

vii) To secure co-operation and co-ordination among members.

viii) To serve as a forum where members can settle their disputes.

ix) Ensuring that members do not indulge in unfair trade practices.

x) Providing references with regard to the reputation and credit worthiness of members.

xi) Undertaking advertisements to promote the industry.

xii) To prescribe code of ethics with a view to promote ethical behavior.

xiii) To represent members grievances to the government and seek redressal.

xiv) Conduct seminars or workshops on new legislation, the budget, international business developments etc.,

xv) To conduct market research and provide information to member.

xvi) To send representatives to serve on various committees and boards set up by the government.

b. Chambers of Commerce: A chamber of commerce may be defined as an association of businessmen and women which works for the benefit of its members in a particulars territory it serves. Their aim is to protect the general commercial interest of the members.

Chambers of commerce is found all over the world but differed in their composition and character. For instance, in India and England, a chamber of commerce is a voluntary association of businessmen and women to further their commercial interest. But in France it is a semi-official body comprising of a fixed number of representatives of the Government and the business community.

The chambers of commerce perform the following functions: -

(i) They collect and disseminate important on traffic routes, trade conditions, Potential markets, etc.

(ii) They maintain statistical bureaus for providing classified information to the members.

(iii) They act as the spokesmen of the business community by commenting on Government policies affecting business or in connecting with an existing piece of legislation that obstructs business.

(iv) They make representations to the government on proposed legislations concerning some spheres of business or in connection with an existing piece of legislation that obstructs business.

(v) They arrange for the settlement of disputes arising out of trade or industry by means of arbitration.

(vi) They introduce standard trade practices to be followed by their members.

(vii) They organise industrial fairs and exhibitions to further the interest of the business community.

(viii) They provide opportunity and forum of exchanging views to the members by holding conference and seminars.

7.4 DEFINITION OF MERGER:

A merger is a business transaction where an acquiring company takeovers the target company as a whole. This results in only one company remaining after the merger. The smaller target company loses its existence and becomes a part of the bigger acquiring company. (Depamphilis, 2008).

1. **Classification by the Form of Integration:**

The mergers can be classified as follows on the basis of forms of integration:

Statutory Merger: A statutory merger is one in which all the assets and liabilities of the smaller company is acquired by the bigger (acquiring) company. As a result, the smaller target company loses its existence as a separate entity.

Company A + Company B = Company A

Subsidiary Merger: A subsidiary merger is one in which the target company becomes a subsidiary of the bigger acquiring company. This happens because the target company may have a known brand or a strong image which would make sense for the acquiring company to retain.

Company A + Company B = (Company A + Company B)

Consolidation: A consolidation merger is one in which both the companies lose their identity as separate entities and become a part of a bigger new company. This is generally the case with both the companies being of the same size.

Company A + Company B = Company C

2. **Classification because of Relatedness of the Business Activities:**

The mergers can be classified as follows on the basis of relatedness of the business activities:

Horizontal Merger: A merger that happens between companies belonging to the same industry. The companies have businesses in the same space and are generally competitors to each other. A horizontal merger is a feature of an industry which consists of a large number of small firms / fragmented industry. The level of competition is high and the post-merger synergies and gains are much higher for companies in such industries. The motivation behind such a merger is economies of scale and control of a bigger market share.

Vertical Merger: A vertical merger is a merger between companies that produce different goods or offer different services for one commonly finished product. The companies operate at different levels in the supply chain of the same industry. The motivation behind such mergers is cost efficiency, operational efficiency, increased margins and more control over the production or the distribution process. There are two types of vertical mergers:

i. **Backward Integration:** A vertical integration where a company acquires the suppliers of its raw materials.
ii. **Forward Integration:** A vertical integration where a company acquires the distribution channels of its products.

Conglomerate Merger: A merger between companies that operate in completely different and unrelated industries. A pure conglomerate merger is between companies with totally nothing in common. A mixed conglomerate merger is between companies looking for market or product extensions.

Market Extension Mergers: A merger between companies that have the same products to offer but the markets are different. The reason behind such mergers is access to bigger markets and an increase in the client base.

Product Extension Mergers: A merger between companies that have different but related products, but the markets are the same. Such mergers allow the companies to bundle their product offerings and approach more consumers.

Besides the above classifications, there are other characteristics of the deals also, that may further define the types of mergers:

Complementary or Supplementary Merger: A complementary merger aims at compensating for some limitation of the acquiring company. The target company may be an attempt to strengthen a process or enter a new market. A supplementary merger is one in which the target company further strengthens the acquiring company. The target may be similar to the acquiring company in this case.

Hostile or Friendly Merger: A merger can be hostile or friendly depending on the approval of its directors. If the board of directors and the managers of the company are against the merger, it is a hostile merger. If the merger is approved by them, it is a friendly merger.

Arm's Length Merger: This type of merger is a merger that is approved both by the disinterested directors and the disinterested stockholders.

Strategic Merger: A merger of a target company with an aim of strategic holding over a longer term. An acquirer may pay a premium to the target in this case.

7.5 ACQUISITION

An acquisition usually refers to the purchase of the assets of a company. However, in the remainder of this course, the term will be used in a much broader sense to indicate the purchase of shares, assets, or companies in the merger process. Thus, the narrow, distinct meaning of the term will not be used. (Harwood, 2006).

An **acquisition** or **takeover** is the purchase of one business or company by another company or other business entity. Such purchase may be of 100%, or nearly 100%, of the assets or ownership equity of the acquired entity.

An acquisition can take the form of a purchase of the stock or other equity interests of the target entity, or the acquisition of all or a substantial amount of its assets. For example:

i. **Share purchases** - In a share purchase the buyer buys the shares of the target company from the shareholders of the target company. The buyer will take on the company with all its assets and liabilities.

ii. **Asset purchases** - In an asset purchase the buyer buys the assets of the target company from the target company. In simplest form, this leaves the target company as an empty shell, and the cash it receives from the acquisition is then paid back to its shareholders by dividend or through liquidation. However, one of the advantages of an asset purchase for the buyer is that it can "cherry-pick" the assets that it wants and leave the assets - and liabilities - that it does not.

Motives for Acquisitions

The overriding motive for any acquisition should be to maximize shareholder value. There has been increasing emphasis on maximizing shareholder value and managers are under more and more pressure to do so. The threat of a hostile takeover places pressure on all corporate managers to manage their companies to maximize value, or risk being taken over and restructured by another management. Increasingly competitive global capital markets, active institutional investors, active and independent boards of directors, and better-informed market participants have all led to an increased focus by shareholders on shareholder value, and have placed increased pressure on corporate managers to maximize shareholder value. (Bartram, Burns & Helwege, 2013).

Acquisitions are a means of creating shareholder value by exploiting synergies, increasing growth, replacing inefficient managers, gaining market power, and extracting benefits from financial and operational restructuring. However, for value to be created, the benefits of these motives must exceed the costs.

These motives are considered to *add shareholder value*:

i. **Economies of scale:** This refers to the fact that the combined company can often reduce duplicate departments or operations, lowering the costs of the company relative to theoretically the same revenue stream, thus increasing profit.

ii. **Increased revenue/Increased Market Share:** This motive assumes that the company will be absorbing a major competitor and its power (by capturing increased market share) to set prices.

iii. **Cross selling:** For example, a bank buying a stockbroker could then sell its banking products to the stockbroker's customers, while the broker can sign up the bank's customers for brokerage accounts. Or a manufacturer can acquire and sell complementary products.

iv. **Synergy:** Better use of complementary resources.

v. **Taxes:** A profitable company can buy a loss maker to use the target's tax write-offs. In the United States and many other countries, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company.

vi. **Geographical or other diversification:** This is designed to smooth the earnings results of a company, which over the long term smoothens the stock price of a company, giving conservative investors more confidence in investing in the company. However, this does not always deliver value to shareholders (see below).

vii. **Resource transfer:**Resources are unevenly distributed across firms and the interaction of target and acquiring firm resources can create value through either overcoming information asymmetry or by combining scarce resources.

viii. **Financial restructuring:** A change in control can lead to a more cost-effective or safer capital structure, and more efficient use of financial assets.

ix. **Business mix restructuring:** The acquirer may divest non-core businesses.

The following motives are considered to *not* add shareholder value:

i. **Diversification:** While this may hedge a company against a downturn in an individual industry it fails to deliver value, since it is possible for individual shareholders to achieve the same hedge by diversifying their portfolios at a much lower cost than those associated with a merger.

ii. **Overextension:** Tend to make the organization fuzzy and unmanageable.

iii. **Manager's hubris:** Manager's overconfidence about expected synergies from M&A which results in overpayment for the target company.

iv. **Empire Building:** Managers have larger companies to manage and hence more power.

v. **Manager's Compensation:** In the past, certain executive management teams had their payout based on the total amount of profit of the company, instead of the profit per share, which would give the team a perverse incentive to buy companies to increase the total profit while decreasing the profit per share (which hurts the owners of the company, the shareholders); although some empirical studies show that compensation is rather linked to profitability and not mere profits of the company.

vi. **Bootstrapping:** Example: how ITT executed its merger.

vii. **Vertical integration:** Companies acquire part of a supply chain and benefit from the resources.

7.6 INTEGRATION

Business integration strategies are used to cross-train management and employees, reduce ineffective communication and cut supplier costs. As you analyze your company operations, think of the different ways you can integrate processes to save the company time and money. Integration helps to streamline your operations and can reduce overhead as well as personnel costs by reducing the need for additional staff and the resources they use (Fleuriet, 2008).

A. What is the difference between horizontal integration and vertical integration?

A horizontal integration consists of companies that acquire a similar company in the same industry.

When a company wishes to grow through a horizontal integration, it is seeking to increase its size, diversify its product or service, achieve economies of scale, reduce competition, or gain access to new customers or markets. To do this, one company acquires another company of similar size and operations, in the same industry. Two great examples of horizontal integration are the acquisition of Pixar by Disney or the acquisition of Instagram by Facebook.

A vertical integration consists of companies that acquire a company that operates either before or after the acquiring company in the production process.

When a company wishes to grow through a vertical integration, it is seeking to strengthen its supply chain, reduce its production costs, capture upstream or downstream profits, or access downstream distribution channels. To do this, one company acquires another company that is either before or after it in the supply chain process. A great example of a vertical integration is when Verizon and AT&T opened their own retail locations through acquisition.

When it comes to a vertical integration, a company can either integrate forward in a forward integration or backward in a backward integration.

A backward integration occurs when a company decides to own another company that makes an input product to the acquiring company's product. An example of this is if a car manufacturer acquires a tire manufacturing company.

A forward integration occurs when a company decides to take control of the post-production process. An example of this is if the same car manufacturer acquires an automotive dealership.

The vertical integration examples above with Verizon and AT&T are also forward integrations.

Vertical integration is a strategy where a company expands its business operations into different steps on the same production path, such as when a manufacturer owns its supplier and/or distributor. Vertical integration can help companies reduce costs and improve efficiencies by decreasing transportation expenses and reducing turnaround time, among other advantages. However, sometimes it is more effective for a company to rely on the established expertise and economies of scale of other vendors rather than trying to become vertically integrated.

General Examples of Vertical Integration

Companies from many different industries and sectors choose to vertically integrate. A mortgage company that originates, and services mortgages is a vertically integrated loan-servicing firm. The company lends money to homebuyers and collects their monthly payments, rather than specializing in one service or the other. (Douma & Hein, 2013).

A solar power company that produces photovoltaic products and also manufactures the cells used to create those products is another example of a vertically integrated business. In this case, the company moved along the supply chain to assume the manufacturing duties, conducting a backward integration.

The merger of Live Nation and Ticketmaster created a vertically integrated entertainment company that manages and represents artists, produces shows and sells event tickets. This type of integration is forward from the perspective of Ticketmaster and backward from the perspective of Live Nation.

B. What Are the Differences Between Vertical & Horizontal in Strategic Management?

Strategic management is a process that businesses and other organizations undertake involving the analysis of information and the implementation of decisions based on that analysis. The purpose of these decisions is to maximize the effectiveness of the organization's operations given limitations such as budget, time constraints and capacity.

Horizontal Integration Definition

Horizontal integration is the act of integrating other infrastructures, assets, and companies of the same industry or in the same level of production. The acquisition of these assets typically results in an expansion of existing operations rather than the establishment of new operations. An example of horizontal integration would be one fast food chain buying another or one oil company purchasing refineries from another oil company.

Horizontal Integration Benefits

The principal benefit of engaging in horizontal integration is that it eliminates competition from other firms. This is because the assets that it integrates are intrinsically assets that competitors have been using to go after the same market sector. It also serves as a relatively cheap way of breaking into new markets because, instead of engaging in all of the research, analysis and legal issues involved with opening a branch in a new area, it allows a business to take control of a branch that is already in place. However, governments tend to frown on horizontal integration past a certain point. This is because, if a single firm takes control of an entire market in this way, it becomes a monopoly, which means that it can charge exorbitant prices with little fear of losing sales.

Vertical Integration Definition

Vertical integration is the act of expanding into new operations for the purpose of decreasing a firm's reliability on other firms in the process of production and distribution. Such integration requires firms to undertake new aspects of business operations. An example would be a supermarket firm that, instead of contracting with freight companies, purchases its own trucks and distribution facilities that it uses to get food items and household products out to its various locations.

Vertical Integration Benefits

The principal benefit of vertical integration is that it allows firms to cut total costs by internalizing the value that other firms would otherwise take as profits. For instance, a grocery store may pay a trucking firm $5,000 to do something that only costs the trucking firm $3,800. By buying its own truck and hiring an employee driver, the grocery store only has to pay $3,800 now. The main things that inhibit firms from engaging in vertical integration are the trouble associated with engaging in an unfamiliar type of operations and the up-front costs that such integration efforts require.

7.7 CONSOLIDATION

A consolidation is a combination of two or more companies in which an entirely new corporation is formed, and all merging companies cease to exist. Shares of the new company are exchanged for shares of the merging ones. Two similarly sized companies usually consolidate rather than merge. Although the distinction between merger and consolidation is important, the terms are often used interchangeably, with either used to refer generally to a joining of the assets and liabilities of two companies.

Consolidation occurs when two companies combine to form a new enterprise altogether, and neither of the previous companies remains independently. Acquisitions are divided into "private" and "public" acquisitions, depending on whether the acquired or merging company (also termed a *target*) is or is not listed on a public stock market. Some public companies rely on acquisitions as an important value creation strategy. An additional dimension or categorization consists of whether an acquisition is *friendly* or *hostile*.

7.8 ABSORPTION

Absorption is the process under which an existing large company purchases the business of another small company or companies doing similar business. In other words, when an existing company takes over the business of one or more existing companies carrying out similar business, it is called absorption. The company whose business is acquired is liquidated. But no new company is formed. The company which takes over the business is called absorbing or purchasing company and the company, the business of which is taken over is called absorbed or vendor company. The accounting record of absorption is similar to that of amalgamation.

Features of Absorption

i. One or more companies are liquidated.

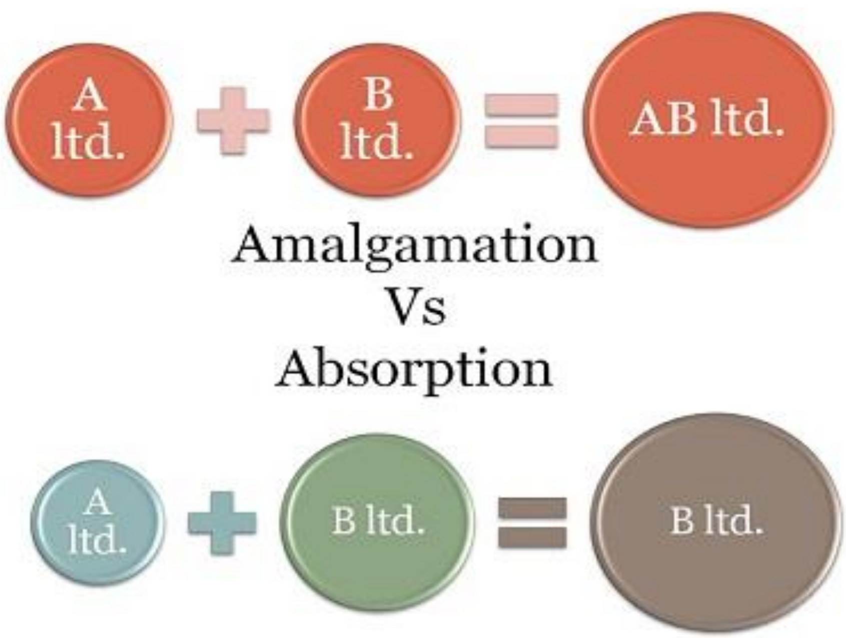
ii. No new company is formed.

iii. The nature of business of both companies is similar.

iv. Generally, larger company purchase the business of smaller companies.

Comparison Chart

Basis for Comparison	**Amalgamation**	**Absorption**
Meaning	The process in which two or more than companies are wound up to form a new company, which acquires their business is known as Amalgamation.	The process in which one company takes over the other company is known as Absorption.
Act	Voluntary	Voluntary or hostile
Minimum number of companies involved	Three	Two
Creation of new company	Yes, a new company is formed	No, new company is not formed
Size of entities	The entities are of the same size.	The bigger the entity overpowers the smaller entity.
How many companies are liquidated?	Minimum 2 companies	Only one, i.e., the merged company



7.9 TAKEOVER

A takeover occurs when an acquiring company makes a bid in an effort to assume control of a target company, often by purchasing a majority stake. If the takeover goes through, the acquiring company becomes responsible for all of the target company's operations, holdings and debt. When the target is a publicly traded company, the acquiring company makes an offer for all of the target's outstanding shares. (Aharon, Gavious & Yosef, 2010).

a. Reasons for a Takeover

A takeover is virtually the same as an acquisition, except the term "takeover" has a negative connotation, indicating the target does not wish to be purchased. A company may act as a bidder by seeking to increase its market share or achieve economies of scale that help it reduce its costs and thereby increase its profits. Companies that make attractive takeover targets include those that have a unique niche in a particular product or service; small companies with viable products or services but insufficient financing; a similar company in close geographic proximity where combining forces could improve efficiency; and otherwise, viable companies that are paying too much for debt that could be refinanced at a lower cost if a larger company with better credit took over. (Cartwright & Schoerbery, 2008).

Types of Takeover:

Friendly Takeovers

A "friendly takeover" is an acquisition which is approved by the management. Before a bidder makes an offer for another company, it usually first informs the company's board of directors. In an ideal world, if the board feels that accepting the offer serves the shareholders better than rejecting it, it recommends the offer be accepted by the shareholders.

In a private company, because the shareholders and the board are usually the same people or closely connected with one another, private acquisitions are usually friendly. If the shareholders agree to sell the company, then the board is usually of the same mind or sufficiently under the orders of the equity shareholders to cooperate with the bidder. This point is not relevant to the UK concept of takeovers, which always involves the acquisition of a public company.

Hostile Takeovers

A "hostile takeover" allows a bidder to take over a target company whose management is unwilling to agree to a merger or takeover. A takeover is considered "hostile" if the target company's board rejects the offer, and if the bidder continues to pursue it, or the bidder makes the offer directly after having announced its firm intention to make an offer. Development of the hostile tender is attributed to Louis Wolfson.

A hostile takeover can be conducted in several ways. A tender offer can be made where the acquiring company makes a public offer at a fixed price above the current market price. Tender offers in the United States are regulated by the Williams Act. An acquiring company can also engage in a proxy fight, whereby it tries to persuade enough shareholders, usually a simple majority, to replace the management with a new one which will approve the takeover. Another method involves quietly purchasing enough stock on the open market, known as a "creeping tender offer", to effect a change in management. In all of these ways, management resists the acquisition, but it is carried out anyway.

In the United States, a common defense tactic against hostile takeovers is to use section 16 of the Clayton Act to seek an injunction, arguing that section 7 of the act would be violated if the offeror acquired the target's stock.

The main consequence of a bid being considered hostile is practical rather than legal. If the board of the target cooperates, the bidder can conduct extensive due diligence into the affairs of the target company, providing the bidder with a comprehensive analysis of the target company's finances. In contrast, a hostile bidder will only have more limited, publicly available information about the target company available, rendering the bidder vulnerable to hidden risks regarding the target company's finances. An additional problem is that takeovers often require loans provided by banks in order to service the offer, but banks are often less willing to back a hostile bidder because of the relative lack of target information which is available to them.

A well-known example of an extremely hostile takeover was Oracle's hostile bid to acquire PeopleSoft.

Reverse Takeovers

A "reverse takeover" is a type of takeover where a private company acquires a public company. This is usually done at the instigation of the larger, private company, the purpose being for the private company to effectively float itself while avoiding some of the expense and time involved in a conventional IPO. However, in the UK under AIM rules, a reverse takeover is an acquisition or acquisitions in a twelve-month period which for an AIM company would:

i. exceed 100% in any of the class tests; or
ii. result in a fundamental change in its business, board or voting control; or
iii. in the case of an investing company, depart substantially from the investing strategy stated in its admission document or, where no admission document was produced on admission, depart substantially from the investing strategy stated in its pre-admission announcement or depart substantially from the investing strategy.

An individual or organization, sometimes known as a corporate raider, can purchase a large fraction of the company's stock and, in doing so, get enough votes to replace the board of directors and the CEO. With a new agreeable management team, the stock is a much more attractive investment[why?], which would likely result in a price rise and a profit for the corporate raider and the other shareholders.

Backflip Takeovers

A "backflip takeover" is any sort of takeover in which the acquiring company turns itself into a subsidiary of the purchased company. This type of takeover can occur when a larger but less well-known company purchases a struggling company with a very well-known brand. Examples include:

i. The Texas Air Corporation takeover of Continental Airlines but taking the Continental name as it was better known.
ii. The SBC takeover of the ailing AT&T and subsequent rename to AT&T.
iii. Westinghouse's 1995 purchase of CBS and 1997 renaming to CBS Corporation, with Westinghouse becoming a brand name owned by the company.
iv. NationsBank's takeover of the Bank of America, but adopting Bank of America's name.
v. Interceptor Entertainment's acquisition of 3D Realms but kept the name 3D Realms.

Pros and Cons of Takeover

While pros and cons of a takeover differ from case to case, there are a few reoccurring ones worth mentioning.

Pros:

1. Increase in sales/revenues (e.g. Procter & Gamble takeover of Gillette).
2. Venture into new businesses and markets.
3. Profitability of target company.
4. Increase market share.
5. Decreased competition (from the perspective of the acquiring company).
6. Reduction of overcapacity in the industry.
7. Enlarge brand portfolio (e.g. L'Oréal's takeover of Body Shop).
8. Increase in economies of scale.
9. Increased efficiency as a result of corporate synergies/redundancies (jobs with overlapping responsibilities can be eliminated, decreasing operating costs).
10. Expand strategic distribution network.

Cons:

1. Goodwill, often paid in excess for the acquisition.
2. Culture clashes within the two companies cause employees to be less efficient or despondent.
3. Reduced competition and choice for consumers in oligopoly markets (Bad for consumers, although this is good for the companies involved in the takeover).
4. Likelihood of job cuts.

5. Cultural integration/conflict with new management.
6. Hidden liabilities of target entity.
7. The monetary cost to the company.
8. Lack of motivation for employees in the company being bought.
9. Domination of a subsidiary by the parent company, often causing the corporate veil to be pierced.

Takeovers also tend to substitute debt for equity. In a sense, any government tax policy of allowing for deduction of interest expenses but not of dividends, has essentially provided a substantial subsidy to takeovers. It can punish more-conservative or prudent management that do not allow their companies to leverage themselves into a high-risk position. High leverage will lead to high profits if circumstances go well but can lead to catastrophic failure if circumstances do not go favorably. This can create substantial negative externalities for governments, employees, suppliers and other stakeholders.

7.10 CONGLOMERATE

1. Definitions:

A **conglomerate** is the combination of two or more corporations engaged in entirely different businesses that fall under one corporate group, usually involving a parent company and many subsidiaries. Often, a conglomerate is a **multi-industry company**. Conglomerates are often large and multinational. (Fleuriet, 2008).

A merger between firms that are involved in totally unrelated business activities. There are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, while mixed conglomerate mergers involve firms that are looking for product extensions or market extensions.

2. Examples of Conglomerates

A leading manufacturer of athletic shoes merges with a soft drink firm. The resulting company is faced with the same competition in each of its two markets after the merger as the individual firms were before the merger. One example of a conglomerate merger was the merger between the Walt Disney Company and the American Broadcasting Company.

A conglomerate is a corporation that is made up of a number of different, seemingly unrelated businesses. In a conglomerate, one company owns a controlling stake in a number of smaller companies, which conduct business separately. Each of a conglomerate's subsidiary businesses run independently of the other business divisions, but the subsidiaries' management reports to senior management at the parent company.

The largest conglomerates diversify business risk by participating in a number of different markets, although some conglomerates elect to participate in a single industry – for example, mining.

Conglomerate in business, a corporation formed by the acquisition by one firm of several others, each of which is engaged in an activity that generally differs from that of the original. The management of such a corporation may wish to diversify its field of operations for a number of reasons: making additional use of existing plant facilities, improving its marketing position with a broader range of products, or decreasing the inherent risk in depending on the demand for a single product. There may also be financial advantages to be gained from the reorganization of other companies.

Advantages and disadvantages of Conglomerates

Advantages

i. Diversification results in a reduction of investment risk. A downturn suffered by one subsidiary, for instance, can be counterbalanced by stability, or even expansion, in another division. For example, if Berkshire Hathaway's construction materials business has a good year, the profit might be offset by a bad year in its insurance business. This advantage is enhanced by the fact that the business cycle affects industries in different ways. Financial Conglomerates have very different compliance requirements from insurance or reinsurance solo entities or groups. There are very important opportunities that can be exploited to increase shareholder value.

ii. A conglomerate creates an internal capital market if the external one is not developed enough. Through the internal market, different parts of conglomerate allocate capital more effectively.
iii. A conglomerate can show earnings growth by acquiring companies whose shares are more discounted than its own. In fact, Teledyne, GE, and Berkshire Hathaway have delivered high earnings growth for a time.
iv. Due to diversification, conglomerates can reduce their investment risk.
v. These structures can create a capital market within the group to allow growth of the conglomerate.
vi. A conglomerate can grow by acquiring companies whose shares are more discounted, thereby showing growth in earnings.

Disadvantages

i. The extra layers of management increase costs.
ii. Accounting disclosure is less useful information, many numbers are disclosed grouped, rather than separately for each business. The complexity of a conglomerate's accounts makes them harder for managers, investors, and regulators to analyze, and makes it easier for management to hide things.
iii. Conglomerates can trade at a discount to the overall individual value of their businesses because investors can achieve diversification on their own simply by purchasing multiple stocks. The whole is often worth less than the sum of its parts.
iv. Culture clashes can destroy value.
v. Inertia prevents development of innovation.
vi. Lack of focus, and inability to manage unrelated businesses equally well.
vii. Brand dilution where the brand loses its brand associations with a market segment, product area, or quality, price, or cachet.
viii. Management costs increase due to the size of the group.
ix. Conglomerates have to face many accounting-related problems, for example, consolidation and group disclosures, etc.
x. Taxation of group structure reduces the taxation benefits.
xi. There is no development of innovation due to inertia.

xii. Focus is lost, and it is difficult to manage unrelated and well-diversified business effectively.

xiii. Due to multinational business, conglomerates often come into contact with cultural differences due to which values are destroyed.

Some cite the decreased cost of conglomerate stock (a phenomenon known as conglomerate discount) as evidential of these disadvantages, while other traders believe this tendency to be a market inefficiency, which undervalues the true strength of these stocks.

7.11 SUMMARY OF THE CHAPTER

Business combinations are combinations formed by two or more business units, with a view to achieving certain common objective (specially elimination of competition); such combinations ranging from loosest combination through associations to fastest combinations through complete consolidations.

Horizontal Combination: It is also known as parallel or trade unit integration. It is affected by units engaged in manufacturing similar products or rendering similar services. It involves the bringing together of competing firms under single ownership and management. Also referred to as voluntary combination, it is an association of two or more business units of the same nature under a single management. Both the business units involved in combination are engaged in the same activity and their combination is, therefore, referred to as horizontal combination.

Vertical Combination: It is also known as sequence or industry or process integration. It arises as a result of integration of those business enterprises which are engaged in different stages of production of a product. In other words, it implies combination under single control of enterprises in different stages of manufacturing the product. This is a business combination wherein various departments of large industrial units come together under single management.

Lateral Combination: It refers to the integration of business units producing and selling different but allied products. The lateral combination may be either convergent or divergent. Convergent lateral combination arises when firms producing different products but supplying to a common user join with the company.

Diagonal Combination: It means integration of a main activity or process with ancillary activities and services. A diagonal business combination involves two or more business entities performing subsidiary services combining themselves under a single management. The key objective of this amalgamation is to make the business unit large and self-sufficient.

A merger is a business transaction where an acquiring company takeovers the target company as a whole. This results in only one company remaining after the merger. The smaller target company loses its existence and becomes a part of the bigger acquiring company. (Depamphilis, 2008).

An acquisition usually refers to the purchase of the assets of a company. (Harwood, 2006).

Business integration strategies are used to cross-train management and employees, reduce ineffective communication and cut supplier costs. As you analyze your company operations, think of the different ways you can integrate processes to save the company time and money. Integration helps to streamline your operations and can reduce overhead as well as personnel costs by reducing the need for additional staff and the resources they use. (Fleuriet, 2008).

Horizontal integration is the act of integrating other infrastructures, assets, and companies of the same industry or in the same level of production. The acquisition of these assets typically results in an expansion of existing operations rather than the establishment of new operations.

Vertical integration is the act of expanding into new operations for the purpose of decreasing a firm's reliability on other firms in the process of production and distribution. Such integration requires firms to undertake new aspects of business operations.

A consolidation is a combination of two or more companies in which an entirely new corporation is formed, and all merging companies cease to exist. Shares of the new company are exchanged for shares of the merging ones. Two similarly sized companies usually consolidate rather than merge. Although the distinction between merger and consolidation is important, the terms are often used interchangeably, with either used to refer generally to a joining of the assets and liabilities of two companies.

Absorption is the process under which an existing large company purchases the business of another small company or companies doing similar business. In other words, when an existing company takes over the business of one or more existing companies carrying out similar business, it is called absorption.

A takeover occurs when an acquiring company makes a bid in an effort to assume control of a target company, often by purchasing a majority stake. If the takeover goes through, the acquiring company becomes responsible for all of the target company's operations, holdings and debt.

A **conglomerate** is the combination of two or more corporations engaged in entirely different businesses that fall under one corporate group, usually involving a parent company and many subsidiaries. Often, a conglomerate is a multi-industry company. Conglomerates are often large and multinational. (Fleuriet, 2008).

7.11 ILLUSTRATIVE AND PRACTICE QUESTIONS

A) THEORY QUESTIONS

1. Explain the concept of business combination.
2. Identify the causes of business combination.
3. State various types of business combination.
4. Explain the concept of merger.
5. State various classifications of merger.
6. Explain the concept of acquisition.
7. Identify the motives for acquisition.
8. Explain the concept of integration.
9. State the various types of integration.
10. Explain the concept of consolidation.
11. Explain the concept of absorption.
12. Explain the concept of takeover & various types.
13. Explain the concept of conglomerate.

B) MULTIPLE CHOICE QUESTIONS

1. Business combinations are combinations formed by two or more business units, with a view to achieving certain common objectives, especially elimination of competition.
    - **a) True**
    - b) False
    - c) Not Sure
    - d) None of the above

2. A ___________________ is the combination of two or more corporations engaged in entirely different businesses that fall under one corporate group, usually involving a parent company and many subsidiaries.
    - a) Contemporary
    - **b) Conglomerates**
    - c) Comparatives
    - d) Absorption

3. **Business _____________________**is simply to become one of the parts of a whole; and a combination is merely a union of persons, to make a whole or group for the prosecution of some common purposes." (Close, 2000).
    - a) Absorption
    - **b) Combinations**
    - c) Conglomerates
    - d) Contemporary

4. The best illustration for convergent lateral combination is found in a printing press, which may combine with units engaged in supply of paper, ink, types, cardboard, printing machinery etc.
    - **a) True**
    - b) False
    - c) Not sure
    - d) None of the above

5. ___________________________________ takes place when a major firm supplies its product to other combing firms, which use it as their raw material.
    - a) Convergent lateral combination
    - **b) Divergent lateral combination**
    - c) Diagonal (service) Combination
    - d) Circular (mixed) combinations

6. A takeover occurs when an acquiring company makes a bid in an effort to assume control of a target company, often by purchasing a majority stake.
    - a) Absorption
    - b) Conglomerates
    - **c) Takeover**

d) Multi-Industry

7. A "reverse takeover" is a type of takeover where a ____________company acquires a public company.
    a) Public
    b) Private
    c) Public-private
    d) Conglomerates

8. The best example of Divergent lateral combination may be found in a steel mill which supplies steel to a number of allied concerns for the manufacture of a variety of products like tubing, wires, nails, machinery, locomotives etc.
    a) True
    b) False
    c) Not sure
    d) None of the above

9. Example of circular or mixed combination is if a sugar mill combines with a steel works and a cement factory.
    a) True
    b) False
    c) Not sure
    d) None of the above

10. _____________________________ means integration of a main activity or process with ancillary activities and services.

    a) Convergent lateral combination
    b) Divergent lateral combination
    c) Horizontal lateral combination
    d) Diagonal (service) Combination
    e) Circular (mixed) combinations

7.13 REFERENCES

Aharon, D.Y.; Gavious, I.; Yosef, R. (2010). "Stock market bubble effects on mergers and acquisitions"(PDF). *The Quarterly Review of Economics and Finance*. **50** (4): 456–470. doi:10.1016/j.qref.2010.05.002.

Bartram, Söhnke M.; Burns, Natasha; Helwege, Jean (September 2013). "Foreign currency exposure and hedging: Evidence from foreign acquisitions". *Quarterly Journal of Finance.* forthcoming.

Cartwright, Susan; Schoenberg, Richard (2006). "Thirty years of mergers and acquisitions research: Recent advances and future opportunities". *British Journal of Management.* **17** (S1): S1–S5. doi:10.1111/j.1467-8551.2006.00475.x.

Close, J. W. (2000). A giant cow-tipping by savages: The boom, bust, and boom culture of M&A. New York: Palgrave Macmilla. ISBN 9780230341814. OCLC 828246072.

DePamphilis, D. (2008). Mergers, acquisitions, and other restructuring activities. New York: Elsevier, Academic Press. p. 740. ISBN 978-0-12-374012-0.

Douma, S.&Hein, S. (2013). "Economic approaches to organizations", 5th edition. London: Pearson. ISBN 0273735292ISBN 9780273735298

Fleuriet, M. (2008). Investment banking explained: An insider's guide to the industry. New York, NY: McGraw Hill. ISBN 978-0-07-149733-6.

Harwood, I. A. (2006). "Confidentiality constraints within mergers and acquisitions: gaining insights through a 'bubble' metaphor". *British Journal of Management*. **17** (4): 347–359. doi:10.1111/j.1467-8551.2005.00440.x.

RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.
Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard.
Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz.
Fundamentals of Business Administration Management by Caroline Anderson.

CHAPTER EIGHT
DOCUMENTS USED BY BUSINESS ORGANIZATIONS

8.1 LEARNING OBJECTIVES

After you have read and studied this chapter, you should be able to:

Explain some of the documents involved in the formation of a limited liability company which include:

i. Memorandum of association
ii. Articles of association
iii. The prospectus
iv. Certificate of incorporation
v. Certificate of trading
vi. Understand minutes of meeting
vii. Craft and structure Feasibility Report and Business Plan
viii. Understand the meaning of:
ix. schedules of non-current asset
x. schedule of directors and
xi. schedule of shareholders
xii. Explain the meanings of the following: Vision, Mission, Goals and Objectives, Strategies, and policies of organizations.

8.2 INTRODUCTION

Our focus in this chapter is to explain some of the important documents needed by business organizations for their formal registration and smooth operations. Some of these documents include Memorandum of Association, Articles of Association, the Prospectus, Certificate of Incorporation, Certificate of trading, Feasibility Report and Business Plan. We'll also explain the meanings of Minutes of meetings, Schedule of Non-current Assets, Schedule of Directors, and Schedule of Shareholders, while clarifying Vision, Mission Goals and Objectives, Strategies and policies of a business organisation.

8.3 MEMORANDUM OF ASSOCIATION

1. **Definition**

The Memorandum of Association (MOA) of a company is its charter, which contains the fundamental conditions upon which alone the company can be incorporated. It tells one the objects of the company's formation and the utmost possible scope of its operations beyond which its actions cannot surpass. (IeduNote).

Memorandum of Association is a legal document that explains why the organization was founded. It establishes the company's authority and the terms under which it works. It is a manual that includes all of a company's laws and regulations for its interactions with the outside world. (Groww.in).

As the fundamental laws of the company that regulates the relationship between the firm and the public, it contains the following amongst others:

(a) The name of the company with either the word 'limited' or 'PLC' (Public Limited Company) as the last word.
(b) The location of the registered office of the company.
(c) The objectives of the company.
(d) The amount of authorized capital and how it is divided into various classes of shares.
(e) The names and addresses of the promoters and the amount of capital taken by each of them.
(f) A statement indicating that the liability of the company's shareholders is limited.
(g) A statement indicating that the company is a going concern.
(h) The conditions for the amendment of the Memorandum of Association.

2. **Features of the Memorandum of Association**

According to IEduNote, the memorandum of association has the following features:

a) The memorandum of association is the basic charter on which the company is based and is mandatory for a company.
b) The memorandum of association is the constitution of the company because it defines its limitations and the sphere of its activities.
c) The memorandum cannot be altered by the company, except by fulfilling the conditions laid down in the Companies Act for specific activities and situations.
d) It defines the scope of the company's activity, and all acts beyond the scope are deemed to be ultra-vire (beyond powers).
e) It's a public document and is open to inspection by those who deal with the company.
f) It defines the company's relations with outside individuals and its activities about them.

3. Purpose of Memorandum of Association

The main purpose of the memorandum is to explain the scope of the activities of the company. The prospective shareholders know the areas where the company will invest their money and the risk, they are taking in investing the money.

The outsiders will understand the limits of the working of the company, and their dealings with it should remain within the prescribed scope.

4. **Importance of Memorandum**

Memorandum is the fundamental document of a company which contains conditions upon which the company is incorporated.

This document is important for the following reasons.

a) The memorandum defines the limitations on the powers of the company established under the Act.
b) The whole structure of the company is built upon memorandum.
c) It explains the scope of activities of the company. The investment knows where their money will be spent, and outsiders also know the nature of activities the company is authorized to take up.
d) It is a basic document of the company about its constitution.
e) It is a charter of the company which sets out its written goals.

5. **The Clauses of the Memorandum of Association:**

The Contents of MOA contains 5 clauses namely Name Clause, Registered Office Clause, Object Clause, Liability Clause, and Capital Clause. All five of the clauses are mentioned and explained hereafter:

Name Clause	• **This section determines the company's name. The company's name should not be the same as that of another business. Even since it is a private entity, the term "Private Limited" should be included at the top.** • **In the case of a public corporation, the term "Limited" should be added to the end of its name**
Registered Office Clause	• The name of the state in which the company's registered office is located is specified in this clause. This aids in determining the Registrar of Companies' authority. • Within 30 days of the company's incorporation or commencement, the company must notify the Registrar of Companies of the site of its registered office.
Object Clause	• This clause specifies the purpose for which the corporation was formed. The following three subcategories can be included under the objectives: • Main Objective – States the main business of the company

	• Incidental Objective – These are the objects that aren't directly related to the company's core goals. • Other objectives – Any other goals that the organization may achieve that aren't covered in (a) and (b) above (b)
Liability Clause	• It specifies the company's members' responsibility. In an unrestricted company, the members' liability is unlimited, while in a company limited by shares, the members' liability is limited by the balance outstanding on their share. • The members' responsibility in a corporation limited by guarantee is limited by the amount each partner has agreed to pay.
Capital Clause	• This provision specifies the overall amount of capital that a corporation can obtain, also known as the authorized/nominal capital. • This also illustrates how such a large sum of money is divided into a set number of shares.

8.4 ARTICLES OF ASSOCIATION

1. Definition

Articles of association (AoA) is a legal document that outline the rules and regulations of a company or organization. They are critical documents when it comes to governing a business. They can also be considered as a contract between the company and its shareholders. The articles have been described as 'the user guide' for a business and typically discuss how the company will be organised and the process for shareholder meetings.

This document lays down the internal rules and regulations governing the relationship between the company and its members. It contains the following:

(i) The duties, rights, and position of each member of the company.
(ii) The method of issue, transfer, and forfeiture of company shares.
(iii) The rights and responsibilities of shareholders.
(iv) The method of appointment of the Directors.
(v) The rights and powers of the Directors.
(vi) How dividends are to be shared.
(vii) The procedure for accounting and auditing the company's book.
(viii) How general meetings are to be held and the procedure.
(ix) Procedures for winding up the company in the event of liquidation.

2. The Purpose and Structure of the Article of Association

a. Purpose

Articles of association aim to outline the strategies for daily operations of a company on formal incorporation documents. The purpose of the company and the duration of that purpose is a big part of the store articles of association tell. This includes information about how a company is operated, governed, and who owns it. Others include:

i. Articles of association act as a user's manual for a company's operations. These articles give specific details about business dealings and can include tasks such as how to create a financial report or how to appoint new company directors.
ii. Articles of association are helpful to business owners and employees because they provide a roadmap to operating a company on a day-to-day and overall basis.
iii. Even though the general idea of articles of association are similar across all industries, differences do exist from company to company. When writing the incorporation documents, certain things like corporate bylaws , signing authority, and even shareholder's agreement information must be taken into account.
iv. Companies can ensure their articles of association encompass all the needed components as long as the full picture of day-to-day objectives are taken into account.
v. When it comes to investing and the stock market, articles of association are vital. Corporate lawyers help companies define how stocks and bonds will be issued, how dividends are distributed, and how the information is documented and shared within the company and beyond.
vi. These documents are also a great place for companies to set weekly, monthly, or yearly goals and to create a specific pathway to reach them.

b. Importance of AoA

The Articles of Association could be considered some of the most important statutory documents for a newly formed company because:

i. The articles and the memorandum of association are required documents in many countries.

ii. The company secretary and directors must sign them. They are vital when it comes to investor relations and the stock market.

iii. They are also a good place to set out regular goals for the organisation.

iv. The articles may also be needed when setting up a company bank account or applying for business loans.

v. Until the articles of association have been filed, the company will not be considered an official company.

c. Structure and Content of AoA

There are several key elements that are typically included in articles of association. These may include amongst other matters, the following:

i. Liability of members;
ii. Directors' powers and responsibilities;
iii. Directors' meetings, voting, delegation to others and conflicts of interest;
iv. Retaining records of directors' decisions;
v. Appointment and removal of directors;
vi. Shares, unless a limited by guarantee company;
> issuing shares
> different and their particulars
> share certificates
> share transfers
vii. Dividends and other distributions to members;
viii. Members' decision making and attendance at general meetings;
ix. Means of communication;
x. Use of the company seal, if applicable;
xi. Directors' indemnity and insurance.

3. What's the difference between the Articles of Association and the Memorandum of Association?

You need both Articles and a Memorandum of Association to form a company. Unlike the Articles, the Memorandum is brief, and it describes:

i. The name of the company and the date it was incorporated;
ii. Whether it's limited by shares or guarantee;
iii. Who the subscribers (members) are, and how many shares each shareholder will have (must be a minimum of one each if this is a share company);
iv. The Memorandum comes in a standard form, and you can get the template. The subscribers need to sign to say that they want to form a company;

v. Unlike the Articles, you can't amend or update the Memorandum during the lifetime of the company. It's just a 'snapshot' of the company at the time it was formed.

4. Deviation from the Clauses in the Article of Association

The question to ask here is, can my company's Articles be changed or amended? The fact is that company change and grow, and since the company have been in business for a while, the old Articles might no longer be suitable.

Once there is a genuine reason to change the Articles, it can be done by having the shareholders pass a 'special resolution' – one that's agreed by at least 75% of them. This can be done either by written resolution or in a shareholder meeting. A copy of the amending resolution must also be sent within 15 days of being passed to the regulating authority, while a copy of the articles should be sent to the Regulatory Authority within 15 days of the change for review, the fact is that any alterations to the articles must not be illegal or against public policy, and they cannot be inconsistent with a court order. They must not be fraudulent, and they must not increase the liability of members.

The directors and company secretary (if one is appointed) of a company should have a good working knowledge of the company's constitutional documents, especially the articles. When managing the business of the company, they need to be comfortable that they are acting within the powers conferred by the articles and following the processes or other formalities laid down there.

It's also sensible for the board to review the articles on a regular basis. As the company and its circumstances change, some existing clauses may no longer be useful or new provisions may be desirable. By reviewing and, where appropriate, updating the articles of association the company can achieve the most appropriate balance between the needs of the directors and members, giving the former the right powers to run the company while protecting the interests of its members.

It must be noted that the articles are essential documents that set out the company's rules and are vital when it comes to investing and the stock market. They also set out how shares can be transferred and other fiduciary duties. The articles are a binding legal document between shareholders and directors, but not outside parties.

8.5 THE PROSPECTUS

a) Definition

A prospectus is a formal document required by and filed with the Securities and Exchange Commission (SEC) that provides details about an investment offering to the public. It is a legal document that a company issues to the public giving details of an offer for investment. It is usually published when the company offers bonds, stocks, mutual funds, or other investment offers. Prospectus of a company is nothing but a company's portfolio. It defines the aims and objectives of a company. It also includes all the information about the Company and the services they provide. This gives an insight into how a company provides its services to their clients.

Public Limited Liability Companies are expected to submit prospectus, which serves as mechanism for raising capital. A prospectus is a document of notice, which extends invitation to the general public to subscribe to the shares of the company. It contains the following:

(a) The names and addresses of the Directors.
(b) The types of shares available.
(c) When and how shares may be bought.
(d) The minimum and maximum number of shares a subscriber may apply for.
(e) Financial history of the company.
(f) Possible value of the assets and liability of the company.

b) Importance of a Prospectus

A prospectus must be delivered to a prospective investor before any purchase is made. It is required any time the corporation is issuing stock to the general public. Why is a Prospectus Important? The main purpose/importance of the prospectus include:

i. To ensure potential investors are aware of the risks of the investment. Without any information, they would be making an investment "sight unseen." That could have disastrous results.

ii. A prospectus provides all the information an investor needs to make an informed investment.

iii. All the risks associated with the investment are usually listed at the beginning of the prospectus.

iv. Investors should always check information in the prospectus and study a company's financials before investing.

v. Help investors to only invest in financially viable schemes, as the prospectus gives clarity that the company is financially capable of honouring its commitments.

vi. The prospectus disclosure also protects the corporation from any claims that it did not fully disclose adequate information about the securities or the company itself.

c) **Types of Prospectuses**

There are several different types of prospectuses, including:

a. **Abridged prospectus**: An abridged prospectus is a reader-friendly distillation of the important information in a prospectus. It's also known as a summary prospectus.

b. **Deemed prospectus**: A company may choose not to sell securities directly to the public but instead employ an issuing house, which handles that task. The document released by the issuing house to the public is considered a deemed prospectus.

c. **Final prospectus**: The final prospectus provides a greater amount of information about the stock or bond, including the offering price, number of securities to be made to the public, the company's major competitors, financial growth, dividend policy, which is how investors receive compensation, and the information in the preliminary prospectus.

d. **Mutual fund prospectus**: A mutual fund prospectus, which is also known as an ETF prospectus, includes information on the fund's objectives, investment strategies, the mutual fund's past performance, any potential risks, the distribution policy, and information on the management team. It may also include a summary or statutory prospectus.

e. **Preliminary prospectus**: A preliminary prospectus is also known as a "red herring" prospectus because it's used to attract prospective investors. It's the first prospectus issued by a company for its initial public offering (IPO) and contains only basic details about its business and the nature of the security.

f. **Shelf prospectus**: Finance companies issue shelf prospectuses for multiple security offerings issued all at once, which is known as "shelf registration," so they don't have to release a prospectus for each security. The shelf prospectus contains information that is typically valid for a limited time, or its "shelf life," usually a year.

g. **Statutory prospectus**: A statutory prospectus is essentially a summary prospectus but provides greater detail and is often used with mutual funds or ETFs.

d) **The Key Components of A Prospectus And How They Affect Potential Investors.**

There are many features and sections that go into the writing of a Prospectus that is geared for raising capital. Below are just a few segments of the prospectus with each providing specific information to an investor:

a) **Company overview and history**: This overview contains the company's chronological history and its accomplishments during that period that have helped it grow, including business strategies, financial statements, and what distinguishes the company from its competitors, also known as its "unique selling proposition."

b) **Deal structure**: This component is usually provided in prospectuses from companies that have issued securities before. It explains its capital structure: how much debt or equity it owns, how the investor's participation will influence that structure, and how it would like its capital structure to look in the future.

c) **Financial information**: The company may also provide detailed information on its past financial performance over a specific period, including stock performance, gross and net profit.

d) **Management profile**: A management profile is a detailed list of the company's executive management, including their education and qualifications. It may also explain how their company will protect investments.

e) **Risk potential**: Providing risk potential to investors informs them about any potential concerns they might face when investing with a company, including government regulations and capital restrictions. Adding this component to a prospectus can also protect companies and their brokerage firms from accusations that they withheld information about the security that could cause investors to lose money.

f) **Securities offering**: The security offering refers to a round of fundraising in which the company tries to bring in extra capital from investors to fund their expansion. The company can offer investors one of two types of securities in exchange for funding: debt securities (a bond that the company must repay at a specific date of maturity) or equity securities (stocks or partial ownership in the company). The data from this fundraising round and the expected rates of return are typically included in the prospectus.

g) **Services and products**: This component is an additional element of the company overview and may include what it makes or sells to the public. It may also include any additions it's made to its operations during its chronological history.

h) **Investor Suitability**: the investor suitability section of a prospectus will deal with investor standards. For example, if a company is raising capital and is required to only accept accredited investors then this section would detail that. Or if the suitability standards allow for non-accredited investors etc., the investor suitability section will detail that, which may include net worth requirements for each investor.

i) **Use of proceeds**: In the use of proceeds, the company explains what it plans to do with the investments, which can include financing for new products, company expansion into new territories and areas, and the purchase of new technology.

j) **Tax Implications**: the tax section of the Prospectus will detail the implications for an investor. Most Prospectuses will not detail the specific state tax requirements so each investor would be required to speak with their local accountant. For international clients, non-US (or not from the country of one's offering), the tax implication will be important for profit and loss and each country will have their own rules.

k) **Subscription Agreement**: the subscription agreement is a synopsis of the terms of the entire Prospectus and acts as the contract between the issuing company and the investor. The agreement will outline the terms of the offering, and the securities being sold, such as the bonds, notes, stocks, shares, warrants, or convertible securities.

l) **Exhibits**: one of the final sections of the prospectus is the exhibits, which ancillary data are related to the business of the company or the securities being sold. Examples of exhibits that go into a Prospectus may be an image of a patent granted, or licenses or a company's incorporation certificate.

e) The Legal and Regulatory Requirements of A Prospectus.

Schedule 15 of CAMA and Rule 56 of the Rules and Regulations of the Commission have standardized the format of a prospectus and also stipulated the information to be disclosed therein. Whilst the Commission had standardized the first three sections of the prospectus, the rest can be presented in any style provided the prescribed information is contained therein. (Sotonye, 2003).

According to Sotonye (2003), every prospectus filed with the Commission shall be in duplicate and must be in printed form and in A4 papers. Other details are stated below:

The front cover contains the following:

" Name and RC. No. of the Issuer;
" Name and RC No. of the issuing house;
" Type of offer - either offer subscription or offer for sale or rights issue;
" Securities being offered, the price and amount payable in full on application;
" Date of the prospectus, which shall be the date of publication;
" Approval and registration clause, which is normally printed in red at the bottom:

"This prospectus and the securities which it offers have been approved and registered by the SEC. It is a civil and criminal offence under the SEC Act and the CAMA to issue a prospectus, which contains false or misleading information. Approval and registration of this prospectus and securities which offers do not relieve the parties from any liability arising under the Decree for false or untrue statement contained therein, or for any omission of a material fact".

The forepart of every prospectus provides a detailed table of contents showing the subject matter of the various sections or sub-sections of the prospectus and page number on which its section or sub-section begins.

" Summary of the offer;
" Directors and Parties to the Prospectus;
" Chairman's Letter;
" History and Business;
" Management and Staff;
" Purpose of Issue;
" Future developments and profit prospectus;
" Capital structure;
" Principal shareholders;
" Dividends;
" Underwriting (if any),
" Litigation and related matters;
" Expert opinions (solicitors, Accountants, etc.)
" Financial information;
" Plan of distribution (names of Receiving banks and names and address of stockbrokers;
" Use of proceeds;
" Statutory and General Information.

The Second Section of every prospectus describes the "offer" and contains statements covering the following:

" A copy of this prospectus together with the documents specified therein had been delivered to the Securities and Exchange Commission for registration.

" This prospectus is issued under Section 550 of the Companies and Allied Matters Act, Cap 59, Laws of the Federation of Nigeria 1990 and in compliance with the requirements of the Securities and Exchange Commission Act, Cap 406, Laws of the Federation of Nigeria 1990, the Rules and Regulations of the Securities and Exchange Commission ("the Commission") and the listing requirements of the Stock Exchange ("the Exchange") for the purpose of giving information to the public with regard to the shares of the Company.

" The Directors of the Company collectively and individually accept full responsibility of the accuracy of the information given and confirm, having made all reasonable enquires that to the best of their knowledge and belief, there are no facts, the omission of which would make any statement herein misleading or untrue."

Furthermore, the Second Section discloses the following:

" The status of the securities - whether or not it would rank pari passu in all respects with the existing shares or with respect to debt securities and if application has been made to a Stock Exchange for the listing of and dealing in the shares of the company and upon admission of the shares to the Official, list whether the shares will qualify as a security in which Trustees may invest under the Trustee Investment Act, Cap 449, Laws of the Federation of Nigeria 1990.

" The name of the issuer, the issuing house, their respective registration number, the type of offer, amount of shares being offered, the price and amount payable in full on application;

" A summary of the offers stating the amount on offer, the offer price, purpose of the offer, minimum application and multiples thereafter, net assets per share, forecast earnings per share, forecast earnings yield at the offer price, forecast price earnings ratio, forecast dividend per share and forecast dividend yield;

" The times of opening and closing of the offer, the share capital of the company, issued and fully paid and the indebtedness of the company, stating details of bridging loan, if any.

The Third Section provides for the disclosure of the list of the Directors of the issuer and other parties to the issue and their addresses. The other parties include: -

" Issuing house;
" Brokers;
" Underwriters;
" Trustees;
" Solicitors to the issuer;
" Other solicitors;
" Reporting Accountants;
" Auditors;
" Receiving Banker(s);
" Registrar
" Secretary and Registered Office.

Other Statutory and General Information include:

The arrangement of the required information to be contained in this part of the prospectus is left to the discretion of the issuing house/issuer but should however cover the following: -

" The Chairman's letter which generally should state in brief the history and business of the company, information on the board of directors, management and staff, purpose of the offer, profit prospects and, working capital position, future developments of the company, premises, location and lease terms.

" Historical financial information including the accountant's report, accounting policies, balance sheets, profit and loss accounts of the issuer for immediate five years, statement of source and use of funds and notes on the accounts;

" Reporting Accountants' comments on the profit forecast, underlying assumptions and the balance sheets.

8.6 CERTIFICATE OF INCORPORATION

1. Definition:

This is the certificate issued by the Registrar of companies to signify that a business unit has been incorporated. This certificate is usually given to both private and public limited companies after the Registrar of Companies is satisfied with the information contained in Memorandum of Association and Article of Association. The certificate of incorporation confers legal status on a company. Once the certificate of incorporation is obtained, the private limited company can commence operations. However, public limited companies cannot do so until it is issued another certificate called certificate of trading. (See Section 8.7 below).

2. The Significance of Incorporation/Registration of A Company

Why is Incorporation of a company significant? For most business owners, the most important reason to incorporate one's business is limiting individual liability and protecting one's personal assets. When a business is incorporated, the business is a separate legal entity from the individual who owns and/or runs the business.

A company does not need to be incorporated to operate a business. Business owners may elect to operate as a sole proprietorship or a partnership instead. These two legal business formations treat company debt and taxes differently than compared to an incorporated entity.

Another primary difference between legal entities and one of the most important reasons a company may want to incorporate is for the advantage of issuing stock. When a company incorporates, it gains the ability to share ownership of the company by issues shares of stock. Whereas a sole proprietorship or partnership is usually only owned by those operating the company, incorporating allows a business owner to sell an ownership stake in part of the business. (Investopedia).

A business may also choose to incorporate as a corporation of a limited liability company. The filing requirements for either depend on the state the business is filing in, though each type of incorporated entity will have its own separate form.

3. The Process of Incorporation/Registration of A Company

The Corporate Affairs Commission is given the responsibility of registering companies in Nigeria. The body was setup by the Companies and Allied Matters Act (CAMA). Company registration in Nigeria can now be completed online using the new e-registration portal launched by the Corporate Affairs Commission (CAC).

The electronic registration platform for companies in Nigeria has been upgraded in line with the implementation of the Companies and Allied Matters Act (CAMA). The CAC registration is an unquestionable first requirement for setting up a business in Nigeria. Below are the current requirements, key facts, and steps for getting a company registered in Nigeria.

a. Key Facts & Requirements for Registering a Company in Nigeria

i) Only one person can register a company and act as both director and shareholder where no foreigner will be involved in the composition of the company.

ii) Where foreigners will be involved, a minimum of two directors will be required. And where the shareholders are individual foreigners, a minimum of two persons are required to act as shareholders for the company.

iii) A foreign company can register a Nigerian subsidiary and be the sole shareholder provided such company will appoint a minimum of two directors.

iv) A private company with only local director(s) is not mandatorily required to appoint a secretary at a point of incorporation, however, a company owned by foreigners or involving foreign participation must appoint a secretary at the point of incorporation.

v) Every company must have an address in Nigeria at the point of registration (registered office address).

vi) Director of a Nigerian company must be above 18 years.

vii) Nigerian citizens can register a company with any authorized share capital amount; however, a foreign-owned company must have a minimum of Ten Million Naira authorized share capital to be incorporated.

viii) Where an agent or a corporate lawyer is retained for a company registration, the applicant needs not to travel to visit the agent before the incorporation can be completed as the entire value chain can now be completed online.

b. Steps for Registering A Company in Nigeria

A group of seven or more people can come together so as to form a public company whereas, only two are needed to form a private company. (Toppr.com). In registering a company in Nigeria, it's an easy process, which is supervised by CAC in their online portal. Below are steps on how companies are registered in Nigeria:

i. Search for Available Company Name.
ii. Reserve Company Name
iii. Complete all statutory forms.
iv. Pay for filing fees.
v. Pay for stamp duty.
vi. Submit the application for registration and register the company.
vii. Once approved, the certificate and other incorporation documents can be downloaded online.

If the Registrar is completely satisfied that all requirements have been fulfilled by the company that is being incorporated, then he will register the company and issue a certificate of incorporation. As a result, the incorporation certificate provided by the Registrar is definite proof that all requirements of the Act have been met.

4. The Contents and Implications of The Certificate of Incorporation/Registration

A certificate of incorporation (CoI) is a document issued by a state or federal government that establishes the legal status of your business. A certificate of incorporation document is required to operate in most states and countries.

The CoI is proof that the business is valid, that they are legally licensed to do business and that they are registered with the state. It confirms the name of the business, the business' address, the registered agent for the business, the business' fiscal year, and information about the owners of the business. A certificate of incorporation also protects the company owners' personal liability for the corporation's debts.

What does a Certificate of Incorporation contain? While every nation has its own certificate of incorporation, the document is very similar in many countries and contains the following terms:

i. Corporation's legal name.

ii. Corporation's registered office.

iii. Business code.

iv. The Purpose of the Company.

v. Type of corporation.

vi. Incorporator's name and address.

vii. Registered agent's name and address.

viii. Board of directors' names and addresses.

ix. Share capital.

x. Filing date.

5. The Benefits of Incorporating a Business Entity

One of the most significant benefits of incorporating a business is the fact that LLC owners are not personally liable for the debts and obligations of the LLC. However, sole proprietorships and general partnerships, as well as corporations, can be held personally liable for such debts. For example, if a shareholder acquired $100 in shares, he or she is only responsible to the company for $100 of that share. Other benefits include the following:

i. Tax flexibility and other tax-related benefits. For example, corporations are taxed at a lower rate than the individual rate and own shares in other corporations. Only 20 percent of the dividends from these holdings are taxable. Corporations can carry an unlimited amount of losses into future tax years to offset their taxable income, while sole proprietors can only carry forward $3,000 in losses.

ii. Deductibles for business expenses.

iii. Brand protection.

iv. Added credibility.

v. Easier to obtain financing if incorporated.

vi. Increased customer base as clients want to know that they can trust the business. Therefore, if the business is incorporated, there is an added level of credibility, which in turn, can increase your client base.

vii. Structure flexibility.

viii. Unlimited growth.

ix. Investment opportunities.

x. The ability to have a separate credit rating and build a separate credit history.

6. The Legal and Regulatory Requirements of Incorporation/Registration

The legal and regulatory requirements for incorporation and registration of companies have been discussed in section 3a above. It is noteworthy to mention again that to create a legal entity for a business, founders and entrepreneurs must file a certificate of incorporation. Business activities can only be conducted under a company's name if it has an incorporation certificate.

Additionally, a certificate of incorporation is a requirement for business permits and licenses, filing taxes, hiring employees, seeking funding, or opening a corporate bank account.

8.7 CERTIFICATE OF TRADING

This is a certificate issued to a public limited liability company (PLC) by the Registrar of Companies to commence business and exercise borrowing powers. All PLC's are required to obtain this certificate of trading before they are able to trade. If the public company does trade before the certificate has been issued, the company and their officers may be liable to criminal penalties.

How can we distinguish between a certificate of incorporation and trading certificate? A certificate of incorporation is a legal document relating to the formation of a company or corporation. Usually contains: 1) Name of the state 2) Business code 3) Company name 4) Company legal address 5) Quantity of Authorized share of stock 6) Value of the shares of stock. 7) The main purpose of the business.

Whereas before trading, all public companies will need to apply for a certificate of trading. However, private companies do not need to apply for a trading certificate and are therefore able to trade as soon as a Certificate of Incorporation is issued.

8.8 FEASIBILITY REPORT & BUSINESS PLAN

1. FEASIBILITY REPORT

a. What is a Feasibility Report?

A feasibility study of a business is an assessment tool that analyses the cost-benefit factor of an idea. The report of such a study is called feasibility report (FR). This is a document that assesses potential solutions to the business problem or opportunity and determines which of these are viable for further analysis. The feasibility study generally covers tasks like preparing an executive summary, a detailed description of products and services, technological requirements, marketplace compatibility for desired products or services, etc. Also, it involves an analysis of marketing strategies, the organizational structure of the business, financial projections, etc. A well-executed study will include factors focusing on the central idea of the business organization and the components in support of it. (Wallstreetmojo.com).

Typical questions addressed in these reports include:

i. *Is it possible?* Can this be done within the allotted budget, time frame, legal and regulatory conditions, and technical capabilities?

ii. *Is it financially viable?* Even if it falls within our budget, should we, do it? Will it have long term benefits that outweigh costs? Is there a less expensive or financially risky way to achieving the same result? How does it compare to the cost of doing nothing about this situation?

iii. *Will it be accepted by the community?* Will people be in favour of this idea? Will anyone be opposed to it? How much public support is necessary to make this successful? (What kind of stakeholder consultation might be necessary to determine this?).

b. Purpose and Importance of A Feasibility Report

Feasibility is simply an assessment of the practicality of a proposed project plan or method. This is done by analyzing technical, economic, legal, operational and time feasibility factors. Just as the name implies, you're asking, "Is this feasible?" For example, do you have, or can you create the technology that accomplishes what you propose? Do you have the people, tools, and resources necessary? And will the project get you the ROI you expect?

Some of the purpose it serves for a business include:

i. An effective feasibility study points a project in the right direction by helping decision-makers have a holistic view of the potential benefits, disadvantages, barriers, and constraints that could affect its outcome.

ii. To determine whether the project can be not only viable but also beneficial from a technical, financial, legal and market standpoint.

iii. help choose the best available alternative by assessing the opportunity cost. The reasons for rejecting one option can reveal weaknesses of the company; investigating options can lead to undiscovered opportunities.

iv. A company can assess why certain factors pull them down and find measures to mitigate them. When these steps are executed, and necessary corrective actions are taken, it reflects on its performance. Thus, profits can follow easily and attract investors.
v. This analysis can also help in securing funds from financial institutions.
vi. These studies analyze the company's existing business models and the gaps it carries.
vii. Solutions suggested by them reduce the risk of failures.
viii. They tell us whether a proposed business idea shall be taken forward by its practicality.
ix. It checks whether it is doable by estimating the opportunity and threats of the plan.

c. Reasons for Conducting a Feasibility Study

Conducting a feasibility study is a good business practice. If you examine successful businesses, you will find that they did not go into a new business venture without first thoroughly examining all the issues and assessing the probability of business success. Below are other reasons to conduct a feasibility study:

i. Gives focus to the project and outline alternatives.
ii. Narrows business alternatives.
iii. Identifies new opportunities through the investigative process.
iv. Identifies reasons not to proceed.
v. Enhances the probability of success by addressing and mitigating factors early on that could affect the project.
vi. Provides quality information for decision making.
vii. Provides documentation that the business venture was thoroughly investigated.
viii. Helps in securing funding from lending institutions and other monetary sources.
ix. Helps to attract equity investment.

d. Types of Feasibility Reports

There are several different kinds of feasibility studies. Understanding the types of feasibility studies and the technicalities of the concept is important for any business. They are elaborated below:

i) Technical Feasibility

Technical feasibility study checks for accessibility of technical resources in the organization. In case technological resources exist, the study team will conduct assessments to check whether the technical team can customize or update the existing technology to suit the new method of workings for the project by properly checking the health of the hardware and software.

Many factors need to be taken into consideration here, like staffing requirements, transportation, and technological competency.

ii) Financial Feasibility

Financial feasibility allows an organization to determine cost-benefit analysis. It gives details about the investment that must go in to get the desired level of benefit (profit). Factors such as total cost and expenses are considered to arrive simultaneously. With this data, the companies know their present state of financial affairs and anticipate future monetary requirements and the sources from which the company can acquire them. Investors can largely benefit from the economic analysis done. Assessing the return on investment of a particular asset or acquisition can be a financial feasibility study example.

iii) Market Feasibility

It assesses the industry type, the existing marketing characteristics, and improvements to make it better, the growth evident and needed, competitive environment of the company's products and services. Preparations of sales projections can thus be a good market feasibility study example.

iv) Organization Feasibility

Organization feasibility focuses on the organization's structure, including the legal system, management team's competency, etc. It checks whether the existing conditions will suffice to implement the business idea.

e. The Components and Sections of a Feasibility Report

As the name implies, a feasibility study is an analysis into the viability of an idea. Feasibility studies help answer the essential question, "should we proceed with the proposed idea?" The objective study may be completed in conjunction with a SWOT planning process, which looks at the strengths, weaknesses, opportunities, and threats that may be present externally (the environment) or internally (resources). Feasibility studies help determine does the company possesses the required resources or technologies; and does the proposal offer a reasonable return vs. risk from the investment.

In detail, they:

i) Provide a preliminary analysis to eliminate business scenarios that are not in tune with the organization's motives. Specifically, it looks for ways to position the product in a marketplace. A negative preliminary analysis does not mean the plan is a failure; companies can correct the shortcomings to perfect it.

ii) Help assess the demands in a market and the price at which a company can reap profit. In addition, such market assessments can provide information on marketing feasibility.

iii) Provide insights to address gaps in the organizational structure of the company. Labour and management alignment, human resource requirements, and talent acquisition processes are assessed.

iv) Project an idea of revenue and expenses that the plan might require in the future.

v) Point out factors that make the business idea vulnerable and the short-term and long-term steps to correct it.

vi) By analyzing the above factors, one can categorize business ideas into feasible and non-feasible.

What is included in a feasibility study report? Here, I will share two perspectives to broaden students' understanding of this subject matter.

The first perspective: The findings of your project feasibility study are compiled in a feasibility report that usually includes the following elements.

i) Introduction: You need to persuade the decision maker to even consider any sort of alternative. You need to convince them to even read your report first. Tell them what they will gain personally or as an organization by considering your work.

ii) Criteria/Constraints: You must specifically map out the criteria of what the ideal outcomes are. This will allow you to make practical and logical decisions. You can present the criteria in your feasibility report in one of two ways. First, you can separate the criteria into its own section. This is best when you have a extensive report and you need to go in-depth with the explanation. Second, you can incorporate the criteria throughout your report as the criteria become relevant. However, it is important to realize that whichever strategy you choose make sure that the criteria is introduced early in the report. It is also very important to map out the constraints of your suggested solutions. This will show the audience that you understand and acknowledge the fact that no solution is perfect. This will also make sure that the audience makes the decision in their best interest.

iii) Method: It is very important to present facts that are accurate and relevant. You should state the reliable sources you used and what method they came from (internet, interview, book, etc.). Without a credible research method or credible sources your document itself will lack credibility.

iv) Overview of Alternative Options: You must underline the key features of each possible option. Make sure they are easy to understand and presented in a friendly layout. Keep in mind that the goal is to allow your audience to make the best decision.

v) Evaluation: This should be the bulk of your report, you must evaluate the options using the criteria you created. Add graphs, charts, etc. to show that you have studied your options, and have come up with statistics that back up your reasons as to why your alternative beats the competition.

vi) Conclusions: State the conclusion you have reached. How did you reach this conclusion? How did you evaluate the alternatives? Why is this solution the best one for your organization?

vii) Recommendations: Use your experience, knowledge, and research to state which option you think should be adopted.

The Second perspective: Another common content in use for feasibility study include the following sections:

i. An Executive Summary.
ii. Description of Product or Service.
iii. Technology Considerations.
iv. Product or Service Marketplace.
v. Identification of Specific Market.
vi. Marketing Strategy.
vii. Organization Structure.
viii. Schedule.
ix. Financial Projection.

NOTE:

Companies should be careful to NOT blindly follow feasibility templates. A well-designed feasibility study is one that is focused upon and centered on the business organization.

All the elements outlined above do not need to be included in the feasibility report. What to be included is dependent on audience, project type, circumstance, mission, etc. Also, the elements do not need to be in the exact order outlined above, flexibility is allowed. Specifically, the conclusion should be mentioned more than just at the end of the report. It should also be summarized in the beginning of the report and in the case the feasibility report is long, it can be mentioned in the middle as well.

What should you throw into a conclusion? It is important to include in your conclusion how you're going to go implement your ideas for the company and how it will enrich the company. Explain why the company should choose your course of action. Compare statistics and data and help the readers understand the logical choice and the course of action that would aid in selecting one option over the other. Explain your expertise on the subject matter and help them realize that your idea is the choice they are looking for. Based on your experiences they will most likely take your side if you present the argument efficiently. The company will select your course of action based on the key points you outline in your feasibility study.

2. BUSINESS PLAN

a) What is a Business Plan?

According to a study published by the *Harvard Business Review*, entrepreneurs who create business plans are 16% more likely to succeed than those who don't. (Greene & Hopp, 2017). These findings highlight the importance of taking the time and effort to develop a comprehensive plan. Not only can a sound plan help your business access investment capital but—as the study found—it can even determine the success or failure of your venture.

What then is a business plan? A business plan (BP) is a document outlining your business goals and your strategies for achieving them. Or it is a document that defines in detail a company's objectives and how it plans to achieve its goals. As an executive document, Business plan acts as a blueprint or roadmap for a business.

Business Plan include company's mission statement, details about firms' products or services, plan to bring them to market, and how much time and money needed to execute the plan. As a fundamental document that any new business should have in place prior to beginning operations, banks and venture capital firms often require a viable business plan before considering whether capital will be made available to a new business venture.

Business plans among competitors in the same industry, are never identical. But do have the same basic elements like executive summary of the business and detailed descriptions of its operations, products and services, and financial projections etc.

a) Purpose and Importance of a Business Plan

1. Purpose

What is the purpose of a Business Plan? It is fact that creating a business plan is an indispensable part of any business. The main purpose of creating such a document is to attract prospective investors to provide capital to the enterprise. Therefore, the plan should cover all the important perspectives of a business – financial, operational, personnel, competition, etc.

The purpose of a business plan includes the following:

i. To provide a clear roadmap for the company's future.

ii. Outlines the vision, goals, and strategies of the business, guiding entrepreneurs and stakeholders in understanding its operations and objectives.

iii. A well-crafted business plan helps attract investors and funding by showcasing the potential for profitability and growth.

iv. It is quite necessary for new ventures seeking capital, expansion activities, or projects requiring additional capital.

v. It is also important to keep reminding the management, employees, and partners of what they represent and intend to achieve.

2. Importance

Creating a business plan is more important due to the negative impression its absence can cause rather than the benefits it might provide. The impression is what matters when it comes to a plan. So, let's understand the importance of making a good impression.

i. The most important reason why most businesses make plans is for the investors, who can be venture capitalists or financial institutions. For these investors, new ventures are like investments. Hence, before putting in money, they want to be sure if the investment will be worth it.

ii. A good business plan presents all the important details in an understandable format and helps in clarity and the level of commitment the business owners have towards their business.

iii. Every business needs a blueprint based on which it operates. It should govern the functions of a business and especially in decision-making.

iv. A plan is usually created before the enterprise starts functioning, so it speaks about the business and what it stands for.

v. Even after the business takes off and expands, it should stick to its roots as contained in the plan, which would evolve with the company's growth.

vi. Making every stakeholder – employees, partners, suppliers, investors, etc. – aware of the plan would increase commitment and sense of belonging to the enterprise.

vii. To improve the productivity and contribution of everyone.

a. Components and Sections of a Business Plan

The outline of a business plan should be prepared from three perspectives – first, the market; second, the investors; and finally, the company. However, most plans tend to become business-oriented rather than focusing on the market and the investors. This might create a negative impression on the investors.

Note that there is some preliminary work that's required before sitting down to write a plan for the business. Knowing what goes into a business plan is one of them. Let's examine the business plan structure or components:

i) **Executive Summary:** This is the first two pages of your business plan. It is a business elevator pitch. It should include a mission statement, a brief description of the products or services offered, and a broad summary of your financial growth plans. Though the executive summary is the first thing investors will read, it can be easier to write it last. That way, it helps highlight information already identified while writing other sections that go into more detail.

ii) **Company Description:** This contains information like business's registered name, address of the business location and names of key people in the business. Make sure to highlight unique skills or technical expertise among team members. This should contain an elaboration of the company goals and objectives. It includes the market or industry the business belongs to, its target audience, etc. The company description helps customers, lenders, and potential investors gain a deeper understanding of your product or service. It provides detailed descriptions of your supply chains and explains how your company plans to bring its products or services to market.

iii) **Market Analysis:** A firm needs a good handle on its industry as well as its target market. This section of the plan details a company's competition and how the company fits in the industry, along with its relative strengths and weaknesses. It will also describe the expected customers' demand for a company's products or services and how easy or difficult it may be to grab market share from competitors. Analyzing the market lets businesses identify a gap and fill it. The plan should also inform the market's acceptance of the product or service.

iv) **Competitive Analysis:** Competitors can make or break any business. Therefore, before entering the market, the businesses must evaluate how the competitors operate, their profits and costs, their offerings, etc. This will give the enterprise an idea of what it can do differently from the competitors to have an edge over them. This should be effectively communicated to the investors, as it might convince them of the venture's success.

v) **Organizational Structure:** The organizational structure explains your company's legal structure and provides information about the management team. It also describes the business's operating plan and details who is responsible for which aspects of the company.

vi) **Marketing Strategy:** This section describes how the company will attract and keep its customer base and how it intends to reach the consumer. A clear distribution channel must be outlined. The section also spells out advertising and marketing campaign plans and the types of media those campaigns will use.

vii) **Financial Planning:** The financial plan is one of the most critical parts of the business plan, especially for companies seeking outside funding. This section should include a company's financial planning and projections. A plan often includes capital expenditure budgets and forecasted income statements, which can help predict when your company will become profitable and how it expects to survive in the meantime. New businesses will include targets and estimates for the first few years plus a description of potential investors.

viii) **Budget:** Every company needs to have a budget in place. This section should include costs related to staffing, development, manufacturing, marketing, and any other expenses related to the business.

ix) **Appendix:** The final component of a business plan is the appendix. Here, you may include additional documents cited in other sections or requested by readers. These might be résumés, financial statements, product pictures, patent approvals, and legal records.

b. Feasibility Study vs. Business Plan

A feasibility study is not a business plan. The separate roles of the feasibility study and the business plan are frequently misunderstood.

i. The feasibility study provides an investigating function. It addresses the question of "Is this a viable business venture?" The business plan provides a planning function. The business plan outlines the actions needed to take the proposal from "idea" to "reality."

ii. The feasibility study outlines and analyzes several alternatives or methods of achieving business success. The feasibility study helps to narrow the scope of the project to identify the best business scenario(s). The business plan deals with only one alternative or scenario. The feasibility study helps to narrow the scope of the project to identify and define two or three scenarios or alternatives.

iii. The person or business conducting the feasibility study may work with the group to identify the "best" alternative for their situation. This becomes the basis for the business plan.

iv. The feasibility study is conducted before the business plan. A business plan is prepared only after the business venture has been deemed to be feasible.

v. If a proposed business venture is considered to be feasible, a business plan is usually constructed next that provides a "roadmap" of how the business will be created and developed. The business plan provides the “blueprint” for project implementation.

vi. If the venture is deemed not to be feasible, efforts may be made to correct its deficiencies, other alternatives may be explored, or the idea is dropped.

c. Evaluation of the Feasibility of a Proposed Business Idea or Plan

Feasibility analysis involves assessing your new business idea in detail to determine if it will be viable. This can build on any initial research you've already done. A feasibility analysis helps you consider the costs and activities required to set up and run a business, and how to make an informed decision about whether to start a business and how to do it. Most importantly, it will give you a picture of the costs involved that you'll need to consider and the revenue and profit you can realistically expect to generate.

To conduct a feasibility analysis, we’ll need a detailed understanding of:

i. your business idea, product or service.

ii. the nature of the market.

iii. the needs of your customers.

iv. the costs involved and the revenue you are forecasting.

v. your business model and plan.

vi. the human resources and skills available to support the business.

A feasibility analysis – to provide details for a formal business plan – may be necessary when preparing a pitch to investors, lenders, or potential partners for your business, and when applying for government funding.

Steps for feasibility analysis for a business are stated below:

1. Create and define the project parameters—for example, analyse:
    - the financial feasibility of starting the business (read below)
    - the legal requirements for operating it.
    - the operational capacity as outlined in your business plan.
2. Research the industry, market, customers, business model and staffing – how will they affect the feasibility of your business?
3. Review your research findings to determine if the business idea, product or service is viable.

d. Common Challenges of Writing a Business Plan

The importance of business planning cannot be emphasized enough, but it can be challenging to write a business plan. Let's look at a few issues to consider before starting writing business planning:

i. Create a business plan to determine your company's direction, obtain financing, and attract investors.

ii. Identifying financial, demographic, and achievable goals is a common challenge when writing a business plan.

iii. Some business owners struggle to write a business plan that is concise, interesting, and informative enough to demonstrate the viability of their business idea.

iv. You can streamline your business planning process by conducting research, speaking with experts and peers, and working with a business consultant.

8.9 MINUTES OF MEETING

This is a business document which records the proceedings of a meeting. It is a formal record of the proceedings of a meeting which is used for official purposes. Minutes show a summary of the entire discussions, deliberations and decisions arrived at in a meeting. It is the duty of the secretary to prepare the minutes of meeting of an organization.

Features of minutes of meeting

1. **Acceptable format and structure**: The minutes of a meeting has an acceptable structure and format which should be followed when preparing it.
2. **Simple language**: The language of the minutes should be simple and easy to understand.
3. **Written on the organization's letter-headed paper:** The minutes of meeting is written on the letter headed paper of the organization.
4. **Written by the secretary:** it is the secretary's duty to write the proceedings of a meeting. If the secretary is not available, then an appointed person can write it.

Importance of the minutes of meeting

1. **Legal document:** It serves as a legal document and in the event of a conflict, it can be tendered in a court of law.
2. **Source of future reference:** The contents of the minutes of meeting can serve as a source for future reference.
3. **It is a record of proceedings:** Minutes of meeting show a record of the proceedings of a meeting. All the events that happened in a meeting are recorded in the minutes.
4. **Makes members accountable for their utterances:** Contributions of members are recorded therefore they can be held accountable for their utterances.

Format of minutes of meeting

There are various formats of minutes of meeting;

1. **Resolution minutes:** This is a form of minutes which record only the resolutions or decisions taken during a meeting. It does not record all the deliberations or activities which took place prior to the resolutions.

2. **Narrative minutes:** This type of minutes narrates in detail all the activities, actions, events, and resolutions passed at the meeting. This kind of minutes is always lengthy.

3. **Action minutes:** This type of minutes narrates, though briefly, the proceedings of the meeting. It, however, presents the details in a tabular form.

8.10 SCHEDULE OF NON-CURRENT ASSETS

This is a summary of the non-current assets and any new non-current assets bought, sold and the depreciation attached to the disposal and the depreciation charge for the year. This allows for the calculation of the NBV which appears on the Statement of financial position.

Terms:

Stage 1 - COSTS:
Cost at start: ....
Revaluation: ....
Additions:...
Disposals: ....
Cost at end:...

Stage 2 - DEPRECIATION:
Depreciation at start: ....
Disposals:...
Charge for the year:..
Depreciation end of year:..

Stage 3: NBV
Net Book Value end of year: ....

Purpose:

Well-designed schedules facilitate the calculation of values needed to complete financial statements, including the Statement of financial position, Cash Flow Statement, and Statement of comprehensive income.

8.11 SCHEDULE OF DIRECTORS

The role and responsibilities of a director are legally separate and distinct from that of a shareholder or an employee. This brings specific responsibilities and associates each director with the company and the board, and so it carries personal risks to his or her reputation and, potentially, legal, and financial risks.

This guide is designed to help identify:

i. the duties and responsibilities of individual directors.

ii. other expectations of a director from the board and shareholders, and

iii. the potential risks to each director.

It also outlines a number of practical measures, which should help a director to fulfil his or her role and to manage the risks effectively.

The board, which consists of a number of directors and possibly includes non-executive directors, is collectively responsible for the success or failure of the company. As a result, all directors must understand how the company operates and how risks are managed, whilst exercising a range of skills such as leadership, management, and the ability to see the bigger picture and strategic direction. An awareness of finance and regulatory requirements is also needed.

This above is addressed to:

i. owner/managers of a private company who wish to know what is expected of them as a director;

ii. employees who are asked to join the board of directors, to help them assess what the position would involve and whether they wish to accept it, and

iii. senior employees in a group who are asked to become directors on the board of a subsidiary company.

In a private company the divisions between certain functions, such as shareholder and director or director and employee, may often be blurred but it is helpful to understand where the boundaries should be. Examples of where these commonly occur are:

i. A company owned by one or two related people may be treated by them as though it were their own business whereas the company has a separate legal identity from the shareholders. The company and its shareholders are not one and the same.

ii. Whilst a director is an employee of a company, he or she has duties that go beyond those of an employee. In particular, all directors are expected to be aware of, and act within, a legal framework of duties and share a collective responsibility for the company.

iii. The evolution of a governance model in larger companies has seen a splitting of the director's role into two: **first**, to contribute to the board's strategic direction and risk control framework; **second**, to be involved in the management of the company on a daily basis and the internal running of the company. In this model, any non-executive director would assist with the first of these roles.

This assertion above is not intended to be prescriptive, but simply to outline some of the above tensions and suggest points that a director may wish to consider managing expectations and potential risks whilst fulfilling his or her role. It is meant for the use of directors of private companies, and as a companion document to 'Avoiding the Pitfalls in Running a Private Company', which contains guidance on the principles of good governance, focusing on the relationships between board members and the collective responsibility of leading the company; and to ‘Non-Executive Directors: their Role and Responsibilities in a Private Company’.

WHAT IS EXPECTED FROM A DIRECTOR?

Directors are often entrepreneurs, and their expertise is usually in exploiting a product or service and running a commercial operation. However, it is also important that they understand the wider expectations of being a director of a company.

Who can be a director?

Almost anyone can be a director of a company and there are no required qualifications. The shareholders of a company are responsible for appointing the directors of a company and, in general, the only restrictions as to who may be appointed are:

i. Each director must be aged 16 or over, and

ii. A person cannot be appointed as a director if he or she has been disqualified from acting as a company director or is an undercharged bankrupt.

What is expected of a director who is the owner-manager?

An individual, or family, who owns shares is expected to know and respect the fact that the company is separate from their shareholdings. Therefore, directing the business on behalf of the company should be separate from conducting their own personal business affairs.

Practical Considerations

i. Payments to directors should consist of remuneration (such as salary, benefits, bonus) for work done on behalf of the company. Remuneration should be agreed by the board and may be recorded in the minutes.

ii. The directors have a duty to maintain the company’s capital and can only pay dividends from distributable profits. Any other distribution is illegal. Dividends to shareholders should be properly discussed at a board meeting and minutes recorded appropriately.

iii. In general, the position of a director is such that he or she should not obtain loans or credit from the company or have substantial transactions with it. The Companies Act 2006 contains a prohibition against certain of these transactions unless shareholder consent is obtained.

iv. A company must have at least one director. In a company with only one or two directors, it is important to identify someone else, such as the person providing company secretarial services, who can undertake the necessary oversight and operational decisions if need be or in the case of an emergency such as when the director(s) are not available. Alternatively, the owner manager may wish to appoint a suitable person with a power of attorney to act for the director in case of emergencies.

What is expected of an employee who is appointed as a director?

There are a number of reasons why a private company may decide to bring a member of staff on to the board of directors, including:

i. employees may be offered promotion and invited to make a more permanent commitment to the company by being asked to become a director.

ii. employees may be brought on to the board of directors as part of the succession or expansion strategy.

iii. senior employees may be placed as directors on the board of a subsidiary company within a larger group to broaden their leadership skills or bring their experience to that business.

Practical Considerations

i. What will the potential director bring to the board? Is the board open to working with someone else and willing to take account of their contribution?

ii. What are the skill-sets required and the expected timeframe of the appointment?

iii. Has an appropriate role specification been prepared?

iv. The potential director, even if he or she has been an employee for a number of years, needs to be diligent in deciding whether to be associated with that company as a director.

v. In groups, is it clear what the parent organisation expects the director to do?

Appointment as director

Every director should have formal terms of appointment. A director will:

i. be on the board and be expected to have significant influence over the company.

ii. be appointed for a specific (renewable) time period, and

iii. normally be remunerated for the responsibilities undertaken.

Practical considerations

i. A letter of appointment should be issued, detailing the functions and time commitment that is expected as well as the period of appointment. Consideration should be given to a notice period of, say, three months.

ii. Each director should undertake an induction programme and, thereafter, ongoing training and development.

Collective responsibility

The board of directors is collectively responsible for the success of the company and all directors share in that responsibility. Every director should be expected to understand fully the business of the company, attend board meetings, ensure that they are fully briefed, and devote sufficient time to the role of director.

Practical considerations

i. Each director needs appropriate information and adequate notice of board meetings in order to fulfil the role.

ii. Each director should have liability insurance that is paid for by the company.

iii. A smaller company is usually run by its owner who assumes a range of roles. As the company grows, it is best practice for various areas of responsibility in the company to be allocated clearly between several directors or management.

a. The responsibilities of the directors – Setting an appropriate strategy

It is the directors' responsibility to set an appropriate strategy, to implement it, and to revisit it to ensure its continuing relevance, and to provide leadership. A clear strategy and an eye open to identify potential opportunities are vital, as are clear, strong messages about the business. In setting strategy, the directors should:

i. Separate the task of setting the vision and strategy from the day-to-day management of the business.

ii. Consider where the business is to be in one to five years' time and how it will get there. This needs to be simple and sensible and with a sense of purpose.

iii. Prepare a strategy and test the resilience of the business by modelling adverse conditions.

iv. Question the way in which matters are undertaken, seeking an appropriate balance between creativity and control.

v. Understand customers and their needs so the company provides what they want and how they want it.

vi. Decide upon the short-, medium-, and long-term financial requirements and where the finance will come from.

Practical considerations

i. In an owner-managed company it is good practice to set aside time for regular formal board meetings (and not just extend informal management meetings) to consider strategy and to fulfil statutory responsibilities such as approving financial statements.

ii. Formal board meetings should have an agenda prepared; the agenda and any supporting papers should be circulated with sufficient time to allow directors to prepare for the meeting; formal minutes should be taken of the meeting, to ensure decisions are recorded and giving a flavour of the challenges and questioning raised by directors.

b. The responsibilities of the directors – Administrative matters

In practice, a private company often adopts little formality in the running of its meetings. This is recognised in the 2006 Companies Act and there is now no need for a private company to appoint a company secretary; however, the functions that the company secretary carries out remain. These consist of fulfilling the legal necessities and administration associated with running the company such as filing accounts and statutory returns at Companies House. These matters must be attended to as the directors and the company will be subject to fines and penalties if statutory obligations are not met.

Practical considerations

i. In an owner-managed small company it may appear unnecessary to appoint a secretary; however, all the associated tasks should be included in a compliance schedule and allocated to a specific individual or individuals. The compliance schedule should show when the various financial, legal, and regulatory requirements require to be completed. A sample compliance schedule is in Appendix B.

ii. A private company with only one director should consider appointing a company secretary so that there is more than one officer of the company in order to act if the director is incapacitated.

iii. If the shareholders wish to raise finance or are considering selling the company, discussions may be more successful if the company has a track record of holding formal board meetings, which are adequately minuted.

c. The responsibilities of the director - Delegation

Operational matters need to be delegated in order to ensure the smooth running of the business and to allow the director's time to focus on the key aspects of their roles. A schedule of delegations of authority should be established, which sets out the parameters of the delegated authority and particularly any financial limits. Areas that could be covered in the scheme of delegation include:

i. opening bank accounts and authorising payments;

ii. general purchasing powers/budgets;

iii. signing of leases;

iv. signing of regulatory documents;

v. powers of attorney;

vi. external communication;

vii staff recruitment and remuneration;

viii. health and safety operations;

ix compliance with current legislation, in particular, employment, health and safety and tax.

Practical considerations

i. In a smaller company the owner-manager usually retains responsibility for many of the above matters. It should be clear what areas are delegated, if any, and to whom.

ii. As the company grows the owner/board needs to develop a systematic means of delegating authority and formalising this.

iii. Delegated authorities ought to be reviewed periodically to ensure that they are complied with and that the authorities remain appropriate for the size of the enterprise and its management structure.

d. The responsibilities of the directors - Risk management and internal controls

A board's responsibilities include the key elements of risk management and internal controls, and it is essential that each director is comfortable that these are appropriate and operate effectively. Not only does he or she share collective responsibility for risk management but he or she is reliant upon the internal controls existing and working properly.

Risk is an inherent part of being in business, and risk management is concerned with identifying, assessing, monitoring, and mitigating risk, not necessarily removing it. Risks that a business faces change regularly, and the system must be able to adapt, and must be able to escalate key issues and control breakdowns, reporting to the board as quickly as possible so that the board is fully aware, and can address the challenge. An effective system of internal control is key to robust risk management. There should be a clear set of documented procedures as part of an effective control system, and there needs to be regular checks to ensure that the procedures are operating effectively.

Practical considerations

i. How is risk management undertaken, are appropriate measures taken to mitigate the risks identified, and do they work?

ii. Do the directors conduct a SWOT analysis periodically, which identifies key risks (and opportunities)?

iii. Professional advisers may be of assistance in identifying key risks and controls: has the company sought such assistance and, if so, acted upon it?

iv. Is there adequate segregation of duties, particularly where finance and stock are concerned?

v. Are there regular accounting reconciliations and monitoring of cash flow forecasts?

vi. Are there suitable controls over incoming funds, expenditure, and access to bank accounts?

vii. Are the key people identified, and their substitutes or alternates?

viii. Are there sound procedures for vetting and obtaining references for new employees?

ix. Is there suitable IT back up?

x. Is there a suitable process for tracking legislative developments, impacts and risks?

xi. Is there a compliance schedule and is it properly used?

xii. Does the company have a comprehensive and tested business continuity plan in the event of physical or financial emergencies?

xiii. Has the risk of fraud been analysed and followed up?

xiv. What insurance cover is maintained, and does it cover key risks?

xv. Are key customers and suppliers regularly assessed for financial stability?

CHEDULE B - DECLARATION OF OFFICERCLARATION OF PARTNERS FORMAT - SCHEDULE OF DIRECTORS

THIS DECLARATION MUST BE COMPLETED, SIGNED AND DATED BY THE OFFICER RESPONSIBLE FOR OPERATIONS IN THE COMPANY AND BY EACH DIRECTOR AND OFFICER OF THE FIRM OR EACH PARTNER OF THE INDEPENDENT PARTNERSHIP WHOSE NAMES APPEAR ON THE DECLARATION OF THE *REGISTRAIRE DES ENTREPRISES*, FOR EACH ESTABLISHMENT.

(ONE COPY FOR EACH DIRECTOR, OFFICER, REPONSIBLE OFFICER OR PARTNER)

Ms. □ Mr. □
Last name ………………………………………………First name ……………………………….Title………..
RESIDENTIAL ADDRESS:…………………………………………………………………………………………………
No. Street pt…………………………………………………………………………………………………
City Province Postal ode…………………………………………………………………………………………
Telephone residence):…………………………………………………………………………………………………

a) Have you ever had your registration cancelled or have you ever been the partner of an independent partnership or been the director or officer of a firm that had its registration cancelled in one or more of the following sectors: insurance of persons, group insurance of persons, damage insurance, claims adjustment, financial planning or in a securities sector? □ Yes □ No

b) Have you ever had a certificate issued by the *Conseil des assurances de personnes*, the *Conseil des assurances de dommages*or the Inspector General of Financial Institutions pursuant to *An Act respecting market intermediaries* (R.S.Q., c. I-15.1) or by the *Association des courtiers et agents immobiliers du Québec* cancelled or suspended, or ever had a registration cancelled or suspended by the *Commission des valeursmobilières du Québec*? □ Yes □ No

c) Have you ever been convicted by final judgment of a Canadian or foreign court (including a disciplinary committee) of an offence with respect to the distribution of financial products and services? □ Yes □ No

d) Within the past 10 years, have you ever been convicted by final judgment of a Canadian or foreign court (including a disciplinary committee) of an offence or criminal act other than those referred to in the previous paragraph? □ Yes □ No

e) During the past 10 years, have you made an assignment of your property in favour of your creditors, been petitioned in bankruptcy or placed under a receiving order pursuant to the *Bankruptcy and Insolvency Act* (R.S.C., 1985, c. B-3), or have you ever availed yourself of any legislative provisions pertaining to insolvency? □ Yes □ No

f) Has a tutor, curator or adviser been assigned to you?□ Yes □ No

g) Are you now or have you ever been the subject of a civil suit related to the distribution of financial products and services? □ Yes □ No

I, the undersigned, ____________________________________, in my capacity as responsible officer, director, officer,
(IN CAPITAL LETTERS)

or partner of ____, declare that this information is true.
(Name of firm or independent partnership)

SIGNATURE DATE

8. 12 SCHEDULE OF SHAREHOLDERS

4894 (Rev. 06-12), Page 1

Schedule of Shareholders and Officers
For all corporations claiming statutory exemption or small business credit
Issued under authority of P.A. 228 of 1975. See instruction booklet for filing guidelines.

2016
C-8000KC

1. Name	2. Federal Employer Identification Number (FEIN) or TR Number

PART 1: SHAREHOLDERS AND OFFICERS See instruction booklet.

3A. Shareholder (including corporation and trust) or officer name (Last, First, Initial)	**B.** Social Security Number	**C.** If an officer, check here.	**D.** % Time	**E.** % Stock	**F.** % Stock with attribution	**G.** % Stock from col. F. less any attribution between 2 active shareholders.
a.						
b.						
c.						
d.						
e.						
f.						
g.						
h.						
% of stock (not listed above) owned by shareholders who own less than 20% and receive no compensation.				%		
Continue below using same a through h line references.			**Total**	**100%**		

H. Dividends - used to determine active shareholders	**I.** Salaries, wages and/or director fees	**J.** Employee insurance plans, pensions, etc	**K.** Total compensation and director fees for officers and/or shareholders - add columns I & J	**L.** Share of business income/loss - Form C - 8000C. line 6 x column G.	**M.** Total shareholder/ officer income -add columns K & L
a.					a.
b.					b.
c.					c.
d.					d.
e.					e.
f.					f.
g.					g.
h.					h.

If more space is needed, attach additional C-8000KC forms. Identify each additional form and complete Part 1.

PART 2: STATUTORY EXEMPTION - See definition of qualified shareholder in the instruction booklet.

4. Qualified shareholders. Add the number of qualified shareholders from Part 1. Enter here and on C-8043, line 8a.. .... 4. ______ 00
5. Compensation and director fees of ALL shareholders. Add amounts in column K for each shareholder showing ownership in column E. Enter here and on C-8043, line 5................. .... 5. ______ 00

PART 3: SMALL BUSINESS CREDIT - See definition of active shareholder in the instruction booklet.

6. Compensation and director fees of active shareholders. Add amounts in column K for each active shareholder. Enter here and on C-8000C, line 7 or C-8044, line 11.................... .... 6. ______ 00
7. Compensation and director fees of officers. Add amounts in column K for each officer who is not an active shareholder. Enter here and on C-8000C, line 8 or C-8044, line 11 .... 7. ______ 00

Instructions for C-8000KC
Schedule of Shareholders and Officers

Purpose: For all **corporations** to determine eligibility for the standard small business credit or alternate tax and for professional and S Corporations to determine which shareholders qualify for the increased exemption.

ⓘ**Note:** For purposes of computing the statutory exemption only, a member of an LLC is treated as a shareholder if the LLC is taxed as a corporation.

If filing as a corporation and claiming a statutory exemption, standard small business credit or calculating the alternate tax, complete this form and attach it to the annual return to report:

- Qualified shareholders for the increased statutory exemption.
- Compensation and director fees of all shareholders for the computation of the statutory exemption.
- Shareholders and officer qualifications for the small business credit or alternate tax.
- Compensation and director fees of active shareholders and all officers for the computation of the small business credit or alternate tax.

Line-By-Line Instructions

Lines not listed here are explained on the form.

Line 2, Account Number. Enter the same account number used on page 1 of the annual return.

PART 1: Shareholders and Officers

Line 3 (Columns A-M). In column 3A, a through h, list and describe all shareholders and officers who:

- Are employees of the corporation
- Are directors of the corporation or
- Own 20 percent or more of the stock of the corporation, including those by attribution.

Shareholder means a person who owns outstanding stock in the business. An individual is considered as owning the stock, directly or indirectly, by or for family members as defined by IRC Section 318(a)(1). An **officer** of any corporation, **other than an S Corporation,** includes the chairperson of the board, president, vice-president, secretary and treasurer, or persons performing similar duties.

Columns A and B: Identify each officer and shareholder (including corporation and trust and those with ownership by attribution) by name and social security number. Corporations or trusts should be identified using federal employer identification number (FEIN).

ⓘ **Note:** Rules of attribution do not differentiate between an adult and a minor child [IRC Section 318(a)(1)].

Column D: Enter the percentage of each shareholder's time that is spent working in this business. This is used for the statutory exemption only.

Column E: Enter the percentage of outstanding stock each officer or shareholder owns. If a shareholder owned stock for a period less than the corporation's tax year, multiply that shareholder's percentage of ownership by the number of months owned and divide the result by the number of months in the corporation's tax year.

Taxpayers must account for 100 percent of the stock. If it is not accounted for, processing of the return may be delayed.

Column F: Enter the percentage of outstanding stock each shareholder owns, including attribution of ownership from family **members under IRC section 318(a)(1).** The percentage of ownership in column F **must be greater than or equal** to the percentage of ownership in column E.

Column G: Enter the percentage of outstanding stock each shareholder owns, including attribution of ownership **only** from, or to, family members who are **not** active shareholders. See definition of active shareholders on the next page. For the purposes of determining disqualification, an active shareholder's share of business income is not attributed to another active shareholder.

ⓘ**Note:** Column G is the same as Column F, minus any attribution between two active shareholders. All columns should add up to at least 100 percent.

Example

In this case, the husband and daughter are active shareholders. The wife and son are not active because compensation, directors fees or dividends from the business are less than $10,000.

STOCK PERCENTAGE

	Column E	Column F	Column G
Husband (active)	40%	100% (all shareholders)	70% (husband/wife/son)
Wife (inactive)	10%	100% (all shareholders)	100% (all shareholders)
Son (inactive)	20%	70% (husband/wife/son)	70% (husband/wife/son)
Daughter (active)	30%	80% (husband/wife/daughter)	40% (wife/daughter)

Column H: Enter total dividends received by each shareholder during the tax year from this business (used to determine active shareholders). This includes regular distributions for an S Corporation.

Column I: Enter salaries, wages and director's fees from Form C-8000, line 12 that are attributable to each shareholder or officer.

ⓘ **Note:** All compensation must be included, whether the shareholder/officer worked in Company or not.

Column J: Enter employee insurance payments and pensions from Form C-8000, lines 13 through 15, that are attributable to each shareholder or officer.

Column L: In determining share of business income/loss, the Department of Treasury cannot attribute stock ownership between two active shareholders.

Multiply the amount on Form C-8000C, SBT Credit for Small Businesses and Contribution Credits, line 6 (sum of business income and losses), by the percentage in column G for each shareholder and enter the result in column L.

Members of a controlled group or affiliated companies. Multiply the percentage in column G by the sum of the following:

- Business income on Form C-8000, line 11
- Any capital loss carryover or carryback on Form C-8000, line 21
- Any net operating loss carryover or carryback on Form C-8000, line 22.

Remember, percentages in column G must be equal to or greater than those in column E.

PART 2: Statutory Exemption

Line 4, Qualified Shareholders. S Corporations and professional corporations, enter on line 4 the number of shareholders who qualify for the increased exemption. Enter the same number on Form C-8043, SBT *Statutory Exemption Schedule*, line 8a.

A qualified shareholder:

- Is a shareholder of an S Corporation or professional corporation (PC), and
- Is a full-time employee of the taxpayer or devotes at least 51 percent of his or her time to the business (column D = 51 percent or more), and
- Owns, without attribution, at least 10 percent of the business (column E = 10 percent or more), and
- Has a share of business income of at least $12,000. Share of business income = compensation + share of business income determined without attribution.

For short-period returns or a part-year shareholder, the shareholder's business income must be annualized to meet this requirement. See page 6.

ⓘ **Note:** A person cannot serve as a qualified shareholder in more than one business.

Line 5, Compensation and Director Fees of All Shareholders. All corporations, regardless of type, should add the compensation and director fees in column K for each shareholder showing ownership in column E and enter the result on Form C-8043, line 5.

ⓘ **Note:** Complete Form C-8043 to determine the allowable exemption.

PART 3: Small Business Credit

Line 6, Compensation and Director Fees of Active Shareholders. Add compensation and director fees in column K for each active shareholder and enter the result on line 6 and on Form C-8000C, line 7.

An active shareholder:

- Is a shareholder of the corporation, ***including through attribution***, and
- Owns at least 5 percent of outstanding stock, ***including through attribution*** (column F = 5 percent or more), and
- Receives at least $10,000 in compensation, director fees or dividends from the business (sum of columns H and K = $10,000 or more).

For short-period returns or a part-year shareholder, the shareholder's compensation, director fees and dividends must be annualized to meet this requirement.
See page 6 for complete annualization instructions.

Line 7, Compensation and Director Fees of Officers. Add the compensation and director fees in column K for each officer who is **not** an active shareholder and enter the result on line 7 and on Form C-8000C, line 8.

Remember, officers of an S Corporation are not included in this calculation.

ⓘ **Note:** If filing Form C-8044, Single Business Tax Simplified Return, enter the total of lines 6 and 7 on line 11 of that form.

Attach this schedule to the return.

8.13 VISION

Aspirations, expressed as strategic intent, should lead to an end otherwise they would just be castles in the air. That end is the vision of an organization or an individual. It is what the firm or a person would ultimately like to become. A vision, therefore, articulates the position that a firm would like to attain in the distant future. Seen from this perspective, the vision encapsulates the basic strategic intent.

Defining vision: vision has been defined in several different ways. Kotter (1990) defines it as a "description of something (an organization, corporate culture, a business, a technology, an activity) in the future". El-Namaki (1992) considers it as a "mental perception of the kind of environment an individual, or an organization, aspires to create within a broad time horizon and the underlying conditions for the actualizations of this perception."

Miller and Dess (1996) view it simply as the "category of intentions that are broad, all inclusive, and forward thinking". The common strand of thought evident in these definitions and several others available in strategic management literature relates to "vision" being future aspirations that lead to an inspiration to be the best in one's field of activity.

THE BENEFITS OF HAVING A VISION

Parikh and Neubeuer (1993) point out the several benefits accruing to an organization having a vision. Here is what they say:

i. Good visions are inspiring and exhilarating.
ii. Visions represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be.
iii. Good visions help in the creation of a common identity and a shared sense of purpose.
iv. Good visions are competitive, original and unique. They make sense in the marketplace as they are practical.
v. Good visions foster risk-taking and experimentation.
vi. Good visions foster long-term thinking.
vii. Good visions represent integrity, they are truly genuine and can be used for the benefit of people.

Vision Statement

Vision statement is the organizational purpose for the future explicitly expressed. The role of a vision statement is derived from Hemal and Prahaled's (1994) five criteria, which are: Foresight, Breadth, Uniqueness, Consensus and Actionability.

The task of forming a strategic vision of an organization as it relates to its future business is embedded in:

i. Defining what business, the company is presently in.
ii. Deciding on long term strategic course for the company to pursue
iii. Communicating the vision in a way that is clear, executing and inspiring.

8.14 MISSION

While the essence of vision is a forward-looking view of what an organization wishes to become, Mission is what an organization is and why it exists.

Defining Mission: The definition of mission has gradually expanded to represent a concept that embodies the purpose behind the existence of an organization. Thompson (1997) defines mission as the "essential purpose of the organization, concerning particularly why it is in existence, the nature of the business(es) it is in, and the customers it seeks to serve and satisfy." Hunger and Wheelen (1999) say that mission is the "purpose or reason for the organization's existence.

Mission Statement

A mission statement defines the basic reason for the existence of an organization. Such a statement reflects the corporate philosophy, identity, character, and image of an organization. Mission statement describes the organization's basic function in the society, in terms of the products and services it provides for its clients.

Characteristics of a Mission Statement

In order to be effective, a mission statement should possess the following seven characteristics according to Azhar kazmi (2006):

i. It should be feasible: - A mission should be realistic and achievable. It should always aim high but it should not be an impossible statement.
ii. It should be precise: - A mission statement should not be so narrow as to restrict the organizations activities nor should it be too broad to make itself meaningless.
iii. It should be clear: - A mission should be clear enough to lead an action. It should not be a high sounding set of platitudes meant for publicity purposes.
iv. It should be motivating: - A mission statement should be motivating for members of the organization and of society, and they should feel it worthwhile working for such an organization or being its customers.
v. It should be distinctive: - A mission statement which is indiscriminate is likely to have little impact. If the manufacturers of a particular product defined their mission in a similar fashion, there would not be much of a difference among them.

vi. It should indicate major components of strategy: - A mission statement, along with the organizational purpose should indicate the major components of the strategy to be adopted.

vii. It should indicate how objectives are to be accomplished: - Besides indicating the broad strategies to be adopted, a mission statement should also provide clues regarding the manner in which the objectives are to be accomplished.

Advantages of Mission Statement

i. Mission helps to ensure consistency in decision
ii. Mission also affects implementation of a planned strategy
iii. Mission helps organizations to coordinate activities.

Examples of Vision/Mission Statements

S/N	COMPANY	VISION STATEMENT	MISSION STATEMENT
1.	Nigeria Brewery Plc	To become world class brewer	To remain the leading brewering company in Nigeria producing and marketing high quality brands, to deliver superior consumer satisfactions.
2.	United Bank for Africa Plc	To be the undisputed leading and dominant bank in Nigeria	To provide first class service to our customers, and delivered by well trained and highly motivated people aided by the best technology, generating superior returns to shareholders, while positively impacting the community.

8.15 GOALS AND OBJECTIVES

Goals denote what an organization hopes to accomplish in a future period of time. They represent a future state or an outcome of the effort put in now. A broad category of financial and non-financial issues is addressed by the goals that a firm sets for itself.

Objectives are the ends that state how the goals shall be achieved. They are concrete and specific in contrast to goals which are generalized. In this manner, objectives make the goals operational while goals may be qualitative, objectives tend to be mainly quantitative in specification. In this way, they are measurable and comparable.

ROLES OF OBJECTIVES

i. Objectives define the organization’s relationship with its environment.
ii. Objectives help an organization to pursue its vision and mission.
iii. Objectives provide the basis for strategic decision-making.
iv. Objectives provide the standards for performance appraisal.

Characteristics of Objectives

Objectives should possess the following seven desirable characteristics:

i. Objectives should be understandable.
ii. Objectives should be concrete and specific.
iii. Objectives should be related to a time frame.
iv. Objectives should be measurable and controllable.
v. Objectives should be challenging but not unrealistic.
vi. Different objectives should correlate with each other.
vii. Objectives should be set within constraints both internal e.g., resource availability and external e.g., legal requirements.

8.16 STRATEGIES

A strategy of a corporation forms a comprehensive master plan stating how the corporation will achieve its mission and objectives. It maximises competitive advantage and minimizes competitive disadvantage. The typical business firm usually considers three types of strategy: corporate, business, and functional.

1. Corporate strategy describes a company's overall direction in terms of its general attitude toward growth and the management of its various businesses and product lines. Corporate strategies typically fit within the three main categories of stability, growth and retrenchment.

2. Business strategy usually occurs at the business unit or product level, and it emphasises improvement of the competitive position of a corporation's products or services in the specific industry or market segment served by that business unit. Business strategies may fit within the two overall categories of competitive or cooperative strategies.

3. Functional strategy is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximising resource productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business unit with a competitive advantage.

8.17 POLICIES

A policy is a broad guideline for decision making that links the formulation of strategy with its implementation. Companies use policies to make sure that employees throughout the firm make decisions and take actions that support the corporation's mission, objectives, and strategies.

8.18 SUMMARY

Usually when a liability company is to be formed, it is normally started with the preparation of certain documents that will be presented to the registrar of companies for necessary action and subsequent registration. The preparation of these documents is normally done by a solicitor or a business consultant. The people that initiate the idea of establishing a company are usually referred to as promoters. The names and addresses of the promoters are to be submitted to the Corporate Affairs Commission (CAC) which investigates them. The promoters are to submit three main documents these are Memorandum of Association which contains the fundamental laws of the company that regulates the relationship between the firm and the public, the Articles of Association which lays down the internal roles and regulations governing the relationship between the company and its members, Prospectus which serves as mechanism for raising capital.

A prospectus is an advertisement or an invitation from a company to the general public to subscribe or purchase shares or debentures issued by the company. This invitation to purchase shares is also known as the initial public offering (IPO), through which a public company can raise the funds it requires. However, in the case of a private company, it is not necessary to file a prospectus as it is prohibited from raising funds from the public. Only a company that needs to raise funds from the general public by issuing shares or debentures is required to file a prospectus.

A feasibility study of a business is an assessment tool that analyses the cost-benefit factor of an idea. The report of such a study is called feasibility report (FR). This is a document that assesses potential solutions to the business problem or opportunity and determines which of these are viable for further analysis. The feasibility study generally covers tasks like preparing an executive summary, a detailed description of products and services, technological requirements, marketplace compatibility for desired products or services, etc.

A business plan is a document outlining your business goals and your strategies for achieving them. Some of the most common components of a business plan are an executive summary, a company description, a marketing analysis, a competitive analysis, an organization description, a summary of growth strategies, a financial plan, and an appendix.

A business plan explains your company's products or services, how you expect to make money, the reliability of supply chains, and factors that might affect demand.

The Minute of a meeting is a business document which records the proceedings of a meeting used for official purposes.

The schedule of Non-current assets is a summary of the Non-current assets and any new Non-current assets bought, sold and the depreciation attached to the disposal and the depreciation charges for the year so as to allow for the calculation of the Net Book Value.

Schedule of Directors: The role and responsibilities of a director are legally separate and distinct from that of a shareholder or an employee. This brings specific responsibilities and associates each director with the company and the board, and so it carries personal risks to his or her reputation and, potentially, legal, and financial risks.

A Vision articulates the position that a firm would like to attain in the distant future while a Mission represents a concept that embodies the purpose behind the existence of an organization. Goals denote what an organization hopes to accomplish in a future period of time while objectives are the ends that state how the goals shall be achieved.

A strategy of a corporation forms comprehensive master plan stating how the corporation will achieve its mission and objectives while a policy is a broad guideline for decision making that links the formulation of strategy with its implementation.

8.19 ILLUSTRATIVE AND PRACTICE QUESTIONS

A) THEORY QUESTIONS

1. What is a certificate of incorporation?
2. To facilitate the procurement of their incorporation, public and private limited liability companies in Nigeria must file the following documents with the registrar of companies:
   a. Memorandum of Association
   b. Articles of Association
   c. What are the contents of both documents which make them so important?
3. a. Mention the characteristics of good mission statement.
   b. Formulate a mission statement for the organization you work for.
4. Mention the characteristics of a good mission statement.
5. a. Mention the characteristics of objectives.
   b. Identify the roles that objectives play in strategic management.
6. What are the possible pitfalls of not having a vision for an organization?
7. Distinguish between strategies and policies.
8. Briefly explain the following:
   (a) Schedule of non-current assets
   (b) Schedule of Directors
   (c) Schedule of Shareholders

B) MULTIPLE CHOICE QUESTIONS

1) The Memorandum of Association (MOA) of a company is its charter, which contains the fundamental conditions upon which the company alone can be incorporated.
    a) True
    b) False
    c) Not sure
    d) None of the above

2) ___________ denote what an organization hopes to accomplish in a future period of time while objectives are the ends that state how the goals shall be achieved.
    a) Vision
    b) Strategy
    c) Goals
    d) Policy

3) ________________________tells one the objects of the company's formation and the utmost possible scope of its operations beyond which its actions cannot surpass. (IeduNote).
    a) Memorandum of Association
    b) Prospectus
    c) Articles of Association,
    d) Certificate of Incorporation

4) Some advantages of mission statement are:
    a) helps to ensure consistency in decision
    b) also affects implementation of a planned strategy
    c) helps organizations to coordinate activities
    d) all of the above

5) Memorandum of Association is a manual that includes all company's ____ and _________ for its interactions with the outside world. (Groww.in).
    a) Laws and regulations
    b) Rules and regulations
    c) Policies and laws
    d) All of the above

6) Memorandum of Association as the fundamental laws of the company that regulates the relationship between the firm and the public contains the following amongst others:
    a) The location of the registered office of the company.
    b) The objectives of the company.
    c) The amount of authorized capital and how it is divided into various classes of shares.

d) All of the above

7) The memorandum of association has the following features:
   a) mandatory for a company
   b) defines its limitations and the sphere of its activities.
   c) a public document that is open to inspection by those who deal with the company.
   d) All of the above

8) The main purpose of the memorandum is to explain the __________ of the activities of the company.
   a) Scope
   b) Extent
   c) Breadth
   d) None of the above

9) The role of a vision statement is derived from Hemal and Prahaled's (1994) five criteria, which are: _____________, Breadth, Uniqueness, Consensus and ____________________.
   a) Strategy, Insight
   b) Foresight, Sustainability
   c) Foresight, actionability
   d) Actionability, Strategy

10) The prospective ___________________ know the areas where the company will invest their money and the risk, they are taking in investing the money.
   a) Stakeholders
   b) Takeholders
   c) Shareholders
   d) Investors

8.20 REFERENCES:

Azhar Kazmi (2006). Business policy and strategic management, New Delhi: Tata McGraw – Hill publishing Company limited.

Drucker, P.F. (1974). Management Tasks, Responsibilities, Practices, New York: Harper and Row

El-Namalki: (1992). "Creating a corporate vision," Long Range planning.

Greene, F.J., Hopp, C. (2017). Research: Writing a Business Plan Makes Your Startup More Likely to Succeed. https://hbr.org/2017/07/research-writing-a-business-plan-makes-your-startup-more-likely-to-succeed

https://www.studocu.com/row/document/university-of-mumbai/bachelor-of-legislative-law/unit-7-prospectus/10175881

IEduNote. Memorandum of Association. https://www.iedunote.com/memorandum-of-association/ (Accessed July 30, 2023).

Ishola, K.A. (2012). Foundation in Accounting. Ilorin: Lavgark (Nigeria) Publishers.

Kottler, J.A (1990). A force for change: How leadership differs from management, London: free press

Longe, F. (2013). Amplified & Simplified Office Practice, Lagos: Longe Ventures

Parikh, J., and Neubeur, F. (1993). Corporate visioning. International Review of strategic management (Ed) vol. 4 D.E. Hussey. West Essex, England: John Wiley & Sons.

Sotonye I. Etomi (2003). *Public Offer of Company Securities: The Legal Perspective.* A paper presented at the Alpha Juris Workshop Series in Port Harcourt, Rivers State, Nigeria, on the 6th & 7th February 2003. *https://nigerianlawguru.com/articles/company*

RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.
Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard.
Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz.
Fundamentals of Business Administration Management by Caroline Anderson.

CHAPTER NINE
SCALE OPERATION AND ECONOMIES OF SCALE

9.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to:

i. Explain the concept of Economies of scale;

ii. Describe the measurement of the size of firm;

iii. Explain the determinant of the size of firm;

iv. Identify types of scale and economies of scales;

v. Explain the concept of capitalist economies;

vi. Explain the concept of socialist economies;

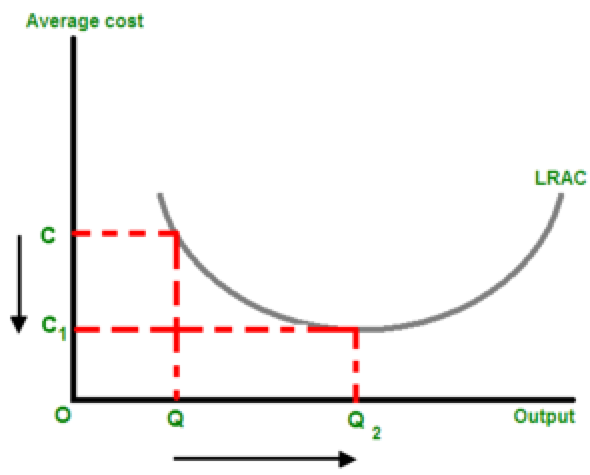
vii. Explain the concept of mixed economies; and

viii. State the various types of market structure.

9.2 What is 'Economies of Scale'

Economies of scale is the cost advantage that arises with increased output of a product. Economies of scale arise because of the inverse relationship between the quantity produced and per-unit fixed costs; i.e. the greater the quantity of a good produced, the lower the per-unit fixed cost because these costs are spread out over a larger number of goods. Economies of scale may also reduce variable costs per unit because of operational efficiencies and synergies. Economies of scale can be classified into two main types:

i. *Internal* – arising from within the company; and
ii. *External* – arising from extraneous factors such as industry size.



As quantity of production increases from Q to Q2, the average cost of each unit decreases from C to C1. LRAC is the long run average cost.

In microeconomics, **economies of scale** are the cost advantages that enterprises obtain due to size, output, or scale of operation, with cost per unit of output generally decreasing with increasing scale as fixed costs are spread out over more units of output.
Often operational efficiency is also greater with increasing scale, leading to lower variable cost as well.

Economies of scale apply to a variety of organizational and business situations and at various levels, such as a business or manufacturing unit, plant, or an entire enterprise. For example, a large manufacturing facility would be expected to have a lower cost per unit of output than a smaller facility, all other factors being equal, while a company with many facilities should have a cost advantage over a competitor with fewer.

Some economies of scale, such as capital cost of manufacturing facilities and friction loss of transportation and industrial equipment, have a physical or engineering basis. The economic concept dates back to Adam Smith and the idea of obtaining larger production returns through the use of division of labor. Diseconomies of scale are the opposite.

Economies of scale often have limits, such as passing the optimum design point where costs per additional unit begin to increase. Common limits include exceeding the nearby raw material supply, such as wood in the lumber, pulp, and paper industry. A common limit for low cost per unit weight commodities is saturating the regional market, thus having to ship products to uneconomical distances. Other limits include using energy less efficiently or having a higher defect rate.

Large producers are usually efficient at long runs of a product grade (a commodity) and find it costly to switch grades frequently. They will therefore avoid specialty grades even though they have higher margins. Often smaller (usually older) manufacturing facilities remain viable by changing from commodity grade production to specialty products.

9.3 BREAKING DOWN 'Economies of Scale'

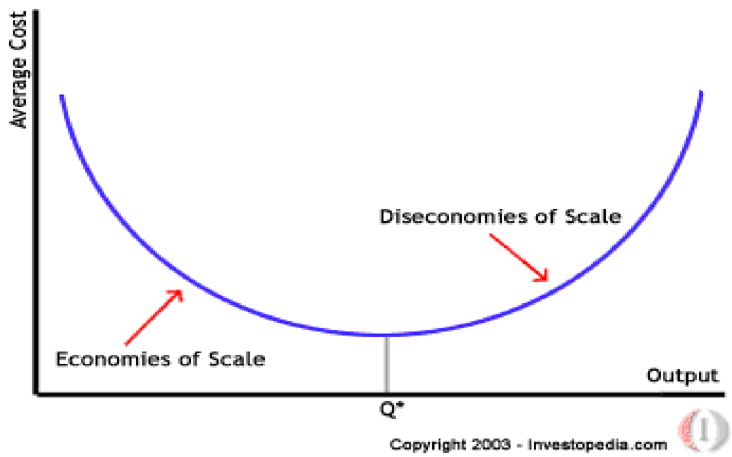
"Economies of scale" is a simple concept that can be demonstrated through an example. Assume you are a small business owner and are considering printing a marketing brochure. The printer quotes a price of $5,000 for 500 brochures, and $10,000 for 2,500 copies. While 500 brochures will cost you $10 per brochure, 2,500 will only cost you $4 per brochure. In this case, the printer is passing on part of the cost advantage of printing a larger number of brochures to you. This cost advantage arises because the printer has the same initial set-up cost regardless of whether the number of brochures printed is 500 or 2,500. Once these costs are covered, there is only a marginal extra cost for printing each additional brochure.

Economies of scale can arise in several areas within a large enterprise. While the benefits of this concept in areas such as production and purchasing are obvious, economies of scale can also impact areas like finance. For example, the largest companies often have a lower cost of capital than small firms because they can borrow at lower interest rates. As a result, economies of scale are often cited as a major rationale when two companies announce a merger or takeover.

However, there is a finite upper limit to how large an organization can grow to achieve economies of scale. After reaching a certain size, it becomes increasingly expensive to manage a gigantic organization for a number of reasons, including its complexity, bureaucratic nature and operating inefficiencies. This undesirable phenomenon is referred to as "diseconomies of scale".

Diseconomies of Scale

Diseconomies of scale are an economic concept referring to a situation in which economies of scale no longer functions for a firm. With this principle, rather than experiencing continued decreasing costs and increasing output, a firm sees an increase in marginal costs when output is increased. Diseconomies of scale can occur for several reasons, but the root cause usually comes from the difficulty of managing an increasingly large workforce.



9.4 Measurement of size of Business

The measures commonly used to determine the size of business firms are discussed below:

1. **Net Worth:** The net worth of a company is the aggregate of its paid-up capital and free reserves. But it is very difficult to calculate the net worth of a firm because of the obvious difficulty of obtaining the accurate data. However, if accurate data are available, net worth can be used to determine the rate of growth of the firm and then compare the size of different firms at a particular moment of time. This criterion does not work in practice because of the different stages of growth of the firms and different methods of financing employed by them. The paid-up capital of a company may be less, but its size may be higher as compared to other similar enterprises because of accommodation from commercial banks and financial institutions.

2. **Total Assets:** Size of different firms can be compared by taking the value of their total assets. For instance, in America, the Fortune Magazine ranks every year the top 500

corporations of the world on the basis of their total assets in India, the economic terms use this criterion for its study for the corporate Giants of India. Total assets also provide a defective measure of size because of a number of factors. Firstly, there is generally a wide difference between the book value and the market value of the assets. Secondly, depreciation policy varies from firm to firm. Thirdly, the size of the assets per unit of product varies from industry to industry. Fourthly, the firms stated during inflationary periods will appear to be bigger in size as compared to the older firms.

3. **Number of Workers Employed:** According to this standard, the higher the number of workers employed, the larger is the scale of operations and vice-versa. But this standard can be used to compare the size of those units which are using the same degree to mechanisation. Firms using capital intensive techniques have a small number of workers even though their scale of operations is large.

4. **Quantity of Power and Materials Used:** Sometimes, the amount of power used, and the raw materials used serve as a good standard to measure the size. However, it is possible that a firm is of a smaller size as compared to other firms but is using more power and materials because of greater inefficiency at various levels.

5. **Volume of Output:** The quantity of output produced or sold may be used as a yardstick of comparison between different firms. But this standard is applicable only if the output of different firms is uniform or homogeneous in nature. But these days, every firm attempts to differentiate its products from those of other firms. Therefore, volume of output or sales cannot be used as a basis of comparison.

6**. Value of Output or Sales:** Value of output or sales expressed in monetary terms is sometimes used to measure the size of a firm. Comparison of firms in terms of the value of their output is simple. But difficulty arises in cases where a comparison is to be made over two periods of time. The price level generally keeps on changing. So, the value of the same quantity of output will be higher during boom period and it will be lower during depression period. However, the value of output during two periods can be compared by adjusting according to the index of the purchasing power of monetary unit.

7. **Capacity of Plants:** The plant capacity may be used as a basis of comparison when units produce a wide variety of products and when other standards of measurement cannot be suitably employed. For example, in the case of Jute and Cotton Textile firms, the number of spindles and looks may be taken to be a measure of size.

All the above discussed standards of measurement are only approximate and have limited applicability's. The measure to be used will differ from one firm to another. It will be influenced by the type of industry, nature of product, type of equipment and the purpose of measurement. However, volume of output seems to be a better measure of comparison when the output of two or more firms is similar in product features and quality. And in other cases, value of production may be taken as the standard of measuring the size of the business unit.

9.5 Determining the Size of the Firm: Main Factors Responsible

There are various economic as well as non-economic factors that influence the size of a business unit. The relative importance of these factors varies with the products manufactured, industry in which the firm operates etc. Size is primarily determined by the goals and objectives of the organization and influences the efficiency of operations. The following factors determine the size of the firm.

1. **<u>Resource availability</u>**: The extent of resources that are available and that can be arranged by the entrepreneur determines the size of the firm. In case the entrepreneur is able to raise more resources, he can opt for a larger sized firm. Conversely if the resources that are available and arranged are less, the organizations have to settle for a smaller sized firm.

   For e.g., though both CavinKare and HUL are both in the FMCG industry, HUL's size is larger when compared to CavinKare. One reason being that HUL has more resources available when compared to CavinKare.

2. **Requirement of capital**: Certain businesses require huge investments and therefore, have to be set up as large-scale units. For e.g., Iron and Steel mills require huge investments in machinery, similar is the case with cement plants, power generation etc. Therefore, in such cases, firms have to be set up as large-scale units.

3. **Nature of industry**: In case the final product produced is complex, or machinery required for manufacturing is of a large size e.g., aircraft manufacturing, iron and steel mills, boiler manufacturing, power generation plants, manufacture of ships, rail engines etc, only large size firms are suitable.

4. **Nature of product**: If the product manufactured is large, the size of the firm will be of a higher size e.g., heavy machinery. A smaller size is preferred in case of less durable, less standardized, and fashionable products (e.g., handicrafts).
5. **Nature of demand**: If the demand for the product is high and expected to grow further in the future, the size of the firm would increase. For e.g., to meet the increased demand for its cars, Hyundai has set up a second car manufacturing plant, Nokia is planning to increase the number of cell phones manufactured in India to meet the high demand for handsets. In case demand for a product is showing a declining trend, the size of the firm would not be increased e.g., scooters, floppies, typewriters etc.

6. **Market size**: In case the size of the market is large, then a large-sized firm would be preferred. Firms which are marketing their products not only in their home country but also internationally would prefer large size e.g., Pepsi, Coke, Nike, Intel, RayBan, Hewlett Packard etc. Those firms which market their products only in the local market have limited market size and therefore would prefer to operate with a smaller size.

7. **Ability of entrepreneur**: If the entrepreneur is intelligent, motivated, and innovative, he would tap emerging opportunities and the firm would grow. For e.g., Azim Premji inherited a company which was producing vegetable oil. But today Wipro is in the vegetable oil business, consumer care products, lighting, hardware, software (among the top 3 companies), BPO etc. The reason for the phenomenal growth is the vision, ability, and enterprising spirit of Azim Premji.

8. **Economic environment**: Economic environment plays a significant role in influencing the value of the firm. In case the economy is in a boom condition, and purchasing power is increasing, the entrepreneurs would be induced to increase the scale of operations. Whereas in case the economy is passing through a recession or depression, the size of operations would remain small. In India, the FMCD companies (LG, Samsung, Onida, Videocon etc.), are planning to increase their sales. They are confident of increased sales because of the growing middle class and better purchasing power.

9. **Availability of inputs of production**: In case of productive factors such as raw materials, labour, power, land are available in abundance, entrepreneurs can choose large scale operations. In case inputs are not available in required quantities then the size of the operation would be small. For e.g., because of the abundant availability of English-speaking skilled manpower, IT, BPO and KPO businesses are expanding in India. Due to abundant availability of iron ore mines in Orissa, many companies such as POSCO, Tata Iron and Steel Co., etc are planning to set up their plants in that state.

10. **Government policy**: The government has reserved certain items for manufacture by the small-scale industry (SSI). Therefore, the size of such firms would be small in order to enjoy protection and government privileges.

11. **Estimates of future**: If an industry is expected to perform well in the future, then Entrepreneur's would be ready to set up large sized businesses to meet future demand. For e.g., with the increase in employment and purchasing power the demand for automobiles, housing, and consumer durables are expected to increase. Therefore, business units engaged in these businesses are encouraged to increase their size.

12. **Market availability**: If the market for the product is restricted to a particular locality or State, the size of the firm would be small. But if the market is national or international, a large size firm would be set up.

13. **Profitability**: If increase in production is expected to yield only low returns, the firm

size would remain small. In case increase in firm size is expected to yield higher profits, the firm size would be increased to a large sized firm.

9.6 Capitalism (Economy System)

Capitalism is often thought of as an economic system in which private actors own and control property in accordance with their interests, and demand and supply freely set prices in markets in a way that can serve the best interests of society.

The essential feature of capitalism is the motive to make a profit. As Adam Smith, the 18th century philosopher and father of modern economics, said: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest”. Both parties to a voluntary exchange transaction have their own interest in the outcome, but neither can obtain what he or she wants without addressing what the other wants. It is this rational self-interest that can lead to economic prosperity.

In a capitalist economy, capital assets – such as factories, mines, and railroads – can be privately owned and controlled, labor is purchased for money wages, capital gains accrue to private owners, and prices allocate capital gains accrue to private owners, and prices allocate capital and labor between competing uses (see “Supply and Demand” in the June 2010 F & D).

Although some form of capitalism is the basis for nearly all economies today, for much of the last century it was but one of two major approaches to economic organisation. In the other, socialism, the states own the means of production, and state-owned enterprises seek to maximize social good rather than profits.

Capitalism is that part of economic systems where productions are owned and managed by private individuals and institutions. Or it is economic individualism wherein the individuals are the ones to decide what and how much to produced and distributed. They are at liberty to use any technique of production and produce anything they like. In this economic system, the State is to take care of only the internal and external security of the country.

Normally the activities related to Defence, Police, Administration and Courts of Justice are controlled by the government.

A private enterprise economy is characterized by the existence of business fluctuations and considerable unemployment. In capitalism, there will be considerable ups and downs – swings of the business cycle with their inevitable repercussions on the people

Pillars of Capitalism

Capitalism is founded on the following pillars:

i. Private property, which allows people to own tangible assets such as land and houses and intangible assets such as stocks and bonds;
ii. Self-interest, through which people act in pursuit of their own goods, without regard for sociopolitical pressure. Nonetheless, these uncoordinated individuals end up benefiting society as if, in the words of Smith's 1776 Wealth of Nations, they were guided by an invisible hand;
iii. competition, through firm's freedom to enter and exit markets, maximizes social welfare, that is, the joint welfare of both producers and consumers;
iv. a market mechanism that determines prices in a decentralized manner through interactions between buyers and sellers – prices, in return, allocate resources, which naturally seek the highest reward, not only for goods and services but for wages as well;
v. freedom to choose with respect to consumption, production, and investment – dissatisfied customers can buy different products, investors can pursue more lucrative ventures, workers can leave their jobs for better pay; and
vi. limited role of government, to protect the rights of private citizens and maintain an orderly environment that facilitates proper functioning of markets.

The extent to which these pillars operate distinguished various forms of capitalism. In free markets, also called laisez-faire economies, markets operate with little or no regulation. In mixed economies, so called because of the blend of markets and government, markets play a dominant role, but are regulated to a greater extent by government to correct market failures, such as pollution and traffic congestions; promote social welfare; and for other reasons, such as defense and public safety. Mixed capitalist economies predominate today.

Types of Capitalism

There are two types of capitalism:

1. Classical Capitalism
2. Monopoly Capitalism

Classical Capitalism

For this, credit goes to Adam Smith, in fact Adam Smith the founder of economics presented the idea. Adam Smith assumed the presence of perfect competition. The State is more or less non-existent so far as economic matters are concerned. The State job was restrained to enforcement of contracts, protection, or property, maintain law and order national frontiers. They were of the opinion the State has no right to interfere in the country's economic activities. In this type, the principle of laissez-faire dominated.

Monopoly Capitalism

There is no more room for classical capitalism in today's economic system. Free market, perfect competition and State's non-interference in the economic activities are not inexistence. Perfect competition is yielded to imperfect competition. Nowadays, the market is restricted. Now countries are intervening in the activities of their economic systems.

Main Characteristics of Capitalism

1. Right to own property
2. Profit motive
3. Private ownership of means of production.
4. Consumer's sovereignty
5. Economic freedom
6. Social division of people
7. Price mechanism

Advantages of Capitalism

1. Reduction in cost of production due to efficient control
2. Efficient control of production process
3. Improved quality of goods

4. Consumer’s choice is given full weight.
5. Variety of products.

Disadvantages of Capitalism

1. Inequality in the distribution of national wealth
2. Fluctuations in the level of employment
3. Class conflicts
4. Waste of talents
5. Heavy expenses on publicity result into increase in cost and price of the commodity.

9.7 Socialism (economic system)

Socialism is a social and economic system characterized by social ownership and democratic control of the means of production. "Social ownership" may refer to public ownership, cooperative ownership, citizen ownership of equity, or any combination of these. Although there are many varieties of socialism and there is no single definition encapsulating all of them, social ownership is the common element shared by its various forms.

Socialism can be divided into both non-market and market forms. Non-market socialism involves the substitution of factor markets, money and financial decisions for managing the economy with engineering and technical criteria centered around calculation performed in-kind, thereby functioning according to different economic laws than those of capitalism with an economic mechanism that circumvents the inefficiencies and crises traditionally associated with capital accumulation and the profit system. By contrast, market socialism retains the use of monetary prices, factor markets, and, in some cases, the profit motive with respect to the operation of socially-owned enterprises and the allocation of capital goods between them, with the profits accruing to society at large in the form of a social dividend or directly to the workers of each firm. The feasibility and exact methods of resource allocation and calculation for a socialist system are the subjects of the socialist calculation debate.

Socialist economics starts from the premise that "individuals do not live or work in isolation but live in cooperation with one another. Furthermore, everything that people produce is in some sense a social product, and everyone who contributes to the production of a good is entitled to a share in it. Society as a whole, therefore, should own or at least control property for the benefit of all its members."

The original conception of socialism was an economic system whereby production was organised in a way to directly produce goods and services for their utility (or use-value in classical and Marxian economics): the *direct allocation* of resources in terms of physical units as opposed to financial calculation and the economic laws of capitalism (see: Law of value), often entailing the end of capitalistic economic categories such as rent, interest, profit and money. In a fully developed socialist economy, production and balancing factor inputs with outputs becomes a technical process to be undertaken by engineers.

Market socialism refers to an array of different economic theories and systems that utilise the market mechanism to organise production and to allocate factor inputs among socially owned enterprises, with the economic surplus (profits) accruing to society in a social dividend as opposed to private capital owners. Variations of market socialism include Libertarian proposals such as mutualism, based on classical economics, and neoclassical economic models such as the Lange Model.

The ownership of the means of production can be based on direct ownership by the users of the productive property through worker cooperative; or commonly owned by all of society with management and control delegated to those who operate/use the means of production; or public ownership by a state apparatus. *Public ownership* may refer to the creation of state-owned enterprises, nationalisation, municipalization or autonomous collective institutions. The fundamental feature of a socialist economy is that publicly owned, worker-run institutions produce goods and services in at least the commanding heights of the economy.

Management and control over the activities of enterprises are based on self-management and self-governance, with equal power-relations in the workplace to maximise occupational autonomy. A socialist form of organisation would eliminate controlling hierarchies so that only a hierarchy based on technical knowledge in the workplace remains. Every member would have decision-making power in the firm and would be able to participate in establishing its overall policy objectives. The policies/goals would be carried out by the technical specialists that form the coordinating hierarchy of the firm, who would establish plans or directives for the work community to accomplish these goals.

The role and use of money in a hypothetical socialist economy is a contested issue. Socialists including Karl Marx, Robert Owen, Pierre-Joseph Proudhon and John Stuart Mill advocated various forms of labour vouchers or labour-credits, which like money would be used to acquire articles of consumption, but unlike money, they are unable to become capital and would not be used to allocate resources within the production process. Bolshevik revolutionary Leon Trotsky argued that money could not be arbitrarily abolished following a socialist revolution. Money had to exhaust its "historic mission", meaning it would have to be used until its function became redundant, eventually being transformed into bookkeeping receipts for statisticians, and only in the more distant future would money not be required for even that role.

The economic anarchy of capitalist society as it exists today is the real source of the evil. We are convinced there is only one way to eliminate these grave evils, namely through the establishment of a socialist economy, accompanied by an educational system which would be oriented toward social goals. In such an economy, the means of production are owned by society itself and are utilised in a planned fashion. A planned economy, which adjusts production to the needs of the community, would distribute the work to be done among all those able to work and would guarantee a livelihood to every man, woman, and child. The education of the individual, in addition to promoting his own innate abilities, would attempt to develop in him a sense of responsibility for his fellow men in place of the glorification of power and success in our present society.

Planned economy

A planned economy is a type of economy consisting of a mixture of public ownership of the means of production and the coordination of production and distribution through economic planning. There are two major types of planning: decentralised-planning and centralised-planning. Enrico Barone provided a comprehensive theoretical framework for a planned socialist economy. In his model, assuming perfect computation techniques, simultaneous equations relating inputs and outputs to ratios of equivalence would provide appropriate valuations in order to balance supply and demand.

The most prominent example of a planned economy was the economic system of the Soviet Union, and as such, the centralised-planned economic model is usually associated with the Communist states of the 20th century, where it was combined with a single-party political system. In a centrally planned economy, decisions regarding the quantity of goods and services to be produced are planned in advance by a planning agency. (See also: Analysis of Soviet-type economic planning). The economic systems of the Soviet Union and the Eastern Bloc are further classified as *command economies*, which are defined as systems where economic coordination is undertaken by commands, directives and production targets. Studies by economists of various political persuasions on the actual functioning of the Soviet economy indicate that it was not actually a planned economy. Instead of conscious planning, the Soviet economy was based on a process whereby the plan was modified by localised agents and the original plans went largely unfulfilled. Planning agencies, ministries and enterprises all adapted and bargained with each other during the formulation of the plan as opposed to following a plan passed down from a higher authority, leading some economists to suggest that planning did not actually take place within the Soviet economy and that a better description would be an "administered" or "managed" economy.

Although central planning was largely supported by Marxist–Leninists, some factions within the Soviet Union before the rise of Stalinism held positions contrary to central planning. Leon Trotsky rejected central planning in favour of decentralised planning. He argued that central planners, regardless of their intellectual capacity, would be unable to coordinate effectively all economic activity within an economy because they operated without the input and tacit knowledge embodied by the participation of the millions of people who are in the economy. As a result, central planners would be unable to respond to local economic conditions.

Self-managed economy

A self-managed, decentralised economy is based on autonomous self-regulating economic units and a decentralised mechanism of resource allocation and decision-making. This model has found support in notable classical and neoclassical economists including Alfred Marshall, John Stuart Mill and Jaroslav Vanek. There are numerous variations of self-management, including labour-managed firms and worker-managed firms. The goals of self-management are to eliminate exploitation and reduce alienation. Guild socialism is a political movement advocating workers' control of industry through the medium of trade-related guilds "in an implied contractual relationship with the public". It originated in the United Kingdom and was at its most influential in the first quarter of the 20th century. It was strongly associated with G. D. H. Cole and influenced by the ideas of William Morris.

One such system is the cooperative economy, a largely free market economy in which workers manage the firms and democratically determine remuneration levels and labour divisions. Productive resources would be legally owned by the cooperative and rented to the workers, who would enjoy *usufruct* rights. Another form of decentralised planning is the use of cybernetics, or the use of computers to manage the allocation of economic inputs. The socialist-run government of Salvador Allende in Chile experimented with Project Cybersyn, a real-time information bridge between the government, state enterprises and consumers. Another, more recent, variant is participatory economics, wherein the economy is planned by decentralised councils of workers and consumers. Workers would be remunerated solely according to effort and sacrifice, so that those engaged in dangerous, uncomfortable, and strenuous work would receive the highest incomes and could thereby work less. A contemporary model for a self-managed, non-market socialism is Pat Devine's model of negotiated coordination. Negotiated coordination is based upon social ownership by those affected by the use of the assets involved, with decisions made by those at the most localised level of production.

Michel Bauwens identifies the emergence of the open software movement and peer-to-peer production as a new, alternative mode of production to the capitalist economy and centrally planned economy that is based on collaborative self-management, common ownership of resources, and the production of use-values through the free cooperation of producers who have access to distributed capital.

Anarchist communism is a theory of anarchism which advocates the abolition of the state, private property, and capitalism in favour of common ownership of the means of production. Anarcho-syndicalism was practiced in Catalonia and other places in the Spanish Revolution during the Spanish Civil War. Sam Dolgoff estimated that about eight million people participated directly or at least indirectly in the Spanish Revolution.

The economy of the former Socialist Federal Republic of Yugoslavia established a system based on market-based allocation, social ownership of the means of production and self-management within firms. This system substituted Yugoslavia's Soviet-type central planning with a decentralised, self-managed system after reforms in 1953.

The Marxian economist, Richard D. Wolff argues that "re-organising production so that workers become collectively self-directed at their work-sites" not only moves society beyond both capitalism and state socialism of the last century, but would also mark another milestone in human history, similar to earlier transitions out of slavery and feudalism. As an example, Wolff claims that Mondragon is "a stunningly successful alternative to the capitalist organisation of production."

State-directed economy

State socialism can be used to classify any variety of socialist philosophies that advocates the ownership of the means of production by the state apparatus, either as a transitional stage between capitalism and socialism, or as an end-goal in itself. Typically, it refers to a form of technocratic management, whereby technical specialists administer or manage economic enterprises on behalf of society (and the public interest) instead of workers' councils or workplace democracy.

A state-directed economy may refer to a type of mixed economy consisting of public ownership over large industries, as promoted by various Social democratic political parties during the 20th century. This ideology influenced the policies of the British Labour Party during Clement Attlee's administration. In the biography of the 1945 UK Labour Party

Prime Minister Clement Attlee, Francis Beckett states: "the government... wanted what would become known as a mixed economy".

Nationalisation in the UK was achieved through compulsory purchase of the industry (i.e., with compensation). British Aerospace was a combination of major aircraft companies British Aircraft Corporation, Hawker Siddeley and others. British Shipbuilders was a combination of the major shipbuilding companies including Cammell Laird, Govan Shipbuilders, Swan Hunter, and Yarrow Shipbuilders; the nationalisation of the coal mines in 1947 created a coal board charged with running the coal industry commercially so as to be able to meet the interest payable on the bonds which the former mine owners' shares had been converted into.

Market socialism

Market socialism consists of publicly owned or cooperatively owned enterprises operating in a market economy. It is a system that utilises the market and monetary prices for the allocation and accounting of the means of production, thereby retaining the process of capital accumulation. The profit generated would be used to directly remunerate employees or finance public institutions. In state-oriented forms of market socialism, in which state enterprises attempt to maximise profit, the profits can be used to fund government programs and services through a social dividend, eliminating or greatly diminishing the need for various forms of taxation that exist in capitalist systems. The neoclassical economist Léon Walras believed that a socialist economy based on state ownership of land and natural resources would provide a means of public finance to make income taxes unnecessary. Yugoslavia implemented a market socialist economy based on cooperatives and worker self-management.

Mutualism is an economic theory and anarchist school of thought that advocates a society where each person might possess a means of production, either individually or collectively, with trade representing equivalent amounts of labour in the free market. Integral to the scheme was the establishment of a mutual-credit bank that would lend to producers at a minimal interest rate, just high enough to cover administration. Mutualism is based on a labour theory of value that holds that when labour or its product is sold, in exchange, it ought to receive goods or services embodying "the amount of labour necessary to produce an article of exactly similar and equal utility".

The current economic system in China is formally referred to as a socialist market economy with Chinese characteristics. It combines a large state sector that comprises the 'commanding heights' of the economy, which are guaranteed their public ownership status by law, with a private sector mainly engaged in commodity production and light industry responsible from anywhere between 33% (People's Daily Online 2005) to over 70% of GDP generated in 2005. Although there has been a rapid expansion of private-sector activity since the 1980s, privatisation of state assets was virtually halted and were partially reversed in 2005. The current Chinese economy consists of 150 corporatised state-owned enterprises that report directly to China's central government. By 2008, these state-owned corporations had become increasingly dynamic and generated large increases in revenue for the state, resulting in a state-sector led recovery during the 2009 financial crises while accounting for most of China's economic growth. However, the Chinese economic model is widely cited as a contemporary form of state capitalism, the major difference between Western capitalism and the Chinese model being the degree of state-ownership of shares in publicly listed corporations.

The Socialist Republic of Vietnam has adopted a similar model after the Doi Moi economic renovation, but slightly differs from the Chinese model in that the Vietnamese government retains firm control over the state sector and strategic industries but allows for private-sector activity in commodity production.

Criticism of socialism

Socialism has been critiqued from numerous different perspectives. Because there are many models of socialism, most critiques are only focused on a specific type of socialism.

Economic liberals and right libertarians view private ownership of the means of production and the market exchange as natural entities or moral rights which are central to their conceptions of freedom and liberty and view the economic dynamics of capitalism as immutable and absolute. Therefore, they perceive public ownership of the means of production, cooperatives, and economic planning as infringements upon liberty.

According to the Austrian school economist Ludwig von Mises, an economic system that does not use money, financial calculation and market pricing will be unable to effectively value capital goods and coordinate production, and therefore these types of socialism are impossible because they lack the necessary information to perform economic calculation in the first place. Another central argument leveled against socialist systems based on economic planning is based on the use of dispersed knowledge. State socialism is unfeasible in this view because information cannot be aggregated by a central body and effectively used to formulate a plan for an entire economy, because doing so would result in distorted or absent price signals.

Many economic criticisms of socialism focus on the experiences of Soviet-type planned economies. It is argued that a lack of budget constraints in enterprises operating in a planned economy reduces incentives for enterprises to act on information efficiently, thereby reducing overall welfare for society.

Economists such as Joseph Stiglitz, Mancur Olson and others not specifically advancing anti-socialists positions have shown that prevailing economic models upon which democratic or market socialism might be based have logical flaws or unworkable presuppositions. In particular, equilibria models based on neoclassical economics with the goal of achieving a distribution which is Pareto efficient have been shown to have such problems.

9.8 Mixed economy

A **mixed economy** is defined as an economic system consisting of a mixture of either markets and economic planning, public ownership and private ownership, or markets and economic interventionism. However, in most cases, "mixed economy" refers to market economies with strong regulatory oversight and governmental provision of public goods, although some mixed economies also feature a number of state-run enterprises.

In general the mixed economy is characterised by the private ownership of the means of production, the dominance of markets for economic coordination, with profit-seeking enterprise and the accumulation of capital remaining the fundamental driving force behind economic activity. But unlike a free-market economy, the government would wield indirect macroeconomic influence over the economy through fiscal and monetary policies designed to counteract economic downturns and capitalism's tendency toward financial crises, unemployment, and growing income and wealth disparities, along with playing a role in interventions that promote social welfare. Subsequently, some mixed economies have expanded in scope to include a role for indicative economic planning and/or large public enterprise sectors.

In reference to post-war Western and Northern European economic models, as championed by Christian democrats and social democrats, the mixed economy is defined as a form of capitalism where most industries are privately owned with only a minority of public utilities and essential services under public ownership. In the post-war era, European social democracy became associated with this economic model.

Economies ranging from the United States to Cuba have been catalogued as mixed economies. The term is also used to describe the economies of countries which are referred to as welfare states, such as the Nordic countries. Governments in mixed economies often provide environmental protection, maintenance of employment standards, a standardized welfare system, and maintenance of competition.

As an economic ideal, mixed economies are supported by people of various political persuasions, typically centre-left and centre-right, such as social democrats or Christian democrats. Supporters view mixed economies as a compromise between state socialism and free-market capitalism that is superior in net effect to either of those.

There is not one single definition for a *mixed economy*; there are generally two major definitions, one being political and the other apolitical. The political definition of mixed economy refers to the degree of state interventionism in a market economy, portraying the state as encroaching onto the market under the assumption that the market is the "natural" mechanism for allocating resources. The political definition precludes an extension to non-capitalist systems and is concerned with public policy and state influence in a market system, whereas the apolitical definition relates to patterns of ownership and management of economic enterprises in a society. The apolitical definition of mixed economy refers to a mix of public and private ownership of enterprises in the economy and is unconcerned with political forms and public policy.

History

The term *mixed economy* arose in the context of political debate in the United Kingdom in the postwar period, although the set of policies later associated with the term had been advocated from at least the 1930s. Supporters of the mixed economy, including R. H. Tawney, Anthony Crosland, and Andrew Shonfield were mostly associated with the British Labour Party, although similar views were expressed by Conservatives including Harold Macmillan. Critics of the mixed economy, including Ludwig von Mises and Friedrich von Hayek, argued that there can be no lasting middle ground between economic planning and a market economy, and any move in the direction of socialist planning is an unintentional move toward what Hilaire Bloc called "the servile state".

Philosophy

In the apolitical sense, the term "mixed economy" is used to describe economic systems, which combine elements of market and various planned economies. As most political-economic ideologies are defined in an idealized sense, what is described rarely—if ever—exists in practice. Most would not consider it unreasonable to label an economy that, while not being a perfect representation, very closely resembles an ideal by applying the rubric that denominates that ideal. When a system in question, however, diverges to a significant extent from an idealized economic model or ideology, the task of identifying it can become problematic. Hence, the term "mixed economy" was coined. As it is unlikely that an economy will contain a perfectly even mix, mixed economies are usually noted as being skewed towards either private ownership or public ownership, toward capitalism or socialism, or toward a market economy or command economy in varying degrees.

Mixed socialist economies

The concept of a mixed economy is not exclusive to capitalist economies (economies structured upon capital accumulation and privately owned, profit-seeking enterprises), and the phrase has been used to characterised some socialist economic systems. A number of proposals for socialist systems call for a mixture of different forms of enterprise ownership. For example, Alec Nove's conception of *feasible socialism* provides an outline for an economic system based on a combination of state-enterprises for large industries, worker and consumer cooperatives, private enterprises for small-scale operations, and individually owned enterprises.

The social democratic theorist Eduard Bernstein advocated a form of mixed economy, believing that a mixed system of public, cooperative, and private enterprise would be necessary for a long period of time before capitalism would evolve of its own accord into socialism.

Relation to forms of government and other ideas

The mixed economy is most commonly associated with social democratic policies or governments led by social democratic parties. However, given the broad range of economic systems that can be described by the term, most forms of government are consistent with some form of mixed economy. In contemporary uses, "social democracy" usually refers to a social corporatist arrangement and a welfare state in the context of a developed capitalist economy.

Authors John W. Houck and Oliver F. Williams of the University of Notre Dame have argued that Catholic social teaching naturally leads to a mixed economy in terms of policy. They referred back to Pope Paul VI's statement that government "should supply help to the members of the social body, but may never destroy or absorb them". They wrote that a socially just mixed economy involves labor, management, and the state working together through a pluralistic system that distributes economic power widely.

Historic examples

The American School (also known as the National System) is the economic philosophy that dominated United States national policies from the time of the American Civil War until the mid-twentieth century. It consisted of three core policy initiatives: protecting industry through high tariffs (1861–1932) (changing to subsidies and reciprocity from 1932–1970s), government investment in infrastructure through internal improvements, and a national bank to promote the growth of productive enterprises. During this period the United States grew into the largest economy in the world, surpassing the UK (though not the British Empire) by 1880.

Dirigisme is an economic policy initiated under Charles de Gaulle of France designating an economy where the government exerts strong directive influence. It involved state control of a minority of the industry, such as transportation, energy and telecommunication infrastructures, as well as various incentives for private corporations to merge or engage in certain projects. Under its influence France experienced what is called "Thirty Glorious Years" of profound economic growth.

Social market economy is the economic policy of modern Germany that steers a middle path between the goals of social democracy and capitalism within the framework of a private market economy, and aims at maintaining a balance between a high rate of economic growth, low inflation, low levels of unemployment, good working conditions, public welfare and public services by using state intervention. Under its influence Germany emerged from desolation and defeat to become an industrial giant within the European Union.

Criticism of Mixed Economy

Numerous economists have questioned the validity of the entire concept of a "mixed economy" when understood to be a mixture of socialism and capitalism, as opposed to a mixture of state interventionism and free market capitalism.

In his magnum opus *Human Action*, Ludwig von Mises argued that there can be no mixture of capitalism and socialism - either market logic or economic planning must dominate an economy. Mises elaborated on this point by contending that, even if a market economy contained numerous state-run or nationalized enterprises, this would not make the economy "mixed" because the existence of such organizations does not alter the fundamental characteristics of the market economy. These publicly owned enterprises would still be subject to market sovereignty, would have to acquire capital goods through markets, strive to maximize profits (or at the least try to minimize costs), and utilize monetary accounting for economic calculation.

Classical and orthodox Marxist theorists also dispute the viability of a mixed economy as a "middle ground" between socialism and capitalism. From this perspective, irrespective of enterprise ownership, either the capitalist law of value and accumulation of capital drives the economy, or conscious planning and non-monetary forms of valuation ultimately drive the economy. Therefore, extant "mixed economies" in the Western world, from the Great Depression onwards, are still functionally capitalist because they operate on the basis of capital accumulation.

Characteristics of Mixed Economy

The following are the main characteristics of mixed economy:

1. Co-existence of the Private and Public Sectors

Co-existence of the private and public sectors is the outstanding feature of mixed economy. In mixed economy, both public sector as well as private sector industries will be functioning. Certain industries will be in the public sector and certain industries in the private sector. Private individuals and firms own private sector industries. Profit will be the primary motive of private sector industries. In public sector, industries are owned and managed by the Government. Public industries will also have a profit motive but that too is for the promotion of social welfare.

2. Existence of Joint Sector

Joint sector is one where both Government and private individuals establish an organization jointly by contributing the necessary capital.

3. Regulation of Private Sector

Under mixed economy, Government exercises strict control and regulation over private sector industries.

4. Planned Economy

The entire economic structure is subject to the planning of the Government. Mixed economy is a planned economy. The planning commission decides the objectives, targets, and allocation of resources etc.

5. Private Property

Under mixed economy, private firms and individuals have right to own and use property.

6. Provision of Social Security

Under mixed economy, Government takes steps to provide social security.

7. Motive of Business Concerns

The motive of the business concerns is profit but coupled with the objective of social welfare.

8. Reduction of Inequalities of Income and Wealth

The Government takes steps to reduce inequalities of income and wealth.

9. Complete Economic Freedom

There is complete economic freedom in mixed economy. Hence, the consumer is free to buy any commodity they like.

Advantages of Mixed Economy

The important advantages of mixed economy are as follows:

1. Efficiency

There will be competition between public and private industries, which will result in greater efficiency and production in a mixed economy.

2. Reduced inequality

The profit of public sector industries goes to the Government and as a result, inequalities of income will be reduced in mixed economy.

3. Systematic plan

In a mixed economy, economic activities are carried out as per plan. The entire economic system is subject to systematic planning of the Government.

4. Economic Stability

The economic activities take place in a planned manner. So, there will be economic stability in mixed economy.

5. Consumer sovereignty

Goods are produced as per the wishes of the consumers, which results in consumer's sovereignty in a mixed economy.

6. Freedom

In mixed economy, freedom of enterprise and profit motive are the important features. Further there is competition between public and private sectors. These factors increase efficiency, initiative, innovation, and productivity.

7. Promotion of social welfare

Mixed economic system gives importance to the promotion of social welfare. Under this system, both private and public sectors work for the welfare of people.

8. Rights of Individual

Under mixed economy, individual rights are protected. People have freedom to buy any commodity.

Demerits of Mixed Economy

The mixed economy also suffers from various defects, which are as under:

1. Unhealthy Competition

There is unhealthy competition between private and public sectors in a mixed economy.

2. No freedom to private sector

There is no absolute freedom for the private sector in mixed economy. This is because Government regulates private industries through its various regulations and licensing.

3. Inefficient public sector

Inefficiency of public sector is another demerit of mixed economy. They may suffer heavy losses. People will have to bear these losses. The objective and targets of economic planning also may not be achieved in a mixed economy.

4. Unemployment and Uncertainties

On account of capital scarcity, Government regulation and control, the growth of private sector may be less than what is fixed in plan. It may lead to unemployment and uncertainties in a mixed economy.

5. Threat of Nationalization

There is always a threat of nationalization in the mixed economic system because of which the private sector does not work actively.

In spite of the defects in the mixed economy, it has become popular in some countries. India is one of the important countries, which adopted mixed economy.

9.9 Market Structures

This chapter gives an overview of the main market structures including perfect competition, monopoly, monopolistic competition, and oligopoly.

S/N	Summary Chart	Perfect Competition	Monopoly	Oligopoly	Monopolistic Competition
1	Nos. Of firms	Many	One	2 or more	Many
2	Average size of firms	Small	Very large	Large	Small to medium
3	Nature of product	Same	Unique	Identical/Differentiated	Differentiated
4	Barriers of entry	None	Significant	Significant	Few
5	Government intervention	No	Yes	Some	No
6	Output decisions	No output restriction	Most output restriction	Output restricted	Output restricted
7	Interdependence	Each firm is independent	No competitors	Interdependent	Each firm of independent
8	Profit making	Low	High	High	Medium
9	Price and Marginal Cost	P = MC	P > MC	P > MC	P > MC
10	Implication for Demand Curve	Horizontal	Downward slopping; inelastic	Kinked/Downward and slopping inelastic	Downward slopping; elastic
11	Pricing decisions	MC = MR = P	MC = MR	Strategic pricing	MC = MR

9.10 Concept of perfect competition

Perfect competition refers to a market structure with many small firms, all producing homogenous goods. It is an ideal market situation in which buyers and sellers are so numerous and well informed that each can act as a price–taker, able to buy or sell any desired quantity without affecting the market price. Although very few real-world markets are like this, perfect competition is often regarded by economists as a bench–mark with which to compare actual market situations.

Assumptions/Characteristics of Perfect Competition

Perfect competition, as is generally understood, is said to prevail when the following conditions are found in the market.

1. ***Large number of buyers and sellers: -*** The first condition of perfect competition is that there must be numerous firms in the industry and many buyers. This condition is necessary

so that the position of a buyer or seller in the market is like a drop in the ocean. As a result, no individual buyer or seller is in a position to influence the price of the product by changing the output demanded or supplied.

2. ***Homogenous Products: -***This means that the products of various firms are indistinguishable from each other i.e. they are perfect substitutes for one another. In other words, cross elasticity between the products of the firms is infinite. In this case, trademarks, patents, special brand labels etc. do not exist since these things make the products differentiation. Again, anything which makes buyers prefer one seller to another, be it personality, reputation, convenient location, or the tone of his shop, differentiates the product to that degree, since what is bought is really a bundle of utilities of which these things are a part. Therefore, for the products to be homogenous, utilities offered by all sellers to buyers must be identical.

3. ***Perfect information about the prevailing price: -***Sellers and buyers must have complete knowledge of the conditions of the market. Because only when all buyers know fully the current price of the product in the market, sellers cannot charge more than the prevailing price. If any seller tries to charge a higher price than that ruling in the market, the buyers will shift to some other sellers to buy at a lower price. Similarly, no seller can charge a price lower than the ruling price since they know the prevailing market conditions.

4. ***Free Entry and exit: -*** It requires that there must be complete freedom for the entry of new firms and the exit of existing firms from the industry in the long run. Since in the short run, firms can neither change the size of their plants nor new firms can enter or old firms can leave the industry. The condition of free entry and free exit therefore applies only to the long–run equilibrium under perfect competition.

5. ***Firms aim to maximize profit: -***The goal of firms under perfect competition is tomaximize profit. They aim to sell where marginal costs meet marginal revenue, where they generate the most profit.

6. ***Transactions are costless: -*** Buyers and sellers incur no costs in making an exchange.

7. ***Perfectly elastic demand curve: -*** The assumption of large number of buyers and sellers and that of product homogeneity implies that the individual firm is a price taker. Its demand curve is perfectly elastic, indicating that the firm can sell any amount of output at the prevailing market price but with any increase in market price, buyers do not buy anything from that particular firm that increase the price.

EQUILIBRIUM UNDER PERFECT COMPETITION

As stated earlier in the assumptions, in a perfectly competitive market, a firm's demand curve is perfectly elastic. Profit maximization requires that marginal cost (MC) must be equal to marginal revenue (MR). And so also, at the point of equilibrium, the slope of the MC curve must be greater than the slope of MR. These two conditions are the necessary and sufficient conditions of profit maximization.

In the short-run, it is possible for an individual firm to make profit. This situation is shown in the figure below as the price or Average Revenue (AR), denoted by 'P' is above the Average Cost (AC) denoted by "C".

Price = MC + AC

P

CD = AR = MR

However, in the long period, positive profit cannot be sustained with the assumption of free entry, the arrival of new firms or expansion of existing firms (if returns to scale are constant) in the market causes the (horizontal) demand curve of each to shift downward, bringing down at the same time the price, the average revenue and average revenue. The final outcome is that, in the long – run, the firm will make only normal profit (Zero economic profit). In the case of short – run loses, firms will exit the market. This scenario is demonstrated in the figure below.

Price = MC + AC

PP = MR = AR = D

That a competitive firm will maximize its total profits when marginal cost (MC) equals to marginal revenue (MR) can be easily proved by differential calculus. Note that both the total cost (TC) and the total revenue (TR) are functions of output (Q). This implies that total profits are also function of output.

For the maximization of profits, the first derivative of the profit function has to be set equal to zero. Thus, for maximum profits,

$d \Lambda / dQ = 0$

Since $d \Lambda = d (P. Q) – dTC$, for maximization of profits,

$d \Lambda = d (P. Q) - d (TC) = 0$

dQ dQ dQ

but $d (P. Q) / dQ = MR$ and $d (TC) / dQ = MC$

hence MR = MC

but since MR = P, it then follows that price (P) = MC

SHUT – DOWN POINT

When a firm is making a loss, it will have to decide whether to continue production or not. This decision will, in fact, depend on the different total costs levels and whether the firm is operating in the short run or in the long-run. If the firm is in the short run, and is making a loss whereby;

-Total Costs (TC) is greater than Total Revenue (TR),

- And Total Revenue is greater or equal to Total Variable Cost (TVC),

It is advisable for the firm to continue production. If it fails to achieve these conditions, it is advised to close down, so that the only costs the firm will have to pay will be the Fixed Costs (FC). Even if the firm stops producing, it will have to continue to meet the level of Fixed Costs (FC). Since whether the firm produces or not, it will have to pay fixed costs, itis better for it to continue production in an attempt to decrease total costs and increase total revenue, thus making profit. This can be done by:

- ***Increasing Productivity: -*** The most obvious methods involve automation and computerization which minimize the tasks that must be performed by employees. All else constant, it benefits a business to improve productivity, which over time lowers cost and (hopefully) improves the ability to compete and make profit.

- ***Adopting new methods of production like just in time or lean manufacturing: -*** In an attempt to reduce costs and wastages.

In the long run, the condition to continue producing requires the price (P) to be higher than Average Cost (AC) i.e., the line representing market price should be above the minimum point of Average Cost (AC) curve. If price (P) is equal to Average Cost (AC), the firm is indifferent between shutting down and continuing to produce. This case is different from the short run shut down case because in the long run, there is no longer a fixed cost (everything is variable).

9.11 THEORY OF MONOPOLY

Concept of Monopoly

Monopoly is said to exist when one firm is the sole producer or seller of a product that has no close substitutes. Three points are worth nothing in this definition, first, there must be a single producer or seller of a product if there is to be monopoly. This single producer may be in the form of an individual owner or a single partnership or a joint stock company. Secondly, there are no close substitutes for the product of that firm because monopoly implies the absence of competition. Thirdly, there must be a strong barrier to the entry of new firms wherever one firm has a sole control over the production of a commodity.

In other words, a monopoly exists when a specific individual or an enterprise has sufficient control over a particular product or service to significantly determine the terms on which other individuals shall have access to it. Monopolies are thus characterized by a lack of economic competition for the good or service that they provide and a lack of viable substitute goods. The verb "monopolize" refers to the process by which a firm gains persistently greater market share than what is expected under perfect competition.

Causes and Characteristics Monopoly

There are five major reasons or sources of monopoly. These sources relate to the factors, which prevent the entry of new firms in an industry. These major sources are:

1. ***Patents or copyright:*** First important source of monopoly is that a firm may possess a patent or copyright which prevents others to produce the same product or use a particular production process. When a firm introduces a new product, they get patent rights from the Government so that others cannot produce them. This patent right will be granted for a certain period of time.

2. ***Control over the essential raw material: -*** If a firm gains control over an essential raw material or input used in the production of a commodity, it gains monopoly power. It is just denying others the use of the material (s)thus becoming a monopoly.

3. ***Grant of Franchise by the Government: -*** A firm may be granted exclusive legal right to produce a given product or service in a particular area or region. The government on its part keeps the right to regulate its price and quality.

4. ***Economies of Scale (Natural Monopoly):*** - When significant economies of scale are present over a wide range of initial output, long – run average cost of production goes on falling, cover a wide range of output and reaches a minimum at an output rate that is large enough for a single firm to meet the entire market demand at a price that is profitable. If other firms are unable to reach the long – run average cost, they are forced out resulting in a situation of natural monopoly.

5. ***Advertising and Brand Loyalties of the established firms: -***Huge advertising campaigns and customer service programmes are often undertaken to enhance the market power of the producer and prevent the entry of potential competitors. Besides, if well-established firms are expecting new potential competitors, they cut prices of their products so that potential competitors find it unprofitable to enter the industry.

After examining the causes of monopoly, it is imperative to briefly look at the characteristics of monopoly. They are:

1. There is a single seller (i.e., one firm) and the firm is the industry. The firm is the only firm producing such good or service and since no any other firm produces such a good or service, the firm is also the industry.
2. There are no close substitutes for the commodity produced under monopoly.
3. There are barriers to entry, this means that other firms cannot produce the same commodity either because they are not allowed or because of monopolistic conditions that make entry into the industry difficult.
4. It is faced with a negatively downward sloped demand curve. This means that the monopolist is a price setter, that is, the monopolist sets price, but quantity demanded is dictated by the buyers(consumers). Under this, the demand curve of the monopolist is note qual to its marginal revenue.

PRICE DISCRIMINATION

Price discrimination refers to the practice of charging different prices to different customers for the same good or service. This is possible only if the supplier has some monopoly power, and can identify the customer, and if the customer cannot resell the good, or it is expensive to do so. A seller will only make price discrimination between different buyers when it is both possible and profitable for him to do so.

Price discrimination is not a very common phenomenon as it is very difficult to charge different prices for the identical good from the different buyers. More often, the product is slightly differentiated to successfully practice price discrimination. Thus, the concept of price discrimination can be broadened to include the sale of the various varieties of the same good at prices, which are not proportional to their marginal costs. Thus, Prof Stigler defines price discrimination as "the sales of technically similar products at prices which are not proportional to marginal cost".

Price discrimination may be **personal** when a seller charges different prices from different people. It is **local** when a seller charges different prices from people of different localities or places. And it is **according to use or trade** when different prices of a commodity are charged according to the uses to which the commodity is put. However, Prof. A. C Pigou has distinguished between the following three types of price discrimination:

i. ***Price discrimination of the first Degree: -*** First degree price discrimination defines an upper limit to what producers can gain. It occurs when the monopolist is able to sell each separate unit of the product at a different price.

Under this, every buyer is forced to pay the price which is equal to the maximum amount he is willing to pay rather than do without the good altogether. In other words, it is known as "perfect price discrimination" because it involves maximum possible exploitation of each buyer in the interest of the seller's profits, leaving no consumer surplus to any buyer.

ii. ***Price Discrimination of the second degree:*** - It occurs when producers cannot tell which group customers belong to; but offer alternative contracts which include consumers to identify themselves. In this case, buyers are divided into different groups and from each group a different price is charged which is the lowest demand price of that group. In this way, from each group of buyers, he charges a different price and the price which he charges from each group is that which a marginal individual of that group is just willing to pay.

iii. ***Price discrimination of the third degree: -*** It occurs when sellers can identify different groups of customers and offer different prices to each group or submarket. The price charged in a sub-market need not be the lowest demand price of that sub-market or group, in contrast to price discrimination of the second degree. It is the most common and an example being a producer who charges a lower price abroad than in a home (local) market.

9.12 THEORY OF MONOPOLISTIC COMPETITION

Concept of Monopolistic Competition

Monopolistic competition is a market structure where many competing producers sell products that are differentiated from one another (i.e., the products are substitutes, but are not exactly alike). It's a market situation with a limited number of sellers, where each believes that the price that can be charged is a decreasing function of the quantity sold. Monopolistic competitors believe they face downward – sloping demand curves, but do not attempt to anticipate the reactions of individual competitors, as opposed to the case of oligopoly which we shall see in the succeeding unit.

Chamberlin's concept of monopolistic competition is a blending of competition and monopoly. He says, "monopolistic competition is a challenge to the traditional view point of economics that competition and monopoly are alternatives. By contrast, most economic situations are composites of both competition and monopoly. The distinguishing feature of monopolistic competition which makes it blending of competition and monopoly is the differentiation of the product. This means that the products of various firms are not homogenous but different though they are closely related to each other.

Product differentiation does not mean that the products of various firms are altogether different. They are only slightly different so that they are quite similar and serve as close substitutes of each other. When there is any degree of differentiation of products, monopoly element enters into the situation. The greater the differentiation, the greater the monopoly element involved in the market situation. Thus, products are not identical as the case with perfect competition, but neither do they remote substitutes as the case with monopoly. We thus find that in monopolistic competition, there are various monopolists competing with each other.

Characteristics of monopolistic competition

Monopolistically competitive markets have the following characteristics:

i. There are many producers (Sellers) and many consumers in a given market and no business has total control over the market price.
ii. The products of the sellers are differentiated, yet they are close substitutes of one another, product differentiation takes the form of labeling, Brand names, colour etc.
iii. There are few barriers to entry and exit.
iv. The firm is faced with downward sloping demand and marginal revenue curves.
v. The goal of the firm is profit maximization.

An industry with the above types of arrangement is referred to as monopolistic competition. It is monopolistic because each producer specializes in the production of a particular good and will not allow another producer to engage in the production of the same product. It is competitive because each producer is actively competing with one another to capture a wider market.

Effects of Monopolistic Competition

The effects of monopolistic competition include:

a) Resources are wasted in advertising and in differentiating a firm's product from others. These costs are added to the production cost thus making the prices higher.
b) Firms produce at costs higher than the minimum average cost (AC) thus, production is not efficient.
c) In monopolistic competition, firms offer a wider variety of products in the market thereby enhancing the utility of consumers.
d) It ensures quality of products to meet up with competition.

9.13 THE THEORY OF OLIGOPOLY

The Concept of Oligopoly

Oligopoly is a market structure where there exist few sellers of a commodity. The simplest form is 'duopoly' i.e., two sellers of a product which may be homogenous or differentiated. If the product is not differentiated e.g., steel, cement, transport etc. it is referred to as pure oligopoly. If, however, the product is differentiated, it is called differentiated oligopoly.

Oligopoly arises as a result of the same general reasons as monopoly. They include control over the source of raw materials by few firms, technological factors, high initial cost of entry, economics of large scale of production limit pricing policy of existing few firms and patent rights and other factors policies which tend to limit the number of firms that enter the industry.

In some cases, oligopolistic firms are interdependent or tend to cooperate with each other. This makes it difficult for a new firm to enter the industry and compete with them. In other cases, they tend to act independently or react differently to the actions of each other.
Each firm has a sufficiently large share of the market to need to consider the individual reactions of the others to changes in its price or output. Equilibrium thus depends on how each oligopolistic forecasts the others' reactions.

Characteristics of Oligopoly

The characteristics of oligopoly are:

i. ***Interdependence: -*** Interdependence in the decision-making of the few firms in the industry is the most important feature of oligopoly. This is because when the number of competitors is few, any change in price, output, product etc. by a firm will have a direct effect on the fortune of its rivals, which will then retaliate in changing their own prices, output, or products as the case may be. It is therefore clear that the oligopolistic firm must consider not only the market demand for the industry's product but also the reactions of the other firms in the industry to any action or decision it may take.

ii. ***Importance of advertising and selling costs-*** A direct effect of interdependence of oligopolists is that the various firms have to employ various aggressive and defensive marketing weapons to gain a greater share in the market or to prevent a fall in the share. For this reason, various firms have to incur a good deal of costs on advertising and on other measures of sales promotion. Unlike the previous market structures, under oligopoly, advertising can become a life and death matter where a firm which fails to keep up with the advertising budget of its competitors may find its customers drifting off to rival products. To an oligopolistic, true competition consists of the life of constant struggle, rival against rival, which can only be found under oligopoly (or on a smaller scale, under conditions of monopolistic competition).

iii. ***Group Behaviour:*** - Unlike others forms of market structure, oligopoly is a theory of group behavior not of mass or individual behavior and to assume profit maximizing behavior on his part may not be very valid. In oligopoly, there are few firms in a group which are very much interdependent. Given the present state of our economic and social science, there is no generally acceptable theory of group behavior. Do the members of a group agree to pull together for a common interest, or will they fight to promote their individual interests? Does the group possess any leader? If so, how does he get the others to follow him?
These are some of the questions that need to be answered by the theory of group behavior.

iv. ***Indeterminateness of demand curve facing an oligopolist:*** - Under the previous market structures, the demand curve for a firm is definite.

Under oligopoly, because of interdependence, of the firms, a firm cannot assume that its rivals will keep their prices unchanged when it makes changes in its own price. As a result, the demand curve for a firm under oligopoly loses its definiteness and determinateness.

Since it goes on constantly shifting as the rivals change their prices in reaction to price changes by a firm.

Collusive Oligopoly

In order to avoid the uncertainty arising out of interdependence and to avoid price wars and cut-throat competition, firms under oligopolistic conditions often enter into agreement regarding a uniform price-output policy to be pursued by them. The agreement may be either formal (open) or tacit (secret). But since formal or open agreements to form monopolies are illegal in most countries, agreements reached between oligopolists are generally tacit or secret. When the firms enter into such collusive agreements formally or secretly, collusive oligopoly prevails. Collusions are of two types:

a) Cartels and

b) Price leadership

CARTELS

In a cartel type of collusive oligopoly, firms jointly fix a price and output policy through agreements. Formal collusion or agreement among the oligopolists may itself take various forms. An extreme form of collusion is found when the member firms agree to surrender completely their rights of price and output determination to a "central administrative agency" so as to secure maximum joint profits for them. Such a formal collusion is generally designated as perfect cartel. Thus, under perfect cartel, the price and output determination of the whole industry as well as of each member firm is determined by the common administrative authority so as to achieve many joint profits for the member firms. The total profits are then distributed among the member firms in a way already agreed between them.

The central authority determines the separate outputs to be produced by the various members and the price and also produce at a level where total cost is made minimum. Total cost will be minimized when the various firms in the cartel produce such separate outputs that their marginal costs are equal.

PRICE LEADERSHIP

Under price leadership, one firm sets the price and others follow it. The one who sets the price is the leader and the others are his followers. The follower firms adopt the price of the leader, even though they have to depart from the profit-maximizing position, as they think that it is to their advantage not to compete with their leader and between themselves. Price leadership is of various types:

i. ***Price leadership by a low-cost firm:*** The low-cost firm sets the price below the profit maximizing price for the high cost firm. Since they cannot sell their product at a higher price, they are forced to agree to the low price, but the price leader sets a price which must yield some profits to his follower(s).

ii. ***Price leadership by the dominant firm: -*** Few firms in an industry may dominate because they produce a large proportion of the total output in the industry. The dominant firm wields a great influence hence estimates its own demand curve and fixes a price which maximizes its own profits. The other firms, which are small, having no individual influence, accept the prices set and adjust their output accordingly.

iii. ***Barometric price leadership:*** - Under this, an old, experienced, largest, or most respected firm assumes the role of a custodian who protects the interests of all. He assesses changes in market conditions and makes changes in price which are best from the viewpoint of all the firms in the industry. Naturally, other firms follow him willingly.

iv. ***Exploitative or Aggressive price leadership: -*** Under this, a dominant firm establishes its leadership by following aggressive price policies and thus compels the other firms in the industry to follow him. Such a firm threatens to compete with others out of the market if they don’t follow him in setting the price.

9.14 SUMMARY OF THE CHAPTER

An economy of scale is the cost advantage that arises with increased output of a product. Economies of scale arise because of the inverse relationship between the quantity produced and per-unit fixed costs; i.e. the greater the quantity of a good produced, the lower the per-unit fixed cost because these costs are spread out over a larger number of goods.

Economies of scale may also reduce variable costs per unit because of operational efficiencies and synergies. Economies of scale can be classified into two main types:

iii. *Internal* – arising from within the company; and
iv. *External* – arising from extraneous factors such as industry size.

Diseconomies of scale are an economic concept referring to a situation in which economies of scale no longer functions for a firm. With this principle, rather than experiencing continued decreasing costs and increasing output, a firm sees an increase in marginal costs when output is increased.

There are various economic as well as non-economic factors that influence the size of a business unit. The relative importance of these factors varies with the products manufactured, industry in which the firm operates etc. Size is primarily determined by the goals and objectives of the organization and influences the efficiency of operations.

Capitalism is often thought of as an economic system in which private actors own and control property in accord with their interests, and demand and supply freely set prices in markets in a way that can serve the best interests of society.

There are two types of capitalism, namely Classical Capitalism and Monopoly Capitalism.

Socialism is a social and economic system characterised by social ownership and democratic control of the means of production. "Social ownership" may refer to public ownership, cooperative ownership, citizen ownership of equity, or any combination of these. Although there are many varieties of socialism and there is no single definition encapsulating all of them, social ownership is the common element shared by its various forms.

A mixed economy is defined as an economic system consisting of a mixture of either markets and economic planning, public ownership and private ownership, or markets and economic interventionism. However, in most cases, "mixed economy" refers to market economies with strong regulatory oversight and governmental provision of public goods, although some mixed economies also feature a number of state-run enterprises.

Perfect competition refers to a market structure with many small firms, all producing homogenous goods. It is an ideal market situation in which buyers and sellers are so numerous and well informed that each can act as a price–taker, able to buy or sell any desired quantity without affecting the market price. Although very few real-world markets are like this, perfect competition is often regarded by economists as a benchmark with which to compare actual market situations.

Monopoly is said to exist when one of firm is the sole producer or seller of a product that has no close substitutes. Three points are worth nothing in this definition; first, there must be a single producer or seller of a product if there is to be a monopoly. This single producer may be in the form of an individual owner or a single partnership or a joint stock company.

Monopolistic competition is a market structure where many competing producers sell products that are differentiated from one another (i.e. the products are substitutes, but are not exactly alike). It's a market situation with a limited number of sellers, where each believes that the price that can be charged is a decreasing function of the quantity sold.

Oligopoly is a market structure where there exist few sellers of a commodity. The simplest form is 'duopoly' i.e., two sellers of a product which may be homogenous or differentiated. If the product is not differentiated e.g., steel, cement, transport etc. it is referred to as pure oligopoly. If, however, the product is differentiated, it is called differentiated oligopoly.

9.15 ILLUSTRATIVE AND PRACTICE QUESTIONS

A) THEORY QUESTIONS

1. Explain the concept of Economies of scale.
2. Describe the measurement of the size of firm.
3. Explain the determinant of the size of firm.
4. Identify types of scale and economies of scales.
5. Explain the concept of capitalist economies.
6. Explain the concept of socialist economies.
7. Explain the concept of mixed economies.

8. State the various types of market structure.

B) MULTIPLE CHOICE QUESTIONS

1) ______________________ is the cost advantage that arises with increased output of a product.
   a) Economies of Scale
   b) Diseconomies of scale
   c) Monopoly
   d) Oligopoly

2) ____________________________arise because of the inverse relationship between the quantity produced and per-unit fixed costs; i.e. the greater the quantity of a good produced, the lower the per-unit fixed cost because these costs are spread out over a larger number of goods.
   a) Economies of Scale
   b) Diseconomies of scale
   c) Monopoly
   d) Oligopoly

3) Economies of scale may also reduce variable costs per unit because of operational efficiencies and synergies.
   a) True
   b) False
   c) Not Sure
   d) None of the above

4) Economies of scale can be classified into _______ main types.
   a) Two
   b) Three
   c) Four
   d) Five

5) Economies of scale can be classified into two main types, which are ______________ – arising from within the company; and ____________ – arising from extraneous factors such as industry size.
   a) Internal, external
   b) Extensive, intensive
   c) Extended, distended.
   d) None of the above

6) With the principle of _________________________, rather than experiencing continued decreasing costs and increasing output, a firm sees an increase in marginal costs when output is increased.
   a) Economies of Scale

b) Diseconomies of scale
c) Monopoly
d) Oligopoly

7) Under oligopoly, because of interdependence, of the firms, a firm cannot assume that its rivals will keep their prices unchanged when it makes changes in its own price.

8) When the firms enter into collusive agreements regarding a uniform price-output policy to be pursued formally or secretly, collusive oligopoly prevails.

9) Diseconomies of scale can occur for several reasons, but the root cause usually comes from the difficulty of managing an increasingly large _____________________.
a) Raw materials
b) Inflows
c) Workforce
d) Supply chain

10) The essential feature of capitalism is the motive to make a profit.
a) True
b) False
c) Not sure
d) None of the above

9.16 **REFERENCES**

Färe, R., S. Grosskopf, S. & Lovell, C.A.K. (1986). "Scale economies and duality" Zeitschrift für Nationalökonomie 46:2, pp. 175–182.

Hanoch, G. (1975). "The elasticity of scale and the shape of average costs." American Economic Review 65, pp. 492–497.

Panzar, J.C. & Willig, R.D. (1977). "Economies of scale in multi-output production. Quarterly Journal of Economics 91, 481-493.

Silvestre, J. (1987). "Economies and Diseconomies of Scale". The New Palgrave: A Dictionary of Economics. London: Macmillan. pp. 80–84. ISBN 0-333-37235-2.

Zelenyuk, V. (2013). "A scale elasticity measure for directional distance function and its dual: Theory and DEA estimation." *European Journal of Operational Research,* 228:3, pp. 592–600.

Zelenyuk, V. (2014), "Scale efficiency and homotheticity: equivalence of primal and dual measures." *Journal of Productivity Analysis,* 42:1, pp 15-24.

RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.
Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard.
Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz.
Fundamentals of Business Administration Management by Caroline Anderson.

CHAPTER TEN
GOVERNMENT AND BUSINESS IN NIGERIA

10.1 LEARNING OBJECTIVES

After completing this chapter, you should be able to:

i. Understand government objectives of regulation of business.
ii. Explain the reasons for government control of business.
iii. Appreciate the role of government as a participant in the running of business.
iv. Understand the role of government as a facilitator of business.
v. Appreciate the role of government as a regulator of business.
vi. Understand why government regulates business.
vii. Appreciate the specific ways governments in Nigeria have aided business development.
viii. Appreciate the roles of some government agencies in the control and regulation of business.

10.2 INTRODUCTION

The greatest influence on the establishment and operation of business in Nigeria is the existence of government. Business activities are influenced in many ways by the directives of both Federal, State and Local governments. Nigeria operates a mixed economic system, and from time-to-time government participates in business. Government provides the institutional framework within which businesses function and the instruments through which business activities are carried out. Even now where the government is trying hard to disengage herself from direct participation in business, government still performs substantial role in business. This chapter provides basic information on the role of government in business.

10.3 OBJECTIVES OF GOVERNMENT REGULATION OF BUSINESS

Government's desire to regulate business is to address some issues as highlighted by Azobi (1994)

i. To create and maintain a climate of confidence, stimulating the activity of the enterprises and to preserve the rules of competition.
ii. To achieve an environment that would permit the enterprises to exist and maintain stability and cooperation.
iii. To fix and distribute public and social burdens in a supportable and equitable manner, taking into consideration the differences in sizes of the various enterprises and the economic activities in the country.
iv. To fix clearly national goals and acceptable global levels of wages and price increases, of credits and investments.
v. To promote social progress and maximum justice compatible with the level of economic activity.

10.4 REASONS FOR GOVERNMENT CONTROL OF BUSINESS

Beyond the above issues, Nwabuzor (1990) identified five main reasons why government controls business. These are: -

i. **Exercise of Sovereign Rights: -** Governments all over the world have the right to exercise domain over clearly defined geographical areas. The constitution empowers the government to exercise control over a wide spectrum of economic and national activities such as industrial and licensing policies; monetary and fiscal policies; import and export policies; control and regulation of monopolies; taxation and foreign exchange policies, national defense policies, education, and health policies and so on. These constitutional rights of government define the sovereignty of government and empower them to keep a close watch on the activities of businessmen, especially foreigners.

ii. **Protecting the Citizens: -** The interests of consumers need to be protected against the production and sale of harmful and inferior goods. Also, investors' rights need to be protected in order to have free access to companies' books and to freely participate in the statutory annual general meetings. Employees need to be protected against exploitation such as the issue of minimum wage. These and other types of protection can only be guaranteed through the enactment of enabling laws that should specify the minimum acceptable standards in these directions.

iii. **Controls as Revenue Sources: -** Business control in the form of company taxes, registration fees, import, export and excise duties, licensing fees, emergency fees like the education levy are valuable sources of revenue to government.

iv. **Regulations to keep international obligations: -** Nigeria as a nation belongs to a number of international bodies. These bodies have rules and regulations which member nations are expected to abide with. Also, Nigeria has reciprocal agreements with some countries on issues like copyrights, patents, drug trafficking, expatriate quotas, protection of expatriates against double taxation etc. Enforcing these regulations on business enterprises in Nigeria is a way through which government fulfils its bilateral/multilateral obligations in these matters.

v. **Ensuring that the Nation is not dominated by Foreigners: -** Most nations feel uncomfortable when their economies are controlled and dominated by foreigners. Thus, if they perceive that the economic decisions affecting them are taken outside their economies, they would be forced to promulgate laws that would control the excesses of foreign business. The enterprises promotion Decree of 1972, 1977 and 1989 are all intended to transfer the commanding right of the economy to Nigerians.

10.5 WHY GOVERNMENT PARTICIPATES IN BUSINESS

Below are some reasons why government participates in business in Nigeria:

i. To generate profit for government: Government may go into business to enjoy the benefits of investing in profit making businesses particularly in sectors which government may think unattractive to the public but profitable.
ii. To maintain equality of opportunity for citizens irrespective of tribe, religion, or sex.
iii. To discourage harmful practices by some businesses.
iv. To protect young businesses from unfair competition practices by the big businesses.
v. To protect the welfare of individuals and to ensure higher standard of moral safety, public health and general well-being of members of the society.
vi. To conserve the nation's resources e.g., forests, water, solid minerals, fuels etc.
vii. Some industries demand heavy financial commitments, and they are better financed and controlled by the government who can afford the financial commitment, management skills and technology to operate such industries.

10.6 THE ROLE OF GOVERNMENT IN BUSINESS

The role of government in business can be subdivided into three:

These are participatory, facilitatory and regulatory.

1. **Participatory role:** According to Adewunmi (1988) in Enikanselu (2008), government participates in business by investing directly alone or in partnership with private entrepreneurs in business activities and projects which the government considered as strategic to the economy. Nigerian government participation in business takes three forms:

    a. Direct investment in wholly owned Federal, state, and local government enterprises. The enterprises in this category are those that are strategic to the security and/or socio-economic development of Nigeria e.g., the steel industries and refineries. But the government is making serious efforts now to let loose their financial interest and control in these enterprises.
    b. Direct majority equity interest: These are enterprises where government had majority financial ownership. Before now, we have these in oil and financial sector particularly banking. But it is interesting to note that the government is withdrawing their interests fast in these enterprises.
    c. Indirect investment through wholly owned government institutions: - a very good example is the Nigerian National Petroleum Corporation which is the Federal

Government holding company that supervises the government participatory interest in enterprises in the oil industry.

Ohanemu C. (2002) stated government regulatory and facilitating roles as follows:

2. **Regulatory role:**

(i) **Registration**

Every business in Nigeria has to be registered with Corporate Affairs Commission (CAC).

The essence of such registration is to provide information as to the name of the company, place and nature of the business and occupation of the directors of the business. In the case of foreigners, they must obtain from the government, permission to establish business in Nigeria.

(ii) **Import supervision**

The government evolves an activity that results in the pre-shipment quality and quantity inspection of imported goods to ensure that normal competitive market price is paid for products meant for importation into Nigeria. The measure adopted by the government at the present time is hundred percent inspection.

(iii) **Price control**

In an effort to reduce the inflationary trend of prices and in response to public opinion against such development, the federal government promulgated the price control decree 1970 (amended by decree 3 of 1971).

The board that was charged with this responsibility achieved moderate success but had since been disbanded.

3. Facilitating roles

i) **Laws:** These are laws made to provide incentives to induce certain actions by business institutions e.g., tax incentives, custom duties incentives, the establishment of the export credit guarantee and insurance scheme to make it possible for exporters to grant their customers credit facilities, the customs duties (Drawback) regulations Act of 1959 which provided for the repayment of import duties paid by an importer for raw materials and equipment imported to produce exports etc.

ii) **Fostering competition**

The federal government has now learnt to take several actions and restrictions meant to prevent the development of monopoly in any particular industry or market e.g., global banking, commercialization, privatization etc.

iii) **Economic growth, employment etc.**

From time-to-time government has devised a means of putting in place laws and practices that discourage inflation or increase unemployment, or compelling certain institutions (e.g. banks) to take some necessary actions that would encourage economic growth.

10.7 SPECIFIC WAYS GOVERNMENT IN NIGERIA HAVE AIDED BUSINESS DEVELOPMENT

Governments in Nigeria have played significant roles in developing business activities. This has been through their various policies. These include:

a. **Policy of commercialization** – Federal and State government in Nigeria have decided to run several of the parastatals on commercial basis by making them self-financing rather than relying on government subventions. These organizations are positioned to serve the public better and compete for survival in the highly dynamic business environment. NEPA, NNPC, Nigerian Airways are examples of commercialized parastatals.

b. **Privatization** – is a process by which the government sells its shareholdings in companies to the general public, so that such an outfit can run without government interference.

c. **Deregulation** – is another policy of government that has successfully stimulated business growth in Nigeria. Government control on various aspects of the national economy are being relaxed. For example, interest rates are being deregulated, thus allowing the market forces to determine interest rates in the banking sector, thus stimulating healthy competition in the banking sector. Deregulation of the downstream sector of the petroleum industry has stimulated a stable supply of petroleum product.

d. **Fiscal policy** – Government has used tax policies to direct investment into certain industries. Tax holiday is a tool government have used to woo investors, while excise duties have been raised in some instances to reduce demand and consumption and eventual investments in some areas.

e. **Monetary policies** – Tools like exchange rate, quantity of money supply, interest rate structure are often applied to stimulate business investment in Nigeria by the Federal Government. These have impacted considerably on business practice in Nigeria.

f. **Local sourcing of Raw Material** – The desire of the Nigerian government to source raw material locally can stimulate investment in a number of sectors of the economy.

g. **Regulatory Agencies** – The policies of some government agencies like NAFDAC, SON, and Central Bank can affect investment either positively or negatively. For example, importation and manufacturing of substandard killer products has been effectively checked by the operations and policies of NAFDAC.

h. **Provision of infrastructural facilities and creation of export processing zones** – Provision of necessities like water, roads and electricity in designated areas has a great influence on business activities. Therefore, businesses are attracted to such zones thus leading to development in the areas affected.

10.8 ROLES OF SOME GOVERNMENT AGENCIES IN THE REGULATION AND CONTROL OF BUSINESS

The regulation and control of business is vested by law on different agencies of government. The followings are some of the agencies and their roles as highlighted by Lawal (2012), Enikanselu (2008) and Inegbenebor and Esosa(1999) on different occasions:

(1) MANUFACTURERS ASSOCIATION OF NIGERIA (MAN)

The association was formed in 1971 through the initiative of Ikeja and Apapa manufacturers, its membership spans throughout the states of the federation. The main benefits of MAN include:

i) Establishment of manufacturer’s bank to provide financial service for members and non-members.
ii) Provision of professional advice.
iii) Ensuring that products of members are of high quality.
iv) Campaigning for made in Nigeria goods.
v) Battling against high interest rate and excessive taxes and levies.
vi) Representational role.
vii) Watchdog to the government.
viii) Engaging in constant dialogue to solve industrial problems.

(2) CORPORATE AFFAIRS COMMISSION (CAC)

The Corporate Affairs Commission was established following the promulgation of the companies and Allied Matters Acts (CAMA) of 2004 (as amended). It opened its registries for business in 1991. The head office of the Commission is situated in Abuja, and it has branch offices in some state headquarters.

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

The Commission ensures that those who desire to form a company adhere strictly to the provisions and requirements specified in the Companies and Allied Matters Acts 2004 (as amended). It ensures, for example, that the name of the company is one that is acceptable under the law and that the Memorandum and Articles of Association are properly prepared. In the process, the Commission ensures that only companies whose objectives, constitution and programmes are acceptable under the law are registered.

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

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

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

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

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

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

(3) THE CENTRAL BANK OF NIGERIA

The central bank is at the apex of banking system and each free-market economy has a central bank. A central bank is very different in both its organization and functions compared to other types of banking institutions. Since it is said to be at the apex of any banking system, the law or charter that establishes a central bank is normally very different from those other laws or legislation establishing other types of banks (Ekezie, 1997).

HISTORICAL PERSPECTIVE OF CENTRAL BANK OF NIGERIA

The Central Bank of Nigeria (CBN) was established in the year 1958 under the Central Bank Act. It replaced the West African Currency Board (WACB) that was established in 1912 to introduce a single Currency system for British West African colonies. The Central Bank of Nigeria commenced operations on 1st July 1959. The Act, which has undergone some amendments, was re-enacted as the CBN Act No 24 of 1991. In addition, Banks and other financial Institution Act No 25 of 1991 were promulgated. The two Acts with necessary amendments up to 1999 gave CBN more flexibility in regulating and supervising the banking sector and licensing finance companies, which hitherto operated outside any regulatory framework.

The CBN today stands as the apex regulatory authority of the financial system by virtue of the functions it performs in the Nigerian economy. It also serves as the principal regulator and supervisor in the money market, as well as the activities of finance companies and specialized and development finance institutions.

Functions of the Central Bank of Nigeria

The CBN performs a myriad of functions, which are derivable from its objectives to:

(i) Issues legal tender currency.
(ii) Maintains the external value of legal tender currency.
(iii) Promotes monetary stability and a sound financial system.
(iv) Serves as banker and financial adviser to the Federal Government.
(v) Serves as banker to other banks.
(vi) Safeguards the international value of the currency of the nation.
(vii) Provides clearing facilities for commercial banks and other financial institutions.
(viii) Performs clearly defined banking functions for the government and commercial banks.
(ix) Mobilizes capital resources for economic development.
(x) Facilitates capital market institutions and sponsors specialized institutions.

(4) **NIGERIAN ASSOCIATION OF SMALL AND MEDIUM ENTERPRISES (NASME):**

NASME was registered in 1996 to coordinate and foster the promotion of micro, small and medium enterprises (MSMES) in Nigeria. NASME serves as an apex organization coordinating MSMES. The association provides a forum for interaction, and adoption of concerted approach to issues of strategic importance to the development of MSMES.

NASME collaborates with international organizations, Federal Ministries, Embassies and Bilateral Chambers of Commerce on its various projects.

The main objectives of NASME include:

(a) Provision and delivery of suitable credit to MSMES.
(ii) Creating public awareness of the role of MSMES.
(iii) Coordinating MSMES activities.
(iv) Developing and maintaining data bank.
(v) Facilitating training and development of members.
(vi) Providing for export promotion, etc.

NASME is founded through membership fees, annual subscription, donations, from organizations in the public and private sectors as well as international bodies. In addition, funds are also generated internally from training, consultancy, publications, etc.

(5) **INDUSTRIAL TRAINING FUND (ITF):**

The ITF was established in 1971 under the Industrial Training Fund Act of 1977. The aim of the ITF is to promote and encourage the acquisition of skill in industry and commerce with the view of generating a pool of indigenous trained manpower sufficient to meet the needs of the economy.

The functions of the Training Fund include:

(i) Bearing a proportion of the direct cost of on-the-job and off-the-job training approved by the Board.
(ii) Assisting and strengthening training capability and facilities throughout the country.
(iii) Encouraging greater involvement of employers in the organization and direction of group training schemes and centres in certain critical areas of economic activity.
(iv) Working out a cooperative machinery with industry and commerce where students in higher institutions undertake mid-carrier work experience attachments in industries which are compatible with their areas of study.
(v) Directly building training facilities of its own.

(vi) Organizing research and studies into training and development.
(vii) Seeking to harmonize all its training effort and support with the activities of formal training institutions as well as centralize their facilities for clearly defined job-oriented programmes.

The ITF is funded by a levy on employers calculated as 1% of the annual pay roll. Employers are however entitled to a reimbursement of 60% (maximum) based on evidence of fulfilling ITF requirements on employee training.

(6) **THE CENTRE FOR MANAGEMENT DEVELOPMENT (CMD):**

The centre was established in 1973 with the following objectives:

(i) To plan, coordinate and promote management development within the economic, social, and cultural environment in response to its overall needs.
(ii) To contribute to the development of a body of knowledge and management development.
(iii) Providing management consultancy services for enterprises within the framework of the indigenization scheme.

(7) **THE ADMINISTRATIVE STAFF COLLEGE OF NIGERIA (ASCON):**

ASCON was established under the Administrative Staff College of Nigeria Act, 1973 with the following objectives:

(i) To provide higher management training for the development of senior executives in public and private sectors of the Nigerian economy.
(ii) To provide for a comparative study and investigation of the principles and techniques of management and administration in the various spheres of national life.
(iii) To establish and maintain a library.
(v) To award grants, scholarships, or travel fellowships for research in public administration and allied subjects.
(vi) To undertake, organize and facilitate study courses, conferences, lectures, seminars, and the like to promote the above objectives.
(vii) To undertake and provide for the publication of journals, research papers and books.

(8) **SMALL AND MEDIUM ENTERPRISES DEVELOPMENT AGENCY OF NIGERIA (SMEDAN):**

SMEDAN was established by the SMEDAN Act of 2005 to promote the development of the MSME sector of the Nigerian economy.

The Agency functions include the following:

(i) Stimulating, monitoring, and coordinating the development of the MSMES sector.
(ii) Initiating and articulating policy ideas for MSMES growth and development.
(iii) Promoting and facilitating development programmes for MSMES.
(iv) Serving as vanguard for rural industrialization, poverty reduction, job creation and enhance sustainable livelihood.
(v) Linking MSMES to internal and external sources for finance.
(vi) Promoting information and providing access to industrial infrastructure.
(vii) Intermediating between MSMES and the government.
(viii) Creating a good enabling environment for MSMES.

Recently, the Federal Government officially handed over the IDCs to SMEDAN.

State and Local Government: In each state of the federation, particularly Ministry of Commerce, Industries and Cooperatives, there are industrial units charged with the responsibility of promoting and developing small and medium enterprises. Such units collaborate with the Federal Government and other industrial associations in the implementation of government policies and programmes. For instance, in the states Ministries of Commerce and Industry, commercial and industrial polices of the government are laid down and implemented through four main divisions headed by directors. These divisions are Industrial, Commercial, Small-Scale Industries and Business Apprentice Training Centres (BATC).

(9) **NIGERIAN ASSOCIATION OF CHAMBER OF COMMERCE, INDUSTRY, MINES AND AGRICULTURE (NACCIMA):**

NACCIMA was established in 1960, although the first primary chamber of commerce, i.e., Lagos Chamber of Commerce, was established in 1881.

The contributions of NACCIMA to growth and development of SMES include:

(i) Provision of data bank on information relating to commerce and industry.
(ii) Organization of trade fairs to publicize members' products.
(iii) Relating with governments and providing suggestions on how to improve commerce and industry.
(iv) Community development.
(v) Relating with private sector and other organized private sector.
(vi) Human resources development,
(vii) Promotion of technological advancement through collaboration with research institutions like Federal Institute of Industrial Research, Oshodi (FIIRO) and Nigerian Institute of Social and Economic Research (NISER).

(10) **NIGERIAN ASSOCIATION OF SMALL-SCALE INDUSTRIALISTS (NASSCI):** The Association was formed in 1978 to cater for the needs of small-scale industrialists. The Association draws its memberships from industrialists engaging in agro-allied, food, chemical, paints, textile, and garment, printing, furniture, building material, candle, soap, and detergent to mention just a few.

The benefits of NASSI to SMEs according to Lawal, et al, (1998) include:

(i) Information on plant and equipment.
(ii) Information on manufacturing standards.
(iii) Information on manufacturing on market.
(iv) Training programmes.
(v) Financing of seminars.
(vi) Library services.
(vii) Representational role.

(11) STANDARD ORGANIZATION OF NIGERIA (SON)

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

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

(1) Preparation of standards for products and processes to be adopted as approved standards in Nigeria.
(2) Conducting tests and ensuing compliance by industries of the standards approved by the Council of the Standard Organization of Nigeria.
(3) Ensuring that satisfactory quality control procedures are adopted for both locally manufactured and imported products.
(4) Investigating the quality of facilities, materials and products and establishing quality assurance systems.
(5) Certification of factories, laboratories and products which have met established quality standards.
(6) Monitoring and verification of measures and measuring instruments.
(7) Developing methods of testing materials, supplies, and equipment.
(8) Registration and regulation of standard marks and specifications

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

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

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

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

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

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

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

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

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

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

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

(13) **THE NATIONAL ECONOMIC RECONSTRUCTION FUND (NERFUND):**

This fund was established through decree No.2 of 1989. The objective of the fund is to provide medium to long term funds to SMEs.
Specifically, the objectives of NERFUND are: -

(i) To provide medium to long-term loans to participating commercial and merchant banks for on-lending to small and medium-scale enterprises for the promotion and acceleration of productive activities in such enterprises.
(ii) To provide loan for a period ranging from 5 years.
(iii) To provide such loans either in naira or in foreign currencies or both, according to the sources of funds available to the NERFUND, and the requirements of the eligible enterprises or projects.

(14) INDUSTRIAL DEVELOPMENT CENTRE (IDC)

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

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

(i) **Technical Services:** The Industrial Development Centre assists small and medium-scale enterprises in equipment selection, plant installation and servicing. It provides assistance in product design and development, bulk purchasing of raw materials and preparation of feasibility reports or business plans.
(ii) **Training:** One of the major functions of the Industrial Development Centre is the training of the owners and workers of small and medium scale enterprises. This includes technical training and management training. The IDC is expected to work closely with these enterprises to identify their training needs and design training programs to meet the identified needs.
(iii) **Loan:** The IDC does not provide loans to small and medium-scale enterprises. It collaborates with the State Government to appraise loan applications of entrepreneurs under the small-scale industries credit Scheme. It also helps to supervise the scheme.
(iv) **Consultancy Services:** The Industrial Development Centre may also provide consultancy services to the proprietors and managers of small and medium scale enterprises. The Centres are expected to have workshop facilities for metal, automobile, wood, leather, ceramic, textile, electrical and electronic trades.

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

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

(15) FINANCIAL REPORTING COUNCIL OF NIGERIA

This board, Financial Reporting Council of Nigeria was set up with the passage of FRCN Act. It was formerly called The Nigerian Accounting Standards Board. The NASB Act of 2003 provided the legal framework under which NASB set accounting standards. The primary functions as defined in the Act of 10 July 2003 were to **develop, publish** and **update Statements of Accounting Standards** to be followed by companies when they prepare their financial statements, and to promote and enforce compliance with the standards. IASB had published many of the earlier standards prepared by the International Accounting Standards Committee and its successor the International Accounting Standards Boards, but FRCN is more involved in enforcement than in updating to the more modern International Financial Reporting Standards (IFRS).

This FRCN Act would align Nigeria with other countries and improve investor confidence. This would ensure meaningful and decision enhancing information to be arrived at from financial statements issued in Nigeria because accounting, actuarial, valuation and auditing standards, used in the preparation of these statements, shall be issued, and regulated by this Financial Reporting Council. The FRC is a unified independent regulatory body for accounting, auditing, actuarial, valuation and corporate governance. As such, compliance, monitoring in these areas will hence be addressed from the platform of professionalism and legislation. This is the platform upon which FRCN was formed.

The functions of the council shall include:

(a) Develop and publish accounting and financial reporting standards to be observed in the preparation of financial statement of public interest entities.

(b) Review, promote and enforce compliance with the accounting and financial reporting standards adopted by the Council;

(c) Receive notices of non-compliance with approved standards from preparers, users, other third parties or auditors of financial statements;

(d) Receive copies of annual reports and financial statements of public interest entities from preparers within 60 days of the approval of the Board;

(e) Advise the Federal Government on matters relating to accounting and financial reporting standards;

(f) Maintain a register of professional accountants and other professionals engaged in the financial reporting process;

(g) Monitor compliance with the reporting requirements specified in the adopted code of corporate governance;

(h) Promote compliance with the adopted standards issued by the International Federation of Accountants and International Accounting Standards Board;

(i) Monitor and promote education, research and training in the fields of accounting, auditing, financial reporting and corporate governance;

(j) Conduct practice reviews of registered professionals;

(k) Review financial statements and reports of public interest entities.

(l) Enforce compliance with the Act and the rules of the Council on registered professionals and the affected public interest entities;

(m) Establish such systems, schemes or engage in any relevant activity, either alone or in conjunction with any other organization or agency, whether local or international, for the discharge of its functions;

(n) Receive copies of all qualified reports together with detailed explanations for such qualifications from auditors of the financial statements within a period of 30 days from the date of such qualification and such reports shall not be announced to the public until all accounting issues relating to the reports are resolved by the Council;

(o) Adopt and keep up-to-date accounting and financial reporting standards, and ensure consistency between standards issued and the International Financial Reporting Standards;

(p) Specify, in the accounting and financial standards, the minimum requirements for recognition, measurement, presentation and disclosure in annual financial statements, group annual financial statements or other financial reports which every public interest entity shall comply with, in the preparation of financial statements and reports;

(q) Develop or adopt and keep up-to-date auditing standards issued by relevant professional bodies and ensure consistency between the standards issued and the auditing standards and pronouncements of the International Auditing and Assurance Standards Board; and

(r) Perform such other functions which in the opinion of the Board are necessary or expedient to ensure the efficient performance of the functions of the Council.

(s) The Council may issue rules and guidelines for the purpose of implementing auditing and accounting standards.

(16) NIGERIAN ENTERPRISES PROMOTION ACT

The Indigenization Act of 1972 was the main instrument for regulating the ownership and control of business enterprise in Nigeria. Prior to the Act, foreigners dominated the various sectors of business in Nigeria. This situation led to:

(i) Availability of little or no opportunities for the development of indigenous entrepreneurship.
(ii) Repatriation of profits by non-residents equity holders.
(iii) Depletion of the available foreign exchange.
(iv) Domination of the political and economic scenes by foreigners.

For the reasons identified above, the indigenization Acts were passed. The 1972 Act specified twenty-two enterprises in which Nigerians must have 100% ownership and control. The enterprises in this class were those requiring low/middle level technology and skill adequately possessed by indigenes for the operation. Thirty-three other enterprises were also specified as being barred to aliens under certain conditions defined in the Act. These enterprises require middle/high level technology not adequately possessed by Nigerians.

Economic and Financial Crime Commission (EFCC)

The Economic and Financial Crime Commission (EFCC) was established by Act No.5 of 2002, effective from 14th December to combat economic and financial crimes in Nigeria.

A. Composition of EFCC

(i) A Chairman
(ii) A serving or retired member of any government security or law enforcement agency
(iii) A Director-General who shall be the Head of Administration
(iv) The Governor of CBN or his representative
(v) The chairman of NDLEA
(vi) The Director-General, The National Intelligence Agency
(vii) The Director-General of SSS
(viii) The Director-General of SEC

(ix) The Commissioner for Insurance
(x) The Post Master General
(xi) The Chairman, Nigerian Communication Commission
(xii) The Comptroller General, Nigeria Immigration Services
(xiii) A representative of NPF not below the rank of AIG
(xiv) Four eminent Nigerians with cognate experience in Finance, Banking and Accounting.

B. Duties of EFCC

(i) The enforcement of the provisions of the Act.
(ii) Investigation of all financial crimes.
(iii) The enforcement of all economic and financial crime laws.
(iv) The adoption of measure to eradicate the commission of economic and financial crimes,
(v) To identify, trace, freeze, and confiscate the proceeds derived from economic and financial crimes,
(vi) Determination of the extent of financial loss and such other losses by government, private individuals or organizations,
(vii) Carrying out such other activities as are expedient.

10.9 BANK OF INDUSTRY

The Bank of Industry is a commercial or development bank that is created in a bid to establish financial assistance to businesses in the manufacturing and processing industry/sector. Because these industries are mainly industrial, the Bank of Industry is charged with providing finances to purchase equipment for value chain productions.

The Bank of Industry Limited (BOI) is Nigeria's oldest, largest and most successful development financing institution. It was established out of a merger between the Nigerian Industrial Development Bank Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND) in 2001. (boi.ng)

What does the Bank of Industry do? The primary aim of the Bank of Industry in Nigeria is making financial assistance to the industrial sector available. There are other functions of the Bank of Industry as gleaned for the BOI site, and they are:

i. **Finances the purchase of Plant and Equipment:** The Bank of Industry's chief aim is to promote and assist the industrial sector of the economy in the country. The industrial sector is capital intensive and involves machinery, and so the Bank of Industry only finances the purchases of plant and equipment related to the business in question. The Bank of Industry does not finance raw materials or land and buildings.

ii. **Disburses Funds to The Suppliers of Equipment:** The Bank of Industry is tasked with the disbursement of funds to suppliers of equipment and making sure that the machines are well received. It also ensures that the cost quoted for the equipment is worth the value stated.

iii. **Helps Businesses Source for Working Capital Requirements:** while the Bank of Industry cannot finance working capital for businesses, it can, however, help to source for means to get these funds. The Bank of industry enters negotiation terms with the financial institutions, assisting in the application process for the loans.

iv. **Provides Business Support**: besides the provision of funds to businesses, the Nigeria Bank of Industry also gives support to these businesses. The BOI is also tasked with ensuring that businesses succeed and grow. One way it does this is by ensuring that businesses applying for loans get these loans where and when they need them.

The Bank of Industry is centred on providing support for businesses, especially in the industrial sector. However, its operations are widespread. The Bank of Industry is also tasked with the management and disbursal of the Government Enterprise and Empowerment Program (GEEP). This is a social intervention scheme set up by the Nigerian federal government to support small and medium-scale local businesses with interest-free loans to grow their businesses.

10.10 THE NIGERIAN FINANCIAL INTELLIGENCE UNIT (NFIU)

The Nigerian Financial Intelligence Unit (NFIU) is the central national agency in Nigeria, responsible for the receipt and analysis of financial disclosure (Currency transaction reports and Suspicious transaction reports) and dissemination of intelligence generated there-from, to competent authorities. (nfiu.gov.ng)

The Nigerian Financial Intelligence Unit (NFIU) is the central national agency responsible for the receipt of disclosures from reporting organisations, the analysis of these disclosures and the production of intelligence for dissemination to competent authorities. It was established in June 2004, to coordinate the country's anti-money laundering and combating the financing terrorism (AML/CFT) regime.

The NFIU is an autonomous unit, domiciled within the Central Bank of Nigeria and the central coordinating body for the country's Anti-Money Laundering, Counter-Terrorist Financing and Counter-Proliferation Financing (AML/CFT/CPF) framework.

The core mandate of the NFIU (gleaned from their site) as enshrined in the NFIU Act, ML(P)A and T(P)A include the following:

i) Receipt of suspicious transaction reports from reporting entities including financial institutions and designated non-financial businesses and professionals.

ii) Receipt of threshold-based transaction reports from reporting entities.

iii) Analysis of the received information, including connecting and accessing local and international databases to enrich the reports.

iv) Dissemination of the resulting intelligence reports to law enforcement, anti-corruption, security, intelligence agencies as well as regulatory and supervisory bodies for further investigation and prosecution.

Beside the three core functions (receiving, analyzing financial disclosures, development and dissemination of financial intelligence to end users) the NFIU carries out other non-core functions, including:

a) Monitoring Compliance with AML/CFT Requirements – to ensure compliance by reporting entities.

b) Training and Research – to enhance the knowledge base of stakeholders and aid AML/CFT policy formulation.

c) Enhance Public Awareness on AML/CFT Issues – through publicity in the print and electronic media, publication of newsletters etc.

d) Advisory Role- the NFIU provides inputs that help to fine-tune extant AML/CFT policies, regulations and laws based on findings from topology studies on money laundering/terrorism financing.

The NFIU is also empowered to:

(i) Advise law enforcement, regulatory and supervisory agencies on prevention and combatting of money laundering, terrorist financing and predicate offences.

(ii) Exchange information with other FIUs and designated international organisations to combat and prevent global crimes.

(iii) Conduct research into emerging threats of money laundering, terrorist financing and other predicate offences.

(iv) Strengthen compliance with domestic and international anti-money laundering and counter-terrorist financing standards of reporting entities.

10.11 SUMMARY

Nigeria operates a mixed economic system, and from time-to-time government participate in business in Nigeria for many reasons. Government also controls business to exercise sovereignty rights, protect the citizens control revenues, among others. The role of government in business can be subdivided into participatory, facilitatory and regulatory roles.

Government has also aided business development a lot through their various policies, laws, and regulation e.g., policies of Deregulation, Privatization and Commercialization. Government also, one time or the other established some agencies vested with the power of regulating and controlling business in Nigeria. They include MAN, CAC, CBN, NASME, ITF, ASCON, SON, NAFDAC, BOI, NFIU and so on. These agencies/organizations roles in business developments in Nigeria cannot be over-emphasized.

10.12 REVIEW QUESTIONS

A) THEORY

1. A young entrepreneur is planning to establish a small business in Nigeria, advise the entrepreneur on some of the legal issues that must be addressed in the establishment of a business venture in Nigeria.
2. Discuss the relevance of the following organizations in the Nigeria business environment.
    a) Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)
    b) Nigerian Association of Small and Medium Enterprises (NASME)
    c) The Centre for Management Development (CMD)
    d) Industrial Training Fund (ITF)
    e) The Nigerian Financial Intelligence Unit (NFIU)
    f) Bank of Industry (BOI)
3. Mention and explain any five (5) reasons why government participate in business.
4. Discuss specific ways government have intervened in the practice of business in Nigeria till date.
5. What are the roles of government in business?
6. Justify the involvement of government in business in Nigeria.
7. In your own opinion, what are the roles of Corporate Affairs Commission in Nigeria?
8. Discuss specific ways governments have intervened in the practice of business in Nigeria till date.

B) MULTIPLE CHOICE QUESTIONS

1) Business activities are influenced in many ways by the directives of the three arms of government namely:
    a) Federal, State and Local
    b) Municipal, State and Local
    c) Burrough, State and Local
    d) Federal, State and Municipal

2) Nigeria operates a mixed economic system, and from time-to-time government participates in ______________.
    a) Programmes
    b) Business
    c) Governance
    d) Directing

3) _________________ provides the institutional framework within which businesses function and the instruments through which business activities are carried out.
    a) Government
    b) Leadership
    c) Municipal
    d) States
4) The functions of the Industrial Development Centre (IDC) are as follows:
    a) consultancy services,
    b) loan, training and
    c) technical services
    d) All of the above
5) The National Economic Reconstruction Fund (NERFUND)was established through decree No.2 of ______.
    a) 1988
    b) 1989
    c) 1990
    d) 1991

6) The National Agency for Food and Drug Administration and Control (NAFDAC)was established by Decree No. 15 of ______.
    a) 1988
    b) 1989
    c) 1990
    d) 1993

7) The primary responsibility of ___________ is to promote and protect public health by regulating the importation, manufacture, distribution, advertisement and sale of processed foods, drugs, cosmetics, medical devices, bottled or packaged water, and chemicals.
    a) NAFDAC
    b) SON
    c) CBN
    d) ITF

8) The __________ was established to ensure that products of Nigerian industries and those imported meet national and international standards.
    a) NAFDAC

b) CBN
c) SON
d) ITF

9) ________ has responsibility to ensure that substandard and poor-quality products are not distributed for use in Nigeria.
a) NAFDAC
b) SON
c) CBN
d) ITF

10) Nigerian Association of Small-Scale Industrialists (NASSCI)was formed in _______ to cater for the needs of small-scale industrialists.
a) 1978
b) 1979
c) 1980
d) 1983

10.13 REFERENCES:

Enikanselu, S.A. (2008). Introduction to Business, Lagos: Enykon Consult.

Industrialization in Nigeria. A Handbook; published for the Federal Ministry of Industry, Lagos, 1992.

Inegbenebor, A.V. and Esosa Bob Osaze (1999). Introduction Business, Lagos: Malthouse press limited.

Lawal, A.A. (2012). Management in focus, Lagos: NAS printing company.

Odueyungbo,F.(2009).Business Management-A practical Approach, Lagos: Nolachild Associates.

Ohanemu, C.N. (2002). Fundamentals of Business Administration, Lagos. Rockfields publishing.

https://www.nfiu.gov.ng/

https://www.boi.ng/

file:///D:/User/OneDrive/Downloads/pi-business-forms-part3.pdf

Recommendations for further reading

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.

CHAPTER ELEVEN
INTERNATIONAL BUSINESS ADMINISTRATION

11.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to:

i. Identify legal system and different types;
ii. Describe the political system;
iii. Describe the economy system;
iv. Explain foreign exchange market;
v. Explain foreign direct investment;
vi. Describe tariffs, taxes, import and export regulations and documentations;
vii. Explain the concept of international trade;
viii. Explain the concept of models of international trade; and
ix. Risk in international business trade.

11.2 INTRODUCTION

International business has become an integral part of the global economy in today's interconnected world. From small enterprises to multinational corporations, businesses are expanding their horizons and venturing into international markets. It includes cross-line exchanges of labor and products between at least two nations. It involves the exchange of goods, services, capital, technology, and knowledge across national borders. International business can take many forms, including exporting, importing, licensing, franchising, and direct investment.

So, International business alludes to the exchange of products, administrations, innovation, capital, and additional information across public lines and at a worldwide or transnational scale.

Let's understand the nature and scope of international business.

11.3 Meanings of International Business

International business is the study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organisations (Rugman and Collinson, 2006).

Griffin (1999) defined an international business as a business that is primarily based in a single country but acquires some meaningful share of its resources or revenues from other countries. According to Daniels, Radebaugh and Sullivan (2009), international business consists of all commercial transactions-including sales, investments, and transportation-that take place between two or more countries. Private companies undertake such transactions for profit; governments may undertake them either for profit or for political reasons.

According to Rudgman and Collinson (2006), the following are the main reasons why firms decide to go international:

(i) To diversify themselves against the risks and uncertainties of the domestic business cycle.

(ii) To tap the growing world market for goods and services.

(iii) To respond to increased foreign competition and a desire to protect their home market share.

(iv) To take advantage of local resources.

(v) To reduce costs by eliminating transportation expenses, avoiding the overheads associated with having intermediaries handling the product, to respond more accurately and rapidly to customer needs, etc.

(vi) To overcome protective devices such as tariff and non-tariff barriers by serving a foreign market from within.

(vii) To take advantages of technological expertise by manufacturing goods directly rather than allowing others to do it under a license.

Nature, Scope and Benefits of International Business Administration

a. Nature of International Business

The nature of international business is complex and ever-changing. There are several that factors influence it include economic conditions, political stability, cultural differences, and technological advances. Hence, most businesses that operate internationally must be aware of these factors and be able to adapt their strategies accordingly. These factors are:

i. Globalization and Interconnectedness.

ii. Cultural Diversity and Cross-Cultural Interactions.

iii. Legal and Regulatory Frameworks.

iv. Risks and Uncertainties.

v. Market Entry Strategies.

vi. Technological Advancements.

vii. Corporate Social Responsibility.

b. Scope of International Business

The scope of international business is vast. It encompasses various activities, from exporting and importing goods and services to licensing and franchising products and brands. International business also includes moving capital, technology, and people across borders.

Globalization is making it easier for businesses to expand into new markets. This has led to a growing demand for international business expertise. Some key aspects that define the scope of international business:

i. International Trade.

ii. Market Expansion.

iii. Global Supply Chains.

iv. International Financial Management.

v. Legal and Regulatory Considerations.

vi. Cultural and Ethical Considerations.

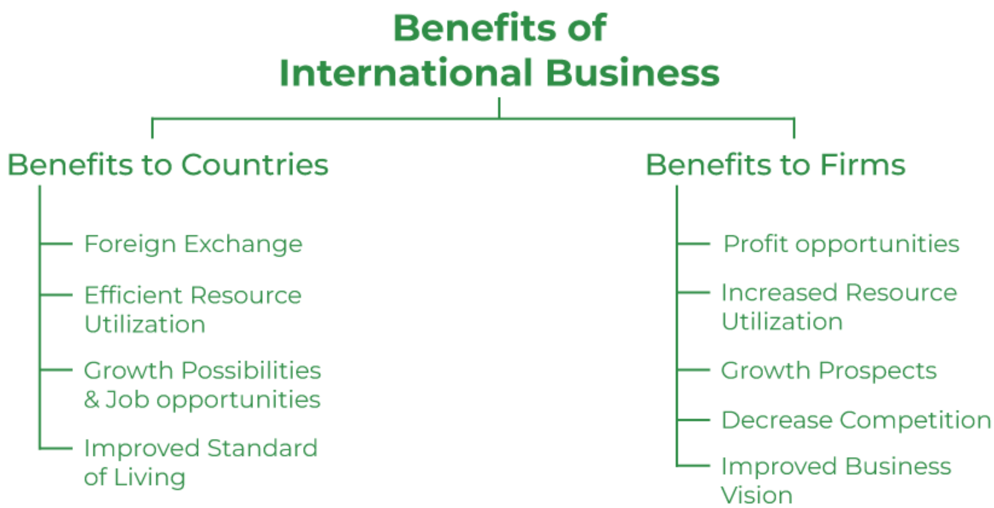
vii. Global Economic and Political Environment.

c. The Benefits of the International Business

There are various benefits associated with conducting International Business, as follows:

i. By expanding into different markets, companies can gain access to new customers and increase their profits. It also allows them to diversify their operations to reduce risk and capitalise on opportunities in other markets.

ii. Conducting International Business can help organisations become more efficient and cost-effective. It allows them to benefit from economies of scale, obtain lower-cost resources, and utilise the latest technologies available in different markets.
iii. Companies can expand their brand visibility and reach a more extensive customer base by conducting business globally. This can increase sales and brand recognition in the global market.
iv. By operating in different markets, companies can access new opportunities and gain valuable insights into customer behavior and preferences. This can help them develop better products/services and make more informed decisions.
v. It allows companies to explore different markets and expand their operations.
vi. This helps organisations identify growth opportunities and plan their strategies accordingly.
vii. International businesses can benefit from the economies of scale that come with operating in multiple markets.
viii. Companies have access to a broader pool of resources due to international trade, which may not be available locally.
ix. International businesses can benefit from competitive advantages such as lower production costs, tax incentives, etc., due to differences in the economic environment across countries.
x. By understanding the international business environment better, companies can reduce risks such as foreign exchange rate fluctuation, political instability, etc.
xi. The international business environment also helps organisations to become more innovative and flexible in their operations, which is essential for staying ahead of the competition.
xii. International businesses can leverage cultural diversity to create unique products and services that capture more extensive markets.



11.4 Relevant Forces of International Business Administration Environment

International business is a facet of the modern economy by which the technical advancement also made it possible for organizations to execute their business on a global basis. International Business is quite an essential term for a country's economy. Most of the world's strongest as well as wisest economies like Germany, Japan, Switzerland, etc. as per the Operation for Economic Co-operation and Development (OECD) are concerned in international trade practices and have the highest standards of living.

They got high volumes of imports and exports while countries like Spain, Greece, Italy, etc. have lower ratios of international trade and are in front of some serious economic problems and challenges. Today, to remain competitive, businesses need to be able to anticipate changes in markets and economies both at home and abroad. Therefore, International Business environment plays a vital role in the growth and development of a nation.

The international business environment (IBE) is a complex network of economic, political, legal, and cultural forces that shape how organisations conduct international business. It consists of external and internal factors that impact a company's success or failure in different markets.

This concept involves understanding the global forces that impact businesses of all sizes. These elements shape how companies conduct their operations and make decisions from macroeconomic trends to geopolitical tensions. Globalisation has made it easier for businesses to go beyond local or regional markets, creating new opportunities while presenting new challenges.

The primary elements in the international business environment are as follows:

a) Economic Stability: This involves analysing factors such as GDP growth rates, inflation, currency exchange rates, and trade barriers. When selecting target nations for operations or investment, companies must consider how a country's economy may impact its cost structures and profitability.
b) Political Stability: Political instability is another significant factor to consider when expanding abroad. Companies must be aware of uprisings, wars, and other forms of conflict that can disrupt business operations. Additionally, government policies regarding taxes, regulations, and labour laws must be considered.
c) Geography: Geography is crucial in logistics, market access, and staff recruitment. The accessibility of natural resources, such as oil or minerals, must also be considered based on the industry involved.
d) Technology: Technology is increasingly important in international business operations due to communication and digital infrastructure advancements. Businesses must understand how adopting new technologies might impact their competitive landscape or create new product or service opportunities.

1. Types of International Business Environments (IBE)

a. Political Environment in International Business

The Political Environment is a vital part of the international business environment that focuses on the following aspects: -

i. Type of Government.
ii. Political hazards in the respective countries.
iii. Government connection with the business fraternity.

In executing the cross-border trade in International Business Environment, it indicates dealing with different government constraint, probable risk, and political scenarios. The political system has been categorized into parts such as one-party states, dictatorships, constitutional monarchies, and one-party states.

Consequently, while planning a business plan for the overseas location, one must take the following aspects into account. The political system related to the business include:

i. Government approach towards the business.
ii. Legal obligations for acquiring specific licenses to run a business.

iii. Limitations on obtaining technical knowledge, raw material, and capital goods.

iv. Constraints related to the exports of goods.

v. Constraints related to the distribution and pricing of goods.

vi. Probable constraints for establishing a business.

b. Economic Environment in International Business

The economic environment of the country is yet another key element that affects international trading in one way or another. The economic environment exhibits the country's potential for fostering foreign trade. Nations with weaker GDP are less likely to facilitate the platform or any framework that supports international trading in International Business Environment. The economic environment could be the deciding factor for someone who is expecting a higher ROI against the trading of their goods and services.

In general, all countries have a distinctive economic environment. Under-developed economies, normally lack better infrastructure, technical advancement, healthcare facilities are coined to be extremely important for the well-being of a particular business. It means that not all nations support international trading due to their undermined economic situation, such as countries like Somalia and Sudan is not favorable for executing foreign trade because of their subpar economic conditions and ongoing crisis.

The Key parameters to be considered related to foreign trading include the following:

i. Facets of the economic system and its bonding with business sectors.

ii. GDP and per capita income (decisive factors).

iii. Taxes implications on foreign trading.

iv. Raw material and manpower availability.

v. Financial resources.

vi. Wages structures.

c. Technological Environment in International Business

The technological Environment demonstrates the country's potential in terms of the availability of raw materials and machinery required for manufacturing the products. In general, no companies can control the external environment; therefore, seamless adoption is something that can keep the firm ahead of the curve.

Companies who are willing to make a swift transition to newer technology are more likely to capture the potential market as quickly as anybody else. In addition to that, the quicker adoption of new technology ensures a competitive edge. The paradigm of global trading deters the approaches that advocate the non-acceptance of technological innovation. The swift adoption of new technology could help the firms to gain a competitive advantage and reap higher returns over investment in domestic as well as international market.

While making an in-depth analysis of the technological environment under International Business Environment, the organization must take the following parameters into account without exception. Those are as follows: -

i. Degree of technical development in the nation as a whole or particular business sector
ii. The pace of technological obsolescence.
iii. Sources from which technology is originated.
iv. Modes and constraints for technology transfer.
v. The rate at which technology is absorbed.

d. Cultural Environment in International Business

The cultural environment is the most complex and tricky component of the international business environment. The cultural environment is a demonstration of general believe and the values of the people residing in a particular country. You must also note that believe and the value is not inculcated overnight as their formation is based on years of history, religions, and language.

While this is a purely a generalized description, some renowned experts had explored this very topic and concluded that Cultural environment has four vital facets such as:

i. ***Individualism***: It is a degree to which a country values individual decision in making of any action.
ii. ***Power distance:*** It represents the country's approach toward acceptance of differences in power.
iii. ***Uncertainty avoidance:*** It represents the country's willingness to confront uncertainties.
iv. Masculinity

It is hard to believe, at least from general perception, that cultural aspect could be able to affect global trading in many ways. Moreover, the majority of the businesses that fail to survive in the international market often found of underestimating the impact of this specific element. Thus; overlooking such a trait could leave any business in a deserted situation.

While analyzing the cultural attributes, one must look into the following aspect, which are as follows: -

i. Society's approaches toward businesses.
ii. Influence of cultural factors on the product's acceptability.
iii. The lifestyle of people in a specific domain.
iv. Potential regarding the acceptability of change.
v. Value or beliefs attached to specific products.
vi. Consumption pattern of the buyers.

NOTE: International business is an exchange of goods and services that operates across national borders between two or more countries. International business is also known as Globalization, whereas a Business Environment is the surroundings where global companies operate.

2. The Systems in that affects International Business

The Business System:

Business systems of the nation defined the direction of the country toward the world economy. It is used to identify how they react to counter the economy environment. What makes a country grow and develop might refer to a few major aspects, like business systems, technology issues, political issues, etc. The economic development of a country is usually defined as the development of the economic wealth of the country. (UKEssays. 2018). Business systems is directly related to the economic development which directly affect the standard of living of the people in that particular country.

The business systems are well related to the economic growth of a country. It should be noted that economic growth is a term used to indicate the increase of per capita gross domestic product (GDP) or other measure of aggregate income. It is measured by the rate of change in GDP where the economic growth refers only to the quantity of goods and services produced.

The business system involves a network of activities concerned with production and distribution of goods and services for satisfaction of human needs. Business is a sub-system of the economic system of the country. The business system is engaged in the production and distribution and distribution of want satisfying goods and services as determined by the economic system. The business system must operate within the limits imposed by the economic system such as ownership and control of factors of production, property rights, price mechanism, economic plans etc.

The business system is composed of uncountable inter-locking sub-systems known as industrial and commercial firms, while each firm has further sub-systems such as production, marketing, finance, and personnel. The business system of a country cannot be studied without reference to the economic system of which it is a part of. So, business is influenced by the overall economic system consisting of ownership of factors of production, economic planning (centralized or decentralized), fiscal commercial and industrial policies of the Government, etc. (Check Business as part of the economy systems below).

The concept of business systems as launched by Whitley centre around the belief that firms do not act in a social vacuum, but are economic actors affected by numerous influences from the environment. Firms operate in markets, business sectors; must comply with laws and regulations, etc. Many of these influences are linked to the nation in which the firm is operating. A small number of influences can be geographically restricted to the home region of the firm, while another set of influences is linked to international institutions. However, most of the forces that determine the way firm act are strongly embedded in the national culture of the firm. There are a few reasons to take the state as the basic geopolitical unit for studying the operation of firms. States remain the primary unit of political competition and mobilization. Thus, individual and collective actors usually organize themselves at the national level to compete for state resources and legitimacy. (UKEssays 2018).

Business Systems is the model used to grow the country, it might be different from every country, and some might be the role model as the reference for the other. Different innovation systems reflect the variations in key institution like the nature of the state's economic role, their prevalent science and technology policies, the type of public science systems, the strength of business associations, labor unions and the institution governing capital markets and skill formation systems.

The national business system sets rules regarding companies and organizations. But are the business systems unique or global? According to Whitley, if the nation state remains the primary unit of political competition legitimacy and defining and upholding of private property rights, many characteristics of business systems will continue to vary significantly across national boundaries-albeit not always constituting highly integrated and consistent coordination and control systems. This is because the national distinctiveness of business systems is dependent on the extent to which characteristics of states are complementary in their implication for firms and markets. Modification of the business systems may be applied accordingly to the desire target and goal. Besides, it also relies on the active structuring and coordination of interest groups and their interrelationships with state agencies.

So, there are still many factors to be considered in dealing with the business systems. They include globalization, convergence, and economic integration. Convergence is the approach toward a definite value, a definite point, a common view or opinion, or toward a fixed or equilibrium state. Economic integration is the current trend of world economic developments; it is the nature of investment, trade, finance, technology, personnel, and rational distribution of free activities to promote the rapid development of productive forces. Economic usually integrated to globalization and regionalization in their own unique way, the process of economic integration, the two wheels driving the world economy and national economic development.

There is no doubt that there is always a Business Systems for a country. However, each country develops the system that suits their political and economic leanings, so reactions about the issues are dependent on the particular country, how to identify and deal with it. The differences in culture, geography, economic environment and development, globalization, etc., will significantly show the comparative analysis for each country.

The Political Systems

The study of political systems is extensive and complex. A political system is basically the system of politics and government in a country. It governs a complete set of rules, regulations, institutions, and attitudes. A main differentiator of political systems is each system's philosophy on the rights of the individual and the group as well as the role of government. Each political system's philosophy impacts the policies that govern the local economy and business environment.

There are more than thirteen major types of government, each of which consists of multiple variations. Let's focus on the overarching modern political philosophies. At one end of the extremes of political philosophies, or ideologies, is anarchism, which contends that individuals should control political activities and public government is both unnecessary and unwanted. At the other extreme is totalitarianism, which contends that every aspect of an individual's life should be controlled and dictated by a strong central government. In reality, neither extreme exists in its purest form. Instead, most countries have a combination of both, the balance of which is often a reflection of the country's history, culture, and religion. This combination is called pluralism, which asserts that both public and private groups are important in a well-functioning political system. Although most countries are pluralistic politically, they may lean more to one extreme than the other.

In some countries, the government controls more aspects of daily life than in others. While the common usage treats totalitarian and authoritarian as synonyms, there is a distinct difference. For the purpose of this discussion, the main relevant difference is in ideology. Authoritarian governments centralize all control in the hands of one strong leader or a small group of leaders, who have full authority. These leaders are not democratically elected and are not politically, economically, or socially accountable to the people in the country. Totalitarianism, a more extreme form of authoritarianism, occurs when an authoritarian leadership is motivated by a distinct ideology, such as communism. In totalitarianism, the ideology influences or controls the people, not just a person or party. Authoritarian leaders tend not to have a guiding philosophy and use more fear and corruption to maintain control.

Democracy is the most common form of government around the world today. Democratic governments derive their power from the people of the country, either by direct referendum (called a direct democracy) or by means of elected representatives of the people (a representative democracy). Democracy has a number of variations, both in theory and practice, some of which provide better representation and more freedoms for their citizens than others.

Did You Know?

It may seem evident that businesses would prefer to operate in open, democratic countries; however, it can be difficult to determine which countries fit the democratic criteria. As a result, there are a variety of institutions, including the *Economist*, which analyze and rate countries based on their openness and adherence to democratic principles.

There is no consensus on how to measure democracy, definitions of democracy are contested and there is an ongoing lively debate on the subject. Although the terms “freedom” and “democracy” are often used interchangeably, the two are not synonymous. Democracy can be seen as a set of practices and principles that institutionalize and thus ultimately protect freedom.

Even if a consensus on precise definitions has proved elusive, most observers today would agree that, at a minimum, the fundamental features of a democracy include government based on majority rule and the consent of the governed, the existence of free and fair elections, the protection of minorities and respect for basic human rights. Democracy presupposes equality before the law, due process and political pluralism.

To further illustrate the complexity of the definition of a democracy, the *Economist* Intelligence Unit’s annual “Index of Democracy” uses a detailed questionnaire and analysis process to provide “a snapshot of the current state of democracy worldwide for 165 independent states and two territories (this covers almost the entire population of the world and the vast majority of the world’s independent states (27 microstates are excluded).

Although almost half of the world's countries can be considered to be democracies, the number of "full democracies" is relatively low (only 30); 50 are rated as "flawed democracies." Of the remaining 87 states, 51 are authoritarian and 36 are considered to be "hybrid regimes." As could be expected, the developed OECD countries dominate among full democracies, although there are two Latin American, two central European and one African country, which suggest that the level of development is not a binding constraint. Only two Asian countries are represented: Japan and South Korea.

Half of the world's population lives in a democracy of some sort, although only some 14 percent reside in full democracies. Despite the advances in democracy in recent decades, more than one third of the world's population still lives under authoritarian rule.

What businesses must focus on is how a country's political system impacts the economy as well as the particular firm and industry. Firms need to assess the balance to determine how local policies, rules, and regulations will affect their business. Depending on how long a company expects to operate in a country and how easy it is for it to enter and exit, a firm may also assess the country's political risk and stability. A company may ask several questions regarding a prospective country's government to assess possible risks:

1. How stable is the government?
2. Is it a democracy or a dictatorship?
3. If a new party comes into power, will the rules of business change dramatically?
4. Is power concentrated in the hands of a few, or is it clearly outlined in a constitution or similar national legal document?
5. How involved is the government in the private sector?
6. Is there a well-established legal environment both to enforce policies and rules as well as to challenge them?
7. How transparent is the government's political, legal, and economic decision-making process?

While any country can, in theory, pose a risk in all of these factors, some countries offer a more stable business environment than others. In fact, political stability is a key part of government efforts to attract foreign investment to their country. Businesses need to assess if a country believes in free markets, government control, or heavy intervention (often to the benefit of a few) in industry. The country's view on capitalism is also a factor for business consideration. In the broadest sense, capitalism is an economic system in which the means of production are owned and controlled privately. In contrast, a planned economy is one in which the government or state directs and controls the economy, including the means and decision making for production. Historically, democratic governments have supported capitalism and authoritarian regimes have tended to utilize a state-controlled approach to managing the economy.

As you might expect, established democracies, such as those found in the United States, Canada, Western Europe, Japan, and Australia, offer a high level of political stability. While many countries in Asia and Latin America also are functioning democracies, their stage of development impacts the stability of their economic and trade policy, which can fluctuate with government changes.

Within reason, in democracies, businesses understand that most rules survive changes in government. Any changes are usually a reflection of a changing economic environment, like the world economic crisis of 2008, and not a change in the government players.

This contrasts with more authoritarian governments, where democracy is either not in effect or simply a token process. China is one of the more visible examples, with its strong government and limited individual rights. However, in the past two decades, China has pursued a new balance of how much the state plans and manages the national economy. While the government still remains the dominant force by controlling more than a third of the economy, more private businesses have emerged. China has successfully combined state intervention with private investment to develop a robust, market-driven economy—all within a communist form of government. This system is commonly referred to as "a socialist market economy with Chinese characteristics." The Chinese are eager to portray their version of combining an authoritarian form of government with a market-oriented economy as a better alternative model for fledging economies, such as those in Africa. This new combination has also posed more questions for businesses that are encountering new issues—such as privacy, individual rights, and intellectual rights protections—as they try to do business with China, now the second-largest economy in the world behind the United States. The Chinese model of an authoritarian government and a market-oriented economy has, at times, tilted favor toward companies, usually Chinese, who understand how to navigate the nuances of this new system. Chinese government control on the Internet, for example, has helped propel homegrown, Baidu, a Chinese search engine, which earns more than 73 percent of the Chinese search-engine revenues. Baidu self-censors and, as a result, has seen its revenues soar after Google limited its operations in the country. Rolfe Winkler, "Internet Plus China Equals Screaming Baidu," *Wall Street Journal*, November 9, 2010.

It might seem straightforward to assume that businesses prefer to operate only in democratic, capitalist countries where there is little or no government involvement or intervention. However, history demonstrates that, for some industries, global firms have chosen to do business with countries whose governments control that industry. Businesses in industries, such as commodities and oil, have found more authoritarian governments to be predictable partners for long-term access and investment for these commodities. The complexity of trade in these situations increases, as throughout history, governments have come to the aid and protection of their nation's largest business interests in markets around the world. The history of the oil industry shows how various governments have, on occasion, protected their national companies' access to oil through political force. In current times, the Chinese government has been using a combination of government loans and investment in Africa to obtain access for Chinese companies to utilize local resources and commodities. Many business analysts mention these issues in discussions of global business ethics and the role and responsibility of companies in different political environments.

Why Do Governments Intervene in Trade?

Governments intervene in trade for a combination of political, economic, social, and cultural reasons. Politically, a country's government may seek to protect jobs or specific industries. Some industries may be considered essential for national security purposes, such as defense, telecommunications, and infrastructure—for example, a government may be concerned about who owns the ports within its country. National security issues can impact both the import and exports of a country, as some governments may not want advanced technological information to be sold to unfriendly foreign interests. Some governments use trade as a retaliatory measure if another country is politically or economically unfair. On the other hand, governments may influence trade to reward a country for political support on global matters.

Political Environment in International Business

The political environment in international business consists of a set of political factors and government activities in a foreign market that can either facilitate or hinder a business' ability to conduct business activities in the foreign market. There is often a high degree of uncertainty when conducting business in a foreign country, and this risk is often referred to as political risk or sovereign risk.

Common Political Factors

Let's look at some common political factors that influence the international business landscape.

Businesses also must often contend with different governmental systems. Examples include democracies, authoritarian governments, and monarchies. Some governments are easier to work with than others. Democracies, for example, are answerable to their citizens and the rule of law.

Authoritarian regimes are usually answerable to no one, including the law. It is less risky to conduct business in democracies and constitutional monarchies, a monarchy with a constitution that protects the public and subjects the monarch to the rule of law, than in countries with authoritarian regimes.

The next major factor is trade agreements. Countries often enter into trade agreements to help facilitate trade between them. If your country has entered into a trade agreement with another country, conducting business in that country will usually be easier and less risky because the trade agreement will provide some predictability and protection. One great advantage, for example, is that your products will be subjected to fewer trade barriers that serve as obstacles to exporting your products into the country.

A trade barrier is simply anything that makes it harder for a company to export products to a foreign country. Formal trade barriers are enacted by governments for the purpose of restricting imports to protect a country's domestic industries. Formal trade barriers include tariffs, which are taxes on imports that helps make domestic products more competitive and product quotas that limit the number of products imported into the country.

Businesses may also have to deal with informal trade barriers. Governments may impose regulations that aren't primarily promulgated as barriers to trade but have the same effect.

Examples can include specific product standards and health and safety standards that businesses will be required to meet before the products can be sold.

How Do Governments Intervene in Trade?

While the past century has seen a major shift toward free trade, many governments continue to intervene in trade. Governments have several key policy areas that can be used to create rules and regulations to control and manage trade.

i. **Tariffs.** Tariffs are taxes imposed on imports. Two kinds of tariffs exist—specific tariffs, which are levied as a fixed charge, and ad valorem tariffs, which are calculated as a percentage of the value. Many governments still charge ad valorem tariffs as a way to regulate imports and raise revenues for their coffers.

ii. **Subsidies.** A subsidy is a form of government payment to a producer. Types of subsidies include tax breaks or low-interest loans; both of which are common. Subsidies can also be cash grants and government-equity participation, which are less common because they require a direct use of government resources.

iii. **Import quotas and VER.** Import quotas and voluntary export restraints (VER) are two strategies to limit the amount of imports into a country. The importing government directs import quotas, while VER are imposed at the discretion of the exporting nation in conjunction with the importing one.

iv. **Currency controls.** Governments may limit the convertibility of one currency (usually its own) into others, usually in an effort to limit imports. Additionally, some governments will manage the exchange rate at a high level to create an import disincentive.

v. **Local content requirements.** Many countries continue to require that a certain percentage of a product or an item be manufactured or “assembled” locally. Some countries specify that a local firm must be used as the domestic partner to conduct business.

vi. **Antidumping rules.** Dumping occurs when a company sells product below market price often in order to win market share and weaken a competitor.

vii. **Export financing.** Governments provide financing to domestic companies to promote exports.

viii. **Free-trade zone.** Many countries designate certain geographic areas as free-trade zones. These areas enjoy reduced tariffs, taxes, customs, procedures, or restrictions in an effort to promote trade with other countries.

ix. **Administrative policies.** These are the bureaucratic policies and procedures governments may use to deter imports by making entry or operations more difficult and time consuming.

The Economic System

The type of **economic system** a country builds is a political choice. Foreign countries often will have different economic systems from your domestic market and adjustments often need to be made to take these differences into account.

For example, a country may operate in a **market economy** where private individuals own most of the property and operate most of the businesses. A market economy is usually the best economic environment for a foreign business because of the protection of private property and contract rights.

Some countries lean more towards a **socialist economy** where many industries and businesses are owned by the state. Operating businesses in this environment will be more difficult, but products can still be produced and sold as people still pick their jobs and earn money.

A few countries operate under a **communistic economic system** where the state pretty much controls all aspects of the economy. Conducting business in this environment ranges from difficult to impossible.

Of course, the reality is that all economies are **mixed economies** that take parts from two or more of the 'pure' economic systems. For example, you can conduct business in communist China in Hong Kong and other special areas where a market economy is allowed to operate.

Business as a part of Economic System

The economic system of a nation represents the network of economic institutions for the organization of national economic resources to satisfy the needs of the people. But the business system involves a network of activities concerned with production and distribution of goods and services for satisfaction of human needs. Thus, the economic system is a broader system consisting of business firms and government institutions which direct and facilitate the utilization of economic resources.

Business is a sub-system of the economic system of the country. Business system is engaged in the production and distribution and distribution of want satisfying goods and services as determined by the economic system. It may be noted that economic system aims at utilizing the limited national resources to meet the unlimited wants of the people. That is why, the economic system determines the pattern of utilization of national resources by the business firms. In other words, the business system must operate within the limits imposed by the economic system such as ownership and control of factors of production, property rights, price mechanism, economic plans etc.

The business system is composed of uncountable inter-locking sub-systems known as industrial and commercial firms. Each firm has further sub-systems such as production, marketing, finance and personnel. The economic system of the country (say capitalist, socialist or mixed system) exerts the most pervasive influence on the structure, organization and operations of these firms. Therefore, the business system of a country cannot be studied without reference to the economic system of which it is a part. The economic system of the country provides economic environment of business. Business is influenced by the overall economic system consisting of ownership of factors of production, economic planning (centralized or decentralized), fiscal commercial and industrial policies of the Government, etc.

Under a capitalist economy, business is largely operated by entrepreneurs for private profit. Decisions relating to production, distribution and consumption are made through market forces of demand and supply without much interference by the Government. But in a communist or socialist economy, all business decisions are dictated and regulated by the central agencies of the Government. The business cannot take independent decisions here. However, in a mixed economy like India, the businessmen have freedom of choice and action in certain industries. Some industries are reserved exclusively for the public sector. The private sector business enterprises have to be guided by the Government budgetary, industrial and commercial policies. They are also expected to pursue their social responsibilities as they operate under the socio-economic environment.

The Socio-Cultural system

A socio-cultural system is a confluence of three structures: society, culture, and system, where society utilizes the set of learned behaviors that are shared by its members, along with the material products of such behaviors, for the general betterment. A socio-cultural system is a physical and/or theoretical structure where humans interact in society using their culture. Socio-cultural factors influence people's feelings, values, beliefs, behaviors, attitudes, and interactions. Examples include social classes, religious beliefs, wealth distribution, language, business practices, social values, customer preferences, social organization, and attitude towards work. The major systems shaping the societies are education, family, politics, religion, law, arts, and leisure.

Socio-cultural systems are the building blocks of society. They are the structure for where humans share (social) experiences (culture) which can then be learned from used to their advantage in order to better their society. Stemming from the anthropological background, there are countless examples of humans bettering their society through socio-cultural systems. Some of the major systems that are leading society are religion, education, politics, and law. While these are the more well-known systems there are subsystems that support the major ones. One way to think about it is the infrastructure that holds up the city, for example, marriage is vitally important for religion.

The concept of a socio-cultural system is often attributed to cultural materialism. According to this model, human societies are broadly comprised of an ‘infrastructure’, a ‘structure’, and a ‘superstructure’ [Elwell et al, 2022].

Marvin Harris, a leading pioneer of socio-cultural studies, explained ‘infrastructure’ as consisting of the systems of production and reproduction [Harris, 1979]. While production explains the conversion of energy and raw materials for consumption, reproduction deals with issues like demographics, population growth or decline, birth control, and sexual or mating behavior, among other aspects. Other socio-cultural factors include approaches to politics and the economy, values, beliefs, recreation, art, rituals, and science [Elwell et al., 2022, Harris, 1979].

As a result, studies have examined socio-cultural factors from a myriad of perspectives. For example, Troshin et al. [2020) examined the impact of socio-cultural factors on the manufacturing and innovation activities of enterprises. Barreto et al. [2022] investigated the relationship between socio-cultural temporal orientation and levels of innovation. Tekic and Tekic [2021] analyzed how

Hofstede's dimensions interact to influence national innovation performance. The socio-cultural factors in their analysis include traditional economic practices, family size, marriage rates, and number of children [Tekic and Tekic, 2021]. The study by Barreto et al. [2022] highlighted the importance of modelling the impact of socio-cultural factors on innovation, and described how these factors define the competitiveness of national economies.

Society and culture have an impact on every aspect of the overseas business of multinational companies. Although society and culture are not directly included in business operations, they indirectly appear as key elements in shaping how the business is managed, from what goods are produced, and how and through what means they will be sold, to the establishment of managerial and operational patterns and the determination of the success or failure of foreign subsidiaries. Consequently, multinational companies should be aware of predominant attitudes, values, and beliefs in each host country were decided to expand their business activities. Differences in attitudes and values among management of a parent company and expatriate managers at the subsidiary level, on the one hand, and managers and employees in host countries, on the other, can contribute to serious functional problems (Ajami, Cool et al, 2006 in Masovic, 2018).

The socio-cultural environment is important for multinational companies. There are various socio-cultural factors that significantly affect the economic activity as well as the performance of multinational companies. The key socio-cultural factors that have a major impact on the operation of the multinational companies are (Trehan and Trehan, 2009 in Masovic, 2018):

a) Culture;

b) Language;

c) Religion;

d) Level of education;

e) Customer preferences;

f) The attitude of the society towards foreign goods and services.

Socio-cultural factors are beyond the control of the managers of a foreign subsidiary. Consequently, in order to evaluate the actual performance of its foreign subsidiary, a multinational company should anticipate the impact of all socio-cultural factors that are beyond the control of the subsidiary's managers. When assessing the managerial performance, on the other hand, a multinational company should disregard the impact of the sociocultural factors that are beyond the control of the subsidiary's managers (Drury, 2012 in Masovic, 2018).

The Technological System

Science and Technology hold the key to the progress and development of any nation. In this regard, technology plays a fundamental role in wealth creation, improvement of the quality of life and real economic growth and transformation in any society. Science, technology and the development of nations and society are all proportional to each other.

Nowadays, development is always linked with technological disruption, and it happens when there is advancement in the scientific field. The role of science and technology in national development cannot be overemphasised. Indeed, science and technology have been central to the progress and development of virtually all the nations of the world. It contributes immensely to various sectors of the economy. Science and technology are intimately connected with development because and share a symbiotic relationship. It leads to healthier, longer, wealthier and more productive lives and alleviation of poverty becomes possible. The many ways in which science and technology impact poverty alleviation across various sectors and economic growth merit attention.

Technology can be broadly classified into two major categories namely:

1. **Material Technology**- where knowledge is embedded into technological products such as tools, equipment, agro-chemicals, improved plant varieties or hybrids, improved breeds of animals and vaccines.
2. **Knowledge-Based Technology-** such as technical knowledge, management skills and other processes which are needed to successfully produce products or grow crops.

Science and technology is playing a great role in all facet of country's life. In the economy, education, agriculture, health, telecommunication, power/energy sector, and space exploration amongst others. While a single piece of technology often overlaps into different areas, there are generally six different categories of technology: communication, electrical, energy, manufacturing, medical and transportation.

CATEGORY	AREAS
Communication	Television Internet Cell phones
Electrical	Computers Circuitry Artificial Intelligence Software Audio/Visual Technology
Energy	Solar panels Wind turbines Batteries
Mechanical	Manufacturing Heavy engineering
Medical	Diagnostics Pharmaceuticals Surgical Monitoring
Transportation	GPS Flight & Aviation Vehicles E-commerce

Role of Science and Technology in Economic Growth:

In economics, it is widely accepted that technology is the key driver of the economic growth of countries, regions and cities. Technological progress allows for the more efficient production of more and better goods and services, which is what prosperity depends on. The role of technology in economic development can be summarised as follows:

i. **Time is Money:** Technology can save the time it takes to produce a good or deliver a service, contributing to the overall profits of a business.

ii. **Efficiency:** Technology can contribute to the efficiency of a business's output rate, allowing for larger quantities of products to be moved or of services to be rendered.
iii. **Specialization:** Technology has to lead to an increase in the division of labour and specialization of jobs within a business, further contributing to the efficiency with which a business can run.
iv. **Natural Resources:** Technology has a huge effect on the ability of businesses and governments to access natural resources and use them in the most effective ways possible to benefit both the business and the economy.
v. **Industrial Expansion:** Thanks to the increased efficiency of labour with the ever-improving state of technology, businesses can increase total output, which in turn leads to higher profits and greater economic development.
vi. **Research:** Better technology has led to further research into nearly every sector of business and science, meaning businesses can benefit from all sorts of technological advancements.
vii. **The Internet and International Trade**: Information technology is the single most important element in the success and growth of international trade and job market growth, allowing businesses to share information and conduct trade in less time than the blink of an eye.

Nation-building refers to how national identities are constructed and communicated. The term nation-building is often used simultaneously with state-building, democratization, modernization, politicaldevelopment, post-conflict reconstruction, and peacebuilding. Nation-building can take many forms, including education policies or major infrastructure development to trigger economic growth and political stability. Nation-building is a challenge in post-colonial states, especially in territories that were primarily used by the colonial power to extract resources or obtain other economic benefits.

The Internet and other advances in communication technology have helped make the spreading of globalization even quicker. For developing countries, access to technology can have many benefits — one such improvement being the boost of a nation's economy. Other ways that technology is helping economies in developing countries include reducing the costs of production, encouraging the growth of new business, and advancing communication.

According to Deanna Wetmore writing in borgenproject blog on 'how technology is helping economies in developing countries,' "an issue that developing countries must bypass is prioritizing technology innovation, not just adapting to technology. Another issue is that the distribution of technology needs to be equal across a country; so far, the poor have not been able to have the same amount of access to technology. It is important for organizations to monitor technology and to encourage innovations and job creation in order to solve these issues."

When technology is used correctly it can be extremely helpful in furthering the prosperity of economies. One such example of technology creating a positive impact on the economy is in regard to India — the Self-Employed Women's Association uses SMS to send agricultural workers messages about commodity prices. This information helps farmers determine the best places to sell their produce. Farmers who participated in this program have said that they have been able to sell their products over wider areas, which has increased their incomes.

Other countries successful in creating businesses are Nigeria, Egypt and Indonesia. 38 percent of these countries' gross domestic product (GDP) was generated by micro-entrepreneurs. In a 2011 World Bank report, figures showed that small businesses like these create new jobs and generate new ideas — both of which are great for helping economies. Technological advancement is unambiguously correlated with globalization. The information age has increased the rate of globalization like never before, as the rapid expansion of the Internet creates an irreversibly networked world.

The adoption of technology by developing countries has had profound effects on their economies, such as reducing the national costs of production, establishing standards for quality, and allowing individuals to communicate from a distance. Unfortunately, the current process remains one of adaptation, rather than innovation. In addition, the need for technologies appropriate to the capabilities of a developing country's poor has only recently been recognized. One major challenge to the diffusion of technology in low-income nations that persists is its uneven distribution and penetration within the country.

The Legal Systems

In many places, legal systems evolve at two different paces – the first, in response to gradual changes to society and national attitudes, and the second, at a rapid speed if a major national or political event – for example, a political revolution or conflict – happens to occur. Unique geographical, historical, and political events can also have a huge effect on the legal system used by a country. Since the beginning of civilisation, legal systems have been essential for providing the rules of government, solving disputes, limiting social instability, and maintaining ethical standards of fairness and justice.

A simple definition of legal systems could be *"the laws that govern a certain country and the way and standard with which they are used."* A more advanced description is necessary, however, to understand the true complexity and value of legal systems.

In almost all cases, legal systems in every country involve five key features that both establish and limit their power:

i. A national constitution, whether written or oral.
ii. Legislation, laws, and statutes that are prepared and authorised by a governing body, whether it takes the form of a parliament or a Senate.
iii. Subordinate laws, sometimes known as bylaws, prepared, and authorised by a network of bodies that are granted powers by the primary legislation.
iv. Traditions, customs, and established behaviours practiced by the courts to create a consistent legal environment.
v. A Civil, Common, or other code of laws that forms the primary source of principles and legal practices. In some legal systems, this may be based on a religious system.

Of these features, the final one – the country's code of laws – that does the most to define the legal system and influence the way it operates inclusive of businesses.

The Main Kinds of Legal Systems

In essence, there are three main kinds of legal systems—common law, civil law, and religious or theocratic law. Most countries have a combination of these systems, creating hybrid legal systems.

Civil law is based on a detailed set of laws that constitute a code and focus on how the law is applied to the facts. It's the most widespread legal system in the world.
Common law is based on traditions and precedence. In common law systems, judges interpret the law and judicial rulings can set precedent.

Religious law is also known as theocratic law and is based on religious guidelines. The most commonly known example of religious law is Islamic law, also known as Sharia. Islamic law governs a number of Islamic nations and communities around the world and is the most widely accepted religious law system. Two additional religious law systems are the Jewish Halacha and the Christian Canon system, neither of which is practiced at the national level in a country. The Christian Canon system is observed in the Vatican City.

The most direct impact on business can be observed in Islamic law—which is a moral, rather than a commercial, legal system. Sharia has clear guidelines for aspects of life. For example, in Islamic law, business is directly impacted by the concept of interest. According to Islamic law, banks cannot charge or benefit from interest. This provision has generated an entire set of financial products and strategies to simulate interest—or a gain—for an Islamic bank, while not technically being classified as interest. Some banks will charge a large up-front fee.

Many are permitted to engage in sale-buyback or leaseback of an asset. For example, if a company wants to borrow money from an Islamic bank, it would sell its assets or product to the bank for a fixed price. At the same time, an agreement would be signed for the bank to sell back the assets to the company at a later date and at a higher price.

The difference between the sale and buyback price functions as the interest. In the Persian Gulf region alone, there are twenty-two Sharia-compliant, Islamic banks, which in 2008 had approximately $300 billion in assets. (Malik 2008).

Clearly, many global businesses and investment banks are finding creative ways to do business with these Islamic banks so that they can comply with Islamic law while earning a profit.

What is the future of the different legal systems? The legal systems of all countries, whether English speaking and Western or based on ancient religious laws, are determined by a combination of history, culture, and politics. Since no culture is set in stone, no country's legal system is incapable of adapting to changes in political or cultural circumstances, or trends that affect the existing legal system and require change. As technology allows the world to become increasingly more global, an interesting question is emerging regarding the nature of dispute resolution in the future. Will disputes be settled in a Civil Law system or a Common Law system? Currently, the European Union and the United Nations are working towards an international legal system that bridges the gap between nations for international dispute resolution.

11.5 Challenges/Barriers to Effective International Business Administration

The IBE is complex and dynamic, making it challenging for companies to predict the outcomes of their decisions accurately. According to Reinhardt says in Global Business, "although international business is extremely exciting, it can also be risky."This is "because every country has its own government, policies, laws, cultures, languages, currency, time zones, and inflation rate, navigating the global business landscape can be difficult". According to him, there are some barriers/challenges to IBE for consideration:

a) **Varying Trade Regulations:** International trade regulations and policies differ from country to country, making it difficult for companies to comply with them universally.
b) **Competitive Markets:** International markets tend to be highly competitive due to variations in economic environments, political stability, and cultural preferences across different countries.
c) **Language Barriers:** Language barriers can pose significant obstacles when conducting international business, notably if a company needs more personnel knowledgeable about different cultures and languages.
d) **Cost Fluctuations:** International businesses may face higher production or transportation costs due to exchange rate fluctuations or taxes imposed by foreign countries on imported goods.
e) **Intellectual Property Protection:** Intellectual property protection can be challenging in foreign markets as laws vary from country to country. It is subject to political instability and other external factors that can negatively affect a company's operations.
f) **Currency Exchange and Inflation Rates:** The value of a dollar in your country won't always equal the same amount in other countries' currency, nor will the value of currency consistently be worth the same amount of goods and services. Familiarize yourself with currency exchange rates between your country and those where you plan to do business. The exchange rate is the relative value between two nation's currencies.

g) **Nuances of Foreign Politics, Policy, and Relations**: Business doesn't exist in a vacuum—it's influenced by politics, policies, laws, and relationships between countries. Because those relationships can be extremely nuanced, it's important that you closely follow news related to countries where you do business. The decisions made by political leaders can impact taxes, labor laws, raw material costs, transportation infrastructure, educational systems, and more.

h) **Managing Global Teams:** In international business, managing employees who live all over the world is a great challenge. When trying to function as a team, it can be difficult to account for language barriers, cultural differences, time zones, and varying levels of technology access and reliance. To build and maintain a strong working relationship with your global team, facilitate regular check-ins, preferably using a video conferencing platform so you can interact in real time. (HBS).

To navigate the IBE successfully, companies need a comprehensive understanding of its intricacies before entering foreign markets. This includes knowledge of local regulations, cultural backgrounds, and competitive landscapes. By doing so, they can minimise risks associated with international business and leverage potential opportunities that come with operating in multiple markets.

11.6 Foreign Exchange Market

According to Cross (1998), foreign exchange is money denominated in the currency of another nation or group of nations. The market in which these transactions take place is known as the foreign – exchange market.

The foreign exchange market is a market for converting the currency of one country into that of another country. Foreign exchange can be in the form of cash, funds available on credit and debit cards, traveler's checks, bank deposits, or other short-term claims.

Furthermore, the foreign exchange market is the market in which currencies of different countries are bought and sold by individuals, firms, banks, and foreign exchange brokers (Dwivedi, 2002).

To Morrison (2006), the exchange rate is the number of units of one currency that are needed to purchase one unit of another currency. Also, an exchange rate is simply that rate at which one currency is converted into another.

Simply, an exchange rate is the price of a currency. It is the number of units of one currency that buys one unit of another currency, and this number can change daily.

Moreover, an exchange rate represents the number of units of one currency needed to acquire one unit of another currency. When firms carry out transactions across national borders, the need to convert from one currency to another arises leading to cross-border currency flows. The mechanisms for paying in other currencies are referred to as foreign exchange.

In reality, without the foreign exchange market, international trade and international investment today would be impossible, companies would have to resort to barter, hence, the foreign exchange market is the lubricant that enables companies based in countries that use different currencies to trade with each other.

In summary, managers must understand how governments set an exchange rate and what and when the rate is likely to change. Such understanding can help them both anticipate exchange – rate changes and make decisions about business factors that are sensitive to those changes, such as the sourcing of raw materials and components, the placement of manufacturing and assembly, the choice of final markets, etc.

Functions of the Foreign Exchange Market

There are two (2) main functions which foreign exchange market serves as noted by Weisweiller (1990), these are:

(a) To convert the currency of one country into the currency of another, and

(b) To provide some insurance against foreign exchange risk, by which we mean the adverse consequences of unpredictable changes in exchange rates.

Other functions of foreign exchange market according to Dwivedi (2002) are:

(c) In the process of its working, the foreign exchange market transfers funds (i.e., foreign currency) from one country to another where they are needed in the settlement of payments,

(d) It provides short-term credit to the importers, and thereby, facilitates the smooth flow of goods and services from one country to another, and

(e) The spot and forward markets work in such a way that helps often in stabilising the foreign exchange rate.

Foreign – Exchange Instruments

Traditionally, there exists three (3) foreign – exchange instruments, these three (3) instruments are:

(i) Spot transactions,

(ii) Outright forward transactions,

(iii) FX swaps.

(i) **Spot Transactions** – these involve the immediate exchange of currency, which is generally made on the second business day after the date on which the two foreign – exchange dealers agree on the transaction. The rate at which the transaction is settled is known is the spot rate.

(ii) **Outright Forward Transactions** – these involve the exchange of currency on a future date. It is the single purchase or sale of a currency for future delivery. The rate at which the transaction is settled is the forward rate and is a contract rate between the two parties. The forward transaction will be settled at the forward rate no matter what the actual spot rate is at the time of settlement.

(iii) **FX Swap** – here, one currency is swapped for another on one date and then swapped back on a future date. Most often, the first leg of a FX swap is a spot transaction, with the second leg of the swap a future transaction.

Other foreign exchange instruments according to Cross (1998) are:

(iv) **Currency swaps** – these deal with interest – bearing financial instruments (e.g. bond), and they involve the exchange of principal and interest payments. Currency swap is the simultaneous purchase and sale of a given amount of foreign exchange for two (2) different value dates.

(v) **Options** – are the right not the obligation to trade foreign currency in the future.

(vi) **A futures contract**- is an agreement between two parties to buy or sell a particular currency at a particular price, on a particular future date, as specified in a standardized contract to all participants in that currency futures exchange.

Nature, Participants and Structure of Foreign Exchange Market

The foreign exchange market is not located in any one place. It is a global network of banks, brokers, and foreign exchange dealers connected by electronic communications systems.

When companies wish to convert currencies, they typically go through their own banks rather than entering the market directly. The foreign exchange market has been growing at a rapid pace, reflecting a general growth in the volume of cross-border trade and investment.

There are three (3) main features of the foreign exchange market, these are:

i. The market never sleeps.
ii. The integration of the various trading centers, i.e., high – speed computer linkages between trading centers around the globe have effectively created a single market, hence, the integration of financial centers implies there can be no significant difference in exchange rates quoted in the trading centers.
iii. Another feature of the foreign exchange market is the important role played by the US dollar. Although a foreign exchange transaction can involve any two (2) currencies, most transactions involve dollars on one side. This is true even when a dealer wants to sell a non-dollar currency and buy another. Due to its central role in so many foreign exchange deals, the dollar is a vehicle currency.

The foreign exchange market is made up of the following (i.e., the participants):

i. Central banks,
ii. Brokers,
iii. Commercial banks,
iv. Exporters,
v. Importers,
vi. Investors,
vii. Tourists,
viii. Immigrants, etc.

11.7 Foreign Direct Investment

Foreign Direct Investment – this takes into consideration the following:

1. Assembly,
2. Joint ventures,
3. Strategic alliances,
4. Equity alliances,
5. Wholly owned overseas production/subsidiary, etc.

1. **Assembly** – this involves the last stages of manufacture and usually depends on the ready supply of components shipped from another overseas country(ies). The key figures in this practice are the world's major car manufacturers who have create integrated component supply and assembly from completely knocked down operations, often referred to as 'screwdriver plants' to extensive deconstruction arrangements with specialized components, gearboxes, engines, etc, being made in highly automated plants then shipped to a common assembly point – usually within a region (e.g., African and European Union). A good example of this is the production of the new Mercedes Benz C Class motor.

   Often, the governments of some countries force manufacturers into assembly operations by banning the import of fully made – up vehicles.

2. **Joint Venture** – means establishing a firm that is jointly owned by two or more otherwise independent firms. A joint venture may be:
   - i. a corporate entity formed by an international company and local owners,
   - ii. a corporate entity formed by two international companies for the purpose of doing business in a third market,
   - iii. a corporate entity formed by a government agency (usually in the country of investment) and an international firm, or
   - iv. a cooperative undertaking between two or more firms of a limited duration project.

   In joint ventures, two companies decide to get together and form a third company that is co-owned (not necessary equally). The third company then is an entity in itself and the proceeds or gains (and pitfalls or losses) are jointly shared according to the proportion of ownership. Generally, the two parties contribute complementary expertise of resources to the joint company.

However, it is worthy of note that if only two companies participate, it is called joint venture, but when more than two organisations participate, the joint venture is sometimes called a **consortium.**

The following are major examples of joint venture or possible combinations of business internationally:

i. two companies from the same country joining together in a foreign market,
ii. a foreign company joining with a local company,
iii. companies from two or more countries establishing a joint venture in a third country,
iv. a private company and a local government forming a joint venture, this is sometimes called a mixed venture,
v. a private company joining a government – owned company in a third country, etc.

Furthermore, the following factors account for the attractiveness or attractive option of joint ventures by international companies:

i. Technological development is very expensive but necessary to achieve breakthroughs. Companies collaborate increasingly due to this factor.

ii. Many countries restrict foreign ownership. For example, countries like China, India, South Korea, are among those countries who insist on a form of joint venture.

iii. Complementary management or skills and especially finance deals have led to new companies being jointly formed.

iv. Rapid internationalization of many markets is beyond the resources of many major companies. Cooperation on production, distribution, and marketing have brought a lot of benefits.

In addition, many hi-tech companies are now forging joint venture links so as to cut the costs of development and speed up market development.

Advantages of Joint Venture

i. A firm benefit from a local partner's knowledge of the host country's competitive conditions, culture, language, political systems, and business systems.

ii. When the development costs or risks of opening a foreign market are high, a firm might gain by sharing these costs and/or risks with a local partner.

iii. In many countries, political considerations make joint ventures the only feasible entry mode. Research suggests joint ventures with local partners face a low risk of being subject to nationalization or other forms of adverse government interference. This appears to be because local equity partners, who may have some influence on host-government policy, have a vested interest in speaking out against nationalization or government interference (Bradley, 1977).

Disadvantages of Joint Venture

i. The partners might disagree over investment, marketing, or other policies. For instance, one partner might want to re-invest earnings for growth, and the other partner might want to declare more dividends.

ii. Also, joint ventures can prevent a multinational company from carrying out specific manufacturing and marketing policies on a world-wide basis.

iii. And with licensing, a firm that enters into a joint venture risks giving control of its technology to its partner.

iv. A joint venture does not give a firm the tight control over subsidiaries that it might need to realize experience curve or location economies, nor does it give a firm the tight control over a foreign subsidiary that it might need for engaging in coordinated global attack against its rivals.

v. Another disadvantage of joint ventures is that the shared ownership arrangement can lead to conflicts and battles for control between the investing firms if their goals and objectives change or if they take different views as to what the strategy should be.

3. **Strategic Alliances** – are partnerships between competitors, customers, or suppliers that may take one or more of various forms. Faced with expanding global competition, the growing cost of research, product development and marketing, and the need to move faster in carrying out their global strategies, many firms are forming strategic alliances with customers, suppliers, and competitors.

A strategic alliance is a "swap shop" between two or more organisations who agree to cooperate strategically to the mutual benefit of both or all parties to the arrangement.

Strategic alliance can also be referred to as competitive alliance, competitive collaboration, or competition to reflect the simultaneous existence of collaborative and competitive forces in the relationship among the partners. Thus, alliances include various types of the partnerships.

The main aims of strategic alliances are:

i. to achieve faster market entry and start-up,
ii. to gain access to new products, technologies, and markets, and
iii. to share costs, resources, and risks.

Furthermore, the following are the forces or factors underpinning or influencing the creation of strategic alliances:

i. high research and development costs,
ii. pace of innovation and market diffusion,
iii. concentration of firms in mature industries,
iv. insufficient resources to exploit new technological break throughs,
v. government cooperation,
vi. regionalization,
vii. the fast-developing global consumer,
viii. self-protection against predators,
ix access to otherwise difficult markets, etc.

Note:

A strategic alliance is different from a joint venture in that there it often no equity involvement, no separate organisation is created under strategic alliance, but under joint venture, there is equity involvement and separate organisation is created.

Like joint ventures, strategic alliances need to be considered carefully before entering into the agreement. They should either be seen as a short-term, stop-gap arrangement, or as a long-term partnership.

4. **Equity Alliance** – is a collaborative arrangement in which at least one of the collaborating companies takes an ownership position (almost always minority) in the other(s).

   The purpose of equity alliances is to solidify a collaborating contract, such as a supplier – buyer contract, so, it is more difficult to break-particularly if the ownership is large enough to secure a broad membership for the investing company. A very good example of industry that patronises/epitomizes the use of equity alliances is the airline industry.

5. **Wholly Owned Overseas Production/Subsidiary** – is a subsidiary in which the firm owns 100% of the stock. Generally, a company that wishes to own a foreign subsidiary outrightly may:
   i. start from the ground up by building a new plant, or
   ii. acquire a going concern, or
   iii. purchase its distributor, thus obtaining a distribution network familiar with its products.

According to Hennart and Park (1993), there are two (2) alternative ways of establishing a wholly owned subsidiary in a foreign market, these two (2) alternative ways are through either:

i. **Greenfield venture** – i.e., setting up a new operation in a foreign country, or,
ii. **Acquisition** – i.e., acquiring an established firm in that host nation and use that firm to promote its products.

Advantages of Wholly Owned Subsidiaries

i. The firm secures cost economies in the form of cheaper labour or raw-materials, foreign – government investment incentives, and freight savings.
ii. The firm strengthens its image in the host country because it creates jobs.
iii. The firm develops a deeper relationship with government, customers, local suppliers, and distributors, this enables such firm to adapt its products better to the local environment.
iv. The firm retains full control over its investment and, thus, can develop manufacturing and marketing policies in order to achieve its long-term international objectives.
v. The firm assures itself access to the market in case the host country starts insisting that locally purchased goods have domestic content.

vi. When a firm's competitive is based on technological competence, a wholly-owned subsidiary will often be the preferred entry mode because it reduces the risk of losing control over that competence.
Many high-tech firms, for example prefer this entry mode for overseas expansion.

vii. A wholly owned subsidiary gives a firm tight control over operations in different countries. This is necessary for engaging in global strategic coordination (i.e., using profits from one country to support competitive attacks in another country).

Disadvantages of Wholly Owned Subsidiaries

i. Establishing a wholly owned subsidiary is generally the costliest method of serving a foreign market from a capital investment point of view. Firm doing this must bear the full capital costs and of setting up overseas operations.
ii. Although the risks associated with learning to do business in a new culture are less if the firm acquires an established host-country enterprise, however, acquisitions raise additional problems; including those problems associated with trying to marry divergent corporate cultures.
iii. The firm, also, exposes a large investment to risk such as blocked or devalued currencies, worsening markets, or expropriation.
iv. The firm will find it expensive to reduce or close down its operations, because the host country might require substantial severance pay to the employees.

11.8 Tariffs

Tariff Barriers – are the oldest and simplest instruments of trade policy. A tariff (also called a duty) is the most common type of trade control and a tax that governments levy on goods shipped internationally.

Furthermore, a tariff is a tax levied on imports (or exports). A tariff also is a tax on goods that are shipped internationally. The most common is the import tariff which is levied on goods shipped into a country. Less common is the export tariff, for goods sent out of the country, or a transit tariff for goods passing through the country. These taxes are levied on a number of bases.

Tariffs are also duties imposed by the government on imported goods, which protect producers; used heavily in agriculture sector. Tariffs fall into three (3) categories, these are:

a. **Specific duty /tariff** – is levied as a fixed charge for each unit of a good imported. A specific duty is a tariff based on units, such as N10 for each item shipped into the country, thus, a manufacturer shipping in 1000 pairs of shoes would pay a specific duty of N10,000.

b. **Ad Valorem duty/ tariff** – is levied as a proportion of the value of the imported goods. An ad Valorem duty is a tariff based on a percentage of the value of the items, for example, a watch valued at N=2,500 and carrying a 10% duty would have a tariff of N=250.

c. **Compound duty** – is a tariff consisting of both a specific and an ad Valorem duty, for example, a suit of clothes valued at N80 that carries a specific duty of N3 and an ad Valorem duty of 5% (i. e, 5% of N=80 = N=4), would have a compound duty of N=7, (i.e specific duty = N=3 + advalorem duty = N=4, totally N=3 + N=4 = N=7).

Generally, governments use tariffs to:

i. raise revenue for the government, and

ii. protect local industry or domestic producers from foreign competition by raising the price of imported goods.

11.9 Exporting and Importing Regulations and Documentations

In the broadest sense, **exporting** is regarded as the sale of goods or services produced by a company based in one country to customers that reside in a different country.

On the other hand, **importing** is the purchase of goods or services by a company based in one country from sellers that reside in another country(ies).

According to Chadee and Mattson (1998), particular aspects of services present situations that can make it a bit tougher to define exporting and importing. Engineering contractors, such as Julius Berger, are said to export services when they construct buildings, roads, utilities, airports, seaports, or other forms of infrastructure in a foreign country. Also, consultants, such, Arthur Andersen, export when they perform services for foreign clients.

However, many people believe that exporting is done only by small firms that lack the capital to establish overseas manufacturing facilities. Likewise, they assume that the large multi-nationals do not export because they supply their foreign markets from local production. This is not the case.

In summary, exporting is the most attractive way to increase sales or acquire competitively useful assets in foreign markets. Exporting requires a significantly lower level of investment than other modes of international expansion, such as Foreign Direct Investment (FDI). The lower risk of export typically results in a lower rate of return on sales than possible through other modes of international business, in other words, the usual return on export sales may not be tremendous, but neither is the risk.

In all, exporting allows managers to exercise operational control but does not provide them with the option to exercise as much marketing. An exporter usually resides far from the end consumer and often enlists various intermediaries to manage marketing and service activities (Agarwal and Ramaswami, 1992).

Reasons for Exporting.

(a) To serve markets where:
- the firm has no production facilities, or
- the local plant does not produce the firm's complete product mix.

(b) To satisfy a host government's requirement that the local subsidiary export,
(c) To remain competitive in the home market,
(d) To test foreign markets and foreign competition inexpensively,
(e) To meet actual or prospective customers' requests for the firm to export,
(f) To offset cyclical sales of the domestic market,
(g) To achieve additional sales, which allow the firm to use its excess production capacity to lower unit fixed costs,
(h) To improve equipment utilization rates,
(i) To take part in the kind of success the firm's management has seen others achieve by exporting,
(j) To distract foreign competitors that are in the firm's home market by entering their home markets,

(k) To extend a product's life cycle by exporting to countries where technology is less advanced, etc.

Advantages of Exporting

(i) Basically, both service companies and manufacturers export to increase sales revenues.

(ii) To achieve economies of scale by spreading research, product development, and capacity expenditures over a larger sales area.

(iii) Service providers such as accountants, lawyers, advertisers, and consultants export their services to meet the needs of clients working abroad.

(iv) In addition, many companies that are not leaders in their domestic markets may more actively export sales as an indirect way to counter the volume advantage commanded by the market leader.

(v) Some companies export rather than invest abroad because of the perceived higher risk of operating internationally.

(vi) Another advantage of exporting is that it can alleviate the problem of excess capacity in the domestic market.

(vii) The great promise of exporting is that large revenue and profit opportunities are to be found in foreign markets for most firms in most industries.

(viii) By expanding the size of the market, exporting can enable a firm to achieve economies of scale; thereby lowering its unit costs, hence, firms that do not export often lose out on significant opportunities for growth and cost reduction.

(ix) Exporting enables companies to diversify their activities, thereby developing the capacity to weather changes in the home market.

Disadvantages of Exporting

(i) Exporting strains resources, staff, and attention, and as a result, it puts tough demands on management.

(ii) Potential exporters have a sense of the likelihood of needing to adjust their operations for different languages, cultures, and market demands.

(iii) Exchange-rate fluctuations and transaction processes of export activity require more sophisticated financial management.

(iv) Communication technologies have increased the difficulties of managing exports in that, presently, the ease of contacting vendors via e-mail or inexpensive voice-over-internet-protocol (VOIP) spurs customers to seek greater real-time involvement in the details of the transaction unlike before the internet, when exports were customarily done at arm's – length, ship-it-and-forget-it transactions.

(v) Exporters often face voluminous paperwork, complex formalities, and many potential delays and errors. According to a UN report on trade and development, a typical international trade transaction may involve 30 parties, 60 original documents, and 360 document copies, all of which have to be checked, transmitted, re-entered into various information systems, processed; and filed. The UN has calculated that the time involved in preparing documentation, along with the costs of common errors in paperwork, often amounts to 10% of the final value of goods exported (Williams, 1994).

Problems Which Exporter Face When Exporting

Kerr (2006) opined that, exporters run into the following sorts of problems:

(a) Failure to obtain qualified export counseling in developing a plan to guide export expansion,

(b) Insufficient commitment by top management to overcome initial and on-going difficulties,

(c) Miscalculating the trade –off between a lean export department and the cost in delays or violations in export compliance,

(d) Mis-estimating the complexity and costs of ocean shipping and customs clearance to export transactions,

(e) Poor selection of overseas agents or distributors,

(f) Chasing orders from around the world instead of establishing a base of profitable operations and manageable growth,

(g) Neglecting export markets and customers when the domestic market booms,

(h) Classifying products inaccurately according to the destination country's tariff schedule; thereby incurring a higher tax or slowing delivery,

(i) Failure to treat international distributors on an equal basis with their domestic counter parts,

(j) Unwillingness to modify products to meet countries' regulations or cultural preferences,

(k) Failure to print service, sales, and warranty messages in local languages,

(l) Failure to consider use of an export management company or other marketing intermediary when the company lacks personnel to direct export, and

(m) Failure to prepare for disputes with customers.

Kinds of Exports

Exports may be one of two (2) kinds, these are:

(a) Indirect exports, or

(b) Direct exports.

(a) **Indirect Exports** – here, goods and services are sold to an independent party or intermediary in the domestic market, which then sells the goods in the export market to the final consumer.

(b) **Direct Exports** – here, goods and services are sold to an independent intermediary outside of the exporter's home country, which then sells the produce in the export market to the final consumer.

Key Documents Used for Exporting

The following represents the important documents used when exporting:

(i) A pro-forma invoice,

(ii) A commercial invoice,

(iii) A bill of lading,

(iv) A consular invoice,

(v) A certificate of origin,

(vi) A shipper's export declaration, and

(vii) An export-packing list.

(i) **A Proforma Invoice** – is an invoice from the exporter to the importer that outlines the selling terms, price, and delivery if the goods are actually shipped. It is like a letter of intent. If the importer likes the terms and conditions, it will send a purchase order and arrange for payment. At that point, the exporter can issue a commercial invoice.

(ii) **A Commercial Invoice** – is a bill for the goods from the buyer to the seller. It contains a description of the goods, the address of buyer and seller, and delivery and payment terms. Many governments use this form to assess duties.

(iii) **A Bill of Lading** – is a receipt for goods delivered to the common carrier for transportation, a contract for the services rendered by the carrier, and a document of title.

(iv) **A Consular Invoice** – is a means of monitoring imports and sometimes required by countries. Furthermore, governments can use consular invoice to monitor prices of imports and to generate revenue for the embassies that issue the consular invoice.

(v) **A certificate of Origin** – this indicates where the products originate and is usually validated by an external source, such as the chamber of commerce. It helps countries to determine the specific tariff schedule for imports.

(vi) **A Shipper's Export Declaration** – is used by exporter's government to monitor exports and to compile trade statistics.

(vii) **An Export-Packing List** – this itemizes the material in each individual package, indicates the type of package, and is attached to the outside of the package. The shipper or freight forwarder, and sometimes customs officials, use the packing list to determine the nature of the cargo and whether the correct cargo is being shipped.

Reasons for Importing

Generally, there are three (3) main reasons why companies import, these three (3) reasons are:

(a) They can buy goods or services at lower prices from foreign suppliers,

(b) The goods or services are of higher quality than similar goods produced locally, and

(c) The goods or services needed in their production processes are unavailable from local companies.

Other reasons for importing are:

(d) Specialization of labour makes export to and import from countries around the world more efficient than manufacturing every product in every country since it would be practically impossible to manufacture the same products in countries due to high costs, sell them at a reasonable price, and still make a profit,

(e) Global competition in some industries like consumer electronics, telecommunications, etc.; can spur some companies in these industries to see out the highest – quality inputs for the lowest price wherever they happen to be made and then import them into the countries that house their factories,

(f) Companies also import products that are not available in the local markets,

(g) A potential importer may seek new foreign products that complement its existing products lines; thereby giving it more ways to create value,

(h) Like an exporter, an importer might try to diversify its operating risks by tapping international markets in virtually every sort of industry structure, developing alternative suppliers usually makes a company less vulnerable to the dictates or fortunes of a single suppliers, etc.

Thus, an importer seeks lower-priced or better-quality supplies, materials, or components that help it improve its capability to create value.

Types of Importers

i. The importers that look opportunistically for any product around the world to import and sell. They might specialize in certain types of products.

ii. Those importers that look for foreign sourcing to get the highest-quality products at the lowest/cheapest possible price.

iii. Those importers that use foreign sourcing as part of their global supply chain.

Types of Imports

There are two (2) types of imports, these are:

(i) Industrial and consumer goods/services to individuals and companies that are not related to the foreign buyer, and

(ii) Intermediate goods and services to companies that are part of the firm's global supply chain.

Means of Financing Exports and Imports

There are three (3) primary mechanisms for financing exports and imports, these three (3) means are:

(a) Letter of credit,

(b) Draft or bill of exchange, and

(c) Bill of lading.

Other means of financing exports and imports are:

(d) Cash in advance,

(e) Open account,

(f) Consignment, etc.

(a) **Letter of Credit** – is a document issued by a bank indicating that it will make payments to a beneficiary upon presentation of particular documents.

A letter of credit, abbreviated as L/C, stands at the center of international commercial transactions. L/C, issued by a bank at the request of an importer, states that the bank will pay a specified sum of money to a beneficiary, normally the exporter, on presentation of particular, specified documents.

Furthermore, L/C is a document issued by the buyer's bank, which promises to pay the seller a specified amount when the bank has received certain documents stipulated in the letter of credit by a specified time.

Generally, the seller will request that the L/C be:

i. confirmed, and

ii. irrevocable.

i. **Confirmed** – means act of a correspondent bank in the seller's country by which it agrees to honour the issuing bank's letter of credit, and

ii. **Irrevocable** – means that, once the seller has accepted the credit, the customer cannot alter or cancel it without the seller's consent, i.e, a stipulation that, a L/c cannot be cancelled.

Before opening an L/C, a buyer should request for a pro forma invoice. A pro forma invoice is the exporter's formal quotation containing a description of the merchandise, price, delivery time, proposed method of shipment, terms of sale, and ports of exit and entry. It is more than a quotation.

(b) **Export Draft** – is the instrument normally used in international commerce to effect payment. A draft is sometimes called a bill of exchange.

A draft is an order by an exporter instructing an importer, or an importer's agent, to pay a specified amount of money at a specified time. The person or business initiating the draft is known as the maker. The party to whom the draft is presented is known as the drawee.

Besides, export draft is an unconditional order that is drawn by the seller on the buyer to pay the draft's amount on presentation (i.e., sight draft) or at an agreed future date (i.e., time draft) and that must be paid before the buyer receives shipping documents.

The international practice is to use draft to settle trade transactions. This differs from domestic practice in which a seller usually ships merchandise on an open account, followed by a commercial invoice that specifies the amount due and the terms of payment.

In domestic transactions, the buyer can often obtain possession of the merchandise without signing a formal document acknowledging his/her obligation to pay. In contrast, due to the lack of trust in international transactions, payment or a formal promise to pay is required before the buyer can obtain the merchandise.

Drafts fall into two (2) categories, these are:

i. sight drafts, and
ii. time drafts.

i. **Sight draft** – this is payable on presentation to the drawee.

ii. **Time draft** – this allows for a delay in payment to the set future date, normally 30, 60, 90, or 120 days. It is presented to the drawee who signifies acceptance of it by writing or stamping a notice of acceptance on its face. Once accepted, the time draft becomes a promise to pay by the accepting party.

When a time draft is drawn on and accepted by a bank, it is called a "banker's acceptance". When it is drawn on and accepted by a business firm, it is called a "trade acceptance". Time drafts are negotiable instruments, that is, once the draft is stamped with an acceptance, the maker can sell the draft to an investor at a discount from its face value.

(c) **Bill of Lading** – is a document issued to an exporter by the common carrier transporting the merchandise. Bill of lading serves three (3) purposes, these are:

i. it is a receipt,
ii. it is a contract, and
iii. it is a document of title.

As a receipt, the bill of lading indicates that the carriers have received the merchandise described on the face of the document. **As a contract,** it specifies that the carrier is obligated to provide a transportation service in return for a certain charge. **As a document**

of title, it can be used to obtain payment or a written promise of payment before the merchandise is released the importer.

The bill of lading can, also, function as collateral against which funds may be advanced to the exporter by its local bank before or during shipment and before final payment by the importer.

(d) **Cash in Advance** – When the credit standing of the buyer is not known or is uncertain, cash in advance is desirable. However, very few buyers will accept these terms because part of their working capital is tied up until the goods have been received and sold. Furthermore, they have no guarantee that they will receive what they ordered. As a result, few customers will pay cash in advance unless the order is small or is for a product of special manufacture.

(e) **Open Account** – When a sale is made on open account, the seller assumes all of the risk, and therefore, these terms should be offered only to reliable customers since the exporter's capital is tied up until payment has been received.

However, exporters that insist on less risky payment terms, such as a letter of credit, may find that they are losing business to competitors who do sell on open account, which is becoming the preferred export payment term.

(f) **Consignment** – This occurs when goods are shipped to the buyer and payment is not made until the goods have been sold. Here, all of the risk is assumed by the seller and such terms should not be offered without making the same extensive investigation of the buyer and country that is recommended for open account terms. Multinational corporations frequently sell goods to their subsidiaries on this basis.

11.10 INTERNATIONAL TRADE

Meaning, Nature, and Scope

Have a walk-through supermarkets and malls, you will find different products from overseas – UK, EU, US, other African countries, and Asia etc., that's the impacts of international trade.

International trade was key to the rise of the global economy. In the global economy, supply and demand—and thus prices—both impact and are impacted by global events.

International trade has existed for more than 9,000 years. Long distance trade – before the existence of nation states and national borders – goes back much further. In fact, it goes back to when pack animals and ships first came onto the scene.

Our modern industrialized world would not exist if countries did not import and export. Put simply; international trade is at the heart of today's global economy. Global interdependence is a fact of life for every country today.

International trade (IT) is referred to as the exchange or trade of goods and services between different nations. It is the purchase and sale of goods and services by companies in different countries. This kind of trade contributes and increases the world economy. The most traded commodities are television sets, clothes, machinery, capital goods, food, raw material, etc.

International trade has exceptionally increased, which includes services such as foreign transportation, travel and tourism, banking, warehousing, communication, distribution, and advertising. Other equally important developments are the increase in foreign investments and production of foreign goods and services in an international country.

There are three types of international trade: Export Trade, Import Trade, and Entrepot Trade. Export means selling goods and services out of the country, while import means goods and services flowing into the country. Entrepot Trade is a combination of export and import trade and is also known as Re-export. It means importing goods from one country and exporting.

Nature of International Trade

International trade is an inter-country exchange of goods or services, and gains from it are enabled by comparative advantage, resulting in increased consumption of goods. Global trade takes three forms: imports, export, and entrepot, while tariffs and import quotas are two significant protectionist trade policies.

Elements of international trade include:

i. Transaction cost: It comprises the amount spent through economic exchange. The transaction in a different currency may also involve acquiring information, negotiating, contract enforcement, and financial exchange rates.
ii. Tariff and Non-tariff costs: The government imposes fees on a realized trade flow. There can be a direct financial cost based on the item or a requirement that must be satisfied before selling the goods in another country.
iii. Transport costs: These expenses cover the total cost of delivering items from the manufacturing unit to the consumers.
iv. Time costs: Time costs delays happen due to inventory in transit, which is the period between placing an order and receiving it.

Scope of International Trade

The world economies have become more intertwined through globalization and international trade is a major part of most economies. It provides consumers with a variety of options and increases competition so that businesses must produce cost-efficient and high-quality goods, benefiting these consumers. Scope of international trade include:

(1) Exports and Imports

1. They include merchandise (tangible or having physical existence) of goods.
2. Export merchandise means sending goods to other nations.
3. Import merchandise means receiving goods from other nations.
4. They include the trade of services.

(2) Service trade

1. It is also known as invisible trade.
2. It includes the trade of services (intangible or no physical existence).
3. There is both export and import of services.
4. It includes services like tourism, hotel, transportation, training, research, etc.

(3) Licensing and Franchising

1. Under this, permission is given to the organisations of other countries.
2. It includes selling the product of a particular company.
3. Under its trademark, patents are given in return of some fees. *Example: Pepsi and Coca Cola are produced and sold through different sellers abroad.*

4. Franchising is similar to licensing, but franchising is associated with services. *Example:* Dominos, Burger King, etc.

(4) Foreign investment

It includes the investment of available funds in foreign companies to get returns. It can be of two types:

(1) **Direct investment** means investing funds in plants and machinery for marketing and production, also known as a foreign direct investment (FDI). Sometimes, these investments are done jointly and are known as joint ventures.

(2) **Portfolio investment** means one company invests in another company by way of investing in its securities and earning income in the form of interests and dividends.

International Trade is very important because of the following:

i. Full utilization of resources: Developing countries sell raw commodities to developed nations that need them most because they cannot fully utilize their resources.

ii. Service sector trade: Global trade creates new opportunities for the service industry. Enhanced service sector commerce means more banking, insurance, and information technology facilities.

iii. Getting rid of surplus production: When a country's output exceeds its actual requirement, it sells its excess production to other countries in need.

iv. Competitiveness: Global trade encourages healthy competition among different countries and entrepreneurs.

v. Global growth: It is building a bridge between producers and consumers worldwide. So, if the exporter benefits, the importer benefits as well.

Mercantilism

The importance of international trade to a nation's economic welfare and development has been heavily documented in economics literature since Adam Smith's (1776) pioneering inquiry into the nature and causes of the wealth of nations. The rationale underlying this relationship suggests that economies need to export goods and services to generate revenue to finance imported goods and services which cannot be produced indigenously.

Probably one of the broadest indicators of a nation's economic strength can be gauged from its gross domestic product (GDP), as this measure is an estimate of the value of goods and services produced by an economy in a given period (Blaug, 1978). The notion that international trade can influence GDP has been explored by several economic theorists and culminated in the export-led growth thesis. The tenet underlying this volume of research is that as export sales increase, other things being equal, the GDP of a nation will rise and provide a stimulus to improved economic well-being and societal prosperity. The way in which this relationship can be interpreted suggests that export performance has a stimulating effect throughout a country's economy in the form of technological spillovers and other related favourable externalities.

Export activities may exert these influences because exposure to international markets demands improved efficiency, and supports product and process innovation activities, while increases in specialization encourage profitable exploitation of economies of scale (Temple, 1994). Thus, the export-led growth thesis predicts export growth will cause economy-wide productivity gains in the form of enhanced levels of GDP.

It was only after the publication of *The Wealth of Nations* by Adam Smith in 1776, the subject of economics emerged in an organized scientific form. Prior to that during the 17th & 18th centuries in Europe a group of men – like merchants, bankers, traders, government officials and philosophers, wrote essays and pamphlets on international trade that advocated an economic philosophy known as *mercantilism.* The term mercantilism first acquired significance at the hands of Adam Smith. Mercantilism, as the term implies is closely associated with trade and commercial activities of an economy. Mercantilist theory was highly nationalistic in its outlook and favoured state regulation and centralization of economic activities including foreign trade.

The mercantilists believed that a nation's wealth and prosperity is reflected in its stock of precious metals (also known as specie), namely, gold and silver. At that time, as gold and silver were the currency of trade between nations, a country could accumulate gold and silver by exporting more and importing less. The more gold and silver a nation had, the richer and more powerful it was. They argued that government should do everything possible to maximize exports and minimize imports. However, since all nations could not simultaneously have an export surplus and the amount of gold and silver was limited at any particular point of time, one nation could gain only at the expense of other nations. In other words, mercantilists believed that trade was a *zero-sum* *game* (i.e. one's gain is the loss of another). For mercantilists, the objective of foreign trade was considered to be achievement of surplus in the balance of payments. Hence, they advocated achieving as high trade surplus as possible.

In this context, Kravis (1956) points out that – "The core of mercantilism, of course, is the doctrine that a favourable balance of trade is desirable because it is somehow productive of national prosperity…. When mercantilist authors speak of the surplus in the balance of trade, they mean an excess of exports, both visible and invisible, over imports, calling either for an inflow of gold or for granting of credit to foreign countries, that is 29 capital exports. In other words, they were roughly thinking of what we would now call 'the current account' as distinct from 'the capital account' in the balance of payments."

The mercantilist ideas were strongly criticized in the 18th century by economists like David Hume, Adam Smith and David Ricardo. For instance, Adam Smith criticized mercantilists on the ground that the mercantilists falsely equated money with capital, and the favourable balance of trade with the annual balance of income over consumption. Thus, Blaug (1978) critically points out that - "The idea that an export surplus is the index of economic welfare may be described as the basic fallacy that runs through the whole of the mercantilist literature."

Another flaw of mercantilism is that it they viewed trade as a *zero-sum game*. This view was challenged by Adam Smith and David Ricardo who demonstrated that trade was a *positive sum game* in which all trading nations can gain even if some benefit more than others.

From the above analysis, it is seen that the concept of balance of payments or balance of trade was evolved for the first time in the writings of mercantilists. As pointed out earlier, at that time economics was not yet developed in an organized form, so the concept of balance of payments / balance of trade was evolved in a vague form. In spite of various flaws in the ideology, due credit may be given to the mercantilist writers in the development of the concept of balance of payments / balance of trade.

Three Basic Issues of International Trade

It is to be noted that mercantilists failed to address three relevant issues of international trade which are:

1) **Gains from trade** – The first important issue is about the gains from trade? Do countries gain from international trade? Where do the gains come from, and how are they divided among the trading countries?
2) **Structure of trade** – The second relevant issue is the structure or direction, or pattern of international trade. In other words, which goods are exported, and which are imported by each trading country? What are the fundamental laws that govern the international allocation of resources and the flow of trade?
3) **Terms of trade** – The third relevant issue is the terms of trade. In other words, at what prices are the exported and imported goods exchanged?

Different Types of International Trade

International trade is simply the exchange of services and goods across various geographical borders. The types of international trade include:

i. inter-firm trade,
ii. intra-industry trade,
iii. intra-firm trade,
iv. inter-industry trade.

All these types of international trade involve the importation or exportation of goods and services. The only difference is the scope and methods in which the various trades are applied. (Ejim, 2023).

a. **Intra-industry trade:** Here, importers import goods that are similar to those produced in the country. An example of this type of sale can be seen in the importation of automobiles. Practically every country that produces automobiles also imports other types of automobiles from other countries.
b. **Intra-firm trade:** This type of trade is confined to various arms or subsidiaries of a multi-national corporation. The corporation may be a franchise or it may simply be a big organization with international outlets. Inter-firm trade occurs between different types of companies that produce different types of goods. This type of trade may be seen in the case of a supplier of raw materials and a company that is importing the raw materials, which is based in another country.

c. **Inter-industry trade:** This refers to the method of trade whereby parties from two countries exchange goods that are not manufactured in either country. For example, a country that has oil may export the oil to a country that has no oil deposits, and as such is incapable of manufacturing oil. The destination country may in turn export apples to the oil-producing country. The oil-producing country may not have the right weather for the growth of apples. In this case, an inter-industry trade has occurred between the two countries, since the items that were exchanged were items that could not be manufactured or produced in either country. Sometimes the reasons why the countries are not able to manufacture the items may include a lack of technical ability to produce the item or lack of raw materials.

d. **Inter-industry trade:** Even though it is mainly material items in inter-industry trade that are included in the types of international trade, intangible items like skills and services are also involved. For instance, country A could recruit experts from country B to come and help them design and build a subway system. Country B could also recruit skilled agricultural workers from country A to come and help them implement an effective agricultural irrigation system. In this case, an inter-trade in skills has occurred.

INTERNATIONAL TRADE

INTERNATIONAL TRADE refers to exchange of goods & services between countries. In simple words, it means the export and import of goods and services.

TYPES

EXPORT TRADE	Export Trade means selling goods & services out of the country.
IMPORT TRADE	Import Trade means goods & services flowing into the country.
ENTREPOT TRADE	Entrepot Trade means importing goods from one country & exporting it to another country after adding some value to it..

ADVANTAGES	DISADVANTAGES
Comparative Advantage	Over-dependence
Economies of Scale, Competition	Unfair to new companies
Transfer of Technology	A threat to National Security
More job creation	Pressure on natural resources

NEEDS

PRICE	If foreign companies can produce goods & services more cheaply, then it may be beneficial.
QUALITY	If the companies abroad can offer good and services of superior quality.
AVAILABILITY	If its impossible to produce a product domestically.
DEMAND	if demand for product/services is more in country than what it can domestically produce, then it goes for import..

International Trade Agreements (Meaning, Nature, and Scope)

In this context, Kravis (1956) points out that – "The core of mercantilism, of course, is the doctrine that a favourable balance of trade is desirable because it is somehow productive of national prosperity…. When mercantilist authors speak of the surplus in the balance of trade, they mean an excess of exports, both visible and invisible, over imports, calling either for an

For example, a country that has oil may export the oil to a country that has no oil deposits, and as such is incapable of manufacturing oil. The destination country may in turn export apples to the oil-producing country. The oil-producing country may not have the right weather for the growth of apples.

A trade agreement is an international treaty, on trade conditions, for products and services between countries, which results from collective bargaining contracts. It defines the trade rules between the signatories and describes each country's preferential trade terms.

A trade agreement (also known as trade pact) is a wide-ranging taxes, tariff and trade treaty that often includes investment guarantees. It exists when two or more countries agree on terms that help them trade with each other. (Wikipedia).

Trade Agreements are treaties in which a country promises to engage in fewer trade protections with another country (or countries) to engage in more trade. A trade agreement can be between two countries or between many countries, and it occurs when two or more nations agree on the terms of trade between them. They determine the tariffs and duties that countries impose on imports and exports. All trade agreements affect international trade.

How Do Trade Agreements Work?

Trade agreements or pacts are contracts between two or more countries. These pacts between two nations are signed when both countries are willing to lessen or eliminate trade barriers to improve international trade and economic prospects.

It produces a framework for conducting trade and a prerequisite for managing and regulating trade between countries. Countries can design trade pacts in different ways. Furthermore, efficient taxes, tariffs, and trade treaties can contribute to rapid economic growth, satisfy consumer demands, and synergize domestic and foreign manufacturing business units.

Types of Trade Pacts

There are different types of trade pacts, depending on the terms and conditions of the participating countries. The main two types are the following:

b) **Free Trade Agreements (FTA):** FTA is an agreement to create a free-trade space between the collaborating countries. Bilateral and multilateral agreements are two different sorts. A bilateral trade agreement is created when two nations relax their barriers, usually to increase commercial prospects. The most challenging to negotiate and agree upon is multilateral trade pacts, agreements between three or more nations.

ii) **Preferential Trade Agreements (PTA):** A trading bloc is a preferential trade area formed due to a PTA that grants preferred access to specific items from the member nations. As a result, tariffs are reduced but not eliminated. It is the beginning of the economic integration process. An illustration of a PTA is a regional trade agreement (RTA).

Forms of Trade Agreements

Trade agreements are usually unilateral, bilateral, or multilateral. Let's briefly examine each of them:

1. **Unilateral trade agreements** are one-sided arrangements that a country makes to lower trade barriers for other countries. This is usually a preferential arrangement that a developed country makes for imports from developing countries. A country can also unilaterally loosen trade restrictions, but that rarely happens because it would put the country at a competitive disadvantage.

   They are trade incentives an importing country offers in order to urge the exporting country to engage in international economic activities that will enhance the economy of the exporting country. A unilateral trade agreement is technically not an agreement, but the actions of one country to expand its market and reform its economy. Commonly, unilateral initiatives are offered to developing countries or countries that are encouraged to steer away from export of illegal drugs. The incentives typically include reduced duty rates, for which the exporting country will be eligible if certain thresholds are met. The most common program is the General System of Preferences, an almost global program where the developed/wealthier countries give trade incentives, including duty rate reductions, to the developing countries. In unilateral, other nations have no choice in the matter. It is not open to negotiation. It doesn't require other nations to do the same.

2. **Bilateral trade agreements** are agreements between two countries to lower trade barriers with each other. Bilateral trade agreements are between two countries. Both countries consent to extricate trade restrictions to grow business opportunities between them. They set rules of trade between the two countries. The agreements may be limited to specific goods and services or certain types of market entry barriers. They lower tariffs and confer preferred trade status with each other. The sticking point usually centers around key protected or subsidized domestic industries. For most countries, these are in the automotive, oil, or food production industries. The Obama administration was negotiating the world's largest bilateral agreement, the Transatlantic Trade and Investment Partnership with the European Union, but this stalled under the Trump administration. Different types of agreements define the level of international integration from free trade to customs and economic unions.

3. **Multilateral trade agreements** are agreements between multiple countries to lower trade barriers with one another. Multilateral trade agreements are between three countries or more. It is also called Regional Trade Agreements as it involves more than two countries. These are the most difficult to negotiate. They set rules of trade between several countries. The greater the number of participants, the more difficult the negotiations are. They are also more complex since each country has its own needs and requests. Multilateral agreements shape international trade unions, such as WTO, EU, NAFTA, etc. Once negotiated, multilateral agreements are very powerful. They cover a larger geographic area. That confers a greater competitive advantage on the signatories. All countries also give

each other most-favored-nation status—granting the best mutual trade terms and lowest tariff. These countries agree to treat each other equally in this pact.

Pros and Cons of Free Trade Areas, Custom Union, Common Market etc.

Pros

i. Economic growth of the country increases significantly as trade pacts open up the market of goods and services that create more job opportunities, decrease poverty and thus increase the country's GDP (gross domestic product).
ii. With FTAs, countries' economies remove the restrictions and try to avoid protectionist policy measures that hinder growth and development. In this scenario, the local business climate of the countries improves, countries become more globally competitive, and they gain access to diversified and high-quality products.
iii. The technology transfer from one country to another also increases the advantage of producing goods and services locally, which could not have been possible otherwise. Thus, there is an influx of dollars into the economy by selling products and services.

Cons

i. Several issues crop up due to intellectual property rights. First, exporting goods and services to the importing country can have repercussions as the importing country might end up copying the products and start manufacturing in their own country.
ii. It increases employee migration and brain drain.
iii. Competition from foreign firms can negatively affect small-scale domestic entities.
iv. The mass production of goods and services also depletes the country's natural resources if there is a high demand for naturally produced goods outside the country.
v. Foreign firms can overexploit the workers engaged in their outsource work.

Effects of Trade Agreements

There are pros and cons to trade agreements. By removing tariffs, they lower prices of imports and consumers benefit. However, some domestic industries suffer. They can't compete with countries that have a lower standard of living. As a result, they can go out of business and their employees suffer. Trade agreements often force a trade-off between companies and consumers. On the other hand, some domestic industries benefit. They find new markets for their tariff-free products. Those industries grow and hire more workers. These trade-offs are the subject of endless debate among economists.

11.11 CLASSICAL THEORIES OF INTERNATIONAL TRADE

It was the classical economists like Adam Smith, David Ricardo, Robert Torrens and John Stuart Mill, who explained these three issues through their theories which can be grouped under classical theories of international trade.

Absolute Cost Advantage Theory

It was Adam Smith who emphasized the importance of free trade in increasing wealth of all trading nations. According to Adam Smith, mutually beneficial trade is based on the principle of *absolute advantage*. His theory is based on the assumption that there are two countries, two commodities and one factor (labour) of production.

Adam Smith's theory is based on labour theory of value, which asserts that labour is the only factor of production and that in a closed economy goods exchange for one another according to the relative amounts of labour they embody. The principle of absolute cost advantage points that a country will specialize and export a commodity in which it has an absolute cost advantage.

Comparative Cost Advantage Theory

According to Ricardo, it is not the absolute but the comparative differences in costs that determine trade relations between two countries. The comparative cost theory was first systematically formulated by the English economist David Ricardo in his *Principles of Political Economy and Taxation* published in 1817. It was later refined by J. S. Mill, Marshall, Taussig and others. According to Ricardo, differences in comparative costs form the basis of international trade. The law of comparative advantage indicates that each country will specialize in the production of those commodities in which it has the greatest comparative advantage or the least comparative disadvantage. Thus, a country will *export* those commodities in which its comparative advantage is the greatest and *import* those commodities in which its comparative disadvantage is the least.

Evaluation of the Comparative Cost Theory

The comparative cost doctrine is not complete in itself. It has been severely criticized by economists due to its unrealistic assumptions. Prof. Bertil Ohlin critically pointed out that the principle of comparative advantage is not applicable to international trade alone, rather it is applicable to all trade. Furthermore, the theory does not explain why there are differences in costs.

Ricardo's theory of comparative advantage did not explain the ratios at which the two commodities would be exchanged for one another. In other words, it does not indicate what the terms of trade are. It was J. S. Mill who discussed this issue in detail his theory of reciprocal demand. The term 'reciprocal demand' indicates a country's demand for one commodity in terms of the quantities of the other commodity which it is prepared to give up in exchange. Thus, it is the reciprocal demand that determines the terms of trade which, in turn, determines the relative share of each country. Equilibrium would be established at that ratio of exchange between the two commodities at which quantities demanded by each country of the commodity which it imports from the other, should be exactly sufficient to pay for one another. Mill's theory of reciprocal demand relates to the possible terms of trade at which the two commodities will exchange for each other between the two countries. The terms of trade here refer to 'the barter terms of trade' between the two countries, i.e., the ratio of the quantity of imports for a given quantity of exports of a country.

The Ricardian theory, though based on a number of wrong assumptions, is regarded as an important landmark in the development of the theory of international trade**.**

11.12 MODERN THEORY OF INTERNATIONAL TRADE

One of the main drawbacks of Ricardian theory of comparative cost was that it did not explain why differences in comparative costs exist.

In 1919, Eli Heckscher propounded the idea that trade results from differences in factor endowments in different countries. The idea was further carried forward and developed by Bertil Ohlin in 1933 in his famous book *Inter-regional and International Trade.* This book forms the basis for what is known as Heckscher – Ohlin theory or modern theory of international trade.

Heckscher – Ohlin Theory

The Heckscher – Ohlin theory is based on most of the assumptions of the classical theories of international trade and leads to the development of two important theorems – (a) Heckscher – Ohlin theorem and (b) Factor price equalization theorem.

Heckscher & Ohlin have explained the basis of international trade in terms of factor endowments. According to Heckscher & Ohlin, regions or countries have different factor endowments. It means that some countries are rich in capital while some are rich in labour. In their theory, the concept of factor endowments or factor abundance is used in relative terms and not in absolute terms. Moreover, they have defined the concept of factor endowment or factor abundance in terms of two criteria (a) Price criterion and (b) Physical criterion.

(a) *Price criterion* - As per price criterion, a country is said to be capital abundant if the ratio of price of capital to the price of labour (PK / PL) is *lower* as compared to the other country. This criterion considers both demand for and supply of factors.
(b) *Physical criterion* – As per physical criterion, a country is said to be capital abundant if the ratio of the total amount of capital to the total amount of labour (K/L) is *greater* as compared to other country. This criterion considers only supply of factors.

On the basis of above criterion, the Heckscher – Ohlin theorem states that – "A nation will export the commodity whose production requires the intensive use of the nation's relatively abundant and cheap factor and import the commodity whose production requires the intensive use of the nation's relatively scarce and expensive factor." In other words, the countries in which capital is cheap & abundant will export capital - intensive goods and import labour – intensive goods. On the contrary, the countries in which labour is cheap & abundant will export labour – intensive goods and import capital-intensive goods.

Thus, for them it is the differences in factor intensities in the production of goods along with actual differences in factor endowments of the countries which explain international differences in comparative costs of production.

The Heckscher –Ohlin theory further leads to the development of factor price equalization theorem. The factor price equalization theorem indicates that free international trade will ultimately lead to equalization of commodity prices and factor prices.

Economists Paul Samuelson & Wolfgang Stolper have further contributed to this theory and have formed Stolper – Samuelson theorem. Stolper –Samuelson theorem explains the effect of change in relative product prices on factor allocation and income distribution. It postulates that an increase in the relative price of a commodity raises the return or earnings of the factor used intensively in the production of that commodity. In other words, an increase in the relative price of labour-intensive commodity will increase wages. Similarly, an increase in the relative price of capital-intensive commodity will increase the price of capital. This implies that free trade would raise the returns to the abundant factor and reduce the returns to the scarce factor.

Evaluation of Heckscher – Ohlin Theory

It is clear from the above that the Heckscher – Ohlin (henceforth, H-O) theory is superior to Ricardian theory. It accepts comparative advantage as the cause of international trade and explains the reasons behind the differences in comparative cost. Thus, it supplements the Ricardian theory of comparative cost.

However, one of the limitations of H-O theory is that it is based on static model of given factor endowments and given technology.

11.13 NEW THEORIES OF INTERNATIONAL TRADE

It is observed that the Ricardian theory and H-O theory provided good explanations of trade theory till the first half of the 20thcentury. However, in due course many researchers observed that comparative advantage seemed to be less relevant in the modern world. Economists now believe that the traditional trade theories (i.e., Ricardian theory and H-O theory) fail to provide a complete explanation of the structure of the world trade. The world trade data now contains several empirical regularities or stylized facts that appear to be inconsistent with the traditional theories. Thus, the assumptions of H-O theory like – perfect competition, constant returns to scale, and same technology are invalid in today’s context of world trade. Hence, economists have modified H-O theory by relaxing most of its assumptions and have developed new trade theories or complementary trade theories. These new theories are based on economies of scale, imperfect competition, and differences in technology among nations.

Salient Features of New Theories of Trade

The new theories which are developed after 1970s have the following salient features –

(a) They have liberated the trade theory from the assumption of perfect competition made in the classical and neo-classical theories of trade.

(b) They are developed in an imperfect competitive framework and have incorporated developments in industrial organization theory within the trade theory.

(c) They have incorporated scale economies and product differentiation in the imperfect competitive framework within the H-O general equilibrium theory of comparative advantage.

(d) These theories have considered the important determinants of the pattern of international trade such as increasing returns to scale, technological innovation, product differentiation and international oligopoly rivalry, etc. The strategic trade policy models have provided theoretical justification for policy intervention in the form of import protection, export subsidies, etc. in increasing national relative advantage in exports.

(e) These theories show the possible interaction between the inter-industry pattern of trade based on relative factor endowment of factors of production and intra-industry trade based on scale economies and product differentiation.

(f) These theories are quite powerful in explaining the patterns of trade between developed countries as well as trade between developed and developing countries at any given point of time in static terms.

(g) Trade between developed countries in terms of this theory is explained by differences in the economies of scale existing among the different oligopoly firms as well as by the levels of technological progress among them. Trade between developed and developing countries also arises because of the developed countries have the advantage of economies of scale and highly developed technology while the developing countries lag behind in the economies of scale and technological progress.

Broad Categories of New Theories

The new theories can be broadly categorized into three types – (1) Neo – technological trade theories (2) Intra-industry trade models (3) Strategic trade policy models.

Neo – Technological Trade Theories

The neo-technological trade theories emphasize the importance of technological innovation and the technological gap across firms and countries as a major source of international trade. The main theories are as follows:

(a) ***Kravis' Theory of Availability*** – In the Kravis' (1956) model, technological innovation as a basis of trade operates through his product availability hypothesis. The availability approach seeks to explain the pattern of trade in terms of domestic availability and non-availability of goods. Availability influences trade through demand and supply forces.

According to him, a country produces and exports those goods which are 'available', that is, goods developed by its entrepreneurs and innovators. By availability he means an elastic supply. In short, as per Kravis' theory of availability, international trade takes place because of differences in the availability of certain products among countries.

(b) ***Linder's Theory of Volume of Trade and Demand Pattern*** – Linder (1961) in his theory gave importance to demand side factors like similarity in income levels across nations and income distribution characteristics in determining pattern of trade. As per this theory, international trade takes place between those countries which have similar income levels and demand patterns.

Thus, Linder's theory explains the reasons for large volume of trade in manufacturers among developed countries. The theory highlights the fact that the lion's share of world trade is among the developed countries with broadly similar per-capita incomes rather than between the developed and underdeveloped countries.

(c) ***Posner's Imitation Gap or Technological Gap Theory*** – Posner (1961) analysed the effect of technology on trade. He regards technological changes as a continuous process which influences the pattern of international trade. The model is based on the assumption that trading countries have similar factor endowments and identical production functions for established products. But, the technology is different between the trading countries. This difference in the technology leads to

introduction of new products and new production processes by a firm in a country. As a result, an innovating firm which creates a new product might acquire a temporary comparative advantage in the exports of its products to other countries. This comparative advantage could be called as 'technology gap'. To conclude, the technological gap theory is more realistic than the traditional theories because it analyses the effect of technical changes on the pattern of international trade.

(d) ***Vernon's Product Cycle Theory*** – Vernon (1966) has put forth the product cycle hypothesis. Vernon's model is a generalization and extension of the technological gap model. It states that the development of a new product moves through a cycle or a series of stages in the course of its development, and its comparative advantage changes as it moves through the cycle.

As a new product passes through different stages in a domestic market, in the similar way it passes through different stages in the international market. Generally, a product passes through the three stages during its lifetime. These stages are - (a) New product stage, (b) Maturing product stage and (c) Standardized product stage.

To conclude, we can say that the Posner's technological model stresses the time lag in the *imitation* process, while Vernon's product cycle model stresses the *standardization* process. Both the models try to explain *dynamic* comparative advantages for new products and new production processes, as opposed to the basic H-O model which explains *static* comparative advantage.

Intra – Industry Trade Models

Intra – industry trade refers to trade between identical countries which are exporting & importing similar but differentiated products. The intra- industry trade models developed after 1970s takes into account firm level internal economies of scale and product differentiation in explaining trade between identical economies. In the late 1970s, several researchers like - Krugman, Dixit & Norman, Lancaster etc. independently formalized the idea that economies of scale and imperfect competition can give rise to trade even in the absence of comparative advantage. It was the Grubel & Lloyd's (1975)

(1) ***Krugman's Model (1979)***– Krugman's model marks a distinctive and realistic departure from the traditional models because it recognizes the role of economies of scale and monopolistic competition in international trade.

Krugman in his model points out that trade is possible between the two countries having identical tastes, technology, factor endowments & income levels, because of product differentiation and internal economies of scale in production. Thus, the sources of trade between identical economies lie in product differentiation and internal economies of scale in production of manufactured goods under a monopolistic competitive framework.

The implications of his model are – (a) Trade increases the choice of goods available to consumers and thereby improves consumer welfare. (b) Trade can cause an increase in demand, production and real income, facilitated by economies of scale.

(2) ***Brander – Krugman Model (1983)***– The Brander- Krugman model of intra-industry trade is based on oligopolistic competition. This model considers the 8 study which formed the basis for the development of intra-industry trade models. They found that international trade was maximum between identical (capital abundant) developed countries, and these countries, exported and imported similar but differentiated products. It was Krugman (1979) who formalized it into a systematic general equilibrium model by taking Dixit & Stiglitz's (1977)9 general equilibrium theory of monopolistic competition for the first time. The main intra –industry models are as follows: application of the concept of dumping in international trade. The Brander- Krugman model considers a situation in which two firms of two countries resort to dumping in each other's domestic market. Hence, their model is also known as *reciprocal dumping model.*

Dumping in the context of international trade means a practice in which a firm sells its products in the foreign market at a price much lower than its domestic price. The situation in which dumping leads to a two-way trade in the same product is known as reciprocal dumping. The possibility of dumping in international trade was first noted by Brander (1981) and then extended by Brander & Krugman (1983).

The Brander-Krugman model suggests that with the opening up of trade the monopoly situation turns into a duopolistic market structure, which is a form of oligopolistic competition. Thus, their reciprocal dumping model explains the intra- industry trade in homogenous products under oligopolistic competition. However, the model fails to explain the net effect of such peculiar trade on a nation's economic welfare.

Strategic Trade Policy Models

The strategic trade policy models provide certain theoretical justification for policy intervention such as home market protection and export subsidies towards increasing exports and national welfare.

In the broader sense, the strategic trade policy models are an extension of intra-industry trade models. These models are developed in a partial equilibrium framework by assuming oligopolistic competition. The basis of these models lies in the trade war between industrialized countries such as United States, Japan, and the European Community. Two strategic trade theory models are as follows:

(a) ***Krugman's Model (1984)***– Krugman's strategic trade policy model shows that import protection of domestic producers could lead to export promotion. In this model three forms of economies of scale are taken into account - (a) Static internal (to a firm) economies, (b) Economies in Research & Development and investment, (c) Dynamic economies of learning by doing.

(b) ***Brander & Spencer's Model (1985)***– Brander & Spencer's model shows that export subsidies could help domestic producers to capture third country markets at the cost of foreign rivals. This is a two stage (game theory) model in which governments (simultaneously) choose subsidy levels in the first stage and firms (simultaneously) choose output levels in the second stage. There is no domestic consumption in either country. i.e., firms produce only for the third country market. The model assumes foreign firm does not receive export subsidy.

An export subsidy to a domestic firm is considered as a reduction in its cost of production. Hence, it becomes profitable for the domestic firm to expand its sales in the third country market and capture a large market share at the cost of the foreign rival.

Briefly, it can be said that the new theories are quite capable of explaining the pattern of world trade today.

On the significance of intra-industry trade Krugman & Obstfeld (2000) have pointed out that: –

i. About one –fourth of world trade consists of intra-industry trade that is two-way exchange of goods within standard industrial classification. Intra-industry trade plays a particularly large role in the trade in manufactured goods among advanced industrial nations, which accounts for most of the world trade.
ii. Intra-industry trade produces extra gains from international trade, over and above those from comparative advantage, because intra-industry trade allows countries to benefit from larger markets.
iii. By engaging in intra-industry trade a country can simultaneously reduce the number of products it produces and increase the variety of goods available to domestic consumers.
iv. By producing fewer varieties, a country can produce each at a larger scale, with higher productivity and lower costs. At the same time, consumers benefit from increased choice.
v. Intra-industry trade tends to be prevalent between countries that are similar in their capital labour ratios, skill levels, and so on. Thus, intra –industry trade will be dominant between countries at a similar level of economic development. Gains from this trade will be large when economies of scale are strong, and products are differentiated.

11.14 RISKS MANAGEMENT IN INTERNATIONAL BUSINESS TRADE

Businesses involved in international trade have to deal not just with risks locally but also other business development risks such as ethics, transportation, intellectual property, credit, currency, and a lot more. These risks can obstruct the smooth running of the business, and hence, appropriate measures need to be taken to limit their effects.

What is Trade Risk? Trade risk refers to the potential for financial loss or negative consequences arising from fluctuations in the value of goods or services traded between different countries. For businesses involved in international trade, trade risk is a critical consideration as it can impact their profitability and financial stability. Factors such as changes in exchange rates, political instability, regulatory changes, and natural disasters can all contribute to trade risk.

Therefore, businesses must manage these risks effectively to minimize their potential impact on their operations. Failure to do so could result in significant financial losses, damage to the business's reputation, and other negative outcomes.

The reasons for managing risks in international trade include:

(a) Deals might have to be transacted in foreign languages and under foreign laws, customs, and regulations.

(b) Information on foreign countries needed by a particular firm may be difficult (if not impossible) to obtain.

(c) Foreign currency transactions will be necessary. For instance, exchange rate variations can be very wide and create many problems for international business.

(d) Numerous cultural differences may have to be taken into account when trading in other nations.

(e) Control and communication systems are normally more complex for foreign operations than for domestic operations.

(f) Risk levels might be higher in foreign markets. The risks of international business include:

(i) Political risks of foreign governments expropriating the firm's local assets, of war or revolution interfering with trade, or of the imposition of restrictions on importers' abilities to pay for imports,

(ii) Commercial risks, that is, market failure, products or advertisements not appealing to foreign customers, etc., and

(iii) Financial risks of adverse movements in exchange rates, tax changes, high rates of inflation, reducing the real value of a company's foreign working capital, etc.

(g) International managers require a broader range of management skills than do managers who are concerned only with domestic problems.

(h) Large amounts of important work might have to be left to intermediaries, consultants, and advisers.

(i) It is more difficult to observe and monitor trends and activities (including competitors' activities) in foreign countries.

Impact of Trade Risk on Businesses

Trade risk can have a significant impact on the profitability and financial stability of businesses involved in international trade in several ways:

1. **Reduced revenue:** Fluctuations in exchange rates can make it more expensive for businesses to import or export goods, which can lead to lower revenue. This can be

particularly problematic for businesses that have fixed contracts with their suppliers or customers, as they may not be able to pass on increased costs to their customers.

2. **Increased costs:** Trade risk can increase the costs of doing business by causing supply chain disruptions, transportation delays, or increased tariffs or taxes. These increased costs can erode profitability and impact financial stability.
3. **Reputation damage:** Trade risk can damage a business's reputation if it results in delays or disruptions to the delivery of goods or services. This can lead to a loss of customers and market share, further impacting profitability.
4. **Uncertainty:** Trade risk can create uncertainty for businesses, making it challenging to plan for the future and make strategic investments. This uncertainty can make it challenging to secure financing or attract investors, further impacting financial stability.

Overall, trade risk can have a significant impact on the profitability and financial stability of businesses involved in international trade. Effective management of trade risk is critical for businesses to ensure they can continue to operate successfully in the global marketplace.

International Business: Risks and Challenges

While every nation presents opportunities for overseas investors and companies, the international business market is volatile and dynamic, with unprecedented risks. However, risks in international business are not restricted to one region. When companies engage in cross-border trade and economic activities, they face challenges on multiple levels, from country-specific trade restrictions to international trade laws.

According to Fidha (2019), the following are some key international business risk factors companies encounter when expanding overseas:

a) **Foreign exchange risk:** Foreign exchange risk refers to the fluctuation in investment value due to currency exchange rate changes. Also known as exchange rate risk, currency risk, or FX risk, it implies a decrease in the investment value due to changes in the relative values of the participating currencies. Foreign exchange risk is one of the most prominent international business risk factors. It arises when companies engage in financial transactions involving currencies other than their domestic currency. Any appreciation/depreciation of the domestic or foreign currency will impact the cash flow of international transactions. Since exchange rates are ever changing, protecting your company against this risk is challenging.

b) **Political risk**: The political climate is a crucial determinant of how your business will fare in a country. When a country's government unexpectedly alters its policies, it gives rise to political risk that negatively affects the business. For instance, a country's national government may implement changes in its foreign trade policy, such as trade barriers that can adversely impact trade with overseas companies. Some governments may impose tariffs and quotas on imported items to protect domestic producers from foreign competitors. Consequently, firms exporting to countries with trade barriers see revenue cuts and a drop in profits resulting from increased taxes on exports. Thus, government laws and policies in foreign countries can greatly influence a global firm's profits.

c) Regulatory risk: Regulatory risk in international business implies that a sudden change in a country's laws and regulations affects global markets and specific business sectors. Companies must adhere to these regulations set by the governing bodies while conducting business with foreign firms. Such changes imposed by a country's government or regulator body can diminish the prospects of foreign investments, increase operational costs, alter the industry's competitive landscape, or worse, ruin business models. The sheer power of governments to compel companies operating within its borders to follow the land's law indicates there is no solution to regulatory risks.

d) Cybersecurity risk: As technology has become central to organizations' setup and growth, it is crucial to have a safe and secure online network. This widespread reliance on increasingly complex and sophisticated digital systems makes businesses vulnerable to cyber threats, often outpacing their abilities to prevent and mitigate them. Before companies expand overseas, they must implement a strong security infrastructure to tackle cyberattacks and risks effectively. As per the Global Risks Report 2022 published by the World Economic Forum (WEF), there has been a 435% increase in ransomware in 2020, with 95% of cybersecurity issues traced to human error. Cyberattacks are becoming increasingly complex and pervasive, with cybercriminals using ransomware and seeking vulnerable targets such as healthcare, government agencies, and data-rich companies.

Cyberattacks have intensified amidst the COVID-19 crisis and continue threatening the safety protocols of companies expanding into global markets.

e) Intellectual property risk: Intellectual property (IP) risk in international business involves third parties illegally using your intellectual capital. Hence, IP risk threatens your intellectual capital and financial success while directly impacting the value of your company's products and services. The repercussions of intellectual property risk become manifold for overseas companies due to the challenges of defending business rights remotely. Thus, companies engaged in cross-border business transactions must look for potential IP threats, including copyright infringement, patent infringement, brand impersonation, and trade secret theft.

f) **Credit Risk:** Counterparty or credit risk is the risk associated with not collecting an account receivable. There are numerous ways in which businesses can guard themselves against this risk while expanding to global markets.

i. Take payment in full [or a decent percentage of money upfront]

Taking 100 percent of the amount owed, or a fair percentage, before rendering the services at the time of the placement of an order can be used to cut down administrative expenses and finance charges. This eliminates the risk of non-payment. Although this may be difficult for new businesses and exporters, it can be worked out with little negotiations.

ii. Letter of credit

. This refers to a commitment issued by a financial institution wherein the institution agrees to pay a set amount to the service/product provider in exchange for delivery within a set timeframe. This offers protection to both the seller and the buyer. It includes a detailed description of the shipment as well as the terms of sale.

NOTE: There are several other techniques available for limiting credit risk. You can try what works best for you.

g) **Commercial risk:** Commercial risk in international business denotes a company's failure resulting from poorly executed business strategies and procedures. The primary reasons could be poor choices in selecting business partners, executing inadequately planned business strategies, wrong interpretation of business agreements owing to cultural/language differences, etc.

While commercial risks are rampant in domestic markets, the aftermath of such failures is costlier when a company is located overseas. One of the major commercial risks in international business is a lack of knowledge of overseas markets. It leads to poor pricing and promotional strategies, inappropriate time of market entry, and product features that do not align with the buyer's target market preference.

In the worst-case scenario of commercial risk in international business, companies may choose the wrong business partners who aren't aligned with their vision and mission. Such bad decisions add to the firm's costs. When operating in a foreign market, terminating business partners becomes expensive due to regulations protecting domestic firms.

h) **Ethics Risks:** It is vital to maintain a high ethical standard when offering any product or service in a global market. Companies may face certain questions pertaining to their values at any point while doing international trade. Social conditions and customs vary from country to country, and hence, it is necessary to be especially vigilant. You need to make sure that your foreign suppliers and partners adhere to your values and rules regardless of where they operate from.

i) **Shipping Risks:** Whether you are shipping goods abroad or locally, you may face issues such as contamination, seizure, accident, vandalism, theft, loss, and breakage. Before shipping any goods to the buyers, you need to make sure to have sufficient insurance. The International Chamber of Commerce has laid down rules for each party involved in international trade and their responsibilities with regard to shipping risk. It is best to go through the rules and take necessary precautionary steps.

j) **Cross-cultural risk**: Cross-cultural risk in international business involves the potential challenges companies face in foreign countries because of differences in customs, norms, language, lifestyles, etiquette, and customer preferences. Values unique to a culture tend to pass on from one generation to another. Naturally, they strongly influence the employees' work style and the buyers' consumption patterns. The preferences and characteristics of foreign buyers differ from those in the domestic market. Language adds another layer of complexity since it is a gateway to the lifestyle and values of people from other cultures.

   Moreover, a company with a global team comprising people from different cultural and ethnic backgrounds must prioritize diversity and inclusion to create a safe and welcoming workplace for all. They must also try to understand the cultures and traditions of their foreign partners to smoothly operate in those markets. This is a wise way to overcome miscommunication, bias, stereotypes, and discrimination arising from cultural differences that can hamper international business relations.

Managing Economic Risks in International Business

Economic risk in international business is faced by organizations planning or having established a foreign branch in a foreign country. It stems from factors such as a change in the national government or its policies, reductions in the credit rating of foreign investments, and fluctuations in foreign exchange rates.

Thus, economic risk denotes if a company or business organization is located in a foreign country, the country's economy will influence the company's business setup. This increases the economic risk factor of foreign organizations.

Now, we must address the pertinent question: How to manage economic risk in international business? The first step is identifying the risk factors and then creating a plan to mitigate them. Here's a list of strategies companies can use to tide over economic risks in international business.

i) **Prepare for international fiscal crises**: Regardless of their locations, almost any business can face the consequences of global financial crises. Although such situations can arise anytime and anywhere, countries with high government debt and limited infrastructure are most vulnerable. To help mitigate the risks of international fiscal emergencies, companies must choose pro-business foreign markets. While this strategy doesn't reverse the possibility of an international financial catastrophe, doing business in a country with government stimulus and incentives can provide significant relief during crises.

ii) **Make appropriate budgetary provisions**: Before expanding overseas and committing to written agreements, you must chalk out your budget and plan for import-export payment verifications, currency conversions, and other contingencies. Also, you must consider the relative cost of expansion. It typically includes business setup, rent, travel costs, employee recruitment and training, salaries and utilities, research, translation services, etc.

Your financial preparedness indicates how you navigate other aspects of international business, such as tax compliance and corporate regulations. Having a suitable budget will help manage economic risk when planning to expand internationally.

iii) **Get in-country compliance right**: When navigating the risks of doing business overseas, it is important to stay updated and abide by the regulations of foreign markets. However, the compliance process becomes tricky if you are not aware of the country's laws.

However, you have several solutions to circumvent this obstacle. For instance, you can manage compliance centrally by implementing cross-border management.

iv) **Prepare to combat energy price shocks**: Every organization requires energy to grow its business. However, the energy prices vary from country to country. Almost every company feels the impact of soaring energy prices even if they are not connected to energy markets directly. Thus, business firms must anticipate how an increase in energy prices can impact their overseas expansion plans, especially manufacturing companies or those that heavily rely on processing power. Moreover, a rising global trend to shift to renewable and environmental-friendly fuels puts additional pressure on businesses that do not have the resources to implement a quick shift. In such a scenario, a company must rethink its expansion plans if it depends on fossil fuels.

v) **Strategize against currency risks:** Various factors, including the stock market, international diplomacy, and others influence currencies. As a business, understanding the various factors that affect a country's currency is pivotal before expanding into a specific territory. While there are countries with poor economic climates, financially healthy countries with diverse economies are resilient to economic downturns. Companies can prepare for unprecedented currency crises by investing in a country/market with a diversified economy. Diversification ensures that the entire economy doesn't collapse even if adversities hit one part of it.

vi) **Hiring Staff:** When setting up a foreign business, hiring and setting up management consumes plenty of time and money. It is a lengthy process. You must schedule interviews, perform background checks, onboard employees, set up company payroll, etc. Such hassles may slow down your company's processes and overall growth.

Strategies for Managing Trade Risk

There are several strategies that businesses can use to manage trade risk effectively. Some of these strategies include:

1. **Hedging:** Hedging involves taking positions in the financial markets that offset the potential losses from adverse movements in exchange rates or commodity prices. For example, a business could purchase currency options that would provide a payout if the value of a particular currency falls below a specified level.
2. **Diversification of suppliers and customers:** By diversifying their supply chains and customer bases, businesses can spread their risk across multiple markets and reduce their reliance on any single supplier or customer. This approach can help to mitigate the impact of disruptions in specific markets or supply chains.
3. **Monitoring of global economic and political trends:** Businesses can monitor global economic and political trends to identify potential risks and adjust their operations accordingly. This could involve monitoring exchange rates, commodity prices, regulatory changes, or political developments in key markets.
4. **Contingency planning:** Businesses can develop contingency plans to prepare for potential risks, such as natural disasters, supply chain disruptions, or political instability. These plans could include measures such as alternative sourcing options, backup supply chains, or insurance policies.

5. **Negotiating contracts:** Businesses can negotiate contracts with suppliers and customers that include provisions for managing trade risk. For example, a business could negotiate fixed exchange rates or delivery dates to reduce the impact of exchange rate fluctuations or supply chain disruptions.

Trade risk refers to the potential for financial loss or negative consequences arising from fluctuations in the value of goods or services traded between different countries. Businesses involved in international trade face a range of trade risks, including changes in exchange rates, political instability, regulatory changes, and natural disasters. Failure to manage these risks effectively can lead to reduced revenue, increased costs, damage to reputation, and uncertainty.

To manage trade risk effectively, businesses can use strategies such as hedging, diversification of suppliers and customers, monitoring of global economic and political trends, contingency planning, and negotiating contracts. By implementing these strategies, businesses can reduce their exposure to trade risk and ensure their continued success in the global marketplace.

Managing trade risk is critical for businesses involved in international trade as it can impact their profitability and financial stability. Effective risk management allows businesses to navigate the complex and unpredictable global marketplace and adapt to changing circumstances. By managing trade risk effectively, businesses can seize opportunities, reduce costs, and remain competitive in the global economy.

11.15 Multi-National Corporations (MNCs) and Multi-National Entities (MNEs)

1. Introduction

A multinational enterprise or entities, abbreviated as MNE and sometimes also called multinational corporation (MNC), just multinational or international corporation, is an enterprise producing goods or delivering services in more than one country. A multinational enterprise has its management headquarters in one (or rarely more than one) country, the home country, while also operating in other countries, the host countries.

Through their globalized production systems, multinational enterprises (MNEs), their subsidiaries and extended value chains represent an important share of the private sector in many developing and industrialised economies. The potential contribution of MNEs to the creation of more and better jobs is large, mostly in their supply chains but also through foreign direct investments (FDI).

To guide and encourage their positive contribution to socio-economic development and minimize negative impacts of their operations, the ILO promotes the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration). Black's Law Dictionary suggests that a company or group should be considered a multinational corporation "if it derives 25% or more of its revenue from out-of-home-country operations. Most of the largest and most influential companies of the modern age are publicly traded multinational corporations, including *Forbes Global 2000* companies.

2. History and Evolution of MNCs and MNEs.

The history of the multinational company is linked with the history of colonialism. Many of the first multinational companies were commissioned at the behest of European monarchs to conduct international expeditions.

Some of the colonies not held by Spain or Portugal existed under the administration of some of the world's earliest multinational companies. One of the first was The East India Company, established in 1600. This British multinational enterprise took part in international trade and exploration, and operated trading posts in India. Other early examples of multinational companies include the Swedish Africa Company, founded in 1649, and the Hudson's Bay Company, founded in 1670.

Down through the 1930s about 4/5 of the international investments by the multinational corporations was concentrated in the primary sector, especially mining (especially oil) and agriculture (rubber, tobacco, sugar, palm oil, coffee, cocoa, tropical fruits). Most went to the Third World colonies. That changed dramatically after 1945 as the investors turn to industrialized countries, and invested in manufacturing (especially high-tech electronics, chemicals, drugs, and vehicles) as well as trade.

Three Stages of Evolution

There are at least 3 stages of evolution of MNCs. These are: export stage, foreign exchange stage and multinational stage. They are each explained below:

1. Export stage

i. initial inquiries => firms rely on export agents.

ii. expansion of export sales.

iii. further expansion þ foreign sales branch or assembly operations (to save transport cost).

2. Foreign Production Stage

There is a limit to foreign sales (tariffs, NTBs)

DFI versus Licensing

Once the firm chooses foreign production as a method of delivering goods to foreign markets, it must decide whether to establish a foreign production subsidiary or license the technology to a foreign firm.

If it is Licensing, this is usually first experience (because it is easy). For example, Kentucky Fried Chicken in the U.K.

i. it does not require any capital expenditure.

ii. it is not risky.

iii. payment = a fixed % of sales.

The Problem here is that the mother firm cannot exercise any managerial control over the licensee (it is independent). The licensee may transfer industrial secrets to another independent firm, thereby creating a rival.

If it is through Direct Investment, it requires the decision of top management because it is a critical step. However:

i. it is risky (lack of information) (US -> Canada).

ii. plants are established in several countries.

iii. licensing is switched from independent producers to its subsidiaries.

iv. export continues.

3. Multinational Stage

The company becomes a multinational enterprise when it begins to plan, organize, and coordinate production, marketing, R&D, financing, and staffing. For each of these operations, the firm must find the best location.

Here, the Rule of Thumb is that a company whose foreign sales are 25% or more of total sales is a MNC. This ratio is high for small countries, but low for large countries, e.g., Nestle (98%: Dutch), Phillips (94%: Swiss). Examples: Manufacturing MNCs, 24 of top fifty firms are located in the U.S., 9 in Japan, 6 in Germany. Petroleum companies: 6/10 located in the U.S. Food/Restaurant Chains. 10/10 in the U.S.

4. Characteristics of a Multinational Corporation

Some of the characteristics common to various types of multinational corporations include:

i. A worldwide business presence.

ii. Typically, large, and powerful organizations.

iii. Business conducted in various languages.

iv. A complicated business model and structure.

v. Direct investments in foreign countries.

vi. Jobs created in foreign countries, potentially with higher wages than found locally.

vii. Seeks improved efficiencies, lower production costs, larger market share.

viii. Has substantial expenses associated with navigating rules and regulations of foreign countries.

ix. Pays taxes in countries in which it operates.

x. Reports financial information according to International Financial Reporting Standards (IFRS).

xi. Sometimes accused of negative economic and/or environmental impacts in foreign markets.

xii. Sometimes accused of negative economic impacts in home country due to outsourcing jobs.

3. Motivations for MNCs and MNEs to operate in foreign markets.

Multinational enterprises (MNEs) have a long history and have long had an influence on the development of the economies in which they operate. Their impact is on the 'home country' (where they originate), on 'host countries' (where they extend their business operations), and on 'third countries' (to which the contribution spread).

Why would a business want to become a multinational company? Usually, the primary goal of a business is to increase profits and growth. If it can grow a global customer base and increase its market share abroad, it may believe that opening offices in foreign countries is worth the expense and effort. Companies may also see a benefit in certain tax structures or regulatory regimes found abroad.

As earlier reiterated, Multinational companies are large sized business companies operated in two or more than two countries. These companies have distinct features or characteristics compared to other forms of business organizations.

A. Notable Characteristics of Multinational Companies Are as Follows:

1. Large size

Multinational companies are large-sized business organizations. They have huge resources in terms of capital, technology, people and information. They are highly efficient and complex.

2. Multi-country operations

This is another characteristic of multinational company. Multinational companies operate in several countries. They can have production, marketing and service type of operations. They cover large geographical areas. They have assets and activities in two or more countries.

3. Various objectives

Multinational companies pursue various objectives like:

i. Access to new market opportunities to expand market size.

ii. Access to cheap raw materials to reduce costs and increase competitive capacity.

iii. Access to cheap source of labor to reduce costs of labor and energy.

4. **Various environments**

Multinational companies operate in various environments. The political, legal, economic, social, cultural and technological forces differ from country to country.

5. Centralized ownership and control

The ownership and control of multinational company is centralized in the home country. They provide share ownership to local people in host countries.

6. Multiple currencies

Multinational companies deal in currencies of several countries. The risk is high because of changing values of currencies in host countries.

7. High efficiency

High efficiency is another important feature of multinational companies. Multinational companies are highly efficient due to:

i. Mass production leading to economic of scale.

ii. Use of advanced technology to increase speed of production.

iii. Professional management and marketing skills to use resources effectively.

4. Types of MNCs and MNEs.

A multinational business has assets in more than one country, generating at least 25% of its revenue from operations outside the home country. There are different models of multinational corporations. Multinational corporations typically have a central office in the home country, coordinating and managing other branches and assets.

Given below, are four business types and the financial benefits of each.

a) **Multinational Decentralized Corporation**: Every branch office has a decentralized management structure with no central chain of command for decision making. A decentralized multinational corporation maintains a prominent presence in its home country. With decentralization, the corporation's organizational structure doesn't have management or administrative centers. Instead, each office or asset hosts a unique management structure.

   Decentralization allows for rapid expansion. Each new unit can operate as a separate entity within a local market. Branch managers also have the freedom to respond to opportunities or emergencies without constrictions from a tedious chain of command.

b) **Global Centralized Corporation:** A centralized firm manages and controls the international units from the headquarter in the home country. The organizational structure of a centralized global corporation has a chief administrative and management office or head office. The corporation may outsource production to developing economies to lower costs, for example. These businesses may also develop production infrastructure in these countries to optimize affordable resources and acquire cost advantages.

   A centralized international organization facilitates proximity to its international target markets. The main advantage of affiliates and subsidiaries in target markets is distribution cost reduction. It also makes potential consumers and their information more accessible.

c) **International Company:** In this, the global branches adhere to the parent company's technology or R&D. All the research work for new product development and improvisations occurs in the headquarter. Effective R&D allows for the creation of new products or the addition of features to existing successes. Building on existing R&D gives these global companies a competitive edge in local markets, too. Other benefits include an increase in market participation and better cost management.

d) **Transnational Enterprise**: It is a blend of all the above three forms of MNCs. The parent company guides but not controls the functioning of its global branches. Transnational enterprises generally have a decentralized organizational structure. These corporations do business in several countries without one location as a corporate home.

Transnational enterprise structures engage in value creation in various countries while maintaining high levels of responsiveness. It is a flexible and efficient approach that is gaining popularity.

5. Impact of MNCS and MNES On Host Countries (Positive and Negative Effects)

Potential benefits of MNCs on host countries could either be negative or positive.

a. The potential benefits of MNCs on host countries include:

i. Provision of significant employment and training to the labour force in the host country.

ii. Transfer of skills and expertise, helping to develop the quality of the host labour force.

iii. MNCs add to the host country GDP through their spending, for example with local suppliers and through capital investment.

iv. Competition from MNCs acts as an incentive to domestic firms in the host country to improve their competitiveness, perhaps by raising quality and/or efficiency.

v. MNCs extend consumer and business choice in the host country.

vi. Profitable MNCs are a source of significant tax revenues for the host economy (for example on profits earned as well as payroll and sales-related taxes).

b. The potential drawbacks of MNCs on host countries include:

i. Domestic businesses may not be able to compete with MNCs and some will fail.

ii. MNCs may not feel that they need to meet the host country expectations for acting ethically and/or in a socially-responsible way.

iii. MNCs may be accused of imposing their culture on the host country, perhaps at the expense of the richness of local culture. Might MNCs reduce cultural diversity around the world as they continue to expand, particularly into less developed or developing countries?

iv. Profits earned by MNCs may be remitted back to the MNC's base country rather than reinvested in the host economy.

v. MNCs may make use of transfer pricing and other tax avoidance measures to significantly reduce the profits on which they pay tax to the government in the host country.

c. MNEs Impact on the Global Economy

Multinational Enterprises are spreading and expanding across the world. From the British East India Trading Company from 17th century, till recent days, MNEs seem to be imprinted in current globalized world life. The rapid growth of MNEs is correlated with booming Information and Communication Technologies since 70's, reaching 82 000 counted entities by 2008 (UNCTAD, 2010).

MNEs has become an attractive way to run a business as depending on division it allows the company to access lower cost production, better technology, less intrusive taxation system or just access to large consumer market. MNEs optimize globally, and it allows them to win on local markets. MNEs merge horizontal and vertical strategy by efficient production geo-location combined with serving local markets with sophisticated services.

Huge part of many MNEs activity is production undertaken in foreign affiliates. According to OECD data, production share in global production output grew almost 3-fold in the past 20 years, achieving close to 14% of global production share. Adding domestic companies, the current estimation says that MNEs are responsible for almost one-third of global production. External contractors are also often used, increasing the impact of MNEs even further.

Foreign affiliates significantly differ from domestic companies. They are often export-oriented, having also lower value-added to output ratio than domestic firms (partly because they are often elements of a global supply chain for the MNE).

Foreign affiliates are efficient, they hire fewer people per amount of goods produced. Typical western MNAs hire 2 people in their domestic office for 1 person employed in a foreign affiliate on average.

According to data from 2014 provided by OECD, MNEs are responsible for more than half of global exports and 49% of global imports. At the same time, their share in global employment is significantly lower – only about 23%. It comes from higher productivity but also the sectors of production where SMEs work best (for example with heavy use of automated processes).

6. Strategies for MNCs and MNEs to succeed in foreign markets.

Multinational corporations choose from among four basic international strategies:

(1) international

(2) multi-domestic,

(3) global, and

(4) transnational.

Each strategy involves a different approach to trying to be sensitive to (1) costs and efficiencies on one hand and trying to be responsive to (2) variation in customer preferences and market conditions across nations. Responding or not responding to these two pressures of cost and local cultural conditions determines which of the four types of international strategies will be pursued.

International Strategy:

Firms pursuing an international strategy are neither concerned about costs nor adapting to the local cultural conditions. They attempt to sell their products internationally with little to no change. When Harley Davidson sells motorcycles abroad, they do not need to lower their prices or adapt the bike to local motorcycle standards. People in other countries buy a Harley particularly because it is different from the local motorcycles. Buyers want the American look and the sound and power of a Harley and will pay for that differentiation. Belgium chocolate exporters do not lower their price when exporting to the American market to compete with Hershey's, nor do they adapt their product to American tastes. They use an international strategy. Starbucks and Rolex watches are other examples of firms pursuing the international strategy.

Multi-Domestic Strategy:

A firm using a multi-domestic strategy does not focus on cost or efficiency but emphasizes responsiveness to local requirements within each of its markets. Rather than trying to force all of its American-made shows on viewers around the globe, Netflix customizes the programming that is shown on its channels within dozens of countries, including New Zealand, Portugal, Pakistan, and India. Similarly, food company H. J. Heinz adapts its products to match local preferences. Because some Indians will not eat garlic and onion, for example, Heinz offers them a version of its signature ketchup that does not include these two ingredients. Outback Steakhouse uses the multi-domestic strategy in the multiple countries where it operates, adapting to local eating preferences but not lowering prices significantly.

Global Strategy:

A firm using a global strategy sacrifices responsiveness to local requirements within each of its markets in favor of emphasizing lower costs and better efficiency. This strategy is the complete opposite of a multi-domestic strategy. Some minor modifications to products and services may be made in various markets, but a global strategy stresses the need to gain low costs and economies of scale by offering essentially the same products or services in each market.

Microsoft, for example, offers the same software programs around the world but adjusts the programs to match local languages. Similarly, consumer goods maker Procter & Gamble attempts to gain efficiency by creating global brands whenever possible. Global strategies also can be very effective for firms whose product or service is largely hidden from the customer's view, such as silicon chip maker Intel. Lenovo also uses this strategy. For such firms, variance in local preferences is not very important, but pricing is.

Transnational Strategy:

A firm using a transnational strategy seeks a middle ground between a multi-domestic strategy and a global strategy. Such a firm tries to balance the desire for lower costs and efficiency with the need to adjust to local preferences within various countries. For example, large fast-food chains such as McDonald's and Kentucky Fried Chicken (KFC) rely on the same brand names and the same core menu items around the world. These firms make some concessions to local tastes too. In France, for example, wine can be purchased at McDonald's. This approach makes sense for McDonald's because wine is a central element of French diets. In Saudi Arabia, McDonalds serves a McArabia Chicken sandwich, and its breakfast menu features no pork products like ham, bacon, or sausage.

7. Cultural differences and challenges in managing MNCs and MNEs.

1. Cultural Differences

Competing on foreign soil, multinationals need to be just as perceptive about their host country's culture. Properly interacting with local employees and consumers not only means customizing products to a foreign market; it also means understanding the collective societal forces that shape the individuals residing there.

a. Individualism Versus Collectivism:

The American culture stresses individualism -- an individual's self-interest trumps group affiliations. Collectivist cultures put the group before self; in return, the group cares for each member. "The New York Times" cites studies by researcher Harry Triandis and others that found 70 percent of the world to be collectivist. A multinational operating in a collectivist culture such as China, Japan and Mexico will have difficulty motivating employees through individual incentives and competition. Business owners should instruct overseas managers to operate with the group dynamic in mind and consider relying on teams to accomplish work.

b. **Time Relationships:**

Different cultures perceive time differently, which affects issues such as punctuality and schedules. Whereas Americans perceive tardiness to be a sign of disrespect, people in some Latin American cultures arrive late to show respect. Americans think that getting right down to a business negotiation is the natural course of things. In other cultures, such as Japan's, conversation and building relationships is part of the process. The book "Communication Between Cultures" explains that conversation can go on for hours or even days.

c. **Language Barriers**

Language can be a significant obstacle for a small business that becomes a multinational company. The solution isn't just a matter of learning the language. For instance, Spanish varies from one Latin American nation to another, including dialect, slang and pronunciation. Language also has contextual nuances and nonverbal dimensions that change meaning. Also, not all foreign words and phrases are translatable.

d. Traditions

All cultures have customs, taboos and superstitions. A business owner should go beyond learning a foreign market's holidays to subtler knowledge, including local business etiquette. The book "Management: Meeting and Exceeding Expectations" points out that while gift-giving in a U.S. setting may seem like bribery, it's expected in some cultures. Additionally, there's the matter of choosing appropriate gifts, how to wrap and present gifts and how to open gifts you receive. Many traditions are tied to "deep structure institutions," notes the book "Communication Between Cultures." Deep structure institutions -- family, religious and state institutions -- evoke deep feelings, and insensitivity can be disastrous.

2. Challenges of multinational companies

It is indeed true that MNCs operate in diverse socio-cultural areas which present unique intercultural challenges (Olusoji & Oluwakemi, 2012), and it is always beneficial for the enterprises to appreciate and account these challenges as they seek ways to address them as ignoring them only lead to embarrassing strategic and operational blunders, strain relationships, as well as drag down business performance (Chuang et al, 2011).

This view is reinforced by other scholars, who suggest that multinational enterprises should find effective ways to deal with the ever-present and often confounding cultural issues that are ignited by employees who offer prominence to national cultures rather than reinforce and abide by the corporate culture (Almond 2011; Fredriksson 2006).

Multinational companies' special characteristics create a set of challenges that they have to face to succeed. Here are some examples:

i. **Cultural differences:** This refers to difficulties in localisation of not only products and marketing strategy but also the corporate culture.
ii. **Different political and legislative environments:** MNCs have to adapt to different regulations affecting their products.
iii. **Long supply chains:** Coordinating transportation from one country to another can be very complex and time-consuming.
iv. **Managing geopolitical and economic risks:** This refers to the political and economic stability of the host countries.
v. **Competition in the global market:** It can be more challenging to compete with other global companies.
vi. **Currency fluctuations:** MNCs are affected by changes in exchange rates of multiple currencies.
vii. **Communication barriers** are also thought to adversely affect the level and rate of knowledge transfer from the parent company to the subsidiaries.

8. Corporate Social responsibility and Ethical Considerations for MNCs and MNEs.

Ethics and social responsibility are not a choice, but an imperative for multinational companies. Ethical and socially responsible conduct should be the cornerstone of any organization's core values and strategic management process. The number of MNCs having ethical codes of conduct are increasing.

Phatak et al. has made some suggestions regarding what companies can do to integrate ethics and business conduct: First of all, the top management must be committed to the company's ethics program.

Secondly, a written company code that clearly communicates management's expectations must be developed. The code must be explicit in stating management's intent. The best way to ensure that ethics is not neglected to establish a high-level ethics committee at the board of directors ‘level and an ethics committee at different organizational levels.

Thirdly, strict enforcement of code is essential. Lastly, one should always be cognizant that decisions in companies are made by the who manage them, so national or international companies can be no more ethical than the persons who run them. As such, the board of directors and the chief executive officer are the crucial players in ensuring that the moral and ethical codes governing the behavior of the firm be communicated to all managers throughout the global enterprise.

Multinationals need to take into consideration all the different stakeholders while operating abroad and need to develop a set of universal ethical standards and must adhere to those standards in all the countries they operate. In their own countries, managers are faced with numerous ethical complexities.

In the international arena, such concerns are compounded by the larger numbers of stakeholders involved, including customers, communities, and owners in various countries. Multinational companies being large firms affect the economic, political, technological environment especially in developing countries. They should not decline conforming to ethical standards in those countries because while the standards regarding morals and ethics may differ from country to country or business to business the general model must remain the same.

9. Regulation and governance of MNCs and MNEs.

Multinational corporations (MNCs) are regulated by domestic and international law. In the United States, corporations are normally established pursuant to state law, and their activities are regulated by state and federal law as limited by the Constitution. The authority of the United States to regulate activities of MNCs abroad is subject to limits established by international law.

Typically, a "parent" MNC will conduct its operations in countries abroad through "subsidiary" corporations that the parent owns or controls. Under international law a corporation takes the nationality of the country in which it is incorporated, and that country thereby acquires the authority to regulate the conduct of its corporate nationals anywhere in the world. Thus, the United States has international law authority to tax and otherwise to regulate the worldwide conduct of its parent MNCs. In cases such as *Blackmer v. United States* (1932), the Supreme Court has confirmed the constitutional authority of Congress to adopt such legislation. Politically, however, Congress has generally been reluctant to impose U.S. economic regulation on American MNCs abroad for fear of putting them at a competitive disadvantage as against European and Asian competitors. The principal exceptions have been where regulation had high foreign policy significance, as in economic sanctions, or was important domestically, as in antitrust and anticorruption legislation.

10. Role of MNCs and MNEs in global economic development.

The activities of multinational enterprises (MNEs) have traditionally drawn a lot of policy attention as governments are keen to attract foreign direct investment (FDI). MNEs are believed to promote growth and employment by creating new jobs, realise new investments, bring in new technologies, and allow host economies to integrate and upgrade in global value chains (GVCs). The academic literature has also highlighted that MNEs have important implications on the international transmission of economic shocks (Cravino and Levchenko 2016, Kleinert et al. 2015), countries' comparative advantages (Alviarez 2019), gains from trade (Ramondo and Rodriguez-Clare 2013, Tintelnot 2017), in benefiting domestic firms (Javorcik 2004, Keller and Yeaple 2009), and in influencing governments trade policy objectives (Baldwin 2014, Blanchard and Matschke 2015).

Furthermore, MNEs and their foreign affiliates account for one third of world output and GDP and two-thirds of international trade. MNE's contribution to world GDP was estimated at 32% in 2016, of which roughly one third was by foreign affiliates abroad and two thirds by MNE headquarters and domestic affiliates in the home country.

MNEs are found to be relatively more important in terms of exports and imports, demonstrating the large trading activities of this group of firms. In 2016, foreign affiliates were responsible for 30 of global exports, as compared to 34% for MNE headquarters. When looking at imports of intermediate inputs (where we can distinguish the category of firms on the importing side), we find smaller shares for MNEs, particularly for foreign affiliates, which only import 13% of all intermediate inputs.

Corporations are legal entities governments create to enhance the well-being of their citizens by producing certain conditions that are conducive to investing and conducting business.

Governments grant certain rights-limited liability-but we have argued that these are not "natural rights" or "human rights" but only instrumental rights, shaped to further societal goals. Thus, the corporate veil can and should be pierced under certain circumstances; limited liability is not intended to make corporations or their officers immune from responsibility for their actions, including environmental damage.

Governments have the right and responsibility to pass corporate governance laws, bankruptcy laws, and health, safety, and environmental regulations to further the well-being of their citizens. Foreign individuals and corporations wishing to conduct business within a country should be subject to the rules and regulations of the host country, including the rules and regulations that govern incorporation and bankruptcy.

Hence, it is reasonable for governments to require foreign corporations operating within their borders to establish subsidiaries, whose governance and dissolution would be governed by national laws.

Stiglitz (2007) suggested that the following principles might guide the future evolution of such international laws and regulations:

i) Bilateral and multilateral agreements should focus on non-discrimination.
ii) Compensation should be limited to actual investments, not to speculative "lost potential earnings."
iii) Such agreements should not presume a right of establishment and should not go beyond domestic laws with respect to the protection of property rights. They should be particularly respectful of domestic legislation concerning the environment, labour, or affirmative action.
iv) There should be an international commercial court to adjudicate international disputes, governed by the laws of the host country.
v) In the absence of such an international commercial court, adjudication should occur in existing host country courts. If foreign corporations do not "trust" host country courts, then the adjudication should occur in the home country, but, at least when environmental damages are at the centre of the dispute, at the higher of the prevailing standards of the host or home country.

vi) Those injured by corporations should be allowed to sue in host country courts, under the higher of the standards of the two countries; and there should be an agreement about cross-border enforcement of judgments.
vii) Corporate officials should be held criminally liable for the violation of domestic laws, and any BIT should provide for expedited extradition for corporate offenses.

Furthermore, Stiglish stated that the current rash of bilateral trade agreements may not only have direct adverse consequences on efficiency and social welfare, but the indirect consequences may be even worse. Developing countries who have been induced to sign these agreements find their democratic processes constrained: even when the vast majority of their citizens feel that some regulation is desirable, they are told that they cannot adopt it; or if they do, they must pay some foreign firm large compensation.

Developing countries often feel that the scope for their independent policy making is already greatly constrained, as a result of conditionalities imposed by the World Bank and the IMF. Now they face an additional set of constraints. What is the point of democracy, they ask, when the things they care about have been decided in Washington or elsewhere? When they are told their leaders signed on to such an agreement, it simply further undermines their confidence in their democratic processes. They may believe their leaders were bribed; they may believe that they were uninformed or taken advantage of; but, at the very least, they were not acting in the interests of their citizens.

He concluded that 'while democracy is thus undermined, so is confidence in the fairness of the international market system. The outrageous outcomes of some of the arbitration panels provide ready fuel for populists seeking to roll back market reforms. Even the rule of law is put into question. If the rule of law is seen as a tool not for fairness and equity, but as another instrument by which the rich and powerful exploit the poor and the weak, then support for the rule of law is undermined.'

MNCs have played a mixed role in our global economy: They have been responsible for many of the achievements of globalization, but also for some of the key problems. With the reforms described here, there is a greater chance the positive benefits will be preserved, and the adverse effects ameliorated.

11. Trends and future outlook for MNCs and MNEs.

Global Multinational Enterprises have driven international economic growth in recent decades, with each of the six continents experiencing an exponential increase in business activity. In recent times, Global Multinational Enterprises (GME) are becoming stronger, fitter, and faster.

The post-pandemic emergence and growth of global multinational enterprises, the expanding role of state enterprises, and the recent emergence of Third World MNCs are noteworthy indices that will shape the future. Multinational Enterprises (MNEs) represent both cause and result of the new economic geography of globalization. Thus, the dynamics and trends of the world's most influential MNEs contribute decisively to the latest global architecture and to economic development, being influenced, in their turn, by these processes of continuous reconfiguration and evolution that take place in the global arena.

The future of multinational corporations (MNCs) is likely to be shaped by a number of factors. These include technological advances, geopolitical shifts, changing consumer behaviour and an evolving regulatory environment. The fact remains that the more actors involved in global business and the dramatic, the more rapid changes the future will witness in the global environment.

One of the most significant trends affecting MNCs is the rise in importance of digital technologies such as artificial intelligence, automation, and big data analytics. These technologies are enabling companies to improve their operations, increase efficiency and enhance their ability to adapt to changes in market conditions.

Another important trend is the emergence of new global economic powers, such as China, India, and other emerging markets. These are likely to reshape the competitive landscape in many industries. As these economies continue to grow and develop, multinationals will need to adapt their strategies and business models to remain competitive.

At the same time, MNCs need to respond to changing consumer preferences and values, including concerns about sustainability, ethical business practices and social responsibility. These issues are increasingly important to consumers and are likely to become even more so in the years ahead.

Finally, multinational corporations will have to navigate through a complex regulatory environment, both at home and abroad. In order to remain globally competitive while complying with local laws and regulations, companies may need to rethink their operations, supply chains and business practices.

The future of MNCs will depend on their ability to adapt to these and other trends and to remain agile and innovative in the face of ongoing change and uncertainty.

According to Dr. Li Lin Huang, Former Assistant Professor, American University of Madaba, several major trends are influencing the future of Global Multinational Enterprises (GMEs) as detailed below:

i. A new macroeconomic environment is forming. GMEs trade across continents, with many companies interdependent with others around the world.

ii. Global Multiple Enterprises are seeing a massive shift to online banking, digital person-to-person payment transfers, e-commerce, an increase in 'do it yourself,' stay-at-home activities, and commerce via social media platforms.

iii. Lack of equity in numerous nations and industries will create opportunities for the consolidation of new global champions. A programmatic M&A strategy is a tool that businesses can use to acquire new competencies and grow in size. M&A activity is now nearly essential in the GME sector.

iv. To keep their employees safe, most GMEs have had to implement remote work. This unprecedented experiment has profoundly shifted mindsets; companies are still determining the exact role that remote work will play after the pandemic has passed.

v. The pandemic has also brought environmental, social, and governance (ESG) issues to the fore; making ESG a line-accountable item can lift what is already a substantial contribution to our stakeholders further without eroding short-term financial or operational performance. Over time, you build greater value and greater returns for shareholders.

The trends described above will challenge leaders as never before. To capture GME's opportunity, companies must move quickly and boldly, adapt constantly, and collaborate deftly.

12. Case Studies of Successful and Unsuccessful MNCs and MNEs.

a) The Brief Introduction to the Multinational Corporation Wall-Mart

The Multinational Corporation wall-mart is one of the giant American's firms that burnt in 1962 at Arkansas, in Rogers precisely, by Sam Walton. The firm began by satisfying the customers' needs of the Arkansas' market. From 1968, the company took the option for expanding its operations outside the first market but only in U.S. From 1995 to this time, the firm expands its operations outside of the U.S. The enterprise Wall-mart is a big discount department store that expands its activities globally. (The above data's compilation is relevant to consultation of en.wikipedia.org and http://www.walmart.com/).

b) The Wall-Mart as MNC and Successful International Business

Wall-mart is one of the MNC in the world since five decades ago; Wall-mart is one of the successful international businesses. Wal-Mart totalizes 11723 stores. In term of segmented stores, there are 4692 in US, 6369 in international and 662 Sam's club. It expands internationally in 28 countries (with physical stores) and use also E-commerce websites in 11 countries. (The above data are relevant to the websites: http://www.walmart.com/ and http://www.fortune.com/).

These five decades ago in the world, Wall-mart is one of the successful international businesses. Since 1962 to present; the firm continues to see its benefits and cash flows to increase. According to fortune's statistics, Wal-Mart figures on top 500 of successful international business. (The above data are relevant to the websites: http://www.walmart.com/ and http://www.fortune.com/).

c) The Main Key Success Factors of Wall-Mart's Successful International Business

The application of the absolute advantage is the first one of the main key success factors for a successful international business. The United State of America has a higher advantage in technology. It's why many companies of US specialized in using digital technology for selling goods or responding to customers inquiries. Wal-Mart use also digital technology (E-commerce) in selling economics goods and in treating with their customers.

The application of the comparative advantage is the second one of the main key success factors for a successful international business. The USA has higher advantage in land, capital, labor and technology than many states of the world. USA decides to specialize in production of land's and capital's goods. Wal-Mart, one of the American's MNCs specializes in exports of spices.

The application of the imperfect markets theory is the third one of the main key success factors for a successful international business. Traditionally every firm or MNC must use three kinds of factors for producing economics goods. In perfect market, there is free transfer between two or more countries but in the real world in which we are, every movement of production's economics goods generates costs and meets restrictions. It's one of the reasons that encourage many firms to expand their business globally. Wal-Mart also enlarges its business outside of the U.S for minimizing those costs of transfer and passing out the restrictions related to this transfer.

The application of the products cycle theory is the fourth one of the main key success factors for a successful international business. Let us take the case of the first Wal-Mart that opened on July 2nd, 1962 by Sam Walton in Rogers, Arkansas, U.S. for meeting local demand. As time passes, the Multinational Corporation decided to export the economic goods directly or via internet outside U.S. At that step, the foreign firms also began to import the Wal-Mart's economics goods for satisfying their customers. For minimizing the costs of the exports, Wal-Mart decided to produce in foreign market. After a certain period, many foreign firms imitated Wal-Mart's economics goods and offered similar products but not exactly the same. It's why now; many companies as MNCs offer similar products but with differentiation and Wall-mart continue to produce globally.

The application of the Global Strategies is the fifth one of the main key success factors for a successful international business. To expand business outside of home country becomes also one of MNC's goals and must be considered as a product global strategy. Let us take the example of Wal-Mart that increases international business and imports in 28 countries physically and more via internet (websites) by doing regularly research marketing and using a consistent budget for that.

The application of the intentional trade is the sixth one of the main key success factors for a successful international business. The above explanation of product cycle theory demonstrated how Wal-Mart exports economics goods and how foreign firms imported Wal-Mart's economics goods.

The application of the Joint venture is the seventh one of the main key success factors for a successful international business. For instance, in Mexico, Wal-Mart applied joint venture with CIFRA, one of the local players. The joint venture helped Wal-Mart to manage risk of west if there is failure. The above explanation speaks for itself.

The application of the acquisition of existing operation is the eighth one of the main key success factors for a successful international business. For example, in Canada, Wal-Mart had an acquisition of 39 stores locations of target. Indeed, in 1994, Wal-Mart had also an acquisition of 120 stores of Woolco discount that located in North of the border from Woolworth Corporation. The acquisition of the existing operations permitted one month to gain Woolworth's customers without advertising. Economics, Management and environment are the forms and sources of risk facing to Wal-Mart in international business.

The management control is one of the forms and sources of risk that facing MNCs. It's a big challenge because of diversity and multiple countries. We must choose between the centralized or decentralized management for subsidiaries.

The environmental constraints are also impact on international business. Nowadays developed and undeveloped countries build codes, laws and policies for protecting their environments. Applying of all codes, laws and policies by MNC's, generates increases cost of economics goods. Wal-Mart was also faced by environments constraints.

The regulatory Constraints are one of the forms and sources of risk to successful international business. Existence of currency convertibility, policies and taxes increases also costs of Wal-Mart's goods. Each change of regulatory constraints will also affect Wal-Mart's financial vision.

The Ethical constraints are one of the forms and sources of risk to successful international business. The world doesn't have universal code of ethic. Each country has a proper acceptable ethic. Wal-Mart meets also that reality of multiple and different countries.

Managing within constraints are relevant to the forms and sources of risk to successful international business that facing MNCs. Ethical constraints are a reality in a present world and generate many matters for managing MNC's internationally. In the above explanation, the author told that Wal-Mart has 6369 internal stores and 662 Sam's clubs.

The risk of movement in the exchange rate is another side of the existence forms and sources of risk to successful international business. Each fluctuation of exchange rate is affecting cash flow of Wal-Mart. Let us take the case of RAND and dollar/U.S. this time. Each export of good from US to South Africa, firms import at lower prices and can sell at higher prices because Rand appreciated, and dollars/US dis-appreciated.

The risk in economics foreign market is one of the forms and sources of risk to successful international business. In each country, economic conditions determine the level of selling goods in the market. Economic conditions fluctuate also regulatory in the world in many countries.

Political risk is also one of the real challenges in international business. Each political decision can affect MNCs. In fact, the case of zairianization is a real example of the impact of political decision. During 1970-1974, the president of the Democratic Republic of Congo (ex-Zaire), Mobutu nationalized many subsidiaries of MNCs. In that way, several MNCs lost their subsidiaries in foreign countries. (Matanga, 2018).

What are examples of multinational corporations? Examples of multinational corporations include Apple, Amazon, Microsoft, McDonald's, and Volkswagen. These companies are headquartered in one nation but operate divisions in many other countries in order to expand their business and reach more customers.

What is the largest company in the world? The largest company in the world by market capitalization is Apple Inc. As of March 2022, it has a market cap of $2.7 trillion. After Apple, the next largest company is Microsoft with a market cap of $2.2 trillion.

The country with the largest number of MNCs is the U.S., followed by Japan and China. Many European countries and India also have many MNCs. Let's look at the statistics: The United States is the country that has the most multinational corporations, numbering 719 companies. That is 33% of total MNCs globally that are headquartered in the U.S. Following the U.S. is Japan with

264 MNCs (12%). Rounding out the top five are China; 219 companies (10%), U.K.; 118 companies (5%), and India; 81 companies (4%). According to the Bureau of Economic Analysis, U.S. multinational enterprises employed 43.9 million workers worldwide in 2019. Employment was the largest in China, the United Kingdom, Mexico, India, and Canada.

d. Case Study - Companies that Failed Internationally from a Lack of Social Understanding

It is a fact of life that not all international expansions go smoothly. For example, if a business is not careful and doesn't do effective due diligence, its marketing messages may be lost in translation. Or, if they don't take the time to incorporate some in-depth market research into their expansion strategies, they may end up losing money instead of making money.

Let us examine some examples of companies that failed internationally due to a lack of social understanding and an in-depth breakdown of what really went wrong.

1. Walmart in Japan and Their Failure to Differentiate

In 2018, Walmart brought in more than $500 billion in sales globally. However, 3/4 of those sales came from the U.S. Some of their overseas markets — particularly in Japan — things are not going so well for the American retail giant.

Recent reports have shown that Walmart may be looking to exit Japan nearly 17 years after its initial expansion into the Japanese market. This expansion involved purchasing a minority stake in Seiyu — a Japanese grocery store — in 2002, which then turned into a fully-owned subsidiary in 2008. Like Walmart, Seiyu uses the "Everyday Low Prices" mantra to market to their consumers.

In between then and now, not much has gone right for Walmart in Japan. Aeon, the top supermarket in Japan, owns 45% of the market share. Meanwhile, Walmart's Seiyu sits at 12%.

That may not sound terrible, but to put it into perspective, let's compare it to another U.S. supermarket that has expanded into Japan with much more success — Costco.

Costco only has 26 stores in Japan, but in 2017 they brought in just over $3 billion in revenue. Seiyu, on the other hand, has 331 locations and brought in $7.1 billion in revenue. So, what went wrong exactly?

Well, the low-price strategy that both Walmart and Seiyu abide by is not nearly as effective in Japan as it is in the United States.

While consumers in the U.S. appreciate the convenience of being able to find great deals at one central location, Japan consumers are not as concerned with this convenience, making it less of a differentiator in the Japanese market.

Michelle Grant, the Head of Retailing at Euromonitor International, outlines this issue in a CNBC video, titled “Why Walmart is Failing in Japan.” In the video, Grant describes how Japanese consumers “enjoy the treasure hunt of pricing” and will go to multiple stores while shopping in search of the best deals. Also, as this Bloomberg Business Week article points out, Japanese consumers often associate low prices with cheap quality.

In addition to all of that, Japan’s retail market was already so congested with everything from your stereotypical supermarket to online retailers and mom-and-pop shops by the time Walmart expanded into that region.

Now, this doesn’t mean that the barriers to entry were impenetrable. It just means that to enter that market, you need to have a strong differentiator that was effective to the market. This was something that Costco did well, while Seiyu failed.

Japanese consumers typically aren’t used to shopping in bulk, so going to Costco offers them a totally new shopping experience. Meanwhile, Seiyu was no different than any other supermarket that Japanese consumers were already familiar with.

Last, Walmart also failed to recognize that Japanese consumers enjoy fresh, locally sourced food — which is something Seiyu does not offer a lot of.

It remains to be seen whether Walmart will be able to turn it around or if they’ll ultimately end up selling Seiyu. But, one thing is certain, the U.S. supermarket’s lack of understanding their consumers in Japan has set them pretty far back.

2. Home Depot in China and the DIY Attitude

Home Depot is known as the place to go for those who embody the DIY mindset when it comes to home improvement. In the late 20th century, China started to commercialize and privatize urban public housing to encourage homeownership. For the first time since the 40s, Chinese citizens could own homes.

Up until this point, Home Depot didn't even think about expanding to China. But, as more and more Chinese citizens started to own homes, the demand for home improvement and construction materials boomed. As a result, Home Depot acquired Home Way in 2006.

Unfortunately, in 2012, Home Depot closed all its Home Way stores and left the market. So, why the quick exit from the Chinese market for Home Depot? The problems they encountered — as laid out in another CNBC video — can be boiled down to two main issues.

First, the Home Way stores were predominantly located in Chinese suburbs. While being located in the suburbs makes sense in the U.S. — as this is where people tend to move when they gain wealth — this is not the case in China.

Chinese citizens who acquire wealth will typically stay in the cities and live in apartments or condominiums, which typically don't require the need for renovations.

Home Depot took their time when it came to deciding whether or not to enter the Chinese market. However, it seems they still lacked the proper amount of preparation and social understanding it takes to successfully navigate a new and foreign market.

3. Starbucks in the Land Down Under and the Importance of Originality

From its humble roots in Seattle to becoming one of the largest coffee giants in the world, Starbucks is one of the most successful coffee chains out there today. In the U.S., it reigns supreme. Look no further than its heavy presence in our pop culture and movies as an indication that it is a staple of American society. But, it's also a world leader in coffee sales, with nearly 30,000 stores worldwide.

After its initial success in international markets, Starbucks decided to expand to Australia — opening up their first shop in Sydney in 2000. By 2008, there were over 87 Starbucks locations throughout Australia. Despite this growth, things were not going so well for America's favorite coffee in the Land Down Under. Early on in their Australian endeavors, Starbucks reported $105 million in losses.

But why was Starbucks expansion into Australia so different than the other international markets it had entered? What exactly went wrong?

The biggest mistake that Starbucks made when they decided to move into Australia was that they thought they didn't need to adjust their offerings.

Australia has a rich coffee culture, where local cafe menus are dominated by complex coffee drinks as opposed to the basic offerings found in Starbucks stores.

In addition to the basic drinks on Starbucks' menus, they also have many sugary drinks, which Australians also aren't particularly fond of.

Not only did Starbucks fail to tailor their menu to fit the preferences of the Australian coffee consumer, they also failed to alter the physical stores to fit Australia's idea of what a coffee shop should look like.

Australians see their cafes as a meeting place to talk business or to catch up with friends. The actual coffee is seen as more of a bonus to meeting there. So, cafes in Australia offer a place to socialize and drink coffee. Meanwhile, a Starbucks shop treats coffee as the main offering, where you can get your drink and then head out as you start your day.

Today, Starbucks still operates in Australia — but its target market isn't Australians. It's tourists who are visiting Australia. Instead of having locations in various cities and suburbs throughout the continent, they are focusing on major tourist cities. The idea here is that these tourists are looking for something familiar while in a foreign city, and there are few brands that are more well-known than Starbucks.

4. Walmart creeps out the Germans

Like Home Depot, U.S. big box retailer Walmart failed to take into account cultural nuances – in particular personal space – when it opened up shop in Germany in 1997. The chain opened 85 stores in an attempt to tap into the frugal country's lucrative discount department market. But with intricate labour laws, restricted business hours and rows upon rows of regulatory red tape, the market was harder to crack than the American retail giant anticipated. The icing on the cake – customers were a tad bit freaked out by Walmart greeters and their propensity to bag customers groceries for them, both unusual practices in Germany. In 2006, Walmart pulled out, at a cost of US$1 billion.

e) Lessons Learned as a takeaway: How to Avoid these Mistakes for International Expansions

To ensure that your company doesn't fall victim to an international marketing blunder, there are a few things you should do prior to setting up shop in a new country, region, or even state.

First, do the research. Most likely firm conduct market research in current markets and target audience, will also need to go through the same process in new markets before expanding. It's important to first establish whether or not there is an opportunity in that international market prior to entering.

In addition, you have to zero in on the consumer preferences of the new target audience. What type of products they like, what their hobbies are, what flavors they prefer, and simply whether or not your offering will be valuable to them.

When it comes to marketing, it is not effective to simply assume you can take current campaigns and apply them without alteration in other areas of the world. People differ from city to city, country to country, and continent to continent.

11.16 SUMMARY

International business is the study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organisations (Rugman and Collinson, 2006).

International business involves the exchange of goods, services, capital, technology, and knowledge across national borders. International business can take many forms, including exporting, importing, licensing, franchising, and direct investment.

International business alludes to the exchange of products, administrations, innovation, capital, and additional information across public lines and at a worldwide or transnational scale.

The nature of international business is complex and ever-changing. There are several that factors influence it including economic conditions, political stability, cultural differences, and technological advances.

The international business environment (IBE) is a complex network of economic, political, legal, and cultural forces that shape how organisations conduct international business. It consists of external and internal factors that impact a company's success or failure in different markets. This concept involves understanding the global forces that impact businesses of all sizes. These elements shape how companies conduct their operations and make decisions from macroeconomic trends to geopolitical tensions. Globalisation has made it easier for businesses to go beyond local or regional markets, creating new opportunities while presenting new challenges.

International trade (IT) is referred to as the exchange or trade of goods and services between different nations. It is the purchase and sale of goods and services by companies in different countries. This kind of trade contributes and increases the world economy. The most commonly traded commodities are television sets, clothes, machinery, capital goods, food, raw material, etc.

International trade has exceptionally increased, which includes services such as foreign transportation, travel and tourism, banking, warehousing, communication, distribution, and advertising. Other equally important developments are the increase in foreign investments and production of foreign goods and services in an international country.

In essence, there are three main kinds of legal systems—common law, civil law, and religious or theocratic law. Most countries actually have a combination of these systems, creating hybrid legal systems.

The study of political systems is extensive and complex. A political system is basically the system of politics and government in a country. It governs a complete set of rules, regulations, institutions, and attitudes. A main differentiator of political systems is each system's philosophy on the rights of the individual and the group as well as the role of government. Each political system's philosophy impacts the policies that govern the local economy and business environment.

The type of **economic system** a country builds is a political choice. Foreign countries often will have different economic systems from your domestic market and adjustments often need to be made to take these differences into account.

For example, a country may operate in a **market economy** where private individuals own most of the property and operate most of the businesses. A market economy is usually the best economic environment for a foreign business because of the protection of private property and contract rights.

Some countries lean more towards a **socialist economy** where many industries and businesses are owned by the state. Operating businesses in this environment will be more difficult, but products can still be produced and sold as people still pick their jobs and earn money.

Of course, the reality is that all economies are **mixed economies** that take parts from two or more of the 'pure' economic systems. For example, you can conduct business in communist China in Hong Kong and other special areas where a market economy is allowed to operate.

The **foreign exchange market** is a market for converting the currency of one country into that of another country. Foreign exchange can be in the form of cash, funds available on credit and debit cards, traveler's checks, bank deposits, or other short-term claims.

The importance of international trade to a nation's economic welfare and development has been heavily documented in the economics literature since Adam Smith's (1776) pioneering inquiry into the nature and causes of the wealth of nations. The rationale underlying this relationship suggests that economies need to export goods and services in order to generate revenue to finance imported goods and services which cannot be produced indigenously.

Absolute Cost Advantage Theory: It was Adam Smith who emphasized the importance of free trade in increasing wealth of all trading nations. According to Adam Smith, mutually beneficial trade is based on the principle of *absolute advantage*. His theory is based on the assumptions that there are two countries, two commodities and one factor (labour) of production.

Comparative Cost Advantage Theory: According to Ricardo, it is not the absolute but the comparative differences in costs that determine trade relations between two countries. The comparative cost theory was first systematically formulated by the English economist David Ricardo in his *Principles of Political Economy and Taxation* published in 1817.

The strategic trade policy models provide certain theoretical justification for policy intervention such as home market protection and export subsidies towards increasing exports and national welfare.

In the broader sense, the strategic trade policy models are an extension of intra-industry trade models. These models are developed in a partial equilibrium framework by assuming oligopolistic competition.

Risks in International Business Trade

(a) Deals might have to be transacted in foreign languages and under foreign laws, customs, and regulations.

(b) Information on foreign countries needed by a particular firm may be difficult (if not impossible) to obtain.

(c) Foreign currency transactions will be necessary. For instance, exchange rate variations can be very wide and create many problems for international business.

(d) Numerous cultural differences may have to be taken into account when trading in other nations.

A multinational enterprise or entities, abbreviated as MNE and sometimes also called multinational corporation (MNC), just multinational or international corporation is an enterprise producing goods or delivering services in more than one country. A multinational enterprise has its management headquarters in one (or rarely more than one) country, the home country, while also operating in other countries, the host countries. Through their globalized production systems, multinational enterprises (MNEs), their subsidiaries and extended value chains represent an important share of the private sector in many developing and industrialised economies. The potential contribution of MNEs to the creation of more and better jobs is large, mostly in their supply chains but also through foreign direct investments (FDI).

11.17 ILLUSTRATIVE AND PRACTICE QUESTIONS

A) THEORY QUESTIONS

1. Identify legal system and different types.
2. Describe the political system.
3. Describe the economy system.
4. Explain foreign exchange market.
5. Explain foreign direct investment.
6. Describe tariffs, taxes, import and export regulations and documentations.
7. Explain the concept of international trade.
8. Explain the concept of models of international trade.
9. Discuss the five international business environments that you know and implications for business development.
10. Identify and explain the various risks in international business trade.

11. Identify examples of companies using each of the four international strategies other than those described above. Which company do you think is best positioned to compete in international markets?
12. Through their globalized production systems, multinational enterprises (MNEs), their subsidiaries and extended value chains represent an important share of the private sector in many developing and industrialised economies. Discuss with examples.
13. Going through the various case studies on MNEs that succeeded and failed, identify the main points why these happened to these organisations with examples.
14. Explain the trends and future outlook for MNCs and MNEs in the global economy.

B) MUTLIPLE CHOICE QUESTIONS

1. **_______________________** is the study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organisations (Rugman and Collinson, 2006).

- **a) International business**
- b) International trade
- c) Countrywide trade
- d) Inter-state business

2. 'Economies of scale' is also known as

- a) Benefiting scales.
- **b) Returns of scale**
- c) EOS
- d) None of the above

3. What is 'economies of scale'?

- **a) The lower average cost of production**
- b) Extra profit to gain
- c) Benefits of a business
- d) None of the above

4. Which economies of scale involves specialization of departments?

- a) Specialization economies
- **b) Managerial economies**
- c) Departmental economies
- d) None of the above

5. Monopsony economy is...

- a) Small business can get discounts from bulk purchase

b) Medium sized business can get discounts from bulk purchase
c) Large sized business can get discounts from bulk purchase
d) All of the above

6. International business involves the exchange of goods, services, ____________, _________________, and knowledge across national borders.

a) Trade, import
b) Produce, cash
c) Capital, technology
d) None of the above

7. Who benefits from risk-bearing economies?

a) Conglomerate businesses
b) Product development businesses
c) Market development businesses
d) All of the above

8. What can businesses benefit from financial economies?

a) High sum loan/Low interest rate
b) Special services from banks
c) Extension of deadline to pay back the bank
d) None of the above

9. In essence, there are three main kinds of legal systems— ______________ law, ______________law, and religious or theocratic law. Most countries actually have a combination of these systems, creating hybrid legal systems.

a) Civil, Common
b) Political, civil
c) Legal, common
d) None of the above

10. Diseconomies of scale can occur when a company becomes too big, lowering its production.

a) True
b) False
c) Not Sure
d) None of the above

11.18 REFERENCES

Abasiakan, L. T., Sani, Z., and Obiezue, T. O. (2012). Determinants of Nigeria's International Trade in Services. Central Bank of Nigeria Economic and Financial Review, Volume 59/1 March 2021, Pp.29-48.

Agarwal, S. & Ramaswami, S. N. (1992). "Choice of foreign internalization factors". *Journal of International Business Studies*, 23:1, pp. 2-5.

Almond, Phil. (2011). "Re-visiting Country of Origin Effects on HRM in Multinational Corporations." *Human Resource Management Journal*. 21.3: 258-271.

Barreto, T.S.; Lanivich, S.E.; Cox, K.C. Temporal Orientation as a Robust Predictor of Innovation. *J. Bus. Res.* **2022**, *138*, 287–300. [**Google Scholar**] [**CrossRef**]

Blaug, M. (1978). *Economic theory in retrospect.* New Delhi: Vikas Publishing House Pvt. Ltd., pp. 11 & 12.

Bradley, D. G. (1977). "Managing against Expropriation". *Harvard Business Review*, July-August, pp. 78-90.

Brander, J. & Krugman, P. (1983). "A reciprocal dumping model of international trade". *Journal Of International Economics,* Vol. 16, Nos. 3 – 4, pp. 313 – 321.

Chadee, D. D. & Mattson, J. (1998). "Do Service and Merchandise Exporters Behave and Perform Differently? A New Zealand Investigation." *European Journal of Marketing* 32, p. 830.

Chuang, Ming-Ling, James J. Donegan, Michele W. Gannon and Kan Wei. (2011). "Wal-Mart and Carrefour experiences in China: Resolving the Structural Paradox." *Cross Cultural Management: An International Journal*. 18.4: 443-463. *Emerald*. Web.

Cross, S. Y. (1998). All about the foreign exchange market in the United States. New – York: Federal Reserve Bank of New –York.

Daniels, J. D, Radebaugh, L. H, and Sullivan, D. P (2009). International business: Environments and operations, 12th ed. New- Jersey: Pearson education Inc, Upper Saddle River.

Dixit, A. K. & Stiglitz, J. (1977). "Monopolistic competition & optimum product variety". *American Economic Review*, Vol. 67, No. 3, pp. 297 -308.

Dwivedi, D. N. (2002). Managerial Economics, 6th ed. New – Delhi: Vikas Publishing House PVT Ltd.

Ejim, Esther (2023). What Are the Different Types of International Trade? https://www.smartcapitalmind.com/what-are-the-different-types-of-international-trade.htm

Elwell, F.W. Marvin Harris on the Universal Structure of Societies. Available online: http://www.faculty.rsu.edu/users/f/felwell/www/Theorists/Essays/Harris1.htm (ac cessed on 3 August 2022).

Fredriksson, Riikka, Wilhelm Barner-Rasmusses and Rebecca Piekkari. (2006). "The Multinational Corporation as a Multilingual Organization: The Notion of a Common Corporate Language." *Corporate Communications: An International Journal*. 11.4: 406-423. *Emerald*. Web.

Griffin, R. W (1999). Management, 6thed,. Boston: Houghton Mifflin Coy.

Grubel, H. & Lloyd, P. (1975). *Intra – Industry trade: The theory and measurement of international trade in differentiated products.* London: Macmillan.

Harris, M. *Cultural Materialism: The Struggle for a Science of Culture*, 1st ed.; Random House: New York, NY, USA, 1979; ISBN 978-0-394-41240-5. [Google Scholar]

Hennart, J. F. & Park, Y. R. (1993). "Greenfield versus acquisition: The strategy of Japanese investors in the United States". *Management Science*, pp. 1054-1070.

Hennart, J. F. & Park, Y. R. (1993). "Greenfield versus acquisition: The strategy of Japanese investors in the United States". *Management Science*, pp. 1054-1070.

Hotho, Jasper J. (2014). *From Typology to Taxonomy: A Configurational Analysis of National Business Systems and their Explanatory Power.* Organization Studies 2014, Vol. 35(5) 671 –702. DOI: 10.1177/0170840613502767 www.egosnet.org/os

https://indiaclass.com/international-trade-mcq/

Kerr, J. (2006). "Exporters Need to Connect with Customers". *Logistics Management,* March 1, p. 41.

Kravis, I. B. (1956). "Availability & other influences on the commodities composition of trade". *Journal of Political Economy,* Vol. LXIV, April, pp. 143 – 155.

Krugman, P. R. (1979). "Increasing returns, monopolistic competition and international trade". *Journal of International Economics,* Vol. 9, No. 4, pp. 469 - 479.

Krugman, P. R. (1984). "Import promotion as export promotion" in - Henry Kierzkowski (Ed) – *Monopolistic competition and international trade.* Oxford: Oxford University Press.

Krugman, P. R. & Obstfeld, M. (2000). *International economics – Theory & policy.* New Delhi: Addison –Wesley Longman, pp. 138 – 140.

Linder, S. B. (1961). *An essay on trade & transformation.* New York: John Wiley.

Masovic, Azemina (2018). *Socio-Cultural Factors And Their Impact On The Performance Of Multinational Companies.*Ecoforum Journal (University of Suceava, Romania). [Volume 7, Issue 1(14), 2018]

Matanga, J. (2018) The Main Key Success Factors of the Multinational Corporations' Successful International Business in Spite of Their Exposure to Many Forms and Sources of Risk (The Case of Wall-Mart). *Open Access Library Journal*, **5**, 1-5. doi: 10.4236/oalib.1104629.

Morrison, J. (2006). *The international business environment, global and local marketplaces in a changing world,* 2nd ed. New – York: Palgrave Macmillan.

Olusoji, George and Owoyemi Oluwakemi. (2012). "Impact of National Culture on the Management of Multinational Businesses: The Case of Cadbury Worldwide." *International Journal of Business & Management Tomorrow*. 2.7: 1-9. *Academic Search Premier*. Web.

PHATAK, Arvind V., BHAGAT, Rabi S., KASHLAK, Roger, International Management: Managing in a Diverse and Dynamic Global Environment, Boston McGraw-Hill/Irwin, 2004.

Popkova, E.G., Chesnokova, A.V., Gyiazov, A.T., Morozova, I.A. and Fetisova, O.V. (2019), "The Concept of Business System", Popkova, E.G., Chesnokova, A.V. and Morozova, I.A. (Ed.) *Specifics of Decision Making in Modern Business Systems*, Emerald Publishing Limited, Bingley, pp. 5-11. https://doi.org/10.1108/978-1-78756-691-020191002

Posner, M. V. (1961)."International trade & technical change". *Oxford Economic Papers,* Vol. 13, No. 3, pp. 323 - 341.

Rugman, A. M. & Collision, S. (2006). International business 4thed,. Harlow: FT Prentice Hall.

Stiglitz, Joseph E. "Regulating Multinational Corporations: Towards Principles of Cross-Border Legal Frameworks in a Globalized World Balancing Rights with Responsibilities." American University International Law Review 23, no.3 (2007): 451-558.

Tala Malik. "Gulf Islamic Bank Assets to Hit $300bn," Arabian Business, February 20, 2008, accessed December 21, 2010, http://www.arabianbusiness.com/511804-gulf-islamic-banks-assets-to-hit-300bn.

Tekic, A.; Tekic, Z. Culture as Antecedent of National Innovation Performance: Evidence from Neo-Configurational Perspective. *J. Bus. Res.* 2021, *125*, 385–396. [Google Scholar] [CrossRef]

Troshin, A.; Stolyarova, V.; Stolyarova, Z.; Sandu, I.; Botasheva, L. Problems of Social and Economic Optimization in Russia. *J. Adv. Res. Law Econ.* 2020, *11*, 639–644. [Google Scholar] [CrossRef)

UKEssays. (November 2018). The Importance of Business Systems To The Country Economics Essay. Retrieved from https://www.ukessays.com/essays/economics/the-importance-of-business-systems-to-the-country-economics-essay.php?vref=1

Ummul Fidha. Sept 3, 2019. Six Risks in International Trade & How to Manage Them. https://www.universalcargo.com/6-risks-in-international-trade-how-to-manage-them/ (Accessed July 30, 2023).

Vernon, R. (1966). "International investment & international trade in the product cycle". *Quarterly Journal of Economics*, Vol. 80, No. 2, pp. 190 – 207.

Vlasov, Maksim, Sergey N. Polbitsyn, Michael Olumekor, and Adekunle Oke. (2022). "The Influence of Socio-Cultural Factors on Knowledge-Based Innovation and the Digital Economy" *Journal of Open Innovation: Technology, Market, and Complexity* 8, no. 4: 194. https://doi.org/10.3390/joitmc8040194

Weisweiller, R. (1990), *How the foreign exchange market works*. New – York: New – York Institute of Finance.

Williams, F. (1994). "The quest for more efficient commerce". *Financial Times*, October, 13, p.33-45

RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.
Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz.

CHAPTER TWELVE
BUSINESS SOCIAL RESPONSIBILITY

12.1 Learning Objectives:

After you have read and studied this chapter, you should be able to:

i. Explain the concept of dimensions of corporate social responsibility;
ii. Explain the major perspectives of corporate social responsibility;
iii. Debate arguments for and against corporate social responsibility;
iv. Explain the concept of stakeholders and list the major categories of stakeholders in business;
v. Differentiate between the primary and secondary stakeholders for business; and
vi. Understand the contemporary social issues in business.

12.2 INTRODUCTION

A broad concept that can take many forms depending on the company and industry is corporate social responsibility. The idea is that a positive role should be played by a company in the community and that the environmental and social impact of business decisions should be considered. It is closely related to sustainability, which is the creation of economic, social, and environmental value, and ESG, which is the acronym for Environmental, Social, and Governance. Both of these concepts focus on non-financial factors that companies, regardless of size, should consider when making business decisions.

In recent years, there has been a shift from CSR to social purpose. Many companies have changed their approach from having a community investment strategy and a mindset of being a "nice to have" to adopting a holistic approach in which their mission is integrated into everything they do. In order for a company to be socially responsible, it must first be accountable to itself and its shareholders. Companies that implement CSR programs have often expanded their business to the point where they can give back to society. Therefore, CSR is typically a strategy that is implemented by large corporations. After all, the more visible and successful a corporation is, the more responsibility it has to establish ethical standards for its peers, competitors, and industry. Until recently, most large businesses were primarily driven by a single goal: profit. The pursuit of profit was at the core of every action taken or initiative pursued.

In the past few decades, however, more business leaders have recognized that they have a responsibility to do more than simply maximize profits for shareholders and executives. Rather, they have a social responsibility to do what's best not just for their companies, but people, the planet, and society at large.

According to HBR, "this realization has led to the emergence of companies that identify as socially responsible. Some even carry designations or seals, such as B Corporations (B Corps), social purpose corporations (SPCs), and low-profit limited liability companies (L3Cs)."

CSR can involve a broad scope of approaches and initiatives—everything from sustainable practices to community involvement. Customers increasingly expect responsible behaviour from companies they do business with.

12.3 MEANING, NATURE & SCOPE OF BUSINESS SOCIAL RESPONSIBILITIES

a) MEANNING:

Let's share some definitions from experts:

The concept of social responsibility was first defined as 'the set of moral and personal obligations that the employer must follow, considering the exercise of policies, decisions or courses of action in terms of objectives and values desired by society' (Bowen, 1953).

"Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders." - UNIDO

According to the European Commission, CSR is defined as "the process of integration in the organizational activities the social, environmental, ethical and human concerns from its groups of interest with two aims: (1) to maximize the value creation for these parts, and (2) to identify, prevent and mitigate the adverse effects of firm actions on the environment" (European Commission, 2011).

"Corporate social responsibility (CSR) is the idea that a business has a responsibility to the society that exists around it." - HBR online course, Sustainable Business Strategy.

"Corporate social responsibility (CSR) is a business initiative designed to meet specific goals related to ethics, sustainability and social impact." - (Benevity.com)

"Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public." – Investopedia

In 2010, the International Organization for Standardization (ISO) published an international standard, ISO 26000, to help organizations assess and address their social responsibilities. *ISO 26000-2010: Guidance on Social Responsibility* defines social responsibility as: "The responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that:

i. Contributes to sustainable development, including health and the welfare of society.
ii. Takes into account the expectations of stakeholders.
iii. Is in compliance with applicable laws and consistent with international norms of behavior.
iv. Is integrated throughout the organization and practiced in its relationships.

Sustainability can be achieved by organizations through careful consideration of their impact on society and the environment. The adoption of a transparent and ethical approach ensures the long-term success of society and the environment.

Corporate social responsibility (CSR) is generally understood as the means by which a company achieves a balance between economic, environmental, and social objectives ("Triple-Bottom-Line- Approach"), while also meeting the expectations of shareholders and stakeholders.

When implemented effectively, CSR can enhance the perception and approach towards a business, allowing for the sharing of the company's broader mission with the world. It is important to differentiate CSR from charity, sponsorships, or philanthropy, as CSR encompasses a strategic approach to business management, extending beyond these initiatives.

Companies that embrace corporate social responsibility are typically structured in a way that empowers them to act in a socially responsible manner, thereby making a positive impact on the world. This self-regulation can take the form of various initiatives or strategies, depending on the organization's goals. Many organizations communicate their CSR efforts to both external and internal stakeholders through corporate social responsibility reports (Sarumi, 2023).

The definition of "socially responsible" can vary between organizations. Often, companies are guided by the triple bottom line concept, which emphasizes the measurement of social and environmental impact, sustainability efforts, and profits. In summary, the triple bottom line is driven by the slogan "profit, people, planet," as commonly used by experts in the field (Sarumi, 2023).

b) NATURE AND SCOPE:

The nature and scope of corporate social responsibility has changed over time. The concept of CSR is a relatively new one—the phrase has only been in wide use since the 1960s. But, while the economic, legal, ethical, and discretionary expectations placed on organizations may differ, it is probably accurate to say that all societies at all points in time have had some degree of expectation that organizations would act responsibly, by some definition. (Arthaud-Day, 2005).

In the eighteenth century, the great economist and philosopher, Adam Smith expressed the traditional or classical economic model of business. In essence, this model suggested that the needs and desires of society could best be met by the unfettered interaction of individuals and organizations in the marketplace. By acting in a self-interested manner, individuals would produce and deliver the goods and services that would earn them a profit, but also meet the needs of others. The viewpoint expressed by Adam Smith over 200 years ago still forms the basis for free-market economies in the twenty-first century. However, even Smith recognized that the free market did not always perform perfectly, and he stated that marketplace participants must act honestly and justly toward each other if the ideals of the free market are to be achieved.

In the century after Adam Smith, the Industrial Revolution contributed to radical change, especially in Europe and the United States. Many of the principles espoused by Smith were borne out as the introduction of new technologies allowed for more efficient production of goods and services. Millions of people obtained jobs that paid more than they had ever made before and the standard of living greatly improved. Large organizations developed and acquired great power, and their founders and owners became some of the richest and most powerful men in the world. In the late nineteenth century, many of these individuals believed in and practiced a philosophy that came to be called "Social Darwinism," which, in simple form, is the idea that the principles of natural selection and survival of the fittest are applicable to business and social policy.

This type of philosophy justified cutthroat, even brutal, competitive strategies and did not allow for much concern about the impact of the successful corporation on employees, the community, or the larger society. Thus, although many of the great tycoons of the late nineteenth century were among the greatest philanthropists of all time, their giving was done as individuals, not as representatives of their companies. Indeed, at the same time that many of them were giving away millions of dollars of their own money, the companies that made them rich were practicing business methods that, by today's standards at least, were exploitative of workers.

Around the beginning of the twentieth century a backlash against the large corporations began to gain momentum. Big business was criticized as being too powerful and for practicing antisocial and anticompetitive practices. Laws and regulations, such as the Sherman Antitrust Act, were enacted to rein in the large corporations and to protect employees, consumers, and society at large. An associated movement, sometimes called the "social gospel," advocated greater attention to the working class and the poor. The labor movement also called for greater social responsiveness on the part of business. Between 1900 and 1960 the business world gradually began to accept additional responsibilities other than making a profit and obeying the law (Garriga & Mele, 2004).

In the 1960s and 1970s the civil rights movement, consumerism, and environmentalism affected society's expectations of business. Based on the general idea that those with great power have great responsibility, many called for the business world to be more proactive in (1) ceasing to cause societal problems and (2) starting to participate in solving societal problems.

Many legal mandates were placed on business related to equal employment opportunity, product safety, worker safety, and the environment. Furthermore, society began to expect business to voluntarily participate in solving societal problems whether they had caused the problems or not. This was based on the view that corporations should go beyond their economic and legal responsibilities and accept responsibilities related to the betterment of society. This view of corporate social responsibility is the prevailing view in much of the world today.

The sections that follow provide additional details related to the corporate social responsibility construct. First, arguments for and against the CSR concept are reviewed. Then, the stakeholder concept, which is central to the CSR construct, is discussed. Finally, several of the major social issues with which organizations must deal are reviewed.

c) TYPES OF CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is traditionally broken into four categories: environmental, philanthropic, ethical, and economic responsibility. According to Sarumi (2023), from a broader perspective, there are five elements as gleaned from the literatures:

i. Environmental Accountability:

Environmental accountability refers to the belief that organizations should conduct their operations in a manner that is environmentally conscious. It is one of the most prevalent aspects of corporate social responsibility. Some companies use the term "environmental guardianship" to describe such initiatives. Every year, an increasing number of companies are prioritizing sustainable practices and committing to considering their environmental footprint at every stage of their business operations.

Companies that strive to embrace environmental accountability can do so through various means:

a. Minimizing detrimental practices, such as reducing pollution, greenhouse gas emissions, the utilization of disposable plastics, water consumption, and overall waste production.
b. Managing energy consumption by increasing reliance on renewable energy sources, sustainable resources, and materials that are either recycled or partially recycled.
c. Compensating for negative environmental impact, for instance, by planting trees, supporting research, and donating to relevant causes.
d. Consciously distributing goods by selecting methods that have the least impact on emissions and pollution.
e. Developing product lines that promote these values. For instance, a company that offers gasoline-powered lawnmowers may design an electric lawnmower.

However, this environmental accountability can go beyond the company's commitment to sustainable development. If protecting the environment is a fundamental part of your corporate mission, you can fulfill that by encouraging employees to take action. There are three key ways to embrace environmental accountability:

i. Reduce detrimental practices and regulate energy consumption.
ii. Offset negative environmental impact.
iii. Encourage employees to take action.

ii. **Ethical responsibility**

Ethical responsibility is focused on guaranteeing that an organization is operating in a just and moral manner. Companies often establish their own criteria, although external pressures or client demands may shape ethical objectives. Examples of ethical responsibility include:

a. Organizations that embrace ethical responsibility strive to practice ethical behavior by treating all stakeholders fairly across all categories, including leadership, investors, employees, suppliers, and customers, regardless of age, race, culture, or sexual orientation.

b. Fair treatment of all employees, including providing favorable wages and benefits that exceed the minimum requirements. This encompasses equal employment opportunities for all individuals, regardless of personal differences.

c. Expanding the use of vendors to engage suppliers from different races, genders, veteran statuses, or economic statuses.

d. Providing honest and timely disclosure of operational concerns to investors in a respectful manner. While not always obligatory, a company may choose to go beyond legal requirements in managing its relationship with external stakeholders.

Firms adopt ethical responsibility in various ways. For instance, a business might establish its own higher minimum wage if the one mandated by the state or federal government does not meet the criteria for a "livable wage." Similarly, a business might require that products, ingredients, materials, or components be sourced in accordance with free trade standards. In this regard, many firms have procedures in place to ensure that they do not purchase products that result from slavery or child labour.

Similar to environmental responsibility, there are ways to promote ethics within your company by involving employees in the process.

iii. **Philanthropic Responsibility**

Philanthropic responsibility is a pillar of corporate social responsibility that challenges the way companies behave and what they contribute to society. Philanthropic responsibility in its simplest form refers to how a company uses its resources to make the world a better place. These activities include:

a. When a company donates its profits to or trusts a charity.

b. If the company only works with suppliers or vendors that meet the company's charitable goals.

c. Does the company support employee donations through licensing or donations.

d. If the company sponsors a fundraiser or has a community presence at the event.

Not only do duty-based charities operate in an ethical and environmentally friendly way, but they usually donate a portion of their income to charity. While many companies donate to charities and non-profits that support their core mission, others donate to charities that are not directly related to their business. Others have even started their own charities to make a difference and have a positive impact on society.

This type of philanthropy speaks to your public image as a business leader, which is important in today's world. There are several ways that companies can incorporate CSR through philanthropy and employee engagement, including offering programs that provide appropriate fundraising opportunities.

iv. **Economic Responsibility**

Economic responsibility is the practice of a firm backing all of its financial decisions in its commitment to do good in the areas listed above. The end goal is not to simply maximize profits, but make sure the business operations positively impact the environment, people, and society.

This includes spending on:

a. Research and development for new products that encourage sustainability.
b. Recruiting different types of talent to ensure a diverse workforce.
c. Initiatives that train employees on DEI, social awareness, or environmental concerns.
d. Processes that might be more expensive but yield greater CSR results.
e. Ensuring transparent and timely financial reporting including external audits.

Some common examples of economic responsibility include investing in alternative energy sources, putting more money into education programs and funding local charities as a way of bolstering their mission. To uphold economic responsibility, business leaders are challenged to think past operational cost savings and instead put their obligation to corporate citizenship at the heart of all financial decisions.

v. Other Types of Corporate Social Responsibility

In addition to the four main examples of CSR discussed above, there are numerous other areas where corporations can put their focus on being socially responsible for their employees and society as a whole.

Some of these are:

a) Diversity and Inclusion:

Company can promote diversity from the inside out by establishing an inclusive hiring practice and encouraging various teams to embrace different cultures, backgrounds and identities.

Furthermore, another effective way to advance diversity is to challenge firms' employees to educate themselves on how to be allies during some special UN DAYS such as International Women's Day, World's AIDS day and on other awareness days.

b) Governance:

There's a close relationship between the systems that control and direct a business and being a socially responsible company. Good governance benefits corporations and society as a whole.

Governance as a CSR strategy can look a little bit different between companies. Sometimes it involves the legal requirements to give back — and that's a fiduciary duty.

The contention between ESG (Environmental, Social and Governance) and CSR has been documented in various literatures. The scope of this paper is limited, so this will receive minimal emphasis. However, it is pertinent to state that CSR vs ESG - they are not the same, but both have a meeting point of alignment as already mentioned above.

C. Well-Being

Organizations can show their people that they care about their mental and physical health by making personal well-being a priority. By inviting teams to participate in well-being challenges, such as goals related to daily step count, time for destressing or healthy eating, employees are giving the permission they need to prioritize their bodies and minds before other things.

D. Employee Engagement

Leadership can keep teams engaged with the company and the community through CSR initiatives. Some examples include field volunteering events for bonding with team members and personal challenges related to sustainability, diversity and well-being.

E. Supply Chain Responsibility

Organization can also be socially responsible by verifying that vendors and suppliers similarly prioritize making a positive impact. A socially responsible supply chain includes the manufacturing process and overall operations, and the benefits will be far-reaching.

NOTE:

Regardless of the type of CSR, consider companies should know how to measure the programme's performance and impact at the end. This is very critical going forward.

12.4 DIMENSIONS OF CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) can be defined as the "economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll and Buchholtz 2003). The concept of corporate social responsibility means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. A traditional view of the corporation suggests that its primary, if not sole, responsibility is to its owners, or stockholders.

However, CSR requires organizations to adopt a broader view of its responsibilities that includes not only stockholders, but many other constituencies as well, including employees, suppliers, customers, the local community, local, state, and federal governments, environmental groups, and other special interest groups. Collectively, the various groups affected by the actions of an organization are called "stakeholders." The stakeholder concept is discussed more fully in a later section.

Corporate social responsibility is related to, but not identical with, business ethics. While CSR encompasses the economic, legal, ethical, and discretionary responsibilities of organizations, business ethics usually focuses on the moral judgments and behavior of individuals and groups within organizations. Thus, the study of business ethics may be regarded as a component of the larger study of corporate social responsibility.

Carroll and Buchholtz's (2003) four-part definition of CSR makes explicit the multi-faceted nature of social responsibility. The economic responsibilities cited in the definition refer to society's expectation that organizations will produce goods and services that are needed and desired by customers and sell those goods and services at a reasonable price. Organizations are expected to be efficient, profitable, and to keep shareholder interests in mind. The legal responsibilities relate to the expectation that organizations will comply with the laws set down by society to govern competition in the marketplace. Organizations have thousands of legal responsibilities governing almost every aspect of their operations, including consumer and product laws, environmental laws, and employment laws. The ethical responsibilities concern societal expectations that go beyond the law, such as the expectation that organizations will conduct their affairs in a fair and just way. This means that organizations are expected to do more than just comply with the law, but also make proactive efforts to anticipate and meet the norms of society even if those norms are not formally enacted in law.

Finally, the discretionary responsibilities of corporations refer to society's expectation that organizations be good citizens. This may involve such things as philanthropic support of programs benefiting a community or the nation. It may also involve donating employee expertise and time to worthy causes.

Significance of Corporate Social Responsibility to Business

i. Better Financial Performance
ii. Reduction in Operating Costs
iii. Boost in Brand Image and Reputation
iv. Increased Sales and Customer Loyalty:
v. Higher Productivity and Quality
vi. Attract and Retain Employees
vii. Reduced Regulatory Oversight
viii. Access to Capital

Major Developments in CSR

ix. Increased Stakeholder Activism
x. Proliferation of Codes, Standards, Indicators and Guidelines
xi. Accountability Throughout the Value Chain
xii. Transparency and Reporting
xiii. Growing Government Interest and Action
xiv. Convergence of CSR and Governance Agendas
xv. Growing Investor Pressure and Market-Based Incentives
xvi. Advances in Information Technology
xvii. Pressure to Quantify CSR "Return on Investment" (Ramachandran (2008)

12.5 ARGUMENTS FOR AND AGAINST CORPORATE SOCIAL RESPONSIBILITY

The major arguments for and against corporate social responsibility are shown in Exhibit 1. The "economic" argument against CSR is perhaps most closely associated with the American economist Friedman (1970), who has argued that the primary responsibility of business is to make a profit for its owners, albeit while complying with the law. According to this view, the self-interested actions of millions of participants in free markets will, from a utilitarian perspective, lead to positive outcomes for society. If the operation of the free market cannot solve a social problem, it becomes the responsibility of government, not business, to address the issue.

Exhibit: Arguments For and Against CSR: Carroll & Buchholtz, 2003.	
FOR	**AGAINST**
The rise of the modern corporation created and continues to create many social problems. Therefore, the corporate world should assume responsibility for addressing these problems.	**Taking on social and moral issues is not economically feasible. Corporations should focus on earning a profit for their shareholders and leave social issues to others.**
In the long run, it is in corporations' best interest to assume social responsibilities. It will increase the chances that they will have a future and reduce the chances of increased governmental regulation.	**Assuming social responsibilities places those corporations doing so at a competitive disadvantage relative to those who do not.**
Large corporations have huge reserves of human and financial capital. They should devote at least some of their resources to addressing social issues.	**Those who are most capable should address social issues. Those in the corporate world are not equipped to deal with social problems.**

The "competitive" argument recognizes the fact that addressing social issues comes at a cost to business. To the extent that businesses internalize the costs of socially responsible actions, they hurt their competitive position relative to other businesses. This argument is particularly relevant in a globally competitive environment if businesses in one country expend assets to address social issues, but those in another country do not.

According to Carroll and Buchholtz, 2003, since CSR is increasingly becoming a global concern, the differences in societal expectations around the world can be expected to lessen in the coming years.

Finally, some argue that those in business are ill-equipped to address social problems. This "capability" argument suggests that business executives and managers are typically well trained in the ways of finance, marketing, and operations management, but not well versed in dealing with complex societal problems. Thus, they do not have the knowledge or skills needed to deal with social issues. This view suggests that corporate involvement in social issues may actually make the situation worse. Part of the capability argument also suggests that corporations can best serve societal interests by sticking to what they do best, which is providing quality goods and services and selling them at an affordable price to people who desire them.

There are several arguments in favor of corporate social responsibility. One view, held by critics of the corporate world, is that since large corporations create many social problems, they should attempt to address and solve them. Those holding this view criticize the production, marketing, accounting, and environmental practices of corporations. They suggest that corporations can do a better job of producing quality, safe products, and conducting their operations in an open and honest manner.

A very different argument in favor of corporate social responsibility is the "self-interest" argument. This is a long-term perspective that suggests corporations should conduct themselves in such a way in the present as to assure themselves of a favorable operating environment in the future. This view holds that companies must look beyond the short-term, bottom-line perspective and realize that investments in society today will reap them benefits in the future. Furthermore, it may be in the corporate world's best interests to engage in socially responsive activities because, by doing so, the corporate world may forestall governmental intervention in the form of new legislation and regulation.

Finally, some suggest that businesses should assume social responsibilities because they are among the few private entities that have the resources to do so. The corporate world has some of the brightest minds in the world, and it possesses tremendous financial resources. (Wal-Mart, for example, has annual revenues that exceed the annual GNP of some countries.) Thus, businesses should utilize some of their human and financial capital to "make the world a better place."

Source: Boundless. "Arguments for and against Corporate Social Responsibility." Boundless Management*. Boundless, 08 Aug. 2016. Retrieved 17 Nov. 2016 from https://www.boundless.com/management/textbooks/boundless-management-textbook/ethics-in-business-13/corporate-social-responsibility-98/arguments-for-and-against-corporate-social-responsibility-459-10563/*

A. Arguments in favour of CSR: The following arguments favour corporate social responsibility:

1. Protect the interests of stakeholders:

Labour force is united into unions which demand protection of their rights from business enterprises. To get the support of workers, it has become necessary for organisations to discharge responsibility towards their employees.

Caveat emptor ('let the buyer beware'), no more holds true. Consumer today is the kingpin around whom all marketing activities revolve. Consumer does not buy what is offered to him. He buys what he wants. Firms that fail to satisfy consumer needs will close down sooner or later. Besides, there are consumer redressal cells to protect consumers against anti-consumer activities. Consumer sovereignty has, thus, forced firms to assume social responsiveness towards them.

Firms that assume social responsibilities may suffer losses in the short-run but fulfilling social obligations is beneficial for long-run survival of the firms. The short-term costs are, therefore, investments for long-run profitability.

2. Long-run survival:

Business organisations are powerful institutions of the society. Their acceptance by the society will be denied if they ignore social problems. To avoid self-destruction in the long-run, business enterprises assume social responsibility.

3. Self-enlightenment:

With increase in the level of education and understanding of businesses that they are the creations of society; they are motivated to work for the cause of social good. Managers create public expectations by voluntarily setting and following standards of moral and social responsibility.

They ensure paying taxes to the Government, dividends to shareholders, fair wages to workers, quality goods to consumers and so on. Rather than legislative interference being the cause of social responsibility, firms assume social responsibility on their own.

4. Avoids government regulation:

Non-conformance to social norms may attract legislative restrictions. Government directly influences the organisations through regulations that dictate what they should do and what not. Various agencies monitor business activities.

For example, Central Pollution Control Board takes care of issues related to environmental pollution, Securities and Exchange Board considers issues related to investor protection, Employees State Insurance Corporation promotes issues related to employees' health etc. Organisations that violate these regulations are levied fines and penalties. To avoid such interventions, organisations have risen to the cause of social concerns.

5. Resources:

Business organisations have enormous resources which can be partly used for solving social problems. Businesses are the creation of society and must work in the best interest of society, both economically and socially.

6. Professionalisation:

Management is moving towards professionalism which is contributing to social orientation of business. Increasing professionalism is causing managers to have formal management education and qualifications. Managers specialise in planning, organising, leading, and controlling through their knowledge and subscribe to the code of ethics established by a recognised body.

The ethics of profession bind managers to social values and growing concern for society. Thus, there is increasing awareness of social responsibility. To grow in the environment of dynamism and challenge, business concern does not decide whether or not to discharge social responsibilities but decides how much social responsibility to discharge. A good business anticipates developments and acts in accordance with the currently conceived social responsibilities to achieve the future targets.

B. Arguments against CSR: Corporate social responsibility is limited on the following grounds:

1. Business is an economic activity:

It is argued by the opponents of social responsibility that basic function of a business enterprise is to look into economic viability of its operations. It is for the Government to look after interests of the society. The prime responsibility of assuming social responsibility should, therefore, be with the Government and not of the business enterprises.

2. Quantification of social benefits:

What measures social responsibility and to what extent should a business enterprise be engaged in it, what amount of resources should be committed to the social values, whose interest should hold priority over others (shareholders should be preferred over suppliers or vice versa) and numerous other questions are open to subjective considerations, which make social responsibility a difficult task to be assumed.

3. Cost-benefit analysis:

Any social-benefit programme where initial costs exceed the benefits may not be taken up by enterprises even in the short-run.

4. Lack of skill and competence: Professionally qualified managers may not have the aptitude to solve social problems.

5. Transfer of social costs:

Costs related to social programmes are adjusted by the business concerns in the following ways:

(a) High prices:

The costs are passed to consumers by increasing prices of goods and services.

(b) Low wages:

If managers maintain the level of prices, the social costs may be reflected in reduction of wages.

(a) Low profits:

If wages are stabilized, profits would be reduced, which will lower dividends to the shareholders. Low profits will reduce managers' desire to further engage in corporate social responsibility.

6. Sub-optimal utilisation of resources:

If scarce resources are utilised for social goals, this would violate the very purpose of existence of an organisation.

C. Debate over CSR: After considering the arguments in favour and against the concept of CSR, some points are still left unanswered. These are:

1. Operational definition of CSR:

The traditional view on CSR provided no information on business concerns about social values. The modern approach also provides no clear guidelines to managers. Business executives follow their own values and interests about social expectations. Actual meaning of CSR is, however, difficult to determine.

2. No view of competitive corporate environment:

Every business operates in the larger business system. It cannot come out of that system and transformation of society within the existing parameters of business system seems to be illusory. Business power is not unified and, therefore, even if they wish, they cannot fully meet the needs of the society. Redirecting resources towards needs of the society can perhaps be possible if government rewrites rules under which business corporations will operate.

3. Limited ability:

The proponents of CSR assume that business units have unlimited ability to fulfill social desires. However, it is not so. Business firms have limited ability to respond to social changes. Social actions will increase the costs and prices, which will place these firms at a competitive disadvantage in relation to firms who are not socially responsive.

4. Lack of uniformity in business policies:

Solving social problems is not feasible in competitive business environment unless all firms follow the same policy. Government can intermediate and make all competitors pursue the same policy on social problems. The government is in fact, framing standards for businesses to follow with respect to physical environment, occupational safety and health, equal opportunity, consumer concerns etc.

5. Moral responsibility:

Business firms feel that they have economic responsibility to produce goods and services. Their economic responsibilities justify their reason for existence. Why should business organisations have moral responsibilities? What are the moral justifications for the same? (BusinessManagementIdeas.com).

D. The Following Arguments Will Support the Involvement of Business In Social Activities:

1. Public Requirements:

Business can exist only with public support and only if business fulfills needs of society. One of main arguments for social responsibility is that public expectations from business have changed. Therefore, if business wishes to remain in existence for a long term, it must respond to society's needs and give society what society wants.

The business must live up to the expectations of public for its survival since the demand for products or services arises from customers who are a part of society. Since business is a part and parcel of society, it must think of its responsibilities.

2. Favourable For Business:

Performance of social obligation by business will not only be in the interest of society but in its own interest also. The firm which is more responsive to improvement of community quality of life will as a result has better community in which it conducts its business.
People with healthy environment, good health and education will make them good customers and employees. Recruitment of labour will be of higher quality. Turnover and absenteeism will be reduced. The society may reject an enterprise which does not care for social welfare. The crime rate will also decrease as a result of social improvements.

3. Moral Justification:

Nowadays modern industrial society faces many serious social problems as a result of emergence of large companies. Therefore, these large corporations have a moral responsibility to solve these problems. Also, business which is using so many resources of our economy has responsibility to devote some of these resources in overall development of society.

4. Socio-Cultural Norms:

In a country like India where social and cultural values have long and rich heritage, a business promoting social equalities, healthy employer-employee relations and consumer service will enjoy better social position. A business working against traditional values will face criticism from society.

5. Business Can Shoulder Responsibility:

Many people who feel frustrated with failure of other institutions in handling social problems are turning to the business for their solution to social problems. In such a situation, it becomes the duty of business to come up to expectation of public and fulfill its responsibilities towards society.

6. Responsibility Must Correspond with Power:

Business enjoys social power to a great extent. So, they do affect economy, minorities and other social problems. Business should perform equal amount of social responsibility to match their social power. If they don't, then it will reflect their irresponsible behaviour, which will ultimately affect the natural growth.

7. Public Image:

Only that firm can enjoy better reputation in public which supports social goals. Each firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets etc. It is possible only if business performs its responsibilities towards society whole-heartedly, which will result in raising the value of shares and debentures held by the owners.

8. Government Regulations:

If business does not respond positively to the needs of society, then it may be compelled to do so through government laws and regulations. Before the government stretches its long arms, the business should discharge its obligations to society, because it must regulate the business in public interest.

9. Indebted to Society:

Business units benefit from society. In return it also has certain debts that it owes to society. Business uses vast pool of resources in terms of men, talents, expertise, and money. Business is in a position to work for social goals with the help of these resources. Also, corporations unlike citizens are created by society so they have certain civic duties and responsibilities.

12.6 CHANGING CONCEPT OF SOCIAL RESPONSIBILITY FOR BUSINESS

There has been a growing interest in voluntary corporate codes over the past thirty years or so. These codes have been suggested as a means of regulating the behavior of economic groups, particularly multinational corporations, and their interactions with others in the global market. Voluntary codes have been created to govern both internal corporate governance and corporate business ethics, involving different stakeholders such as employees, suppliers, customers, and countries.

Considering corporate social responsibility is a crucial part of the decision-making process in business, and it contributes to the global competitiveness and reputation across all aspects of the business. It is an approach that moves away from the outdated idea that economic, social, and environmental objectives are always conflicting.

Today's dominant corporate social responsibility strategies were developed in the last decades of the 20th century. According to Michael Ledecky (n.d.) "In the 1980s, CSR began to play a more formal role in companies. Companies began to allocate resources to CSR departments and managers. Over time, managers realized that these departments should not be separated.

The best companies have adopted CSR principles to guide various organizational decisions. Organizations closely link CSR with marketing, public relations, diversity and inclusion, and human resources. CSR plays a central role in communicating brand stories and attracting top talent. More importantly, brands have used CSR to align with their company's mission and vision.

The changing concept of CSR and its implications for business organisations will be discussed as highlighted below:

a) The Evolution of CSR and its Impact on Business – A brief review

b) Corporate Reputation and CSR as Its Umbilical Cord
c) CSR Today – The Way to Do Business
d) What Does the Future Hold for CSR?

a) **The Evolution of CSR and Its Impact on Business**

According to Ramachandran (2008), the evolution of CSR and its impact on business in the last 50 years can be seen as:

i. Social Responsibilities of Businessmen: The 50s and 60s; Most scholars point to Howard Bowen's Social Responsibilities of the Businessmen (1953) as the first attempt to theorize the relationship between corporations and society (Carroll, 1979; Preston, 1975; Wartick and Cochran, 1985) During the late 50s and 60s, numerous legislations were enacted to regulate conducts of businesses and to protect employees and consumers.
ii. The 70s saw the Enlightened Self-Interest: A New Rationale for Corporate Social Policy reshaped the debate by providing a wider lens to examine the issue (Baumol, 1970). A "new rationale" that upholds CSR without compromising stockholder interest was made.
iii. The 80s saw the Corporate Social Performance Model: Carroll made the three-dimensional conceptual model of corporate social performance (CSP) which gained acceptance and further developed by others (Miles, 1987; Ullmann, 1985; Wartick and Cochran, 1985; Wood, 1991). Carroll combined the three dimensions in corporate social performance which are corporate social responsibility, social issues, and corporate social responsiveness under one rubric. Corporate objectives are integrated into the framework of total social responsibility of business. As a social institution, corporations need to care for environment and employees as well as make good profits.
iv. In the 90s Peter Drucker and others developed CSR as part of Corporate Strategy. The stakeholder model of CSR was developed mainly by management scholars who were frustrated by the lack of practicality of previous theoretical models. Stakeholder model solved the problem of measurement and testing by more narrowly identifying the actors and defining their positions and function in relation to one another. A unique feature of Freeman's stakeholder theory is that it envisions a corporation's purpose in a wholly different way. Within stakeholder framework, the difference between social and economic goals of a corporation is no longer relevant, because the central issue is the survival of the

corporation. Survival of a corporation is affected not only by shareholders, but also various other stakeholders such as employees, governments, and customers.

v. The last decade saw the convergence between the concepts of CSR and corporate performance occurring in both directions. CSR expanded to envelop both economic and social interests, on the one hand, while the concept of corporate performance broadened to cover economic as well as social interests. This convergence between CSR and corporate performance made the concept of CSR much more attractive to corporate managers at all levels, and helped the diffusion of CSR among corporate actors (Vogel, 2005).

In the past, a company's merit was solely based on its financial performance. But in the new millennium there is increased pressure from investors, consumers, and employees to consider social and environmental criteria in the way a company carries out its business. This has created momentum for using a "triple bottom line" or "sustainable" approach - social, environmental, and financial data for evaluating the performance of a company. Increasingly, stakeholders are concerned that the company they support has business practices that positively impact society while achieving financial success.

b) **Corporate Reputation and CSR as its Unbiblical Cord**

Corporate reputation is now inextricably tied to corporate responsibility. The convergence of the following five trends according to Ramachandran (2008) include:

i. **Business Transparency:** In today’s information-driven economy business practices have become increasingly transparent. Advances in communications technology, such as the Internet, cellular phones and personal digital assistants, are making it easier to track corporate activities and disseminate information about them. Whatever the Companies do (good or bad) will be known, almost immediately, around the world thus places corporations under a permanent microscope.

ii. **An increased knowledge base among consumers:** Consumers and investors have more information at their disposal than at any time in history and are slowly choosing one brand over another based upon those companies' respective environmental records. Similarly, they are choosing stocks or mutual funds based on social and environmental criteria apart from financial factors.

iii. **The sustainability imperative:** In the last thirty years alone, one-third of the planet's resources - the earth's "natural" wealth - have been consumed. Many of the natural systems have been altered due to exploitation of business which has resulted in global warming etc. Corporations are under increasing pressure from diverse stakeholder constituencies to demonstrate that business plans and strategies are environmentally sound and contribute to sustainable development. CSR can be seen as the business contribution to achieving sustainable development goals. It involves business taking account of its economic, social, and environmental impacts in the way it operates, to ensure a better quality of life for everyone now, and for future generations.

iv. **The challenge of Globalization:** Globalization represents a new stage of capitalist development, and due to interrelationship, no one can live in isolation. Globalization has its focus on cross-border trade, multinational enterprises, and global supply chains. Global corporations are under constant scrutiny by the media, governments, workers, environmentalists, human rights groups, and NGOs to incorporate basic CSR standards and sustainability strategies into their worldwide operations.

v. **The failure of the public sector:** In most of the developing countries, public sector has failed miserably, and the private sector is called upon to take additional responsibilities.

c) CSR Today: The Way to Do Business

CSR today reflects a global mindset. Today, businesses are missing out if they aren't participating in CSR. It has become an integral part of doing business and is increasingly driving consumer choice. For instance, <u>nearly 90% of consumers would purchase a product because a company supported an issue they care about</u>, while 75% would refuse to buy a product if the company had a different stance on an issue. So, today's consumers no longer expect major corporations to keep just their backyards clean. Fortune 500 companies have taken public stances on climate change and have adopted CSR practices that look up and down supply chains. Companies have embraced a globalizing labor market with training and education programs that reach across borders to engage potential employees and younger generations. (https://conecomm.com/2017-csr-study/)

CSR is also a big factor in attracting talented employees, as people want to work for a company that upholds strong values. Further, a comprehensive CSR program can have the benefits of "increased brand reputation and credibility, improved risk and supply chain management, cost savings from efficiency improvements, and increased revenue." Companies are thus discovering that CSR is not only better for society, but in many cases better for business as well. (Georgetown.edu).

The scope of CSR has also never been wider. Now, companies craft their CSR programs around the UN's 17 Sustainable Development Goals, ranging from gender equality to the protection of ocean life. CSR is also increasingly related to growing Diversity, Equity, and Inclusion initiatives, as socially responsible corporations must foster a welcoming work environment and combat discrimination. While not every corporation follows CSR principles and those that do are far from perfect, it is encouraging that businesses are beginning to recognize the myriad of ways that they affect society and can change it for the better. (sdg.un.org).

D) What does the Future hold for CSR?

CSR is here to stay. "As improving technology allows for increased corporate transparency and scrutiny, the incentive to be socially responsible will continue to grow. Also, the increasing severity of climate change and inevitable resource shortages that are in store will reward companies that are sustainable and have a small carbon footprint. Overall, CSR will likely continue to evolve down the line, and will only become more important in our uncertain future."(Kell, 2018).

The future of CSR will be determined by climate change, social Justice, and technology among others. The future of corporate social responsibility holds exciting prospects for the world. Today's CSR trends and innovations suggest that CSR will play an increasingly important role in how companies approach business and engage communities. With the Black Lives Matter movement and other platforms that address historic inequities, companies have adopted forward-leaning approaches to social justice issues. Standard diversity programs will no longer meet stakeholder expectations.

Harvard Business Review speculates that we are entering an era of “Corporate Social Justice.” HBR describes corporate social justice as “a reframing of CSR that centers the focus of any initiative or program on the measurable, lived experiences of groups harmed and disadvantaged by society.” Corporate social justice requires “deep integration” with all of a business’s core functions.

Customers and employees have similarly raised the bar with respect to sustainability. Leading sustainability practices have already shifted focus from minimizing local harm to reversing global climate change. Enterprising organizations will help companies go from carbon-neutral to carbon-negative.

As with past eras in the history of corporate social responsibility, technology will continue to help CSR evolve. Social distancing requirements have already required companies to innovate and adopt virtual volunteering initiatives. Many of these initiatives will likely remain in place for the future. Technology will also likely disrupt major industries and create worker dislocation. Leading companies will have an opportunity to address this dislocation through education and upskilling, creating value not only for their shareholders but also for society. (Michael Ledecky, n.d.).

CSR interventions involve the investment of the firm's resources in pro bono work, philanthropy, support for community education and health, and protection of the environment that are seen as parts of the company's social performance. Carroll (2006) provided a rich historical account of the evolution over the last fifty years of businesses' approach to societal responsibilities. Over the past two decades, the traditional concept and practice of corporate philanthropy has undergone a significant evolution into Corporate Social Responsibility with a variety of labels.

It can be concluded that, the term CSR is viewed as an umbrella concept and is still searching for a universally accepted definition, which covers all the concepts related to sustainable, responsible, and ethical business behaviour (Chakraborty, 2015).

12.7 THE STAKEHOLDER CONCEPT

According to Post, Lawrence, and Weber, stakeholders are individuals and groups that are affected by an organization's policies, procedures, and actions. A "stake" implies that one has an interest or share in the organization and its operations, per Carroll and Buchholtz. Some stakeholders, such as employees and owners, may have specific legal rights and expectations in regard to the organization's operations. Other stakeholders may not have specific rights granted by law, but may perceive that they have moral rights related to the organization's operations. For example, an environmental group may not have a legal right in regard to a company's use of natural resources, but may believe that they have a moral right to question the firm's environmental policies and to lobby the organization to develop environmentally friendly policies.

All companies, especially large corporations, have multiple stakeholders. One way of classifying stakeholder groups is to classify them as primary or secondary stakeholders. Primary stakeholders have some direct interest or stake in the organization. Secondary stakeholders, in contrast, are public or special interest groups that do not have a direct stake in the organization but are still affected by its operations. Exhibit 2 classifies some major stakeholder groups into primary and secondary categories.

EXHIBIT 2	
Primary Stakeholders	Shareholders (Owners) Employees Customers Business Partners Communities Future Generations The Natural
Secondary Stakeholders ***Exhibit 2 : Table based on Carroll and Buchholtz, 2003.***	Local, State, and Federal Government Regulatory Bodies Civic Institutions and Groups Special Interest Groups Trade and Industry Groups, Media, Competitors

The owners of a firm are among the primary stakeholders of the firm. An organization has legal and moral obligations to its owners. These obligations include, but are not limited to, attempting to ensure that owners receive an adequate return on their investment. Employees are also primary stakeholders who have both legal and moral claims on the organization. Organizations also have specific responsibilities to their customers in terms of producing and marketing goods and services that offer functionality, safety, and value; to local communities, which can be greatly affected by the actions of resident organizations and thus have a direct stake in their operations; and to the other companies with whom they do business. Many social commentators also suggest that companies have a direct responsibility to future generations and to the natural environment.

An organization's responsibilities are not limited to primary stakeholders. Although governmental bodies and regulatory agencies do not usually have ownership stakes in companies in free-market economies, they do play an active role in trying to ensure that organizations accept and meet their responsibilities to primary stakeholder groups. Organizations are accountable to these secondary stakeholders. Organizations must also contend with civic and special interest groups that purport to act on behalf of a wide variety of constituencies. Trade associations and industry groups are also affected by an organization's actions and its reputation. The media reports on and investigates the actions of many companies, particularly large organizations, and most companies accept that they must contend with and effectively "manage" their relationship with the media. Finally, even an organization's competitors can be considered secondary stakeholders, as they are obviously affected by organizational actions. For example, one might argue that organizations have a social responsibility to compete in the marketplace in a manner that is consistent with the law and with the best practices of their industry, so that all competitors will have a fair chance to succeed.

CONTEMPORARY SOCIAL ISSUES

Corporations deal with a wide variety of social issues and problems, some directly related to their operations, some not. It would not be possible to adequately describe all of the social issues faced by business. This section will briefly discuss three contemporary issues that are of major concern: the environment, global issues, and technology issues. There are many others. (Post, Lawrence & Weber, 2002).

a) ENVIRONMENTAL ISSUES

Corporations have long been criticized for their negative effect on the natural environment in terms of wasting natural resources and contributing to environmental problems such as pollution and global warming. The use of fossil fuels is thought to contribute to global warming, and there is both governmental and societal pressure on corporations to adhere to stricter environmental standards and to voluntarily change production processes in order to do less harm to the environment. Other issues related to the natural environment include waste disposal, deforestation, acid rain, and land degradation. It is likely that corporate responsibilities in this area will increase in the coming years.

b) GLOBAL ISSUES

Corporations increasingly operate in a global environment. The globalization of business appears to be an irreversible trend, but there are many opponents to it. Critics suggest that globalization leads to the exploitation of developing nations and workers, destruction of the environment, and increased human rights abuses. They also argue that globalization primarily benefits the wealthy and widens the gap between the rich and the poor. Proponents of globalization argue that open markets lead to increased standards of living for everyone, higher wages for workers worldwide, and economic development in impoverished nations. Many large corporations are multinational in scope and will continue to face legal, social, and ethical issues brought on by the increasing globalization of business.

Whether one is an opponent or proponent of globalization, however, does not change the fact that corporations operating globally face daunting social issues. Perhaps the most pressing issue is that of labor standards in different countries around the world. Many corporations have been stung by revelations that their plants around the world were "sweatshops" and/or employed very young children. This problem is complex because societal standards and expectations regarding working conditions and the employment of children vary significantly around the world. Corporations must decide which is the responsible option: adopting the standards of the countries in which they are operating or imposing a common standard world-wide. A related issue is that of safety conditions in plants around the world.

Another issue in global business is the issue of marketing goods and services in the international marketplace. Some U.S. companies, for example, have marketed products in other countries after the products were banned in the United States.

c) TECHNOLOGY ISSUES

Another contemporary social issue relates to technology and its effect on society. For example, the Internet has opened up many new avenues for marketing goods and services but has also opened up the possibility of abuse by corporations. Issues of privacy and the security of confidential information must be addressed. Biotechnology companies face questions related to the use of embryonic stem cells, genetic engineering, and cloning. All of these issues have far-reaching societal and ethical implications. As our technological capabilities continue to advance, it is likely that the responsibilities of corporations in this area will increase dramatically. (Marquez & Fombrum, 2005).

Corporate social responsibility is a complex topic. There is no question that the legal, ethical, and discretionary expectations placed on businesses are greater than ever before. Few companies totally disregard social issues and problems. Most purport to pursue not only the goal of increased revenues and profits, but also the goal of community and societal betterment.

Research suggests that those corporations that develop a reputation as being socially responsive and ethical enjoy higher levels of performance. However, the ultimate motivation for corporations to practice social responsibility should not be a financial motivation, but a moral and ethical one.

12.8 THE BEST PRACTICES AND STANDARDS IN CORPORATE SOCIAL RESPONSIBILITY

Why should organisation have a CSR strategy today? In the world of CSR, it's especially prudent to look before you leap, because successful CSR initiatives are intricate, complex, and require demonstrable impact. They're also public-facing (and potentially brand-damaging when done poorly). And they offer a host of business benefits you might miss out on by failing to plan.

CSR is not only a moral duty, but also a strategic advantage for businesses that want to enhance their reputation, attract, and retain talent, and gain trust and loyalty from customers, investors, and regulators. CSR can also help businesses mitigate risks, innovate, and create value for society. According to a 2019 survey by Edelman, 81% of consumers said they would buy from or boycott a brand based on its stance on social issues.

A well-crafted CSR strategy can help organisations keep everything organised, improve the impact of the firm, protect the company's brands while taking full advantage of CSR programme benefits. To reap the full business benefits of CSR, firms desire a strategy that's brand-aligned, well-researched, responsive, partnership-driven (at all levels), and constantly evolving in pursuit of positive impacts everyone can feel good about.

According to Paloma del Val, Executive Director of the Editorial Board and General Secretary of BBVAMF, "The best practice in corporate social responsibility is the best practice in corporate governance." The rules of governance have given way to an architecture of relationships connecting all actors with any stake in how companies operate: markets, funders, regulators, employees, suppliers, customers, environmentalists, local communities, etc.

Good governance is configured by three layers of relationships, stretching from the outside into the inside of organisations. The three levels are equally important, interact with one another, and complement and influence each other. They are: first, external regulation and markets; second, the highest supervisory body (board of directors, board of trustees and similar); and finally, the corporate governance infrastructure within the institution.

Markets and external regulation influence organisations' model of governance to protect direct or indirect stakeholders. In principle, markets reward organisations able to offer quality products and services meeting customers' demands and punish those failing to do so. And increasingly, customers and other players with a stake in the markets, in addition to such product and service attributes, value social or environmental dimensions, such as fair trade or organic products.

In this level of external regulation there is also the public administration, where the government issues norms and regulatory standards for industries, sectors, and different categories of organisation. Regulators and supervisors work to ensure that markets are stable and efficient and to protect consumer rights. Legislation is enacted to ensure legality and fairness in institutional decisions. Meanwhile, capital markets and rating agencies require and create transparency and stimulate competition. This is also the level at which external auditors validate the performance indicators being reported to the outside world.

The second layer of corporate governance concerns organisations' highest supervisory bodies. These must safeguard companies' strategic direction and their model for linking the different functional units within a structure and their impact will depend on the nature of the decisions adopted.

The set of all the functional units most directly affected by the resolutions passed by the senior supervisory body come together to form the third level of governance, which we can call the infrastructure of corporate governance. The main function of this infrastructure is to operate inside the organisation, to mitigate the risks generated by their activities, by establishing efficient procedures, mobilizing resources, and generating reputation from its financial and non-financial performance, through the control of operating, legal, technological, social, environmental, and other risks.

Corporate governance, from the stakeholders' viewpoint, requires companies to listen to their environment and make commitments to respond to socio-economic changes and to the expectations demanded by society. For this to happen, the highest supervisory bodies and the governance infrastructure must, above all, invest in activities generating trust and create distinguishing capacities, by building up the reputation and designing optimal relationships with their stakeholder groups.

It has been estimated that from 1970 to year-end 2010, tangible assets only account for 20% of enterprises' total value. The remaining 80% comes from intangible assets. This transformation in the fundamentals of value explains why corporate governance must focus on non-financial issues. Good governance should preserve 100% of an organisation's worth. And that 80% of intangible assets is where good practices can be found: respect for workers, (training, gender diversity, integration of the differently abled, health and welfare), respect for the environment (efficient use of resources, reduction of waste, pollution mitigation), respect for ethical management (fighting fraud and corruption), respect for customers (transparency, clarity of information), etc.

The European Union Green Paper made the first attempt to define corporate social responsibility (CSR), making it clear that social responsibility does not simply mean full compliance with legal obligations. It encouraged companies to take their responsibilities further, investing in human capital, in their surroundings and in establishing relations with their stakeholders.

Corporate social responsibility was also defined as companies voluntarily coming up with solutions to social and environmental concerns, and voluntarily establishing ethical relationships with their customers and suppliers.

More recent regulatory developments, institutional recommendations, markets and, in general, those operating in the external layer of corporate governance have promoted the inclusion of much of the content of social responsibility into habitual management processes. Some have incorporated responsibility policies merely because they were mandatory, but others have voluntarily accepted that they make sense in order to generate reputational gains and the highest possible intangible worth.

A third factor that has encouraged the integration of social responsibility models into organisations' strategy has been how hard it is to find indicators and metrics to measure the actual impact of social responsibility policies. Many companies have thus considered that the most efficient way of capturing the value generated by CSR activities is simply to incorporate them into habitual management policies.

The growth in business regulation, media pressure on companies to commit to the societies in which they operate and increasing demands from markets and investors have generated a new status quo, where the sources of non-financial impact become blurred. Is it corporate governance or corporate social responsibility? It is no longer clear.

The absorption of CSR content into good governance is a work in progress and we can expect it to continue. On 29th September, the European Council passed the Directive on Non-Financial Reporting. This is clearly one such consequence as the process continues to expand.

The directive will require organisations to report on the policies they have regarding their impact on the environment, their measures to ensure respect for human rights, their procedures to fight corruption and malpractice, their human resources management models (gender diversity, equal opportunities, working conditions), among others. From now on, these and other such policies must be described in the companies' annual financial reports or in a specific report on corporate social responsibility. The directive also requires them to publicly disclose what tools and indicators must be used to monitor their evolution in these areas.

Regulators, governments, markets, and public opinion are fully aware that financial earnings are insufficient grounds on which to make investment decisions. On their own, they are not enough to boost brand recognition, to attract talent or to encourage confidence in the company's long-term value creation. The scope of duties for the highest supervisory bodies within institutions is becoming ever greater. Boards are expected to direct their organisations in their function of key drivers of transformation of society over time. They must enable their enterprises to take on an ever more essential role in tackling current economic, social, and environmental challenges, while ensuring the regeneration of inclusive and balanced economic development.

Incorporating corporate social responsibility into all strategic decisions is, arguably, one of the most difficult challenges a manager faces. In a study by Richard Ivey Professor, Tima Bansal discusses a research project that investigated how Canadian businesses manage that challenge. Tima Bansal is the Shurniak Professor of International Business and Director of the Building Sustainable Value Cross-Enterprise Leadership Centre, Richard Ivey School of Business.

The best practices she identified among the firms that were studied participate in some or most of these activities:

i. Include social issues in risk assessment models.
ii. Measure the cost or revenue impact of social issues and use that as criteria in numbers-based business models.
iii. Lengthen decision time horizons.
iv. Take advantage of internal stakeholders' creativity.
v. Involve external stakeholders formally and informally.
vi. Build social capital within the top management team.
vii. Show impassioned, not impersonal, leadership.
viii. Apply values-based criteria to decisions.
ix. Take the leap of faith.

How to report on CSR? According to Business Economics, "CSR reporting is the process of disclosing information about a business's social, environmental, and ethical performance. It may take the form of sustainability reports, integrated reports, or annual reports. When creating CSR reports, it's important to consider key principles such as relevance, transparency, accountability, and standards. Relevant topics should be covered in the report and reflect a business's material impacts on society and the environment. The report should provide accurate and balanced information, including any limitations or challenges." Additionally, it should demonstrate how a business is accountable for its actions and outcomes, as well as how it engages with its stakeholders. Lastly, internationally recognized standards and frameworks such as the Global Reporting

Initiative (GRI), the International Integrated Reporting Council (IIRC), or the United Nations Global Compact (UNGC) should be used in CSR reporting.

12.9 SUMMARY

Corporate social responsibility (CSR) can be defined as the "economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll and Buchholtz 2003). The concept of corporate social responsibility means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. A traditional view of the corporation suggests that its primary, if not sole, responsibility is to its owners, or stockholders.

Corporate social responsibility is traditionally broken into four categories: environmental, philanthropic, ethical, and economic responsibility.

According to Post, Lawrence, and Weber, stakeholders are individuals and groups that are affected by an organization's policies, procedures, and actions. A "stake" implies that one has an interest or share in the organization and its operations, per Carroll and Buchholtz. Some stakeholders, such as employees and owners, may have specific legal rights and expectations in regard to the organization's operations. Other stakeholders may not have specific rights granted by law but may perceive that they have moral rights related to the organization's operations.

12.10 ILLUSTRATIVE AND PRACTICE QUESTIONS

THEORY QUESTIONS

1. Explain the concept of dimensions of corporate social responsibility.
2. Explain the major perspectives of corporate social responsibility.
3. Discuss the history and evolution of corporate social responsibility.

4. Debate arguments for and against corporate social responsibility.

5. Explain the concept of stakeholders and list the major categories of stakeholders in business.

6. Differentiate between the primary and secondary stakeholders for business.
7. Understand the contemporary social issues in business.
8. Discuss the different types of Corporate Social responsibility with examples.
9. Highlight the best practices of corporate social responsibility for business organisations.
10. CSR is the umbilical cord of corporate reputation. Discuss in full.

MULTIPLE CHOICE QUESTIONS

1. The concept of ____________________________ means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law.
   a) CSR
   b) GATT
   c) NAFTA
   d) ASEAN
2. A traditional view of the corporation suggests that its primary, if not sole, responsibility is to its ___________, or _________________.
   a) Stakeholders, owners
   b) Owners, Stockholders
   c) Investors, Management
   d) All of the above
3. Corporate social responsibility is traditionally broken into four categories:
   a) environmental, philanthropic, ethical, and economic responsibility.
   b) Legal, ethical, conventional, and economic responsibility
   c) Political, ownership, ethical, and economic responsibility
   d) Environmental, philanthropic, legal, and economic responsibility.

4. Secondary stakeholders include the following except one:

    a) Local, State, and Federal Government
    b) Regulatory Bodies
    c) Future Generations
    d) Civic Institutions and Groups
    e) Special Interest Groups

5. Which is not true for CSR?

    a) Costs increase
    b) Satisfied employees
    c) Win new business opportunities
    d) Creating long-term employee, consumer, and citizen trust

6. Proper/right treatment of employees, stockholders, owners, and the public by a company is known as:
    a) CSR
    b) Social Service
    c) Ethics
    d) All of the above

7. For securing the society,
    a) Law is more useful
    b) Ethics is more useful
    c) CSR is more useful
    d) NGO is more useful

8. What is meant by the phrase CSR?
    a) Corporate Social Responsibility
    b) Company Social Responsibility
    c) Corporate Society Responsibility
    d) Company Society Responsibility

9. What is Green washing?
    a) Transforming products to be more ethical
    b) Making product more ethical than it really is
    c) Converting company to green production methods
    d) Convincing customers to buy ethically

10. An organization's responsibilities are just limited to primary stakeholders
    a) True
    b) False
    c) Not Sure
    d) None of the above

12.11 REFERENCES

Arthaud-Day, M.L.(2005). "Transnational corporate social responsibility: A tri-dimensional approach to International CSR Research." *Business Ethics Quarterly* 15 (2): 1–22.

Bowen, H. R. (1953) Social Responsibility of the Businessman. New York: Harper &Row

Carroll,A.B., and A.K. Buchholtz (2003). *Business and Society: Ethics and stakeholder management.* 5th ed. Australia: Thomson South-Western.

Carroll, A. B. (2006) 'Corporate Social Responsibility: A Historical Perspective', in M. Epstein and K. Hanson (eds) The Accountable Corporation. Volume 3: Corporate Social Responsibility. Westport, CT: Praeger.

Chakraborty, Utpal Kumar. (2015). Developments in the Concept of Corporate Social Responsibility (CSR). The Researchers' International Research Journal; Jharkhand Vol. 1, Iss. 1, (Nov 2015): 23-45.

Editorial. Available at https://www.fundacionmicrofinanzasbbva.org/revistaprogreso/en/the-best-practice-in-corporate-social-responsibility-is-best-practice-in-corporate-governance/

Friedman, M. (1970). Developing a stakeholder theory. *New York Times Magazine*, 13(9).

Garriga, E., and D. Mele(2004). "Corporate Social Responsibility Theories: Mapping the Territory." *Journal of Business Ethics* 5(3): 51–71.

https://www.managementnote.com/good-governance-quiz/

Marquez, A., and C.J. Fombrun (2005). "Measuring corporate social responsibility." *Corporate Reputation Review* 7 (2): 304–308.

Post, J.E., A.T. Lawrence, and J. Weber (2002). *Business and Society.* 10th ed. Boston: McGraw-Hill.

Sarumi, O.O. (2023). Corporate Social Responsibility – ICLED Business School Entrepreneurship Lecture Series 124, May 2023. https://www.academia.edu/105415842/CORPORATE_SOCIAL_RESPONSIBILITY_ICLED_ENTREPRENUERSHIP_SERIES_LECTURE

Ramachandran, Ramakrishnan. (2008). Significant Changes in the Business in the Last 30 Years Due to Corporate Social Responsibility. SSRN Electronic Journal. 10.2139/ssrn.1751602.

Tima Bansal (2006). Best Practices In Corporate Social Responsibility. *Ivey Business Journal,* Issues: March / April 2006. https://iveybusinessjournal.com/publication/best-practices-in-corporate-social-responsibility/

RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.
Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard.
Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz.
Fundamentals of Business Administration Management by Caroline Anderson.

CHAPTER THIRTEEN
THE PROBLEMS OF BUSINESS ADMINISTRATION IN NIGERIA

13.1. LEARNING OBJECTIVES
After studying this chapter, you should be able to:

i. Identify the requirements for business survival.
ii. Explain why businesses fail in Nigeria.
iii. Understand the symptoms of business failure.
iv. Recognize the nature of problems the Nigerian business organizations are confronted with.
v. Provide remedies or survival strategies for business organization recovery; and
vi. Discuss how businesses can adopt effective planning and risk management strategies to prevent business failures.

13.2. INTRODUCTION
The major objectives of any viable business are to create customers, make profit, create employment opportunities, grow, and survive. But despite all these, Nigerian Business organizations are still confronted with myriad of problems. Attempts will be made in this chapter to identify the requirements for business survival, explain why businesses fail in Nigeria, list the symptoms of business failures, and proffer possible survival strategies for business organization recovery.

13.3 CHALLENGES OF BUSINESSES IN NIGERIA

What are the challenges that businesses are facing in Nigeria? The Nigerian business landscape is faced with a myriad of economic challenges including reductions in capital importation and foreign direct investment – in the last quarter of 2022, capital importation was reduced by more than 50%, and foreign direct investment was reduced by 33% as compared to the corresponding period in 2021; the multiplicity of exchange rates as well as the volatile foreign exchange regime – the Central Bank of Nigeria (CBN) continues to defend the Nigerian Naira, an act described by many analysts as hurting the economy through its failure to reflect the true value of the Naira in comparison to other currencies; high levels of insecurity – the increasing crime rate is discouraging new investments as well as current ones; power and infrastructural challenges leading to increasing costs of doing business; high level of food insecurity and rising production costs; high rates of unemployment and underemployment projected to rise to 37% among others. Virtually every sector of the economy is in limbo. (BusinessDay, June 2023).

Nigeria as one of the world's leading business locations on the African continent have several challenges that confront a typical Nigerian business especially when it comes to the ease of doing business in the country. For example, in 2019, out of 190 countries, Nigeria was ranked 131st in the World Bank's Ease of Doing Business Report. 80% of new businesses and startups in Nigeria fail within the first 3 years. Doing business in Nigeria could be a wonderful experience when your business venture succeeds, however before success there could be great challenges and difficulties that a new business or startup must face.

It is understood that starting a business venture generally comes with its own business risk that may hamper the growth of such business, but some problems and challenges are very common to all businesses in Nigeria.

Highlighted below are the top-of-mind challenges of doing business in Nigeria and how to overcome such challenges in other to make sure the business continues to exist:

1) **Access to capital & credit:** Many businesses struggle to secure affordable loans and credit facilities from financial institutions. High-interest rates, collateral requirements, and stringent lending conditions make it difficult for businesses to expand and invest in their operations. According to the Central Bank of Nigeria, only about 6% of SMEs in the country have access to formal credit, indicating a significant financing gap. This gap hampers the growth and development of businesses, limiting their potential contributions to the economy.

2) **Inadequate Infrastructure and Logistics:** Inadequate transportation networks and poor road conditions increase costs and hinder the timely delivery of goods and services. According to the World Economic Forum's Global Competitiveness Report, Nigeria ranks low in terms of quality of roads and infrastructure.

   Power supply issues further compound the problem, as frequent outages and unreliable electricity access disrupt business operations. This forces businesses to rely on expensive alternative energy sources, increasing operational costs. The African Development Bank estimates that Nigeria loses about 2-3% of its GDP annually due to inadequate power supply. Insufficient warehousing and storage facilities also impede efficient supply chain management. Limited storage capacity and inadequate facilities for preserving perishable goods affect the agricultural and food sectors, leading to losses and inefficiencies.

3) **Inconsistent Government Regulations/policies:** The government plays a major role in the decision of how business gets done in Nigeria. No government or economic system leaves all decisions about doing business to the market. These regulations are meant to keep businesses in check and ensure that they follow a common rule. The law that guides doing business is known as Companies & Allied Matters Act (CAMA) 2020.

4) **Pervasive Corruption and Bribery:** Nigeria is still among the world's leading investment and business locations, but corruption and bribery is still a major concern. Bureaucratic red tape, bribery, and other corrupt practices make it difficult for businesses to get licenses and permits or access to government contracts. This situation forced many to compromise integrity to get the businesses off the ground.

5) **Market Development disruptions:** The main thing we are talking about here is disruption, such as digital or technological disruption. It is something that is affecting businesses of all industries in Nigeria. There is also market risk around the fact that there is global uncertainty around economic growth. When you are unsure of the direction that the entire economy is going to take, it makes business planning and strategy development a great deal more difficult and risky. To prepare for these risks, many corporate organizations (such as banks) are now supporting start-ups so that they are part of the disruption or are developing smaller, more agile, and very independent parts of their own organization to look to the future and be aware of new trends in the market that can affect how business is done.

6) **Insecurity and Political Instability (Hostile environment):** Insecurity has continued to ravage the northern part of Nigeria over the last 20 years, and most of the southern states in recent time. Asides from the fact that insecurity displaces people from their settlements

and reverses economic development of the affected states, many businesses across the country depend on raw materials that are majorly sourced from these affected regions such as food items and other agricultural products. Insecurity has greatly hampered the free movement of wares and personnel from the troubled states. The negative impact of this on the fortunes of SMEs cannot be over-emphasized.

7) **Unstable or fluctuation in foreign exchange:** International trade contracts are largely denominated in dollars. Hence, the lack of stability of the Naira makes Nigerian businesses shortchanged in international trade. This especially affects companies that depend on imported raw materials or wares for further production or re-sale respectively.

8) **Disregard for Essential Services:** SMEs in Nigeria generally tend to disregard the importance of these services - Insurance/Legal/Professional Services - which leaves them one unfortunate incident away from complete ruin. SMEs must understand the significance of essential services such as Insurance, Legal Representation and Professional Services (Audit, Tax, Business Advisory). They are non-negotiable for any business that seeks to grow and thrive. They offer protection from business risks, fraud and other operational failures that may prove fatal to the business.

9) **Lack of market information and data:** At the top of the mind of 66% of business owners in Nigeria is where and how to find new customers. With a lack of credible businesses and mediocre market information, lots of business owners find it difficult to target their customers. A lack of credible business and market information is a major challenge for companies that are trying to validate their business model and find product-market fit. Without market information, businesses are unable to identify their target customers – where they are located, what they need, how much they are willing to pay for services and product. It's also difficult for companies to understand the competitive landscape and to identify potential channel partners. Most Nigerian businesses also lack the proper insights. In turn, they cannot develop the necessary business strategies to help them navigate potential risks & shortcomings while searching for market opportunities.

10) **Talent acquisition and human capital development:** There is a notable skill gap across various sectors, limiting productivity and innovation. Many businesses struggle to find qualified professionals with the right expertise and experience. Brain drains exacerbates this challenge, as talented individuals often seek opportunities abroad due to limited career prospects, inadequate infrastructure, and social unrest. The loss of skilled professionals' hampers business growth and stifles the development of indigenous industries.

11) **Low level of technology adoption:** A low level of technology adoption is attributed to factors such as lack of awareness of available technology, funding to invest in new technology, and skilled staff to implement and maintain new systems. As a result, many small businesses in Nigeria still rely on manual processes and outdated technology, which can limit their growth potential and competitiveness.

12) **Market volatility and Risk Management:** The Nigerian business landscape is exposed to various risks, including political instability, economic fluctuations, and security concerns. These uncertainties can significantly impact businesses' operations and profitability.

13.4 REQUIREMENTS FOR BUSINESS SURVIVAL

What does business survival mean? Surviving in business means you are able to meet all of your obligations and most likely turn a profit but are not doing anything to set your business up for long-term success.

Success, by contrast, means you are doing all the things to survive but you are also positioning your organization for a prosperous future. Your business is thriving today, while keeping an eye on what is around the corner. The key difference between success and surviving is not what you are doing today but what you are setup to do months and years from today.

What's the survival rate of new businesses? Statistically, roughly 66 percent of new businesses survive two years or more, 50 percent survive at least four years, and just 40 percent survive six years or more. This is according to the study "Redefining Small Business Success" by the U.S. Small Business Administration.

Business survival strategies are a wide range of different strategies and tactics that business owners make use of to give their businesses the best chance of survival.

The various factors that contribute to business survival include:

i. **Availability of adequate capital:** - Businesses require adequate capital for a smooth take-off. Adequate capitalization must take into account a multitude of set-up and continuation expenses.

ii. **Proper planning:** - The initial business plan is a blueprint for success. Planning ahead is vital at every stage of the business and should be under constant review.

iii. **Knowing the Market:** - knowing who your customers are and what they actually want, rather than what you believe they want, is one of the keys to business survival. Failure to keep in touch with customers through implementation of a practical marketing plan and failing to keep up with changing wants and needs is a recipe for disaster.

iv. **Adequate control: -** A functional control mechanism must be put in place and must be suitable for the type of operations. It is essential to keep control of the business at every level.

v. **Monitoring changes: -** changes are always occurring in the external environment of the business. These changes must be taken note of. What competitors are doing, changes in technology and best practice, changing in government policies as well as changes in customers buying patterns need constant monitoring.

vi. **Legality consideration:** -An individual or group of people who intend to establish business in Nigeria must comply first with government regulations, rules, edict etc that guide business, employees, consumers/clients etc.

vii. **Operation Location:** - Proximity to market, nearness to city and town where the products will be highly demanded, nearness to source of supply of raw materials and power are required for business survival.

viii. **Personality and Attributes:** - Experienced and skillful managers, loyal and dedicated members of staff, maturity, wisdom, well-balanced emotion, business knowledge and technique and ability to move on with others easily are also panacea for business survival.

ix. **Innovation and technology:** Innovation and technology complement each other. Innovation presents new ideas to business leaders to increase efficiency with minimum resources. Business leaders with innovative mindsets can recognize opportunities where others do not.

x. **Good Governance:** Good corporate governance requires that records and processes are transparent and available to shareholders and stakeholders. Financial records should not be inflated or exaggerated. Reporting should be presented to shareholders and stakeholders in ways that enable them to understand and interpret the findings.

NOTE: Any businesses that adopt these factors will definitely increase their chances of survival in the unpredictable marketplace. The essential objective of any industry is survival. Management must attempt to ensure the continuation of the business. To survive, an industry must gain enough funds to meet the costs that would be incurred.

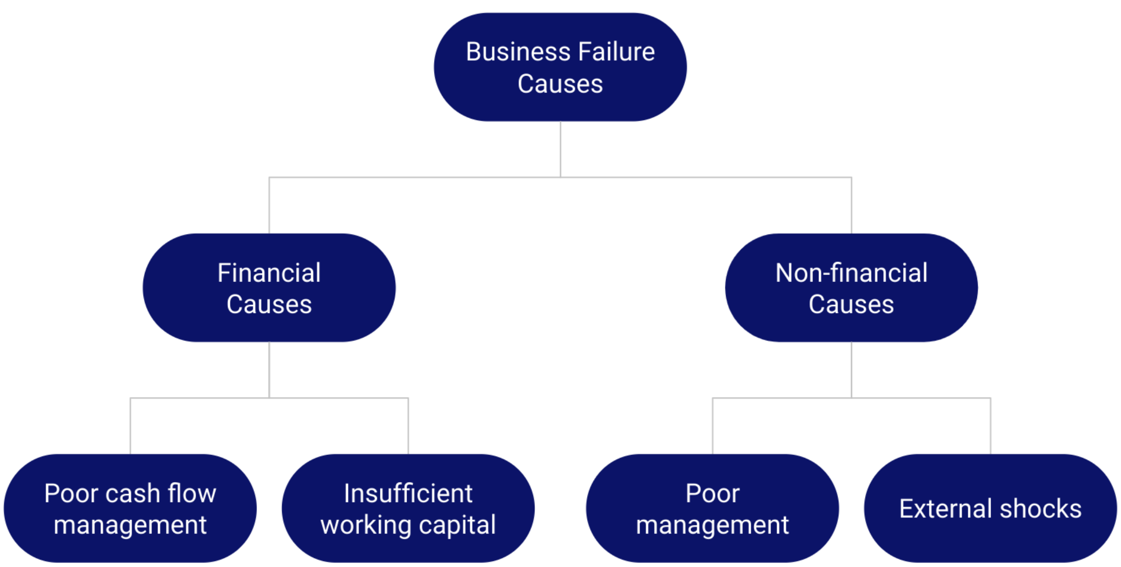
13.5. CAUSES OF BUSINESS ADMINISTRATION FAILURES

What Is Business Failure? Business failure is when a company is unable to meet its financial obligations and is forced to shut down or suspend operations, this is referred to as a business failure. When a company is unable to generate a profit, this might lead to the company's failure.

Also, business failure refers to a company ceasing operations following its inability to make a profit or to bring in enough revenue to cover its expenses. A profitable business can fail if it does not generate adequate cash flow to meet expenses (Wikipedia).

So, a business fails when it can no longer make a profit or generate enough revenue to cover its expenses. There's often a high rate of business failures among startups due to lack of managerial experience and intense competition. Those who ignore obvious (and subtle) warning signs of business trouble is a surefire way to end up on the wrong side of business survival statistics.

The causes of business failure can be grouped as shown in the chart below:



Please below a list of common causes why businesses close their doors:

i. **Financial problems: -** Inadequate working capital, improper accounting record keeping, poor financial disciplines of the owners, fraudulent practices, non-availability of long-term loan etc. are very rampant in Nigeria and this makes it difficult for Nigeria Businesses to survive.
ii. **Cash flow or crisis management: -** When there is more money out than coming in, there is a problem. Even profitable businesses can sink due to poor cash management. Ignoring your cash flow situation often leads to spiralling problems.
iii. **A bad idea to begin with: -** While having faith in the initial business concept is on important attribute of any entrepreneur, its often not enough. It is sometimes the case that the unique business idea is not so unique after all, and that there is less demand than was originally thought.
iv. **Inadequate protection: -** Bad things happen to good businesses every day. Examples are flood disaster, fire outbreak, loss of key personnel, theft etc. and protection against risk can help secure the future of the business.
v. **Growing too fast: -** Fast, unchecked expansion can be more risky than slow growth for any business. Growing too rapidly brings with it the risk of loss of control and overstretching of the businesses' resources and financial base.
vi. **Managerial Problems: -** Inadequate managerial skills, poor financial discipline of the managers, less commitment by managers, poor company policies, poor training facilities, insincerity on the part of management are always the case in most Nigerian businesses.
vii. **Technological problems: -** Technology is the driving force of today's industrial world. The technological base of many Nigerian firms is too weak to meet the challenges of the time i.e. globalization.
viii. **Poor infrastructural facilities: -** Most of the Nigerian roads are bad, there is epileptic power supply and lack of good water. This situation leads to increased cost of doing business in Nigeria and makes it very difficult for Nigerian firms to survive.
ix. **Unfavourable and unstable government policies: -** Some of the policies of government are unfriendly to most firms. The three levels of government in Nigeria always come up with some policies that are very injurious to the private sector.
x. **Wrong choice of business: -** In Nigeria, businesses go under because of the inadequate capability and competence of many Nigerian business entrepreneurs.
xi. **Reactive attitudes**. Failure to anticipate or react to competition, technology, or marketplace changes can lead a business into the danger zone. Staying innovative and aware will keep your business competitive.

Types of Business Failure

There are so many entrepreneurs and businesses in Nigeria. Meanwhile statistics has it that 4 out of every 5 businesses in Nigeria fails within the first 3 years of operation – that's a whopping 80%! A statistic that generates a shudder of fear in even the most dauntless entrepreneur. Most of these failures discussed above, however, resemble one another in crucial ways. And once you identify these harbingers of failure, you can increase your own chance of success.

According to Wallstreetmojo.com, the following are the potential types of business failures.

#1 – Preventable or Predictable Business Failures: Preventable failures are the ones that may have been anticipated, but they were not. This is the most damaging type of failure, and it frequently results from a startup's inability to follow best practices, lack of expertise, or foresight. For example, a business can avoid product launch failure by doing market research and targeting the right group of customers. A company's historical data, such as market share, revenues, and profits, can be used to predict future crises. Therefore, after a failure that might have been avoided, it's important to look closely at where things went wrong and repeat the successes.

#2 – Unavoidable Business Failures: These typically occur in circumstances with distinct sets of elements and complexity. Unavoidable business failures are caused by unpredictable changes such as natural disasters, pandemics, wars, recessions, political or legal changes, etc. While there's no way to avoid these unfortunate events, companies can come up with a crisis management plan in advance to reduce their damage. The lesson to be learned from this sort of failure is to implement systems to identify tiny failures caused by complicated circumstances and to take corrective action before the company's failure.

#3 – Intelligent or Intellectual Business Failures: This is the finest variety. Intellectual business failures arise from experimenting with new products or strategies. They occur quickly and do not require excessive resources. This kind offers the most valuable information at the lowest price. For example, a company invests a lot of money in new technology but fails to generate revenue from it. This type of business failure often occurs in innovative businesses such as tech or medical companies. This is the mindset underlying the trial-and-error method when a company undertakes tests to develop a successful product or business strategy.

Examples of Business Failure

Here are some real-life examples of business failures:

a. **Failure due to pandemics**: Friska is a series of successful restaurants in the UK that were shut down by the Covid-19 Pandemic. Previously, the company had managed to acquire up to 3 million in funding for expansion. However, the abrupt pandemic and strict lockdown regulations forced the restaurant chain to close all its locations from April 2020. Despite an enormous effort to sustain the business, the company closed down in July 2021 (Taylor, 2021).

b. **Failure due to a shortage of capital**: Berg was a UK-based tech company that had come up with many revolutionary design ideas in the tech space such as Twitter Bird House, Google Desktop, and Little Printers, a cloud-based printer that allows you to print things from social media and the web. Sadly, the company was forced to close due to a lack of funding in 2014 (Wilson, 2011).

c. **Failure to external shocks**: Igloo Energy was a gas and electricity supplier in the UK. Its customer base averaged 179,000 people throughout the country. Once a successful and popular business, the company was forced to close in 2021 due to the skyrocketing wholesale prices of gas and electricity (Duffy, 2021).

NOTE: There are many potential causes for business failure, both financial and non-financial. While some are unavoidable, others can be predicted and prevented.

13.6 INDICATORS &SYMPTOMS OF BUSINESS FAILURE

Some of the symptoms of business failure are: -

(1) **Deterioration of Working Capital: -** Working capital is the amount of cash necessary to run the business operation on a day-to-day basis. When the working capital cannot meet the day-to-day financial obligation of the company, is an indication of an impending problems.

(2) **High Debt Ratio: -** If the business exposes itself to high debt that culminated in high debt ratio, it constitutes a symptoms of business failure. The company will be stressed to its limits in order to meet the challenges of servicing the loan both in terms of principal repayment and interest payment.

(3) **Declining Sales: -** If the business is witnessing a continuous reduction in sales revenue, it is an indication of an impending problem. Strategic management decisions must be taken to turn the table upstream.

(4) **Declining profit: -** Declining profit may be as a result of declining sales. The implication is that the firm may be dipping its hand on its reserve to service its operations. Reserves are expected to be built up not to be depleted, when continuous depletion of the company's reserve is the order of the day, the company is likely to be in crisis.

(5) **Declining Capacity Utilization: -** This too may be as a result of continuous drop in sales. When this occurs, the cost per unit of the production increases because economies of scale in production and marketing will not be forthcoming.

(6) **Low Quality of Product:** When the quality of the products of a company is ranked low compared with competitor's product, the company is at the verge of collapse if something immediate is not done to address it.

13.7 REMEDIES/SURVIVAL STRATEGIES

One very distinguishing feature for successful business is the ability to surmount the pervading problems they might face. The ability to do this is a major success factor. Management must strategize rightly to meet the challenges of the business and turn threats to opportunities. These efforts have to be both external and internal. The external efforts should principally come from government while the internal efforts should be from the management of the companies.

1. **Government Intervention: -** Government should initiate policies and programmes that should create a conducive environment for businesses to operate and thrive. This can be achieved through putting in place monetary and fiscal policies that will enable Nigerian firms to compete better in the international market. Government should protect the interest of indigenous companies and encourage them to be efficient. Government should put in place better infrastructural facilities to reduce the burden of these companies. Government should not open its door to foreign competitors unfettered. The limitations of the Nigerian companies should be borne in mind by government in whatever policy to be initiated.

2. **Management Acquiring Sound Financial Knowledge: -** It is a well-known fact that managing money is more difficult than acquiring it. For any organization to be effective, efficient and able to meet its objectives, the management must be well endowed with some financial knowledge. The management team should be trained and equipped with some financial management techniques. They should know the type of investment to make, the kind of fund to source, the management of the working capital, selection of banker and other financial issues.

3. **Careful Analysis of the Market: -** One reason why businesses fail in Nigeria is improper analysis of business opportunities. The business managers must understand the market, their needs, the way the products should be presented, appreciate and recognize the

sovereignty of the consumers and the fact that patronage of the customer is the reason for the existence of business.

4. **Acquisition of Management skill**: - The management of the companies should be well attuned with the modern management trends. They must acquire the skill to handle men, money, inventories and machines along with the ability to formulate good management policies, select appropriate techniques to operate and building an enduring relationship with employees, the market and the general public.

5. **Appreciating Change in the Business Environment and Adjusting to it appropriately: -** Management should be watching developments in the local and global markets. They should be able to adjust to these changes at the right time.

6. **Avoidance of Over Trading: -** Management should specialize in areas of business in which they have sound competence. They should not be jack of all trades. They should invest in ventures where they have management skills and capability to cope with.

13.8 PLANNING AGAINST BUSINESS FAILURES

A fundamental part of overcoming business failure is rooted in the mindset you have. It begins with a flexible and positive attitude and a willingness to change. Winston Churchill stressed this vital factor, saying, “To improve is to change; to be perfect is to change often.” Improving organizational execution requires successfully progressing your most important plans and initiatives. As a planner or leader in a business, manually processing visibility and accountability can lead to poor implementation practice and performance. But managing and increasing alignment and collaboration within an industry is a demanding task.

Failure is a part of life, and that includes business failures. Therefore, seeing your plans develop may reinforce your feelings of accomplishment, making you more confident and secure in your future strategies and helping your business on the road to success. But how we deal with failure determines whether or not it ultimately leads to success.

#1 Ways to Planning and Overcome Business Failure

It is a daunting challenge combating any obstacle, however, it can reveal how to strengthen your abilities and become more successful. Here below are the top different ways to planning and work on overcoming business failure:

i. Develop a good business plan.
ii. Developing a contingency plan (plan for tough time).
iii. Pay attention to your clients or customers.
iv. Perform a detailed SWOT Analysis for the business.
v. Control cashflow during sales slump.
vi. Purchase insurance cover for the business.
vii. Focus on quality, not quantity (Control growth).
viii. Embrace the warrior mindset.
ix. Embrace Failures as Short-Term Setbacks.
x. Retain a Business Coach or advisor.
xi. Liaise with appropriate individuals and associations.

#2. How Businesses Can Adopt Effective Planning and Risk Management Strategies to Prevent Business Failures

Starting a business always involves risk, as success is never guaranteed. Some entrepreneurs will make the decision to start a business based on their intuition, because they have an idea that they really believe in. Most entrepreneurs will calculate the risks involved in starting a business and weigh them against the potential rewards that they might receive. (BBC Business).

What is entrepreneurial risk management? *"Risk Management" is the art and science of reasoning about what could go wrong, and what should be done to reduce those risks in a profitable manner*. Risk is defined as the prospect of an event and its outcome. Risk management is the procedure of using activity methods and tools for controlling these risks. (Goel, 2022).

Risk management is distinct on recognizing what could go wrong, assessing which risks should be distributed with and executing strategies to deal with those risks. Businesses that have recognized the risks will be better prepared and have a more profitable way of dealing with them.

Risk management has always been an important tool in running any business, particularly when a market experiences a downturn. In any economic environment, an unexpected surprise can destroy your business in one fell swoop if you didn't have the right risk management strategies in place to prevent, or at least mitigate, the damage from that risk.

According to Investopedia, external risks are out of your control. These include, but are not limited to, interest rates, exchange rates, politics, and weather. Internal risks are in your control and include information breaches, noncompliance, lack of insurance, growing too fast, and many more.

Types of Risks in Entrepreneurship

According to BBC Business and Goel (2022), business activity can expose an entrepreneur to different types of risk as discussed below:

i. Strategic Risk

ii. Economic Risk

iii. Financial Risk

iv. Market Risk

v. People Risk

vi. Personal Risk

vii. Technical Risk

viii. Lack of security Risk

ix. Business failure Risk

#1. Strategic Risk: Strategic risk refers to the internal and external events that may make it tough, or even unfeasible, for an institution to attain their target and strategic goals. These risks can have serious outcomes that affect organizations in the long term. Strategic risk is a classification of risk in the same way that risks such as functioning risk, commercial risk, influencing risk and regulatory risk are. Occasionally, strategic and functioning risk can be confused with one another, but we will get to the dissimilarities later.

#2. **Economic Risk:** Economic risk is the risk faced by a firm or a company that has a foreign branch or investment in a foreign country because of factors such as exchange government policies, change in government, decrement in the credit valuation of foreign investment or important development in the foreign exchange affecting the business of the organization.

#3. Financial Risk: Financial risk is the likelihood of losing money on an investment or business deal. An entrepreneur needs money to set up a business. This may be their own money or borrowed money, perhaps from a bank or an investor. The business will then need to ensure that profits are sufficient to pay this money back. If the business is not profitable then the entrepreneur, and any lenders, risk losing the money. Furthermore, common and well-defined financial risks comprise credit risk, liquidity risk, and functional risk. Financial risk is a type of hazard that can result in financial loss to interested candidates.

#4. Business failure Risk: A major cause of business failure is a lack of cash flow. A business can face serious problems if they don't have enough money coming in to cover costs. A customer paying late may mean a business is unable to buy supplies or pay its employees. Another big risk that a business faces is the failure to make enough money to survive and being forced to close. This usually happens due to poor revenue, which can be caused by:

i. a lack of market research to find out what customers want.
ii. running out of raw materials.
iii. poor management, with not enough thought given to the consequences of decisions on how to manage the business.

#5. Market Risk: Market risk is an estimate of all the factors influencing the presentation of money markets. From an investor's viewpoint, it refers to the likelihood of an investor undergoing losses due to factors that affect the general performance of the money markets in which such investor has made investments. Market risk is defined by "organized risk". The same cannot be abolished through assortment, no matter what it can be restricted against in many ways.

#6. **People Risk:** Most people are risk-takers by essence, or at minimum calculated idealists with a clear idea of action to start a new product or utility to fill a space in the industry. On an individual level, many people take high-risk to leave permanent jobs to throw their efforts (and sometimes their own money) into starting a business.

#7. Personal Risk: The process of applying risk management principles to the requirements of independent consumers. It is the process of recognizing, estimating, and treating personal risk (including, but unlimited, to allowance), pursued by executing the treatment plan and observing over time. A personal risk management provides assurance through the defense of tangible assets and protection from the potential damage from unexpected liability exposures.

#8. Technical Risk: In the business world, technology risk is the ultimatum of management technology failure that could deal with IT security and economic intelligence. This IT risk can come in many forms, including ineffective, fraud, and virus. Technical risks (sometimes also technological risks or innovation risks) in risk management is a phase that refers to the type of business risk. These are the risks created by the use of new or unproven technologies or technical appliances or means of production.

#9. **Lack of security:** Setting up and running a business takes time and energy. Entrepreneurs often have to give up their existing job to pursue their business idea, along with the security of a regular income. In addition, they may have to work long, irregular hours, and may find it difficult to take holidays in the early days of running a business.

Minimising the Risks - Businesses fail due to lack of Risk Management

Businesses fail for a variety of reasons, including lack of planning, poor management, inadequate resources and an inability to adapt to changing market conditions. However, one of the most common causes of business failure is the lack of risk management. Risk management is a crucial element of business success, and it is essential that entrepreneurs understand how to identify, assess, and manage risks in order to reduce the chances of their venture failing.

Risk management involves assessing the potential risks associated with starting a business and then taking steps to mitigate those risks. This involves identifying potential risks and then developing strategies to minimize their impact. For example, entrepreneurs could consider the financial implications of their venture and ensure that they have sufficient capital to cover all costs. They should also consider the potential for competition from other businesses in the same industry and take steps to differentiate themselves from the competition.

Risk management also involves developing contingency plans in case things don't go as expected. This involves creating backup plans for unexpected events such as changes in customer preferences or economic downturns. It is important to review these plans regularly and adjust them as necessary. By doing so, entrepreneurs can reduce the chances of their business failing due to unforeseen circumstances.

In addition to risk management, entrepreneurs should also focus on developing a sound business plan. A good business plan will include detailed information about the products or services offered, a budget, a marketing plan, and a timeline for achieving goals. It should also include a strategy for managing risk. When creating a business plan, entrepreneurs should consider potential risks and make sure that they are factored into the plan.

Entrepreneurs should ensure that they have access to sufficient resources to support their venture. This includes capital, personnel, technology, and materials. It is important that entrepreneurs understand their limitations and ensure that they have enough resources to meet their goals.

Risk management is essential for reducing the risk of failure when starting a business. By taking steps to identify potential risks, develop strategies to mitigate them, create contingency plans and access sufficient resources, entrepreneurs can increase their chances of success. Entrepreneurs should also ensure that they have a sound business plan with strategies for managing risk built into it. By following these steps, entrepreneurs can reduce the likelihood of their business failing before it even gets off the ground.

To reduce the risk of business failure, you should take the time to prepare for success. The first step in reducing the risk of business failure is to create a business plan as earlier mentioned above. The next step is to ensure you have enough capital to start your business. This means having enough money to cover all of your startup costs, such as purchasing equipment, renting office space, hiring employees, and paying legal fees. It's also important to make sure you have enough working capital to cover your expenses until your business starts making a profit.

Apply the right structure to your business when it's formed, then you could face potential risks further down the line. The company structure determines how the business will be run and this can inform a number of agreements you might need, such as founders' agreements, articles of association and shareholders' agreements.

Next important is to research the industry you're entering and find out what kind of competition you'll face. Knowing who your competitors are and what they offer can help you determine how to differentiate your own services and products from theirs. You should also research any regulations or laws that may affect your business and make sure you comply with them. Have a plan in place to find customers, marketing your services or products, and managing operations. Make sure you have systems in place for tracking sales, customer service, inventory management, accounting etc. Protect your Intellectual property and be careful who you share sensitive information about your business with. Then note that contracts help you to limit the liability your company could face with clear terms and conditions between you and suppliers as well as clients and employees. Hence, having the right contracts in place can help you reduce the risk and potential damage caused.

Finally, set aside some time for yourself to take care of yourself to stay focused and motivated. Take breaks when needed, get enough sleep, exercise regularly, and socialize with friends and family - will help keep you motivated during the tough times. All the above can help reduce the risk of business failure and increase your chances of success.

Creating a list of risks is a good starting point, but it isn't enough. You also need an action plan per risk to be able to manage them effectively. There are 5 main ways to manage risk: acceptance, avoidance, transference, mitigation or exploitation, and the way you react to each depends on your calculation.

While risk is crucial to entrepreneurship, the reality is that it's not just taking huge leaps without considering the options that makes businesses work. Calculated risks are what make businesses succeed. The big difference between just taking a risk, and taking a calculated risk is the consideration that goes into it. Risk-takers don't think about the escape route, the factors that make it risky, and what the situation will be if they fail. Entrepreneurs take calculated risks; they're willing to "go big or go home" but they understand the consequences if they fail and have considered the likelihood that they'll succeed.

Risk is unavoidable. However, with careful planning, an entrepreneur can minimise the amount of risk they face by carrying out market research to find out what customers want, writing a business plan to identify potential problems, and ensuring that there is sufficient money available.

13.9 SUMMARY

The widespread notion that owing a business is an easy and profitable way to earn a living has caused many persons to go into business for themselves. But no matter what their aspirations may be, too many persons plunge into business without first making a careful review of the prevailing conditions and requirements. This is one of the causes of business failure.

What does business survival mean? Surviving in business means you are able to meet all of your obligations and most likely turn a profit but are not doing anything to set your business up for long-term success.

For a business to survive there must be proper planning, availability of adequate capital, knowing the market, adequate control, monitoring changes, among others. Other causes of business failure are financial problems, cash-flow problem, inadequate protection, growing too fast, managerial problems, technological problems, poor infrastructural facilities, unfavorable government policies and wrong choice of business.

Business failure is when a company is unable to meet its financial obligations and is forced to shut down or suspend operations this is referred to as a business failure. When a company is unable to generate a profit, this might lead to the company's failure.

Businesses don't fail without symptoms. The symptoms of business failure include deterioration of working capital, high debt ratio, declining sales, declining capacity utilization, and low quality of products.

The following are some of the suggested strategies management may adopt to combat the challenges facing business enterprises in Nigeria; Government intervention, acquisition of sound financial knowledge by management, careful analysis of the market, acquisition of management skill, adjusting appropriately to changes in the business environment, and avoidance of overtrading.

Failure is a part of life, and that includes business failures. Therefore, seeing your plans develop may reinforce your feelings of accomplishment, making you more confident and secure in your future strategies and helping your business on the road to success. But how we deal with failure determines whether or not it ultimately leads to success. Hence, planning against business is crucial for business success in the medium to long-term.

Risk management is essential for reducing the risk of failure when starting a business. By taking steps to identify potential risks, develop strategies to mitigate them, create contingency plans and access sufficient resources, entrepreneurs can increase their chances of success. Entrepreneurs should also ensure that they have a sound business plan with strategies for managing risk built into it.

13.10 REVIEW QUESTIONS

A) THEORY QUESTIONS

1. What do you understand by Business Survival? Mention and explain the requirements for business survival.
2. The causes of business failure can be grouped into two. Discuss fully with appropriate diagram.
3. What is Business Failure? Mention the causes of business failures in Nigeria.
4. What are the symptoms of business failure in Nigeria?
5. Statistics has it that 4 out of every 5 businesses in Nigeria fail within the first 3 years of operation. Discuss the three potential types of business failures you know.

6. What are some of the strategies that management may adopt to combat the challenges facing business enterprises in Nigeria?
7. Planning against failure is crucial for businesses. Explain at least 5 different ways leaders can plan and work on overcoming business failure in Nigeria.
8. Share some of the indicators and symptoms of business failure in Nigeria that you know.
9. Business activity can expose an entrepreneur to different types of risk. Mention all the risks and explain 3 of them.
10. Businesses fail due to lack of Risk Management. Discuss.

B). MUTLIPLE CHOICE QUESTIONS

1. The major objectives of any viable business are to create __________, make _______, create employment opportunities, grow, and ___________
   a) customers
   b) profit
   c) survive
   d) All of the above

2. When a company is unable to meet its financial obligations and is forced to shut down or suspend operations is referred to as a ___________________.
   a) Business failure
   b) Business striving
   c) Business survival
   d) All of the above

3. When a company is unable to generate a profit, this might lead to the company's ______________.
   a) hiccups
   b) failure
   c) survival
   d) Jackboot

4. Business failure refers to a company ceasing _____________ following its inability to make a __________ or to bring in enough revenue to cover its expenses.
   a) Operations, profit
   b) Activities, great margins
   c) Operations, margins
   d) None of the above

5. A profitable business can fail if it does not generate adequate ____________ to meet expenses.
   a) Cash flow
   b) Liquidity
   c) Money
   d) All of the above

6. Common causes why businesses close their doors include the following:
   I. financial problems, inadequate protection,
   II. growing too fast, managerial problems,
   III. technological problems, wrong choice of business,
   IV. poor infrastructure, reactive attitudes.
      a) I & II only
      b) II & III only
      c) III & IV only
      d) All of the above

7. For a business to survive there must be proper ____________, availability of adequate ___________, knowing the market, adequate control, monitoring changes, among others.
   a) Planning
   b) Capital
   c) Profit
   d) (a) & (b) only

8. Risk management is the procedure of using ___________ methods and _______ for controlling these risks. (Goel, 2022).
   a) Activity, tools
   b) Risky, materials
   c) Procedural, techniques
   d) Activity, materials

9. ____________________ is essential for reducing the risk of failure when starting a business.

   a) Case management
   b) Risk averse management
   c) Risk management
   d) None of the above

10. The causes of business failure can be grouped into ___________

   a) Two
   b) Three
   c) Four
   d) Five

13.11 REFERENCES:

Ayodele, A.S. and Stephen, O.O. (2009). Introduction to Business Management, Lagos: High Rise Associate ventures.

https://businessday.ng

Duffy, Nick. (2021). 'Igloo Energy Goes Bust With 179,000 Customers Moved To A New Supplier As Small Providers Continue To Struggle', inews UK, 2021, inews.co.uk.

Enikanselu, S.A. (2008). Introduction to Business, Lagos.:Enykon consult.

Goel, Sakshi. (2022). What Is Entrepreneurial Risk Management?https://www.tutorialspoint.com/what-is-entrepreneurial-risk-management/

https://www.bbc.co.uk/bitesize/guides/zjjtmfr/revision/1

Taylor, Mark. (2021). 'It's Really Difficult' - Friska Founder Gives Update As Bristol Cafes Remain Closed', Bristol Live, 2021, bristolpost.co.uk.

Wilson, Mark. (2011). 'Pioneering Design Consultancy Berg To Shut Down', Fast Company, 2011, fastcompany.com.

CHAPTER FOURTEEN
ETHICAL ISSUES IN BUSINESS ADMINISTRATION

14.1 LEARNING OBJECTIVES:

At the end of this chapter, students/readers should be able to:

i. Describe the nature of ethics in business generally,
ii. Clarify and define the key concepts or terms of ethics in business,
iii. Know the major reasons why some business managers behave unethically,
iv. Explain basic approaches to ethical decision making,
v. Understand how differing approaches might work,
vi. Know the mechanism for managing ethics in business,
vii. Understand moral in business,
viii. Understand integrity in business, and
ix. Know the ethical behaviours.
x. Explain the relevance of corporate governance, procedures, compliance sanctions etc.; and
xi. Analyse the concept of social audit and its relevance to ethical issues in business administration.

14.2 INTRODUCTION

This chapter focuses on the ethical issues that arise when companies do business both locally and in different nations. Many of these ethical issues arise because of the differences in economic development, politics, legal systems, and culture of these nations.

Basically, the term **ethics** refers to accepted principles of right or wrong that govern the conduct of a person, the members of a profession, or the actions of an organisation. It is clearly unethical to give bribes to government officials in return for business, unfortunately, corruption is still widespread in much of the world.

Fundamentally, there is always temptation for managers, and some professional firms to adopt the "when in Rome" principle when dealing with corrupt regimes and to give kickbacks in return for business. As we shall see/argue in this chapter, however, such behaviour is clearly unethical because it corrupts both the bribe giver and the taker. If disclosed, bribery can seriously damage the reputation of the company giving the bribe and end the career of the participating managers/professional firms.

To limit such behaviour, many companies are now adopting zero-tolerance policy toward ethical violations and are pushing hard to educate their employees about the importance of behaving in an ethical manner.

Definition of Key Terms of Ethics in Business Administration

(a) **Ethics** are principles that explain what is right or wrong, good or bad and what is appropriate or inappropriate in various settings. The ideas make it possible to prescribe a code of behaviour for both work and one's personal life. It is also an individual's personal beliefs regarding what is right and wrong or good and bad.

Ethics are the moral principles and values that govern the way an individual or a group conducts its activities. Ethics apply to all situations in which there can be actual or potential harm of any kind (e.g., economic, physical, or mental) to an individual or a group (Churchill, Brown, and Suter, 2010).

Ethics is also defined as the discipline dealing with what is good and bad and with moral duty and obligation.

Ethics can also be defined as the study of how our decisions affect other people. It is also the study of people's rights and duties, the moral rules that people apply in making decisions and the nature of the relationships among people.

(b) **Personal Ethics** – is referred to the rules by which an individual lives his or her personal life.

(c) **Ethical Behaviour** – is referred to that behaviour that conforms to generally accepted social norms.

(d) **Unethical Behaviour** – is the behaviour that does not conform to generally accepted social norms.

(e) **Business Ethics** – are standards or guidelines for the conduct and decision making of employees and managers. Without a code of ethics, there is usually no consensus regarding ethical principles.

Business Ethics – is also concerned with truth and justice and has a variety of aspects such as the expectations of society, fair competition, advertising, public relations, social responsibilities, consumer autonomy, and corporate behaviour in the home country as well as abroad.

(f) **Management Ethics** – are standards of behaviour that guide individual managers in their work. Ethics do affect managerial work in a number of ways.

(g) **Ethical strategy** – is a strategy or course of action that does not violate accepted ethical principles.

(h) **Values** – are relatively permanent desires that seem to be good in themselves. Examples of value is peace or goodwill.

(i) **Rights** – are claims that entitle a person to take a particular action.

(j) **Duties** – are obligations to take specific steps or obey the law in other respects, e.g. to pay taxes.

(k) **Moral Rules** – are guidelines that can resolve disagreements among competing interests in different situations.

(l) **Common Morality** – is the body of moral rules governing ordinary ethical problems. These are (also) the rules that we live by most of the time. Some of the basic principles of common morality are:

i. promise keeping,
ii. non-violence,
iii. mutual aid,
iv. respect for person,
v. respect for property, etc.

(m) **Profession** - is a type of job that needs special training or skill, especially one that needs a high level of education.

(n) **Ethical Dilemma** - is a situation in which none of the available alternatives to a decision maker seems ethically acceptable.

14.3 WHY SOME MANAGERS BEHAVE UNETHICALLY

The following are the major causes of such unethical behaviour:

(a) Personal ethics,

(b) Decision – making processes,

(c) Organisation culture,

(d) Unrealistic performance expectations, and

(e) Leadership.

(a) **Personal Ethics** – Business ethics are not divorced from personal ethics, which are the generally accepted principles of right and wrong governing the conduct of individuals, As individuals, we are typically taught that it is wrong to lie and cheat – it is unethical – and that it is right to behave with integrity and honour and to stand up for what we believe to be right and true. This is generally true across societies.

The personal ethical code that guides our behaviour comes from a number of sources; these include:

i. our parents,
ii. our schools,
iii. our religion, and
iv. the media.

Our personal ethical code exerts a profound influence on the way we behave as business-people. An individual with a strong sense of personal ethics is less likely to behave in an unethical manner in a business setting. It follows that the first step to establishing a strong sense of business ethics is for a society to emphasize strong personal ethics.

(b) **Decision – making processes** – Several studies of unethical behaviour in a business setting have concluded that businesspeople sometimes do not realise that they are behaving unethically, primarily because they simply fail to ask, Is these decisions or action ethical? (Messick and Bazerman, 1996).

(c) **Organisation Culture –** The climate in some businesses does not encourage people to think through the ethical consequences of business decisions. This brings us to the third cause of unethical behaviour in business, that is, organisational culture that de-emphasizes business ethics; reducing all decisions to the purely economic.

The term **organisation culture** refers to the values and norms shared among employees of an organisation. **Values** are abstract ideas about what a group believes to be good, right, and desirable, and **norms** are the social rules and guidelines that prescribe appropriate behaviour in particular situations.

Just as societies have cultures, so do business organisations. Put together, values and norms shape the culture of a business organisation, and that culture has an important influence on the ethics of business decision making.

(d) **Unrealistic Performance Expectations** – This is the fourth cause of unethical behaviour in a business setting. Here, pressure from the parent company to meet unrealistic performance goals that managers can attain only by cutting corners or acting in an unethical manner is the major issue under unrealistic performance expectations.

(e) **Leadership** – Is the fifth root cause of unethical behaviour in a business setting. Leaders help to establish the culture of an organisation, and they set the example that others follow. Other employees in a business often take their cue from business leaders, and if those leaders do not behave in an ethical manner, they might not either. It is not what leaders say that matters, but what they do.

14.4 FIVE BASIC APPROACHES TO ETHICAL DECISION-MAKING

According to the Markkula Center for Applied Ethics, there are five basic approaches to ethical decision making. They are exhaustively discussed below:

#1. The Rights Approach

An important approach to ethics has its roots in the philosophy of the 18th-century thinker, Immanuel Kant, and others like him, who focused on the individual's right to choose for herself or himself. According to these philosophers, what makes human beings different from mere things is that people have dignity based on their ability to choose freely what they will do with their lives, and they have a fundamental moral right to have these choices respected. People are not objects to be manipulated; it is a violation of human dignity to use people in ways they do not freely choose. Of course, many different, but related, rights are thought to exist — besides this basic one.

These other rights can be thought of as different aspects of the basic right to be treated as we choose. Some other rights might include such things as rights to the truth, privacy rights, a right not to be injured, and a right to what is agreed (i.e., we have a right to what has been promised by those with whom we have freely entered into a contract or agreement).

In deciding whether an action is moral or immoral using this approach, then, we must ask, Does the action respect the moral rights of everyone? Actions are wrong to the extent that they violate the rights of individuals, the more serious the violation, the more wrongful the action.

i. Identifies certain interests or activities that our behavior must respect, especially those areas of our lives that are of such value to us that they merit protection from others.
ii. Each person has a fundamental right to be respected and treated as a free and equal rational person capable of making his or her own decisions.
iii. This implies other rights (e.g., privacy free consent, freedom of conscience, etc.) that must be protected if a person is to have the freedom to direct his or her own life.
iv. Keep in mind that is often difficult to agree on exactly which rights we have.
v. The principle states: "An action or policy is morally right only if those persons affected by the decision are not used merely as instruments for advancing some goal but are fully informed and treated only as they have freely and knowingly consented to be treated."

#2. The Utilitarian Approach

Utilitarianism was conceived in the 19th century by Jeremy Bentham and John Stuart Mill to help legislators determine which laws were morally best. Both Bentham and Mill suggested that ethical actions are those that provide the greatest balance of good over evil.

To analyze an issue using the utilitarian approach, we first identify the various courses of action available to us. Second, we ask who will be affected by each action and what benefits or harms will be derived from each. And third, we choose the action that will produce the greatest benefits and the least harm. The ethical action is the one that provides the greatest good for the greatest number.

i. Focuses on the consequences that actions or policies have on the well-being ("utility") of all persons reasonably foreseen to be directly or indirectly (but rather immediately) affected by the action or policy.
ii. Keep in mind, that different people often identify benefits and harms differently.
iii. The principle states: "Of any two actions, the most ethical one will produce the greatest balance of benefits over harms."

#3. The Virtue Approach

The virtue approach to ethics assumes that there are certain ideals toward which we should strive. These ideals provide for the full development of our humanity and are discovered through thoughtful reflection on what kind of people we have the potential to become.

Virtues are attitudes or character traits that enable us to be and to act in ways that develop our highest potential. They enable us to pursue the ideals we have adopted. Honesty, courage, compassion, generosity, fidelity, integrity, fairness, self-control, and prudence are examples of virtues frequently cited throughout the world.

Virtues are like habits; that is, once acquired, they become characteristic of a person. Moreover, a person who has developed virtues will be naturally disposed to act in ways consistent with moral principles. The virtuous person is the ethical person.

In dealing with an ethical problem using the virtue approach, we might ask, what kind of person should I be? What will promote the development of character within myself? within my community? Etc.

i. Focuses on attitudes, dispositions, or character traits that enable us to be and to act in ways that develop our human potential.
ii. Examples might be: honesty, courage, faithfulness, trustworthiness, integrity, etc.
iii. Keep in mind, different communities may identify differing virtues.
iv. The principle states: "What is ethical is what develops moral virtues in ourselves and our communities."

#4. The Fairness (or Justice) Approach

The fairness or justice approach to ethics has its roots in the teachings of the ancient Greek philosopher Aristotle, who said that "equals should be treated equally and unequals unequally." The basic moral question in this approach is: How fair is an action? Does it treat everyone in the same way, or does it show favoritism and discrimination?

Favoritism gives benefits to some people without a justifiable reason for singling them out; discrimination imposes burdens on people who are no different from those on whom burdens are not imposed. Both favoritism and discrimination are unjust and wrong.

i. Focuses on how fairly or unfairly our actions distribute benefits and burdens among the members of a group.
ii. Fairness requires consistency in the way people are treated.

iii. The principle states: "Treat people the same unless there are morally relevant differences between them."

#5. The Common Good Approach

This approach to ethics assumes a society comprising individuals whose own good is inextricably linked to the good of the community. Community members are bound by the pursuit of common values and goals.

The common good is a notion that originated more than 2,000 years ago in the writings of Plato, Aristotle, and Cicero. More recently, contemporary ethicist John Rawls defined the common good as "certain general conditions that are...equally to everyone's advantage."

In this approach, we focus on ensuring that the social policies, social systems, institutions, and environments on which we depend are beneficial to all. Examples of goods common to all include affordable health care, effective public safety, peace among nations, a just legal system, and an unpolluted environment.

Appeals to the common good urge us to view ourselves as members of the same community, reflecting on broad questions concerning the kind of society we want to become and how we are to achieve that society. While respecting and valuing the freedom of individuals to pursue their own goals, the common-good approach challenges us also to recognize and further those goals we share in common.

i. Presents a vision of society as a community whose members are joined in a shared pursuit of values and goals they hold in common.
ii. The community is comprised of individuals whose own good is inextricably bound to the good of the whole.
iii. The principle states: "What is ethical is what advances the common good."

Five Corresponding Questions to Consider

1. **Which of the available options treats people with more dignity and respect?**
   All human beings should be treated with dignity simply because they are human.
   People have moral rights, especially the fundamental right to be treated as free and equal human beings, not as things to be manipulated, controlled, or cast away. Ask things like, how do our actions respect the moral rights and the dignified treatment to which every person is entitled?

2. **Does any one of the available options do more good than harm?**
Or can we at least try to do more good than harm with our choice? Consider the short term and long-term consequences of your actions.

3. **Which of the available options develops virtues most effectively?**
In *The Book of Virtues*, William Bennett notes that virtues are "habits of the heart" we learn through models—the loving parent or aunt, the demanding teacher, the respectful manager, the honest shopkeeper. They are the best parts of ourselves.
Consider such questions as, does any option cross a line that gives up one of those parts? Or which option, at least somewhat, best demonstrates integrity, trustworthiness, honesty, compassion, or any of the other virtues we honor?

4. **Is any one of the available options more fair and just?**
Are we treating each party the same unless there is some relevant moral reason to treat one differently? Justice requires that we be fair in the way we distribute benefits and burdens. What parties does the option benefit, and which does it burden?

5. **Does any one of the available options make our community better as a result?**
Consider your primary community; however, it is reasonable to define it. Now ask something like, Can we get beyond our own interests to make that community stronger? Are we able to draw on our community's strengths to help in our own process of becoming a better business?

14.5 MECHANISMS FOR MANAGING ETHICS IN BUSINESS GENERALLY

Managers can demonstrate their commitment by instituting a variety of the mechanisms discussed below and by setting positive examples through their own behaviours. These mechanisms are as follows:

(a) **A Code of Ethics** – is a document prepared for the purpose of guiding organisation members when they encounter an ethical dilemma.

Furthermore, a code of ethics is a formal statement of ethics and values that is designed to guide employee conduct in a variety of business situations. It is particularly useful for giving employees ways to deal with:

i. conflicts of interest,
ii. gifts giving and receiving,
iii. communicating with competitors,

iv. making political contributions, etc.

(b) **Corporate Credos** – is a formal statement focusing on principles and beliefs, indicating the company's responsibility to its stakeholders (e.g, shareholders, suppliers, employees, customers, governments, public at large, etc).

(c) **Ethical Policy Statements** – sometimes, a credos is not specific enough for a large company that faces complex ethical challenges in many different markets and cultures. In such situations, more concrete guidelines on ethical conduct are needed.

Essentially, ethical policy statements provide specific formulas for employee conduct. Such statements answer questions such as:

i. whether a salesperson may offer a gift to a good customer,
ii. how much technical information can be shared with a competitor,
iii. whether an executive may purchase company stock in advance of a proposed merger, and
iv. whether the company can award a franchise to a relative of an employee, etc.

(d) **Ethics Committee** – is a group charged with helping to establish policies and resolve major questions involving ethical issues confronting organisation members in the course of their work. Also, such committee may oversee training programmes on ethics. Often, the committee consists of several individuals from top management and/or the board of directors.

(e) **Ethics Audits** – are systematic efforts aimed at assessing conformance to organisational ethical policies, aid understanding of those policies, and identify serious breaches requiring remedial action. However, even with such efforts, ethical problems can be difficult to identify.

(f) **Ethics Hot Line** – is a special telephone line established to enable employees to bypass the normal chain of command in reporting grievances and serious ethical problems. This line is usually handled by an executive designated to investigate and help resolve issues that are reported.

A hot line facilitates the internal handling of problems and thus reduces the likelihood that employees will become external whistle-blowers.

(g) **Whistle-blower** – is an employee who reports a real or perceived wrongdoing under the control of his/her employer to those who may be able to take appropriate action. When a whistle-blower goes to an outside person or organisation, unfavourable publicity, legal investigations, and lawsuits often result (Near and Miceli, 1995).

Furthermore, a whistle-blower policy is a method by which employees who disclose their employer's illegal, immoral, or illegitimate practices can be protected. Companies with whistle-blower policies rely on whistleblowers to report unethical activities to the ethics officer or committee, which will then gather facts and investigate the situation in a fair and impartial manner.

Thus, whistleblower policies protect individuals from retaliation or harassment by the reported executives or co-workers.

(h) **Ethics Training** – this gives employees and managers the opportunity to actually handle the ethical dilemmas they are likely to face or experience in the course of their daily activities in the company.

Many companies use ethics training to encourage ethical behaviour. Such training may focus exclusively on ethical concerns or may be integrated into training programmes that cover a variety of organisational issues. By clarifying expectations and ethical standards, such training can help reduce unethical behaviour. Also, an enhanced understanding of organisational standards can help managers and other employees engage in appropriate decisions making (Mitchell, Daniels, Hopper, George-Falvy, and Ferris, 1996).

(i) **Ethical Structures** – is the procedures and the division or department within a company that advocates and promotes ethical behaviour. Ethical guidelines are one component of an ethical structure. The other is the division or department that is assigned the responsibility to oversee those guidelines. These two elements must be carefully coordinated.

In addition, one type of ethical structure uses an ethics officer with a title like "director of ethics compliance". This individual deals with potential ethical violations and advises decision-makers regarding ways to comply with the company's code of ethics.

Another ethical structure approach is to have senior-level managers from different functions and units serve on an ethics committee that provides ethical oversight and policy guidance for management decisions.

14.6 MORAL

Moral rules are rigid. The Ten Commandments of the Bible's Old Testament, for example, include unambiguous prohibitions, such as, "Thou shalt not kill." Similarly, Kant's categorical imperative is absolute: "Act *only* in accordance with that maxim through which you can at the same time will that it become a universal law" (Kant, 1785/2002; emphasis added).

In practice, however, people often struggle to determine what is right or wrong. Consider a doctor treating a terminally ill patient who is suffering from unrelenting pain. She may struggle to decide whether the right course of action is to honor the Hippocratic oath (not to mention laws that explicitly forbid euthanasia in most states) or honor the patient's request to provide drugs he can use to end his life, especially if the doctor believes that she would make the same request if she were in the patient's position. She therefore faces a dilemma because multiple moral principles produce conflicting mandates.

Decisions that involve tension between moral principles can generate cognitive conflict within a person and ignite disagreement between people.

Ultimately, small variations in context across situations can tip the balance between competing moral forces and lead to principle inconsistent decisions.

Moral flexibility, a term that we use that people are strongly motivated to adhere to and affirm their moral beliefs in their judgments and choices – they really want to get it right, they really want to do the right thing – but context strongly influences which moral beliefs are brought to bear in a given situation (Bartels, 2008).

In what follows, we review contemporary research on moral judgment and decision making and suggest ways that the major themes in the literature relate to the notion of moral flexibility. First, we take a step back and explain what makes moral judgment and decision making unique. We then review three major research themes:

(a) morally prohibited value trade-offs in decision making,
(b) rules, reason, and emotion in trade-offs, and
(c) judgments of moral blame and punishment.

#1. Identifying the Moral Domain

The urge to define is a commendable scientific impulse. Unfortunately, and despite countless attempts, no universally accepted definition of the moral domain has been offered so far. Rather than toss more fuel onto this bonfire of dispute, we instead gesture at some prototypical features of the moral domain shared by many approaches.

Psychological questions about morality are especially likely to address "judgments of justice, rights, and welfare pertaining to how people ought to treat each other" (Turiel, 1983). Moral judgments often concern courses of action that entail some harm, especially loss of life or other physical harm, loss of rightful property, loss of privacy, or other threats to autonomy. Moral judgments also tend to be triggered by actions that affect not only the actor but others as well. People can distinguish doing something that is unwise from doing something that is morally abhorrent, and the assessment that something, if morally relevant, has particular features.

The psychology of moral reasoning

Is it morally wrong to take a paper-clip from your office?
Is it morally wrong to steal money from your co-worker?
Is it morally wrong to stab your employer?

Psychological theories of moral reasoning

Psychologists have proposed various theories of moral reasoning, including those based on Piaget's "genetic epistemology" (see, e.g., Piaget, 1965/1932; Kohlberg, 1984). However, three current theories have been a source of ideas for us, and so in this section we outline their principal tenets.

The first theory is due to Haidt (2001, 2007; see also Blair, 1995). Haidt proposes a "social-intuitionist" theory in which moral evaluations come from immediate intuitions and emotions in a process more akin to perception than reasoning. This view goes back to the Eighteenth-century philosopher Hume (1978/1739), who wrote in his *Treatise of Human Nature*:

i. "Morals excite passions and produce or prevent actions.
ii. Reason of itself is utterly impotent in this particular.

The rules of morality, therefore, are not conclusions of our reason. . .. 'This in vain to pretend, that morality is discovered only by a deduction of reason." By passions, Hume meant love, happiness, and other emotions.

Haidt takes a similar view, because the social component of his theory postulates that conscious reasoning about moral issues comes only after intuitions about them, and that its role is solely to influence the intuitions of others.

He takes moral intuitions to be "the sudden appearance in consciousness of a moral judgment, including an affective valence (good-bad, like-dislike), without any conscious awareness of having gone through steps of searching, weighing evidence, or inferring a conclusion" (Haidt, 2001).

Blair (1995) had proposed that it is the aversive feeling to transgressions – a feeling lacking on the part of psychopaths — that leads to the evaluation of transgressions as morally wrong. So, for Haidt (2001), "moral intuitions (including moral emotions) come first and directly cause moral judgments." This account is of what happens "most of the time with most people": philosophers and others may be exceptions and use prior conscious reasoning to evaluate issues in which they have no stake (Haidt, personal communication).

Haidt frames his theory as in opposition to Rationalism; and in the Eighteenth century, Hume's Empiricism was opposed by Rationalists, and in particular by Kant (1959/1785), who argued that a person's autonomy and self-governing rationality, not passion, was at the heart of morality. What makes individuals good is precisely that the moral law guides their decisions. Moral considerations are decisive, and, unlike other considerations, they are categorical, i.e., never to be qualified by circumstances.

Hence, Kant's view of moral reasoning takes into account what, for him, is this unique characteristic of moral propositions. His categorical imperative asserts that individuals should act only in accordance with a maxim that they can at the same time will to be a universal law. This principle, as many modern philosophers agree, provides a four-step procedure for moral decisions.

First, you formulate a maxim capturing your reason for an action;
second, you frame it as a universal principle for all rational agents;
third, you assess whether a world based on this universal principle is conceivable; and,
fourth, if it is, you ask yourself whether you would want the maxim to be a principle in this world.

If you would, then your action is morally permissible (see, e.g., Hill, 1992). Suicide, for example, fails the third step, and so it is immoral.

Lying for your own advantage fails at the fourth step, because a world in which everyone lived by the corresponding maxim is not one that you would intend. As these examples illustrate, the procedure for determining what is, and isn't permissible, depends on conscious reasoning about moral propositions.

The Rationalist tradition continues in modern thought, notably in Chomsky's accounts of natural language, and in his view that there is an innate universal grammar specifying all humanly possible languages (Chomsky, e.g., 1995). It contains a finite number of principles, and the settings of their parameters specify a finite but large number of different languages. The second main theory of moral reasoning likewise postulates an innate *moral* grammar (Hauser, 2006). The grammar is universal and equipped with a suite of principles and parameters for building moral systems.

The principles are abstract, lacking specific content. Hauser writes (2006): "Every newborn child could build a finite but large number of moral systems. When a child builds a particular moral system, it is because the local culture has set the parameters in a particular way. If you are born in Pakistan, your parameters are set in such a way that killing women who cheat on their husbands is not only permissible but obligatory, and the responsibility of family members." But, once the parameters are set, culture has little impact, and so it is no easier to acquire a second morality than a second language.

The resulting grammar automatically and unconsciously generates judgments of right and wrong for an infinite variety of acts and inactions. The judgments don't depend on conscious reasoning, and they don't depend on emotions, which couldn't make moral judgments. Instead, moral judgments trigger emotions, which are "downstream, pieces of psychology triggered by an unconscious moral judgment" (Hauser, 2006).

In other words, emotions come after unconscious moral judgments. Mikhail (2007) defends the same view that a moral grammar yields rapid intuitive judgments with a high degree of certainty.

The theory is provocative, but not easy to test, because theorists have so far formulated only a few candidate rules for the grammar. But, Mikhail proposes two: the legal rule prohibiting intentional battery, and the legal rule of double effect, i.e., "an otherwise prohibited action, such as battery, that has both good and bad effects may be permissible if the prohibited act itself is not directly intended, the good but not the bad effects are directly intended, the good effects outweigh the bad effects, and no morally preferable alternative is available".

Some evidence for moral grammars is that subtle differences in the framing of dilemmas can lead to different evaluations. Mikhail, for example, cites the contrast between these two versions of the well-known "trolley" dilemma:

1. A runaway trolley is about to run over and kill five people, but a bystander can throw a switch that will turn the trolley onto a sidetrack, where it will kill only one person. Is it permissible to throw the switch?
2. A runaway trolley is about to run over and kill five people, but a bystander who is standing on a footbridge can shove a man in front of the train, saving the five people but killing the man. Is it permissible to shove the man?

In one study, 90% of participants responded "yes" to dilemma 1, but only 10% responded "yes" to dilemma 2. The distinction between the two dilemmas, according to Mikhail, is between battery as a side effect;

(1) as in the law of double effect, and battery as a means

(2) which is prohibited.

An alternative explanation is that what matters is whether an action directly causes harm as in the second case, or only indirectly causes harm as in the first case (Royzman & Baron, 2002); and there are still other possibilities such as the nature of the intervention in the causal sequence (Waldmann & Dieterich, 2007).

Individuals who make these judgments can explain the basis of them in some cases, but they do not always allude to underlying principles (Cushman, Young, & Hauser, 2006), and so moral grammarians postulate that these intuitions reflect principles built into the moral grammar.

The third theory of moral reasoning is due to Greene and his colleagues (see, e.g., Greene, et al., 2001). It amalgamates the Humean and Kantian traditions in a "dual process" account that posits two distinct ways in which individuals make moral evaluations. As Greene et al. remark (p. 2106): "Some moral dilemmas . . . engage emotional processing to a greater extent than others, and these differences in emotional engagement affect people's judgments".

On Greene's account, the emotional reaction is to actions that are "up close and personal," and it is automatic. The idea of pushing a man in front of the trolley elicits an unpleasant emotion, and so individuals tend to evaluate the action as impermissible. In contrast, impersonal actions, such as the first version of the dilemma, elicit a reasoned response, and so it is permissible to throw the switch to divert the trolley, because it saves more lives. Reasoned responses, Greene proposes, are Utilitarian, that is, they are based on the doctrine that actions should yield the greatest good (or utility) to society.

Greene et al. (2001) reported on study of dilemmas that showed distinct brain mechanisms underlying the two sorts of reaction: personal dilemmas activated the limbic system that mediates basic emotions; impersonal dilemmas activated frontal regions underlying working memory and cognitive control. These investigators also reported that those who do decide that it is permissible to push the person in front of the trolley take longer to reach the decision, perhaps because they experience an emotion first, and reason afterwards.

However, when Moore, Clark, and Kane (2008) eliminated some confounds in the experimental materials, they failed to replicate this result. They observed that a measure of the processing capacity of working memory predicted judgments of permissibility in personal dilemmas for which harm was inevitable.

14.7 INTEGRITY

Integrity is one of the most important and oft-cited of virtue terms. The concept of integrity has to do with perceived consistency of actions, values, methods, measures, principles, expectations and outcome. When used as a virtue term, "integrity" refers to a quality of a person's character. Some people see integrity as the quality of having a sense of honesty and truthfulness in regard to the motivations for one's actions. Persons of integrity do not just act consistently with their endorsements, they stand for something: they stand up for their best judgement within a community of people trying to discover what in life is worth doing.

Some commentators stress the idea of integrity as personal honesty: acting according to one's beliefs and values at all times. Speaking about integrity can emphasize the "wholeness" or "intactness" of a moral stance or attitude. Some of the wholeness may also emphasize commitment and authenticity.

In the context of accountability, integrity serves as a measure of willingness to adjust value system to maintain or improve its consistency when an expected result appears incongruent with observed outcome. Some regard integrity as a virtue in that they see accountability and moral responsibility as necessary tools for maintaining such consistency.

Halfon (1989) offers a different way of defining integrity in terms of moral purpose. Halfon describes integrity in terms of a person's dedication to the pursuit of a moral life and their intellectual responsibility in seeking to understand the demands of such life. He writes that persons of integrity:

> *"……… embrace a moral point of view that urges them to be conceptually clear, logically consistent, appraised of relevant empirical evidence, and careful about acknowledging as well as weighing relevant moral considerations. Persons of integrity impose these restrictions on themselves since they are concerned, not simply with taking any moral position, but with pursuing a commitment to do what is best".*

As Carter (1906) has stated, integrity requires three steps:

i. Discerning what is right and what is wrong;
ii. Acting on what you have discerned, even at personal cost; and
iii. Saying openly that you are acting on your understanding of right from wrong.

The Word Integrity

There are two meanings of the word *integrity* which concern us. The older was used by Sir Thomas in 1633, when he used the word to signify *wholeness* or *completeness.* The other meaning is nearly as old, and is that of *soundness of moral principle* and, specifically, uprightness, honesty, or sincerity. However, the most common meaning of the word today seems to be the one emphasising moral principle.

The two meanings of the word *integrity* interact and shed light each on the other. In fact, let's go further and suggest that each of the two meanings of the word is essential for comprehending the deeper significance in the other. For, *integrity* has a broader connotation than denoting merely particular qualities such as honesty or sincerity, and this connotation derives from its suggestion of the idea that such qualities in a person derive from the wholeness or completeness of the person. To the extent that *integrity* means honesty, for example, it seems to mean it as a general state of the person, rather than as referring simply to a person who does not tell lies.

On the other hand, if we think of wholeness and completeness in a detached and purely descriptive way, as relating to a material object (say), then *integrity* may have little or no moral connotation, but as soon as we use it in relation to a person, it assumes a moral quality. In summary, if *integrity* is taken to mean honesty or sincerity, or some other such qualities in a person, we feel compelled immediately to consider that quality in relation to a larger whole, and to feel that those specific qualities derive from a larger and more all-embracing quality---the wholeness and completeness of the person.

Now, *integrity* may have a moral and ethical connotation not only in relation to persons. So, for example, if we turn to the concept of academic integrity in a university context, the issues that arise certainly include whether certain individuals are honest, or whether students cheat or plagiarise, but also there are broader issues, which include integrity in intellectual enquiry, integrity in teaching, and integrity in the way in which The University presents itself to the world.

Integrity in Inquiry and Knowledge

At both the student and staff level, intellectual enquiry is the fundamental task of The University. Here, the term *intellectual enquiry* is to be taken in a broad sense---it does not refer merely to research (although it certainly includes it), it refers also to all of that type of teaching which seeks to create an atmosphere of enquiry in student learning and in the minds of students. This is the type of learning which continues to be, ideally, a characteristic of universities.

Now the meaning of integrity as "moral" or "ethical" finds a place in a serious notion of intellectual enquiry, arising from the fact that the enquirer should be prepared to accept the results of the enquiry regardless of his or her own personal interest in the outcome, submitting himself or herself to a larger whole and a wider judgment. For, just as ethical behaviour may require us to override our personal convenience and submit ourselves to a wider ethical reality, so any aim to enquire or attain knowledge may require us to submit ourselves to a wider *intellectual* reality, and integrity in the ethical sense may arise by submitting ourselves to this reality.

This view requires one to hold that an enquiry and actual knowledge are something more than a purely personal preference or choice of convenience and it requires one to hold that knowledge and judgment may be more than mere manifestations of manipulation or power.

In other words, there is a "transcending state of affairs" which one should or may have to accept. Here, note that we use the word *transcending*, rather than *transcendent* because, for the purposes of this paper, we are trying to leave the notion as suggestive rather than precise (despite its importance, in philosophical terms). The view, common in postmodernism but present much earlier in Marxism, that ideas and knowledge, to the extent that they claim to be more than an individual or relativist preference, merely reflect the domination of those with less power by those with more, may end up questioning even the possibility of intellectual integrity, let alone the more specific moral and ethical aspects of enquiry. Such a negative conclusion is inevitable once political explanation is automatically elevated to a privileged position within the range of explanatory possibilities concerning the nature of enquiry and knowledge.

But as well, such a devaluing of the ethical aspects of intellectual enquiry is equally inevitable if we hold, even implicitly, that the value of knowledge or enquiry is determined by the demands of a market, whether that market is one of student demand for university courses, or a market determined by wider society in which the value of study may be correlated with the social prestige of a profession or of a highly paid position.

Writing in his work, *The Idea of a University* Newman (1873) pp.84-85 discussed concepts of education when he wrote:

> *You see then, there are two methods of Education; the end of the one is to be philosophical, of the other to be mechanical; the one rises towards general ideas, the other is exhausted upon what is particular and external......We are instructed, for instance, in manual exercises, in the fine and useful arts, in trades, and in ways of business; for these are methods, which have little or no effect on the mind itself, are committed to memory, to tradition, or to use, and bear upon an end external to themselves. But education is a higher word; it implies an action on our mental nature, and the formation of a character; it is something individual and permanent.*

Thus, Newman sees education, properly perceived, in a way that distinguishes it sharply from a conception of it as the mere transmission and acceptance of information, and from a conception of it of as merely the acquisition of technical skills for a job or profession. Here, let’s say that we don't think that the situation we face today means that Newman's ideas should be adopted uncritically---in our view, when Newman distinguishes between the “philosophical” and “mechanical” types of education, this distinction should be considered as one of degree as well as of kind. Even an education which might be considered as purely mechanical or technical can often be given a character of the philosophical and the moral, depending upon the circumstances and the will to do it on the part of the teacher and the student.

In fact, it is a challenge of university education today to find ways to imbue technical and vocational education with some of the characteristics that Newman had in mind when he wrote his words. The task of realizing integrity in education, enquiry and knowledge, as Newman puts it in this passage, is to ensure that “it implies an action on our mental nature, and the formation of a character”. When this occurs, the ethical potential of enquiry and knowledge becomes real, and that to a greater extent than Newman himself often allows, in my view. In this way universities have an opportunity to instill values and integrity through their primary functions, even in a secular environment not envisaged by Newman. Also, the task of instilling values remains one which seems to be recognized even today, when vocational education is even more a part of universities than it has been in the past.

Newman's view suggests that education and intellectual enquiry in their fullness are easier to realize when enquiry, and the pursuit of knowledge in general, are perceived as part of a whole, rather than as a technical pursuit, carried out for immediate goals which are not the subject of a wider reflection or scrutiny. On the aspect of regarding knowledge as a whole, he says Newman (1873) pp.85 and 99-100:

> *Not to know the relative disposition of things is the state of slaves or children.....That only is true enlargement of mind which is the power of viewing many things at once as one whole, of referring them severally to their true place in the universal system, of understanding their respective values, and determining their mutual dependence.....It makes everything in some sort lead to everything else; it would communicate the image of the whole to every separate portion, till that whole becomes in imagination like a spirit, everywhere pervading and penetrating its component parts, giving them one definite meaning.*

Integrity in knowledge is also related to a capacity to show this appreciation of the "relative disposition of things" and their relationships, regardless of what one personally might like or wish was the case.

Whereas Newman was considering the general and ideal nature of education and knowledge, the philosophers Herbert Spencer and Karl Popper were concerned with the growth of scientific knowledge and its different forms of development. Consider the following statement made in about 1891 by Herbert Spencer and quoted in Popper (1983), p.262:

> *The progress of science is duplex. It is at once from the special to the general and from the general to the special. It is analytical and synthetic at the same time.*

In his Herbert Spencer Lecture given in 1961, Popper compared the growth of knowledge with the growth of an evolutionary tree, having a common stem and growing ever more and varied branches. In referring to Spencer's comment above, he said this in Popper (1983) p.262:

“But if we are to compare these growing evolutionary trees with the structure of our growing knowledge, then we find that the growing tree of human knowledge has an utterly different structure....the growth of applied knowledge is very similar to the growth of tools and other instruments; there are always more and different and specialized applications. But pure knowledge (or “fundamental research” as it is sometimes called) grows in a very different way. It grows almost in the opposite direction to this increasing specialization...As Herbert Spencer noticed; it is largely dominated by a tendency towards increasing integration towards unified theories.”

Here, Popper is saying that the search for “pure knowledge” leads to integration and integrity conceived of as wholeness, whereas applied knowledge proceeds by ever greater specialisation, perhaps even by fragmentation. Just as Newman contrasts instruction and education, Popper draws, by an apparent coincidence, an analogous contrast between applied and pure knowledge---what instruction is to education, so is applied research to pure research, in this comparison between Newman and Popper.

But again, although Popper lies closer to us in time that Newman, I still don't think we should accept his ideas uncritically. In fact, I would venture to suggest that in knowledge, integrity is to be found neither in the particular in itself nor in the general in itself, not even in the “rise towards the general” as Newman puts it in the one place, but rather in the continuing interaction between the particular and the general, as he puts it differently in the other. For, if knowledge restricts itself to the mere listing or observation of particular cases or items of information, it becomes mechanical, and is open to Newman's objection to it as education. On the other hand, it is not possible intellectually to consider something that is purely general, because then one must ask: general in relation to what?

What is general only takes any intellectually substantive meaning when it is seen in relation to particulars. If integrity in knowledge and enquiry requires us to try and see things in their wholeness, then that means we should try and see things as a living and organic unity, rather than as a mechanism where all is determined by a technical knowledge of the individual parts, but where this knowledge is fragmented and where its fuller human significance has been lost. Equally, integrity requires us to be aware that what is whole or general almost certainly has come about from a consideration of particulars, and that it is the totality of these particulars that lends the full significance to what is whole or general. It is interesting to observe that both Newman and Popper, in their different ways, see knowledge ideally as having integrity conceived of as wholeness and totality.

The extent to which integrity and the ethical aspect of intellectual enquiry are realized depends on the state of mind of the individual and the effort which is put in by the individual to retain that awareness as work is carried out. If we accept that integrity in its fuller sense is to be realised by integrating disparate parts of experience into a whole, the question arises as to how and to what extent such wholeness is perceived. Our capacity is influenced by many things. But if we are ignorant and are unaware of the possibility of our ignorance, or if we are lacking in imagination, then ignorance and narrowness perpetuate themselves, and it is not possible for us to realize a concept of intellectual integrity for ourselves other than one which is stunted and technical---that is, one which is concerned only with the accuracy, applicability and immediate effects of results.

Integrity in Teaching and Learning

I have argued that teaching can be regarded as a form of enquiry---ideally it is a form of enquiry in which both students and teacher participate. So, if the ideas of integrity in inquiry and knowledge are as I have suggested, integrity in teaching will endeavour to promote this integrity of enquiry and knowledge. This requires a genuine commitment of the teacher to those ideals, for students are experts in detecting feigned or insincere attitudes. The single most important factor here, in my view, is respect for the student, and one way of concretely realizing this is by making learning and teaching a *mutual* task.

By making learning a mutual task, the student may come to develop an inner confidence and come to feel that he or she has something unique and individual to bring to that task. The teacher should try to enable the student to maintain a balance between inner confidence and a feeling of being challenged, with the aim, over time and as required, of making the student able to accept intellectual challenge and independence with confidence, even with resolution. If that happens, integrity becomes spontaneous, as barriers between teachers and students collapse, and students forget all else in an experience of learning involving the whole person.

However, in trying to achieve such moments, teachers face more difficulties than in the past, owing to changes in our wider culture and the influence these have had in universities. Universities are under enormous pressure to regard student learning in purely technical terms for, although they have no overall consistent view, governments see the primary function of universities, for the most part, as being to meet the technical needs of society, a society which is more complex and making itself ever more complex by means of its increasing range of technologies and the further activities which these technologies make possible. Changes in universities are driven by a need for more training to respond to the complexity of society, but this training tends to have a merely technical complexity, rather than an intellectual complexity having more potential for realising values of integrity.

In suggesting that integrity in teaching is to an extent an endeavour to create a unity and balance in the student's learning and knowledge, it is essential to bear in mind the great variety of intellectual cultures and circumstances amongst the different parts of The University. Some areas lend themselves to an approach encouraging unity of different aspects of knowledge, while others have lesser potential. In the humanities, a concern for the wider picture is often implicit, while this tends not so much to be the case in, say, mathematics or engineering. All we can do is respond as best we can to the immediate circumstances in which we find ourselves, while bearing in mind that to instill values which are of importance to us and to society, and which transcend the confines of our discipline, we must make a conscious effort which is adapted to our immediate teaching situation. One practical way in which this can be done, and this is possible for virtually any area of knowledge provided there is time for it, or where time is made for it, is by allowing for discussion of the historical development of ideas in that area. By doing this, the teacher may provide a vantage point from which the current concerns in the area may be critically evaluated and seen from a wider, a more detached, and a more integrated perspective.

Individual Integrity

At the individual level, integrity is more than ethics; it is all about the character of the individual. It is those characteristics of an individual that are consistently considerate, compassionate, transparent, honest, and ethical. The characteristic of trust is closely associated with integrity. While the definition may seem vague, we characterize individuals with integrity as individuals that we can count on to do consistently what is “right” and what is expected of them. They are reliable and predictable in dealing with others and with issues, and they are defenders of what is fair, just, and acceptable.

In the Turknett Leadership Character Model, developed by psychologist Dr. Robert Turknett, integrity is the foundation of the model, and without integrity, no leader can be successful. The Turknett Leadership Group notes that individuals of integrity will not twist facts for personal advantage; they are willing to stand up for and defend what is right; they will be careful to keep promises; and they can be counted on to tell the truth. In their model, integrity is the foundation of leadership and it involves a careful balance between respect and responsibility (Turknett).

He states: “Simply put, those who bend rules are not considered trustworthy, and without trust an individual’s value is severely diminished. Without trust and confidence, markets do not function, and value is destroyed." (Quigley, 2007, p.9). Quigley goes on to note the critical importance of integrity and character in the workplace. Lacking trust, competencies are meaningless. Individuals who are not trustworthy will not be given opportunities or responsibilities, and they will not be wanted as team members by clients or other employees (Quigley, 2007).

Professionals who have worked with personnel who lacked integrity talk about the inability to count on individuals to do what they have said they would do, environments where the focus has gone from customers to protecting oneself, and where leaders are unwilling to live by the values that they publicly espouse.

Corporate Culture of Integrity

At the corporate level, integrity refers to the culture, policies, and leadership philosophy.

A culture of integrity has to start at the top and be seen in the conduct and activities of the executives. The leadership of the corporation must develop a consensus around shared values.

As Kouzes and Posner (2002, pp. 79-80) point out, the development of shared values improves the work environment and productivity:

i. It strengthens personal effectiveness, corporate loyalty, and ethical behavior.

ii. It fosters team work, corporate pride and consensus.

Corporations that have these values outperform other firms by a wide margin in terms of revenue growth, job creation, stock price and profitability (Kouzes and Posner, pp.80-81). It is important for an individual to search for an employer with similar values. This match will be a key factor in one's ability to grow professionally and gain experience. As Quigley (2007) has pointed out, the culture of integrity may be far more important than the starting salary in one's quest for personal and professional fulfillment. He notes that corporations with a culture of integrity:

i. Offer support to employees through colleagues and processes in place; consultation with other is seen as a strength rather than a weakness, and
ii. Supports a work-life balance as it reduces job stress, balances one's perspective, and contributes to job satisfaction (Quigley, 2007, p. 15).

When we have "trust" in our dealings with a corporation it is usually because the leadership of the company has created a culture of integrity. We believe that our relationship with the corporation will be predictable, reliable, and consistent in meeting our needs and requirements. The corporation has a leadership and governance system that successfully identifies and manages risk so that corporate activities can be transparent and predictable/reliable. It also means that if things are not going well, information will be shared so that employees can understand the situation and have the opportunity to contribute to the solution.

CoveyLink Worldwide (2006) speaks of the importance of trust because trust always affects the outcomes in terms of speed and cost. If there is a lack of trust, the speed on the transaction will go down and the cost will go up. In short, trust has a favorable impact on the economics of the relationship; trust pays a dividend in terms of speed and reduced cost. Establishing a culture of integrity engenders trust and increases efficiency.

In contrast, the characteristics of low integrity organizations are:

i. High employee turnover rates,
ii. Lack of trust (suspicion and paranoia), honesty, and transparency,
iii. Broken promises,
iv. Disrespect - officers disparage colleagues or a category of employees,
v. Buck-passing - others are blamed for problems,
vi. Unexpected financial events occur,
vii. Reluctance to put policies and procedures into written format,
viii. Exaggeration of leadership accomplishments, and
ix. Limited board access to information, officers, and employees.

High integrity organizations are characterized as organizations that are collaborative, constructive, innovative, transparent, with high employee morale, valued customer loyalty, and strong partnerships. They build teams and create value.

Studies have shown that corporations with a culture of integrity tend to have governance systems with higher external ratings and higher quality of earnings. They tend to be good places to work, competitive in their markets, and provide higher, more predictable returns to investors.

14.8 ETHICAL BEHAVIOURS

Ethical and unethical behaviors are behaviors that occur within organizations by employees on a daily basis (Jex & Britt, 2008). Ethical behavior is the behavior companies seek to drive performance and success. Companies are highly concerned about unethical behavior for a number of reasons. Decreases in organizational performance, financial losses, reputational damage, safety concerns, and a loss of customers are all concerns that are connected with unethical behavior. Understanding the why behind these types of behaviors could possibly dictate the success of a given organization.

According to Gomez-Mejia and Balkin (2002), various countries follow different norms and internationally an important concern is defining ethical behavior. Business ethics serve as guidelines or standards for an organization when making decisions. When guidelines or standards are not present within the workplace, the organization is not on one accord in terms of the principles that are important and the criteria that determines unethical behavior (Gomez-Mejia & Balkin, 2002). The purpose of this review is to explore current trends within organizations concerning unethical behavior. A discussion of ethical and unethical behavior within organizations is presented followed by an analysis of several studies relating to current trends within organizations.

14.9 THE "WHY" BEHIND UNDERSTANDING ETHICAL BEHAVIOR

According to McIntire and Miller (2007), ethics focuses on processes and topics that guide the decision-making process in terms of what is right. Ethical standards are a group of professional process guidelines or codes for doing what is considered the right practice (McIntire & Miller, 2007). Thus, ethics are important in order to ensure that processes and practices are doing what is considered to be morally right.

Ethics differ from organization to organization based on the organization's specific ethical values and issues. According to Cascio and Aguinis (2011), employers have ethical responsibilities, which are often demonstrated through the execution of company ethics programs. Ethical actions are not dictated by specific and strict guidelines; it changes and evolves in response to social standards and the wishes and interests of those aided by the profession (Cascio &Aguinis, 2011).

Business ethics are different from laws because in some circumstances it may not be illegal to engage in unethical behavior (Gomez-Mejia & Balkin, 2002). According to Hoyk and Hersey (2009), an organization in which coworkers ignore, justify, or accept unethical behavior, is supporting the viewpoint of the transgressor. When moral standards are accepted by the majority of the group and a behavior or action by an employee exhibits behaviors or actions that do not reflect what is considered to be the norm, then the group would deem the behavior or action unethical (Kish-Gephart, Harrison, & Trevino, 2010). Unethical behaviors that occur most frequently within the workplace setting are covering up problems, short-cutting quality of work, abusing sick days, and lying to customers (Gomez-Mejia & Balkin, 2002).

Bowditch, Buono, and Stewart (2007) posit there are growing numbers of occurrences when employees experience situations where peers and supervisors encourage unethical behavior. For instance, unethical behavior may be an employee looking in the opposite direction of a wrongdoing, failure to report wrongdoings, or directly engaging in unethical activity (Bowditch et al., 2007). Cheney (2008) stated it is essential to understand how organizational cultures suppress or promote certain ethical practices.

It is imperative to condemn unethical behavior and discourage the imitative practices, reducing the risk of an organizational culture that promotes political backstabbing that drives away talent and takes away the energy of the remaining employees (Gomez-Mejia & Balkin, 2002). When employees do not follow the written standards of the organization, the behavior impedes the organization's ability to meet corporate goals making understanding ethical behavior in organizations essential.

Unethical behavior can impact the organization financially. For example, counterproductive behavior is a type of unethical behavior where actions go against the organization's goals (Jex & Britt, 2008). Forms of counterproductive behavior include turnover, ineffective job performance, absenteeism, and unsafe behavior and additionally less-common forms such as violence, theft, substance abuse, and sexual harassment (Jex & Britt, 2008). These actions impact the organizations financial bottom-line and can cost the organization thousands of dollars each year (Jex & Britt, 2008). Thus, it is critical to understand unethical behavior in organizations.

Unethical behaviors lead to detrimental consequences for others through ignoring rules, standards, regulations, and company guidelines (Tonus & Oruç, 2012). The damaging consequences slow performance and growth. Unethical actions foster an environment of conflict, disrupt the company culture, and minimalize employee commitment, performance, and inspiration (Tonus & Oruç, 2012). When employee commitment, performance, and motivation decrease the organization suffers significantly. As a result, companies want to prevent unethical behaviors and to promote ethical behaviors. The best option is through understanding the driving forces behind unethical decision-making in order to predict behavior.

14.10 PREDICTING UNETHICAL BEHAVIOR: THE ANTECEDENTS

According to Kish-Gephart, Harrison, and Trevino (2010), the three most important precursors of unethical behavior are the individuals, the ethical issue itself, and the organizational environment.

The individual can be an antecedent to unethical behavior when considering the individual differences or characteristics of that person and how these differences influence unethical choices at work. Results presented from research conducted by Kish-Gephart, Harrison, and Trevino (2010) state that individuals who make poor decisions because of negative influences, think more for themselves than the group, exhibit counterproductive actions, avoid consequences for their actions, and fail to make the connection that their actions cause chain reactions will more than likely act in a manner that is unethical. Therefore, individuals who demonstrate behavior or actions that reflect negative characteristics are considered to be more prone to behavior that is unethical.

Moral philosophies are basic beliefs about how to deal with ethical decision-making. Empathy is the ability to understand how others feel. Each antecedent offers insight into why people make unethical decisions.

Individual qualities, organizational characteristics, and cultural affects are categories of antecedents for predicting unethical behavior (Rusaw, 2001). Prominent qualities of an individual can be understood by the theories of moral development. Personal attributes to moral development occur as individuals mature in terms of education and experience, which provides the development for greater morality (Rusaw, 2001). Self-mastery is another component of moral development and as individuals mature they will develop self-control enabling the individual to self-reflect on actions and be able to adapt the actions to particular situations (Rusaw, 2001).

Rusaw (2001) posit organizational characteristics that hinder ethical development are organizational structure, organizational climate, job characteristics, and supervisory style. When the organization has a clear mission, ethical behavior within the organization may increase (Rusaw, 2001). According to Rusaw (2001), jobs that promote risk-taking to attain goals will foster behavior that is ethical if the risk taking is legitimate. Rusaw (2001) asserts the cultural norms of an organization can inhibit consequently a member's ethical development. Organizations must realize the factors that influence ethical growth including the level of responsibility, potential to take risks, decision making authority, and the amount of accountability (Rusaw, 2001). Cultural affects consist of belief systems, which develop from family, religion, values, and school socialization (Rusaw, 2001). Rusaw (2001) stated, when the atmosphere consists of trust, fairness, and personal security, individuals will learn how to appropriately make and enforce rules.

14.11 CORPORATE GOVERNANCE, PROCEDURES AND COMPLIANCE

Governance at a corporate level involves the processes through which a company's objectives are set and pursued in the context of the social, regulatory and market environment. It is concerned with practices and procedures for trying to make sure that a company is run in such a way that it achieves its objectives, while ensuring that stakeholders can have confidence that their trust in that company is well founded.

Throughout history, we have seen countless examples of weak governance practices leading to significant erosion in market valuation. We saw it in 2001 during the highly publicized accounting scandal that wiped out Enron. We witnessed it again in 2014 when GM's failure to heed a whistle blower's warnings about its faulty ignition switches resulted in over $2 billion in fines, penalties, and settlements. More recently, the employees, customers, and shareholders of Wells Fargo were all affected by investigations into aggressive product cross selling tactics and misleading brokerage clients about trading high fee debt products (Forsythe, 2018).

Theoretically, corporate governance concerns itself with people, competencies (performance), processes and policies. These are known collectively as the 4 P's of corporate governance. So, what is corporate governance, and what constitutes an effective corporate governance program that will increase a company's potential for success instead of failure?

What is Corporate Governance?

There are several attempts and efforts made to define the concept of corporate governance by different scholars and theorists alike. However, the definition of the Organisation for Economic Cooperation and Development (OECD) is said to symbolize the international consensus on the meaning of the concept, which it defines as:

"The system by which business corporation are directed and controlled. The corporate governance structure specifies the distribution of right and responsibilities among different participants in the corporation, such as the board, managers, shareholders, and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance" (OECD, 2004).

"Good corporate governance helps to build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies." (OECD, 2022).

Other definitions for academic purposes include:

"Corporate governance is the structure of rules, practices, and processes used to direct and manage a company." (Investopedia).

“The system by which companies are directed and controlled.” (Sir Adrian Cadbury, The Committee on the Financial Aspects of Corporate Governance).

“Corporate governance is viewed as both the structure and the relationships which determine corporate direction and performance. The board of directors is central to corporate governance. Its relationship to the other primary participants, shareholders, and management is critical. Additional participants include employees, customers, suppliers, and creditors. The corporate governance framework also depends on the legal, regulatory, institutional, and ethical environment of the community. Whereas the 20th century might be viewed as the age of management, the early 21st century is predicted to be more focused on governance. Both terms address control of corporations but governance has always required an examination of underlying purpose and legitimacy.” – – James McRitchie, 12/2020

At its core, “corporate governance” is how a company is governed. It’s often described as a three-legged stool with senior management, the board of directors, and the company’s shareholders all playing major roles. Sometimes each of these three bodies work in unison towards a common goal. Sometimes they are at odds with each other—particularly shareholders who might not see eye-to-eye with a business strategy that management and the board has devised. –Broc Romanek, 3/30/2023.

“Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society” (Sir Adrian Cadbury in ‘Global Corporate Governance Forum’, World Bank, 2000).

… is the method by which a corporation is directed, administered or controlled. Corporate governance includes the laws and customs affecting that direction, as well as the goals for which the corporation is governed. The principal participants are the shareholders, management and the board of directors. Other participants include regulators, employees, suppliers, partners, customers, constituents (for elected bodies) and the general community. – Wikipedia

“Corporate governance is not an abstract goal, but exists to serve corporate purposes by providing a structure within which stockholders, directors and management can pursue most effectively the objectives of the corporation.” – US Business Round Table White Paper on Corporate Governance September 1997

… is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised. Good corporate governance structures encourage companies to create value (through entrepreneurism, innovation, development and exploration) and provide accountability and control systems commensurate with the risks involved. (ASX Principles of Good Corporate Governance and Best Practices Recommendations, 2003)

ISO 37000 defines good governance as a human-based system by which an organization is directed, overseen and held accountable for achieving its defined purpose in an ethical and responsible manner. The standard clarifies the distinct but integrated roles that governing bodies and management play in an organization and establishes a common language, principles and practices that apply across all organizations in all jurisdictions.

Procedures and Compliance

Good corporate governance policies ensure that the strategies and directives developed under the corporate veil meet the ethical standards and fiduciary duties of the company's compliance environment. Compliance, in contrast to corporate governance, refers to meeting a company's legal and regulatory compliance requirements as dictated by their industry, activities and jurisdiction.

If corporate governance are the principles that guide action, corporate compliance is the group of practical actions required to participate in the business environment. This means making sure that business practices line up with government mandates, which often requires consultation with outside specialists.

Compliance is the process through which companies demonstrate that they have conformed to specific requirements in laws, regulations, contracts, strategies and policies. Compliance assessments determine the present state of compliance and measure the projected cost of implementing compliance against the potential cost of noncompliance. Compliance initiatives prioritize, fund and implement any corrective actions deemed necessary.

A corporate governance policy puts procedures and policies in place to keep the company on track and operating efficiently. A good corporate governance policy should address financial management, conflicts of interest, hiring practices, and roles of board members. Having the following procedures in place decreases the likelihood of errors or fraud and boosts profits:

1. Balance board composition: Greater diversity on boards introduces new ways of thinking and creative methods of solving problems, which prevent directors from resting on their laurels.

2. Evaluate the board regularly: A diverse board that works well on paper is one thing, but how they actually perform in real life is another thing altogether. This is why regular evaluations are important.

3. Ensure director independence: Independence is desirable on a board that wants to break away from safe, conservative thinking. Forward-looking boards need directors that are not afraid to think outside of the box, rather than simply continue down the same road the company has always taken. It helps create innovation and avoid stagnation.

4. Ensure auditor independence: Undue influence over the work of audit committees and independent auditors is a concern in terms of corporate governance. Investors need to know that they can trust the financial reporting that an issuer makes, so independence is key to show that the reports are accurate and tell the true tale of the company.

5. Be transparent: Transparency is essential for good corporate governance. The openness and willingness to share accurate, clear and easy-to-understand information with stakeholders, including shareholders, breeds trust and solidifies a business's reputation. This means that organisations have to accurately report the bad news as well as the good.

6. Define shareholder rights: Shareholders should know their rights when they invest in your business and you should ensure that the rights you provide are backed up by your Articles of Association, constitution and company bylaws.

7. Aim for long-term value creation: Although short-term wins look good and create opportunities for publicity, long-term value creation should be the aim for a company with solid governance. A business that is committed to sustainable growth is likely to be much less volatile than a company with its eye only on the short term.

8. Manage risk proactively: Identifying risks is important, but taking a proactive approach to mitigate that risk before you face it is the goal. Rather than attempting to weather the storm, it is

better for the organisation to avoid the storm completely. A solid risk management process, an internal control framework and an up-to-date disaster recovery plan are all key to achieving this aim.

9. Follow sustainability best practices: Sustainability and strategic management are increasingly intertwined in the corporate world, as investors make their preferences heard. Major events such as Covid-19 and the climate crisis have thrown into sharp relief the need for a sustainable outlook from issuers. Consumers have also started to prefer shopping with businesses that boast sustainable practices.

10. Document policies and procedures: There should be easy to access documentation of your policies and procedures relating to shareholder rights, executive compensation, board meeting operation, the election of new directors and more. This ensures transparency and consistency within the organisation.

Principles of Corporate Governance

Governance specialists sum up corporate governance in four words: people, purpose, process, and performance. These four Ps serve as the foundational principles for both the existence and operation of governance. Let's examine what each of the Ps signifies:

i. People: There are people on both sides of the business equation. They are the founders, the board, the stakeholders, the consumers, and an impartial observer.
ii. Purpose: Each part of the governance body has a purpose and they work to fulfill that purpose. All of their plans and policies should be geared toward that purpose.
iii. Process: Governance is the process that allows people in a company to work together to achieve the company's goals. This process is designed by analyzing how well the company is performing. Processes can improve over time to achieve the company's desired goal.
iv. Performance: One of the most important parts of corporate governance is being able to analyze the performance and decide if it is successful (or successful enough) and then use those results for the rest of the organization.

Scope of Corporate Governance

The scope of corporate governance lies in the following areas:

a. **Economic Growth:** The effective execution of corporate governance standards enhances economic growth. It encourages transparency and fairness in conducting business both externally and internally. Moreover, it boosts investors' confidence to perform frequent security transactions which directly impact financial market equity.
b. **Social Responsibility:** The execution of corporate governance focuses primarily on promoting sustainable growth. By acting as a major tool for social construction where companies emphasize profit maximization and social welfare, these rules mentioned in the governance body enhance social responsibility among corporations.
c. **Business Expansion and Development:** A robust corporate governance, such as genuine account audit, efficiency in the director's role, and cordial business relationships among shareholders, leads to business growth and diversification.

What Are the Benefits of Good Governance?

The benefits of good corporate governance are countless, but we've rounded up the most important ones below.

a. **Compliance**

The business carries out its functions in a manner that complies with the rules and regulations in the regions in which it operates. This helps it avoid costly penalties and reputational damage.

b. **Efficiency of process**

Streamlining your organisational procedures allows you to look at your existing processes within the business and find ways to make them more efficient.

c. **Risk identification**

If you can accurately identify risk factors, you can mitigate them before they become an issue. This forward-thinking, strategic approach gives a real competitive edge.

d. **Better decision making**

Good governance gives top-level decision-makers the information they need to make quick and effective choices.

e. **Strong strategic planning**

Access to vital information coupled with good internal communication lay the foundations of a board that can create better business strategies.

f. **Improved brand image**

Good governance makes the organisation more desirable for talented new directors. As investors pay more and more attention to ESG reporting, the 'G' in it, which stands for 'governance', is also entering the spotlight. Nowadays, good governance is vital to attracting and retaining the right shareholders. It can even make it less expensive to borrow capital, as companies with strong governance, including robust financial management reporting, pose less of a risk to lenders.

The Principles of Corporate Governance

While there can be as many principles as a company believes make sense, some of the more well-known include the following:

a. **Fairness**

The board of directors must treat shareholders, employees, vendors, and communities fairly and with equal consideration.

b. **Awareness**

The key to a company's survival and prosperity is to know the landscape of risk around it. Boards are always at the forefront of this effort, not just because they are in a position of responsibility, but because they are usually in their roles thanks to years, if not decades, of significant, relevant experience. With this experience comes the ability to pinpoint as many risks as possible, whether large or small, short or long term. Of course, no company can eliminate risk and should never approach risk management this way. The real trick is deciding which risks to take and which to avoid.

c. Transparency

The board should provide timely, accurate, and clear information about such things as financial performance, conflicts of interest, and risks to shareholders and other stakeholders.

d. Impartiality

Boards must strike a careful balance between their various responsibilities, the people who answer to them, and the people they answer to. They should approach every decision with an independent mindset, ensuring no personal interests or those of close colleagues come between them and the correct business decision. While impartiality is easy to agree to in principle, it's easy to slip out of practice. Personal beliefs and friendships can cloud a board member's objectivity. A board must know how this can happen – and how subtle it can be. They should take care to ensure it doesn't influence their responsibility.

e. Risk Management

The board and management must determine risks of all kinds and how best to control them. They must act on those recommendations to manage them. They must inform all relevant parties about the existence and status of risks.

f. Responsibility

The board is responsible for the oversight of corporate matters and management activities. It must be aware of and support the successful, ongoing performance of the company. Part of its responsibility is to recruit and hire a CEO. It must act in the best interests of a company and its investors.

g. Accountability

The board must explain the purpose of a company's activities and the results of its conduct. It and company leadership are accountable for the assessment of a company's capacity, potential, and performance. It must communicate issues of importance to shareholders.

14.12 NEED FOR EFFECTIVE CORPORATE GOVERNANCE IN NIGERIA

The idea of corporate governance is not a new concept in Nigeria and cannot be separated from company law in general. The emergence of corporate governance principle in Nigeria can be traced to the Companies and Allied Matters Act (CAMA) 2020, which replaced the Companies Act of 1990. Over centuries, corporate governance system has evolved.

The core principle of corporate governance in Nigeria is on how to make those in the management of the companies more accountable, responsible and sensitive to the interest of shareholders, the interest of creditors and members of the public. The main laws, which are the fulcrum of the corporate governance principles in Nigeria are:

The Companies and Allied Matters Act: this establishes the Corporate Affairs Commission, which is responsible for the supervision, formation and winding up of companies in Nigeria.

Investment and Securities Act: This provides for the establishment of the Securities and Exchange Commission charged with the responsibility of regulating the capital market, securities investment and mergers and acquisitions.

Banks and other Financial Institutions which governs financial institutions in Nigeria.

Insurance Act; among others

Financial Reporting Council of Nigeria Act

The major parties involved in corporate governance in Nigeria are the board of directors, the management and shareholders, creditors, customers, and regulators or government agencies. The Companies and Allied Matters Act Cap c20 has been a major law regulating corporate governance in Nigeria. It provides some mechanisms for corporate governance for appointing directors of a company, removal of directors, the provisions for auditors and audit committees and the mandatory involvement of shareholders in making corporate decisions. However, the Securities and Exchange Commission (SEC) regulates and constantly enacts codes or rules for corporate governance in the public sector. The various sector regulators such as the Central Bank of Nigeria (CBN) also makes several rules for corporate governance in various sectors of the economy.

There are many challenges to the effectiveness of corporate governance in Nigeria. According to Ikebujo & Anusionwu, (n.d.), they range from institutional challenges, corrupt practices, multiplicity of codes, weak regulatory mechanisms, and protection of the whistle-blower among others as discussed below:

Institutional challenges: The interwoven relationship between the public regulators and the private sector makes public office holders use private companies to launder money stolen from the public sector (among other atrocities), thus, influencing their independence in the enforcement of a strong regulatory framework.

Corrupt practices: Corruption is one of the major challenges to the smooth practice of corporate governance in Nigeria. It is the widespread belief that you cannot get anything, especially from government or public officials without offering a bribe. Therefore, private business managers who need to obtain some permission or waivers from government cannot do so unless through corrupt practices.

Multiplicity of codes: The issues relating to the multiplicity of codes includes the lack of specificity (i.e., presence of ambiguities) in the code's recommendations and the conflicts among them. Multiple codes of corporate governance are ineffective in regulating the corporate sector, particularly in developing countries.

Weak regulatory mechanism: Poor implementation and weak enforcement of the codes of corporate governance code have prevented corporate entities like the banks from achieving its objectives of ensuring proper corporate governance in Nigerian banks.

Protection of the whistle-blowers: The fear of victimization has kept many potential whistle blowers from speaking up against corporate governance malpractices. When people who are in the position to report these malpractices keep shut for fear of losing their jobs or being 'harmed' in the process, this becomes a challenge to the effective operation of corporate governance practices.

14.13 CODES OF BEST PRACTICES ON CORPORATE GOVERNANCE IN NIGERIA

According to Olusola Jegede and Winifred Idiaru, of Resolution Law Firm, Nigeria, the various codes that regulate corporate governance in Nigeria include the followings:

i. Code of corporate governance for public companies, 2011 (Sec code) which applies to all public companies and quoted private companies in the capital market in Nigeria.

ii. Code of corporate governance for banks and discount houses in Nigeria and for guidelines of whistleblowing in the Nigerian banking industry.

iii. Code of corporate governance for other financial institutions in Nigeria, 2019 which applies to microfinance banks, finance companies, and bureau the change.

iv. Securities and exchange commission rules 2013.

v. Listing rules of the Nigerian Stock Exchange.

vi. Code of business ethics and principles on corporate governance for the insurance industry.

vii. Financial Reporting Council (FRC) code of corporate governance.

There is a need for corporations to adhere to the codes of corporate governance to reflect the company's economic strength while providing assurance to existing shareholders. The recent Nigerian code of corporate governance 2018 was released on January 15th, 2019, by the Financial Reporting Council (FRC). The implementation of the codes is based on the "Apply and Explain" principle. This assumes the application of all principles and requires corporate entities to explain how the principles have been applied to suit their unique organizational context while still achieving the intended outcome of the principles.

According to Agbakoba-Onyejianya (2021), ‘a holistic approach to governance is the most effective way to achieve good corporate governance to avoid it becoming a tickbox exercise. It requires looking at the organisation from a 360-degree perspective, from the implementation of robust policies and procedures, hiring the right people with the relevant skills and competencies, implementing the right systems e.g., regulatory technology to make reporting and supervision more effective, etc.’

A board that fails to meet regularly is breeding a consequence of inadequate supervision of the operations of the organisation. It will be difficult to monitor and correct any corporate failings which may have arisen as the cause of such negligence. Also, lack of necessary policies and procedures to gauge breaches and report operational infringements or bad conduct e.g., whistleblowing, escalation, etc. could lead to higher probability of corporate failure.

The responsibility for implementing good governance ultimately rests with the Executive Management of the corporation, or in the case of smaller companies, the business owner or founder. For good governance to become embedded into the culture of an organisation, it must be championed by the top management. Where the Executive Management, Board and Chairman or founder as the case maybe fail to take responsibility for establishing good governance, it becomes more likely that the organisation will be poorly governed and run into unnecessary quagmires in the short to medium terms.

14.14 COMPLIANCE REQUIREMENTS OF CORPORATE GOVERNANCE

If governance sets the tone for a company’s approach to risk, ethics, and business practices, compliance embodies that attitude in relation to relevant laws and regulations. A healthy organization’s foundation is built on good compliance and corporate governance. The economic crisis, the bankruptcy of Enron, and the collapse of 2008 showed that the lack of internal control, non-transparency of the state of affairs in the company, and the weak role of auditors were too expensive. Regarding corporate governance, Drew, Kelley, and Kendrick (2006) state that there are five elements that organizations must consider for their corporate governance in order to manage risk, including, culture, systems, structure, leadership, and alignment.

To overcome the consequences, organizations started developing tools to strengthen internal control systems, corporate governance, risk management, and regulatory compliance.

The table below summarises the differences between corporate governance and compliance:

CORPORATE GOVERNANCE	COMPLIANCE
Internal: policies and rules created within organizations by the shareholders, the board and the C-suite members to achieve companies' objectives.	**External:** are rules defined externally by governmental and other regulatory authorities, and adopted irrespective of the goals and visions of an individual company
Optional: they are enforceable only within that particular organization. Consequences of violating governance standards are established internally.	**Obligatory:** Organizations must ensure compliance to fulfill the requirements of laws and regulations and be allowed to run their businesses. Failure has consequences
Strategic: focus is on the goals of an organization reflected in its internal policies. shareholders aim to implement their vision for the company and shape its approaches and progress here.	**Tactical:** focus on more immediate changes which are needed to meet the requirements of law. Compliance concentrates on limited goals, reporting and filings to meet these requirements.

There are two types of compliance: corporate and regulatory – both consist of a framework of rules, regulations, and practices. The main difference is the source of their policies: corporate compliance policies can be rooted in external regulations and internal policies, while regulatory compliance policies are dictated by external regulations. Through compliance activities, companies ensure that all employees and third parties fulfil the requirements of regulating authorities and internal policies.

Compliance is how to ensure policies, procedures, laws, and regulations are adhered to and monitored. Regulatory compliance is part of corporate governance, and its main role is to direct efforts to ensure that employees and stakeholders do not violate the rules and regulations. Compliance protects the company from government interference.

The compliance function is assigned by the management board, whose obligation includes protecting against illegal activities. It also includes substantive regulatory statutes, guidance from administrative agencies, codes of conduct, corporate rules, and other governing norms. Corporate compliance extends to when the law does not contain a legally meaningful definition of compliance.

Compliance requirements for corporate governance include:

1. Board composition and size (diversity).
2. Transparent disclosure (including auditors independence).
3. Well-defined rights of shareholders.
4. Internal control policies and procedure environment.
5. Structured Board practices.
6. Board commitment.
7. Appointment of directors and tenure (independence).
8. Board committees.
9. Meeting disclosures by the board.
10. Remuneration policy.
11. Disclosure of shares held by directors.
12. Annual board training and appraisal.

Corporate Governance Framework

Effective corporate governance framework includes the board, management, and shareholders who know what their jobs are and how they relate to each other and to other corporate stakeholders. Their primary responsibilities encompass:

#1. Board of Directors: The board oversees the management and corporate initiatives to create long-term value. They select a suitable CEO, monitor, and evaluate the CEO's performance, and handle succession planning. The board delegates business operations to the CEO and, through them, to senior management.

#2. **Management**: Management, usually governed by the CEO, sets, manages, and executes the company's strategies, including conducting operations under the board's scrutiny and keeping the board informed. Planning, risk management, and financial reporting are management duties.

#3. **Shareholders:** Shareholders aren't involved in regular operations, although they can elect directors and get investment and voting information. They buy a company's stock to reap economic rewards. Corporate boards and managers should be long-term custodians of shareholders' investments. They should expect the board and management to respond to issues and concerns that affect long-term value.

Compliance is an indispensable part of management. Therefore, it is more relevant to understand it as a duty to monitor legality. If the primary function of compliance is one of ‘control’ over compliance issues, then it raises questions regarding the task of control by the board. It immediately raises the question of the company’s internal control structure. Although governance and compliance relate to different aspects of an organization, they should be viewed as elements of the overall Governance, Risk and Compliance (GRC) agenda. A siloed approach to governance and compliance proves ineffective and can lead to redundancies and omissions.

On the other hand, an effective GRC program, which addresses both governance and compliance, provides for collaboration, and ensures the integrity of the enterprise. A holistic approach to ensuring the implementation of corporate strategies and internal policies based on compliance with the laws provides for synergies among different levels of an organization and helps to enhance the company's activities.

14.15 SANCTIONS IN CORPORATE GOVERNANCE

On sanctions in Corporate Governance, this is what Fisse (1986) has to say on it:
“Corporate wrongdoing involves economic costs that greatly overshadow the economic costs of unlawful conduct by individuals acting on their own behalf. Monetary fines and penalties do not represent an effective form of punishment for corporate crime. They do not directly affect the managerial nerves of corporate governance, and they tend to inflict overspills on innocent workers, shareholders, and consumers.”

Furthermore, Fisse continued, that “Corporations can be punished other than by monetary penalties and fines. Promising sanctions in this regard include stock dilution, probation and punitive injunctions, publicity orders, and community service orders. Although fines are advantageous in some respects, such as ease of administration, noninterference in the internal affairs of corporations, and contribution toward enforcement costs, they are subject to several limitations. They have minimal punitive impact, they devalue corporate crime seriousness, they compromise individual accountability, and they do not encourage responsive corporate reform. The suggested options of stock dilution, probation and punitive injunctions, adverse publicity, and community service can be developed to provide a flexible and potent array of sanctions.”

Implementing an Effective Sanctions Governance Framework

Collectively, board members and senior management have responsibility for setting the strategy for sanctions compliance governance, risk management, and system and controls. It is paramount for boards to keep their finger on the pulse when it comes to overseeing the design and implementation of a sanction's governance framework for their company or organisation. It is critical for boards to fully understand their regulatory responsibilities.

It is important for organisations to demonstrate the right steps and protocols are in place, as regulators are applying deeper levels of scrutiny to controls and procedures due to the current political climate. Having well-formed procedures in place can signal commitment to compliance even if inadvertent violations do occur. A successful compliance framework will incorporate the following:

Risk Assessment & Strategy: A business or organisation wide **risk assessment** is the most important first step for your organisation to complete when setting out a sanction's response strategy. It helps the board and senior management understand risks, including specific analysis of jurisdictional risk exposure.

Policies & Procedures: It is important to set out clear policies for how to tackle sanctions compliance and related risks. These policies should be supported by procedures outlining how the organisation plans to build these controls into its operating model. Local regulatory requirements, key risk areas, and roles and responsibilities should be considered.

Systems & Tools: Policy and procedures are ineffective if organisations do not have the necessary tools to carry out due diligence and controls. Boards should consider what each organisational unit or department needs in terms of tools, which can be a mix of custom-built internal resources as well as external technology platforms that can help with due diligence, monitoring, and analysis.

Training & Awareness: Not all staff are likely to be fully aware of sanctions requirements or how these relate to their role. Raising awareness is therefore critical, as is training staff so they are aware of compliance obligations, sectoral vulnerabilities, and organisational policies and procedures. Complying with sanctions requires a company-wide response. Training and digital learning programmes may include information on how to implement systems and tools and how to spot signs of sanctions evasion practices.

Governance & Management Information: This sets out how you are going to monitor and manage your organisation's adherence to the set sanctions compliance framework and strategy. This helps boards keep a pulse of how well the organisation is doing at adopting sanctions policies and the effectiveness of sanctions controls.

Periodic Assessment: It is important for boards to consistently review and assess their organisations' ability and effectiveness in detecting sanctions risks and identifying potential violations. Board members can consider having compliance teams provide periodic reporting to the board and publish any relevant findings in annual impact reports. These assessments can be used to update the organisation's sanctions compliance framework and identify training and awareness gaps.

Atkinson (2019) argues that corporate sanctions are meant to deter bad behavior and to compensate victims of corporate misconduct. But in the pursuit of these goals, the imposition of sanctions can lead to a variety of collateral consequences including missed debt payments, job losses, and insolvency. Decision makers therefore face an apparent tradeoff. Large sanctions may be necessary to adequately deter corporations and provide compensation, but the imposition of large sanctions may lead to undesirable consequences. On the other hand, while small sanctions will limit collateral consequences, they may lead to insufficient deterrence and under compensation. Furthermore, he opined that while shareholders prefer to pay sanctions through assets sales imposing costs on creditors and leading to job losses for employees.

Other corporate stakeholders and society more broadly would be better served if corporations paid sanctions through equity issuances. Unlike asset sales, equity issuances impose the full incidence of sanctions on shareholders. And because equity issuances simply dilute the holdings of shareholders, they have no effect on the corporation's assets, debt, leverage, or employment.

14.16 SOCIAL AUDIT IN CORPORATE GOVERNANCE

Social audits are considered a relatively new concept in the business world – the first social audit of an organization was carried out in Sweden and published in 1988 after a study of the country's central bureaucracy.

The G-20 summit recently proposed a Social Audit by the Security Exchange Board of India (SEBI) as part of their agenda. This proposed social audit would examine various aspects of the corporate sector such as their transparency with regards to financial disclosure and accountability, corporate governance and fiduciary accountability, social investments and livelihood programs, management of public funds and use of natural resources, impact on human rights and working conditions. The proposal is a great step forward in terms of promoting corporate social responsibility and will help to ensure that companies are taking their responsibility to society and the environment seriously. By initiating such an audit, the G-20 leaders are showing their commitment to lifelong learning and sustainable leadership that will benefit not just the companies being audited but all stakeholders in the long run. (Sharma, 2023).

The social audit is interconnected with corporate governance and contributes to the increase of trust and transparency between stakeholders. Social audit aims to analyze social factors and how an organization can contribute to the improvement of its activity. Also, it involves analyzing the environment in which the organization operates and how it can help to maintain or even improve it. (Dumitrascu et. al., 2014).

Most companies desire to strike a balance between profitability and social responsibility. A social audit is an internal examination of how a particular business is affecting society. Social auditing is taken up for the purpose of enhancing local governance, particularly for strengthening accountability and transparency in local bodies.

A social audit is a formal and systematic examination of a company's social responsibility. It is a process that involves the scrutiny and evaluation of an organization's performance, policies, programs, and operations. Social Audit remains a participatory tool that empowers stakeholders to hold management officials accountable for their actions and ensure transparency and accountability. It examines and focuses on the company's impact on society and reviews related company practices and policies. It is important to know how responsible the company is for its social environment and how well it achieves its social responsibility goals.

The audit helps companies to determine if they're meeting their objectives, which may include measurable goals and benchmarks. A social audit serves as a way for a business to see if the actions being taken are being positively or negatively received and relates that information to the company's overall public image.

Social Audit as a Systematic Process

The social audit is a systematic process that characterizes the assessment framework. This comprises five key areas of focus, which include:

i. Planning and preparation: in this stage, the social audit team identifies the scope of the audit, the objectives, and the methodology to be used. They also select the areas to be audited, and the audit team members are trained on their roles and responsibilities.
ii. Data collection: the team collects data from various sources, including government agencies, stakeholders, and community members. They also conduct interviews and focus group discussions to gather information.
iii. Data Analysis: data is analysed to identify strengths, weaknesses, opportunities, and threats in the implemented programs. The analysis also helps identify areas where corrective action is required.
iv. Findings and recommendations: the team presents the findings of the social audit to relevant authorities and stakeholders. They also provide recommendations on how to address the issues identified during the audit.
v. Follow-up: this is done to ensure the recommendations made are implemented.

Arrays of Items Evaluated in a Social Audit

The scope of a social audit can vary and be wide-ranging. Social audits look at many different factors within an organization to measure, report, and ultimately improve an organizations' social performance. They are a powerful tool for social accountability, with the scrutiny of the actions of officials and management sometimes leading to the discovery of administrative and financial irregularities and corruption.

The assessment can include social and public responsibility but also employee treatment. Some of the items that social audits examine are included below:

WHAT IS AUDITED?	
1. Employee training. **2. Development and promotion.** **3. Worker diversity.** **4. Occupational Health and Safety.** **5. Reasonable price set.** **6. Guarantees and guarantees on products.** **7. Customer privacy protection.** **8. Record of charitable giving** **9. Volunteering events** **10. Worker pay and benefits** **11. Nondiscriminatory practices**	12. Environmental impact resulting from the company's operations 13. Transparency in reporting any issues regarding the effect on the public or environment. 14. Accounting and financial transparency 15. Community development and financial contributions 16. Volunteer activity of employees 17. Energy use or impact on footprint 18. Work environment including safety, free of harassment, and equal opportunity.

There is no standard for the items included in a social audit. Social audits are optional, which means that companies can choose whether to release the results publicly or only use them internally. The flexibility surrounding social audits allow companies the ability to expand or contract the scope based on their goals. While one company might wish to understand the impact, it has on a particular town or city, other companies might choose to expand the range of the audit to include an entire state, country, or throughout the globe.

What Are the Benefits of A Social Audit?

To get straight to the point, here are the benefits of a social audit:

i. It becomes a way to measure and evaluate corporate social responsibility to take mitigation steps against related risks, such as risks to its reputation.
ii. Management can identify gaps between performance and corporate social responsibility objectives.
iii. Publishing audit reports leads to better information transparency and accountability, improving the company's public image.
iv. Companies can develop measures and set targets to improve corporate social performance, either from improving past performance or benchmarking with the industry's best-performing companies.
v. Implementing the auditors' recommended improvements helps the company meet stakeholder expectations, enabling it to build a good relationship with them in the long term.

vi. Improved transparency and accountability towards social responsibility attract more business customers and consumers as they increasingly make their purchasing decisions based on ethical factors.
vii. From the audit results, the company can promote and develop a socially responsible culture for everyone in the company, for example, by prioritizing customer privacy, which supports a better reputation.

What Are the Limitations of Social Auditing?

Despite the good image and long-term success of the company, social audits also have the following limitations:

i. Auditors' access to data and information, while crucial, is often limited because they may face resistance from management or key people who do not want to be exposed negatively.
ii. Audit results can be biased if the audit is not examined independently because often, companies are more likely to report positive results just to increase positive publicity without intending to adopt a socially responsible approach.
iii. Auditing consumes' resources where companies have to spend a lot of time and money to produce a comprehensive social audit.
iv. Social responsibility may not be the only reason consumers buy company products, or suppliers sell inputs to companies, but for price reasons.
v. It is important to mention that social audits are not mandatory and are not governed by a specific governing body. So, organizations can freely decide whether or not to do it, or when done, to share the findings of social audits with shareholders, investors, customers, and other important stakeholders. The fact is that the results of social audits are extremely beneficial to the organization, as it helps to better understand its strengths and weaknesses and identify areas for further improvement for the next social audit.

In the final analysis, social audits play a critical role in promoting accountability, transparency, and good governance. Identified gaps have helped in better resource management, service delivery, and grappling with corruption claims. Additionally, stakeholders have the opportunity to participate in the governance process and demand better service delivery. Lastly, the audit promotes social justice and equity in the distribution of resources through prudent measures for the return on investment.

From a boarder perspective, company's board should promote social audits to ensure resources are managed effectively and efficiently. Why? Social audits are a good way for businesses to evaluate how their social initiatives are being received by both their internal and external stakeholders. Also, the feedback from these stakeholders makes the process pivotal in maintaining a strong brand. Hence, the results are extremely beneficial to organizations, as it strongly influence public relations and the public perception of organizations and companies, making them important to companies that highly value maintaining a positive public image.

14.17 SUMMARY

Basically, the term ethics refers to accepted principles of right or wrong that govern the conduct of a person, the members of a profession, or the actions of an organisation. It is clearly unethical to give bribes to government officials in return for business, unfortunately, corruption is still widespread in much of the world.

Why Some Managers Behave Unethically

The following are the major causes of such unethical behaviour:

(a) Personal ethics,

(b) Decision – making processes,

(c) Organisational culture,

(d) Unrealistic performance expectations, and

(e) Leadership.

Moral rules are rigid. The Ten Commandments of the Bible's Old Testament, for example, include unambiguous prohibitions, such as, "Thou shalt not kill." Similarly, Kant's categorical imperative is absolute: "Act *only* in accordance with that maxim through which you can at the same time will that it become a universal law" (Kant, 1785/2002; emphasis added).

Integrity is one of the most important and oft-cited of virtue terms. The concept of integrity has to do with perceived consistency of actions, values, methods, measures, principles, expectations and outcome. When used as a virtue term, "integrity" refers to a quality of a person's character. Some people see integrity as the quality of having a sense of honesty and truthfulness in regard to the motivations for one's actions. Persons of integrity do not just act consistently with their endorsements; they stand for something: they stand up for their best judgement within a community of people trying to discover what in life is worth doing.

Ethical and unethical behaviors are behaviors that occur within organizations by employees on a daily basis (Jex & Britt, 2008). Ethical behavior is the behavior companies seek to drive performance and success. Companies are highly concerned about unethical behavior for a number of reasons. Decreases in organizational performance, financial losses, reputational damage, safety concerns, and a loss of customers are all concerns that are connected with unethical behavior. Understanding the why behind these types of behaviors could possibly dictate the success of a given organization.

Governance at a corporate level involves the processes through which a company's objectives are set and pursued in the context of the social, regulatory and market environment. It is concerned with practices and procedures for trying to make sure that a company is run in such a way that it achieves its objectives, while ensuring that stakeholders can have confidence that their trust in that company is well founded.

"Good corporate governance helps to build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies." (OECD, 2022).

Good corporate governance policies ensure that the strategies and directives developed under the corporate veil meet the ethical standards and fiduciary duties of the company's compliance environment. Compliance, in contrast to corporate governance, refers to meeting a company's legal and regulatory compliance requirements as dictated by their industry, activities and jurisdiction.

A corporate governance policy puts procedures and policies in place to keep the company on track and operating efficiently. A good corporate governance policy should address financial management, conflicts of interest, hiring practices, and roles of board members.

Governance specialists sum up corporate governance in four words: people, purpose, process, and performance. These four Ps serve as the foundational principles for both the existence and operation of governance.

The major parties involved in corporate governance in Nigeria are the board of directors, the management and shareholders, creditors, customers, and regulators or government agencies. The Companies and Allied Matters Act Cap c20 has been a major law regulating corporate governance in Nigeria. It provides some mechanisms for corporate governance for appointing directors of a company, removal of directors, the provisions for auditors and audit committees and the mandatory involvement of shareholders in making corporate decisions. However, the Securities and Exchange Commission (SEC) regulates and constantly enacts codes or rules for corporate governance in the public sector. The various sector regulators such as the Central Bank of Nigeria (CBN) also makes several rules for corporate governance in various sectors of the economy.

There are two types of compliance: corporate and regulatory – both consist of a framework of rules, regulations, and practices. The main difference is the source of their policies: corporate compliance policies can be rooted in external regulations and internal policies, while regulatory compliance policies are dictated by external regulations. Through compliance activities, companies ensure that all employees and third parties fulfil the requirements of regulating authorities and internal policies.

Collectively, board members and senior management have responsibility for setting the strategy for sanctions compliance governance, risk management, and system and controls. It is paramount for boards to keep their finger on the pulse when it comes to overseeing the design and implementation of a sanction's governance framework for their company or organisation. It is critical for boards to fully understand their regulatory responsibilities.

A social audit is a formal and systematic examination of a company's social responsibility. It is a process that involves the scrutiny and evaluation of an organization's performance, policies, programs, and operations. Social audit remains a participatory tool that empowers stakeholders to hold management officials accountable for their actions and ensure transparency and accountability. It examines and focuses on the company's impact on society and reviews related company practices and policies. It is important to know how responsible the company is for its social environment and how well it achieves its social responsibility goals.

The audit helps companies to determine if they're meeting their objectives, which may include measurable goals and benchmarks. A social audit serves as a way for a business to see if the actions being taken are being positively or negatively received and relates that information to the company's overall public image.

14.18 ILLUSTRATIVE AND PRACTICE QUESTIONS

A) THEORY QUESTIONS

1. Describe the nature of ethics in business generally.
2. Clarify and define the key concepts or terms of ethics in business.
3. Give reasons why some business managers behave unethically.
4. Explain basic approaches to ethical decision making.
5. What are the mechanisms for managing ethics in business?

6. Explain moral in business.
7. Explain integrity in business.
8. Explain the ethical behaviours.
9. What is Corporate Governance? State some of its procedures and policies.
10. Discuss some of the well-known principles of Corporate Governance
11. State the main laws, which are the fulcrum of the corporate governance principles in Nigeria.
12. There are many challenges to the effectiveness of corporate governance in Nigeria. Discuss at least three challenges that you know.
13. Compare and contrast Corporate Governance and Compliance and give examples to buttress your points.
14. What is a Social Audit in Corporate Governance? What does it involve?
15. State the benefits of social audit to organisation and its stakeholders.
16. Social Audit is a good accountability programme but has limitations. Discuss.

B. MULTIPLE CHOICE QUESTIONS

1. The term ___________ refers to accepted principles of right or wrong that govern the conduct of a person, the members of a profession, or the actions of an organisation.
    a) Etiquette
    b) Ethics
    c) CSR
    d) Ethical

2. It is clearly __________ to give bribes to government officials in return for business, unfortunately, corruption is still widespread in much of the world.
    a) Unnecessary
    b) Unethical
    c) Unavoidable
    d) Useful
3. ___________________ is referred to the rules by which an individual lives his or her personal life.
    a) Personal ethics

b) Ethical behaviour

c) Unethical behaviour

d) Business ethics

4. ____________________ is the body of moral rules governing ordinary ethical problems.

a) Rights

b) Duties

c) Moral rules

d) Common morality

5. __________________________is referred to that behaviour that conforms to generally accepted social norms.

a) Personal ethics

b) Ethical behaviour

c) Unethical behaviour

d) Business ethics

6. The characteristics of low integrity organizations are:

I. Buck-passing, Unexpected financial events occur,

II. Reluctance to put policies and procedures into written format,

III. Exaggeration of leadership accomplishments,

IV. Limited board access to information, officers, and employees.

V. Prompt fulfillment of promises

a) I, II, III

b) IV only

c) I, II, III, IV & V

d) I, II, III & IV

7. ______________________________ is the behaviour that does not conform to generally accepted social norms.

a) Personal ethics

b) Ethical behaviour

c) Unethical behaviour

d) Business ethics

8. ____________________________ are standards or guidelines for the conduct and decision making of employees and managers.

a) Personal ethics
b) Ethical behaviour
c) Unethical behaviour
d) Business ethics

9. Without a code of ethics, there is usually no consensus regarding ethical principles.

a) True
b) False
c) Not Sure
d) None of the above

10. Some Managers Behave Unethically because of the following major causes:

I. Personal ethics, Leadership.
II. Decision-making processes and organisation culture
III. Unrealistic performance expectations

a) I & II
b) III only
c) (a) & (b)
d) (b) & (c)

14.19 REFERENCES

Agbakoba-Onyejianya, Beverley. 06 July 2021. Nigeria: The Importance of Good Corporate Governance in Nigeria. Available at https://www.mondaq.com/nigeria/shareholders/1087852/the-importance-of-good-corporate-governance-in-nigeria

Atkinson, Nathan. July19,2019. Corporate Sanctions and Capital Structure. Available at https://www.stern.nyu.edu/sites/default/files/assets/documents/Atkinson

Churchhill, G. A Jr., Brown, T. J, and Suter, T. A (2010), Basic Marketing Research, 7th ed., Ohio: South-Western, Cengage Learning.

De George, R. T (1993), Competing with Integrity in International Business, Oxford: University Press.

Donaldson, T. (1996), "Values in Tension: Ethics away from Home", Harvard Business Review, September.

Dumitrascu Mihaela &Ciutacu Ileana & Savulescu Iulian, 2014. "**A Complex Perspective Of Social Audit In Corporate Governance**," Balkan Region Conference on Engineering and Business Education, Sciendo, vol. 1(1), pages 585-588

Fisse, B. (1986). Sanctions Against Corporations: Economic Efficiency or Legal Efficacy? (From Punishment and Privilege, P 23-54, 1986, W. Byron Groves and Graeme Newman, eds. Available at https://www.ojp.gov/ncjrs/virtual-library/abstracts/sanctions-against-corporations-economic-efficiency-or-legal

Forsythe, Aimee B. (July 24, 2018). Six Essential Elements of Effective Corporate Governance. Available at https://www.cambridgetrust.com/insights/investing-economy/six-essential-elements-of-effective-corporate-gove

Friedman, F (1970), "The Social Responsibility of Business Is to Increase Profits", The New York Times Magazine, September 13.

Hamilton, H (1998), "Shell's New World-Wide View", Washington Post, August 2, p. H1.

Harden, S (1916), "The Tragedy of the Common", Science 162, 1, pp. 243 – 248.

Hill, C. W. L (2008), Global Business Today, 5th ed., New-York: McGraw Hill/Irwin.

Ikebujo, I.O. and Anusionwu, J. O. An Analysis Of Corporate Governance In Nigeria. The ABUAD Law Review (ALR) Journal. Available at https://djetlawyer.com/an-analysis-of-corporate-governance-in-nigeria/

Jegede, Olusola and Idiaru, Winifred. PRINCIPLE OF CORPORATE GOVERNANCE IN NIGERIA. Available at https://www.resolutionlawng.com/principle-of-corporate-governance-in-nigeria/

Massie, R. K. (1997), Loosing the Bonds: The United States and South Africa in the Apartheid Years, New-York: Doublesay.

Malecki, Catherine. 30 Mar 2018. What sanctions? General presentation: Perspectives for Sustainable Corporate Governance Page Range: 323–326DOI: https://doi.org/10.4337/9781786433350.00020 Available at https://www.elgaronline.com/display/9781786433343/21_sectionB.xhtml

McRitchie, James. (2020). Corporate Governance Defined: Not So Easy. Corporate Governance Online Journal. Available at https://www.corpgov.net/library/corporate-governance-defined/

Messick, D. and Bazerman, M. H (1996), "Ethical Leadership and The Psychology of Decision Making", Sloan Management Review 37, Winter, pp. 9-20.

Rowell, A (1995), "Trouble Flares in the Delta of Death, Shell has Polluted More than Ken SaroWiwa'sOgoniland in Nigeria", The Guardian, November 8, p. 6.

Sharma, Sharad Kumar. Jan/01/2023. Audit: An effective tool for Corporate Governance. Available at https://taxguru.in/corporate-law/social-audit-effective-tool-corporate-governance.html

Singer, P. (2002), One World: The Ethics of Globalisation, New Haven, CT: Yale University Press.

Teoh, S. H. Welch, I. and Wazan, C. P. (1999), "The Effect of Socially Activist Investing on the Financial Markets: Evidence from South Africa", Journal of Business 72, no. 1, January.

The Markkula Center for Applied Ethics. Five basic approaches to ethical decision making. Available at www.scu.edu/ethics/

Waddock, S. A and Graves, S. B (1997), "The Corporate Social Performance – Financial Performance Link", Strategic Management Journal 8, pp. 303-319.

Themis (May 4, 2022). Sanctions – Getting Compliance Right: Why Boards Should Care. Available at https://www.nedonboard.com/sanctions-compliance-governance-framework-nonexecutive-directors/

RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.

Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard.

Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz.
Fundamentals of Business Administration Management by Caroline Anderson.

CHAPTER FIFTEEN
GLOBALIZATION

15.1 LEARNING OBJECTIVES

After completing this chapter, you should be able to:

i. Define globalization;
ii. Explain the factors that are responsible for globalization;
iii. Explain some of the benefits of globalization;
iv. Describe some of the disadvantages of globalization;
v. Explain the effects of globalization;
vi. Explain the policy response to the effect of globalization;
vii. Understand the skills required of the global managers;
viii. Describe the role of businesses and governments in mitigating and adapting to the effects of global warming;
ix. Analyse the causes and consequences of global warming; and
x. Discuss the ethical implications of global warming for businesses and society at large.

15.2 INTRODUCTION

The word "globalization" is now frequently heard and debated. A number of firms all over the world now have their influence on the lives of people in other countries. In fact, we have all become part of a global village and are living in a global economy where no organization is insulated from the effects of foreign markets and competition. Indeed, more and more firms are reshaping themselves for international competition and discovering new ways to exploit market in every corner of the world. Those who approve of globalization count its contribution to include higher economic growth and standards of living, increased sharing of technologies, and more extensive cultural integration.

15.3 GLOBALISATION DEFINED:

This is a simple globalization definition - Globalization means the speedup of movements and exchanges (of human beings, goods, and services, capital, technologies, or cultural practices) all over the planet. One of the effects of globalization is that it promotes and increases interactions between different regions and populations around the globe.

An Official Definition of Globalization by the World Health Organization (WHO). According to WHO, globalization can be defined as "the increased interconnectedness and interdependence of peoples and countries. It is generally understood to include two inter-related elements: the opening of international borders to increasingly fast flows of goods, services, finance, people, and ideas; and the changes in institutions and policies at national and international levels that facilitate or promote such flows."

What Is Globalization in the Economy? According to the Committee for Development Policy (a subsidiary body of the United Nations), from an economic point of view, globalization can be defined as: "(…) the increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, the flow of international capital and the wide and rapid spread of technologies. It reflects the continuing expansion and mutual integration of market frontiers (…) and the rapid growing significance of information in all types of productive activities and marketization are the two major driving forces for economic globalization."

What Is Globalization in Geography? In geography, globalization is defined as the set of processes (economic, social, cultural, technological, institutional) that contribute to the relationship between societies and individuals around the world. It is a progressive process by which exchanges and flows between different parts of the world are intensified.

Globalization is the technological effort in reducing the physical distance among nations through information technology to bring about socio-economic integration. It is the increased integration of world economies through trade and capital flows facilitated by the growth in information technology. Through globalization, there is cross national flows of goods and services and short term and long-term capital flow. Globalization is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. Through globalization, the whole world has become a single market. It implies that goods and services, capital and labour are traded on worldwide basis. Globalization ensures freedom of exchange, flow of capital, goods and services and productive capacities across national boundaries (Longe 2015).

Globalization means different things to different people. First, globalization is used to mean the depending on relationship and broadening interdependence among people from different parts of the world, and especially among different countries. Second, globalization is a way of thinking in which a business regards its operation all over the world as part of one integrated business system. Globalization has two main components: the globalization of markets and the globalization of production.

The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace. According to Levitt (1983), it has been argued for some time that the taste and preference of consumers in different nations are beginning to converge on some global norm, thereby helping to create a global market.

The globalization of production, on the other hand, refers to the tendency among firms to source for goods and services from different parts of the world in order to take advantage of national differences in the cost and quality of factors of production. By so doing, companies will be able to achieve lower overall cost structure and improve the quality of their products, thereby allowing them to have a competitive advantage over their competitors.

Nature and Scope of Globalization

Globalization is driven by the convergence of cultural and economic systems. This convergence promotes -- and in some cases necessitates -- increased interaction, integration, and interdependence among nations. The more countries and regions of the world become intertwined politically, culturally, and economically, the more globalized the world becomes.

Simply put, the aim of globalisation is to secure socio-economic integration and development of all the people of the world through a free flow of goods, services, information, knowledge, and people across all boundaries.

The following are the major threads for the nature of globalization:

i. Increasing and increasing connectivity of civilizations throughout the globe.

ii. Almost unhindered global flows of financial money, news, and cultural imagery.

iii. Increased activity and influence of international corporations (MNCS).

iv. Growing economic development in many nations is accompanied by rising inequality.

v. The emergence of a worldwide consumer culture with more travel and migration from more nations to more countries; quicker modes of transportation and technological communication, such that time and space are progressively being squeezed.

vi. Increased public knowledge of what is going on in the globe and the potential consequences for their own nation.

vii. Increased Collaborations: Encouraging the process of collaborations among the entrepreneurs with a view to secure rapid modernisation, development and technological advancement.

viii. The fast expansion of government and non-government supranational organisations that complement, replace, and assist the nation-operations states.

ix. Development of Cities: Globalization is a born for developing nations. New technology has added to the growth of cities, but villages are neglected.

Globalisation accepts and advocates the value of free world trade, freedom of access to world markets and a free flow of investments across borders. It stands for integration and democratization of the world's culture, economy, and infrastructure through global investments. This mentality resulted in the establishment of global trade governing organisations such as the World Trade Organization, the Organization for Economic

Cooperation and Development, and the European Union. These groups aim to liberalize trade by eliminating import/export taxes and government protectionism.

15.4 FACTORS RESPONSIBLE FOR GLOBALISATION

Factors responsible for globalization are numerous. Some are discussed below:

1. **Change in technology**: Computerization and technological breakthroughs have positive impact on globalization. Revolution in information technology has made the world to become a global village. It has dramatically transformed economic life of people all over the world.
2. **Trade liberalization:** Different policies were introduced by nations to remove restriction on trade in order to encourage trade liberalization. This has facilitated opening up of new markets across regions of the world.
3. **Capital market integration:** Free flow of short term and long-term funds from one country to another has significant impact on globalization. There is perfect mobility of capital because investors are searching for where to receive the highest returns.
4. **Mobility of labour:** There is free mobility of skilled labour from one country to another. This has helped trade on a worldwide basis.
5. **Development of unipolar world:** The collapse of Soviet Union in the 80's has led to the emergence of a unipolar world. Most countries of the world especially the eastern nations started removing all forms of barriers to flow of goods and services.
6. **Emergence of new economic orders like IMF, World Bank:** New International financial institutions like IMF, World Bank were set up. With the emergence of these institutions, new economic order came into being.
7. **Activities of General Agreement on Trade and Tariff:** The General Agreement on Trade and Tariff helps in pulling down barriers to trade in member nations. This helps in no small way in ensuring expansion in trade.
8. **Development of services that support International Business:** Many countries and companies have developed services that ease the conduct of international business. A good example is the development by banks of efficient means for companies to receive payment in their home country currencies.
9. **Growing Consumer Pressures:** As a result of expansion of technology, consumers know about products and services available in other countries. Thus, consumers want more, new, better and differentiated products.
10. **Increased Global Competition:** An expansion of companies to other countries increases the level of competition in such countries. This expansion of competition forces most companies to seek any means to gain competitive advantage. This they can do by expanding their business into international market.

11. **Expanded Cross-National Cooperation:** many governments have realized that their own countries' interests can be enhanced by cooperating with other countries through treaties, agreements, and consultation. This they do primarily to gain reciprocal advantages.
12. **Economies of scale**: Numerous financial experts accept that there has been an expansion in the base proficient scale (MES) related to certain businesses. If the MES is rising, a homegrown market might be viewed as excessively little to fulfill the selling needs of these businesses. Many arising nations have their own transnational organizations.
13. **Less protectionism**: Old types of non-levy insurance, for example, import permitting, and unfamiliar trade controls have steadily been destroyed. Borders have opened and normal import levy levels have fallen. All things considered, it merits knowing that, over the most recent couple of years, there has been an ascent in non-levy boundaries,
14. **Development Strategies of Transnational and Multinational Companies**: In their quest for income and benefit development, progressively worldwide organizations and brands have put fundamentally in extending globally. This is especially the situation for organizations claiming brands that have demonstrated they can possibly be effectively worldwide, especially in more quickly developing economies fuelled by developing quantities of working-class purchasers.
15. **Containerisation**: The expenses of sea delivery have descended, because of containerization, mass delivery, and different efficiencies. The lower unit cost of delivery items around the worldwide economy assists with acquiring costs the nation of production nearer to those in sending out business sectors, and it makes showcases more contestable universally.

15.5 BENEFITS/CONSEQUENCES OF GLOBALIZATION

Globalization has brought about a few benefits for businesses operating in the international marketplace:

1. **Promotion of trade and exchange:** Globalization promotes free flow of goods and services across national boundaries. This has led to specialization which has increased output and productive efficiency. It helps in developing international trade.
2. **Free flow of capital:** There is an unfettered movement of both short- and long-term capital from areas of surplus to areas where there are maximum returns.
3. **Improvement in quality of goods:** Technological improvement has led to increase in quality of products at reduced costs. In the face of globalization there is a shift towards production of quality goods using the latest technology.
4. **There is free flow of technology:** Technological and telecommunication breakthroughs have increased through globalization. This is because there is no restriction to the flow of information and technological innovations across national boundaries.

5. **Promotes understanding and co-operation among nations:** Globalization has helped in promoting understanding and goodwill among different countries of the world.
6. **Improvement in standard of livings:** Technological knowledge helps to produce new goods and services that will improve the standard of living of the people. People have wide varieties of goods to choose from.
7. **Mobilization of foreign savings:** Rapid capital and financial integration has helped in the mobilization of foreign savings for domestic investment and economic growth.
8. **It reduces government excesses in fiscal and monetary policies:** When the government of a country wants to introduce any policy, it will consider the effect of such policy because the world is now a global village. Any bad policy may lead to isolation of such country by other nations. Therefore, globalization helps to tame government excesses of policies.
9. **It expands the market for export:** Businesses and investors have wide opportunities for investment. With globalization most organizations have more access to wider markets thereby increasing export of goods.
10. **Increased foreign exchange earning:** Massive exportation of goods and services to other countries will increase the foreign exchange earning of a country.
11. **Unrestricted communication:** Globalization enables free flow of information among people of the world. People are able to have continuous communication with people from other parts of the world.
12. **Employment generation:** Because of economic integration, investors from other countries can set up businesses in a particular country and this will provide job opportunities for the inhabitants of such nation.
13. **Ensures interdependence among nations:** Globalization helps to increase economic interdependence of countries across the world. This is made possible through rapid increase in movement of goods and services and massive flow of capital.

15.6 DISADVANTAGES/ CHALLENGES OF GLOBALISATION

Globalization has brought about numerous opportunities for businesses to expand their reach and tap into new markets. However, with these opportunities come several challenges that make it difficult for some organizations to fully embrace globalization:

1. **Dependence of one country on another:** Through globalization there is increasing economic interdependence of national economies across the world. Even though it is a good phenomenon, it may create a situation whereby the developing countries will rely solely on other countries for economic survival.
2. **It can lead to massive outflow of capital:** Globalisation can lead to inflow of fund from areas of surplus at the same time loss of confidence in the financial system of country can also lead to massive outflow of capital which may affect the economy as a whole. For

example, Nigerian economy experienced massive outflow of capital some years ago which almost cripple the financial market.

3. **Loss of culture:** Cultural globalisation affects the culture of people of other regions. The tradition and culture of the people will change as a result of integration. For example, some people dress and talk like people from other regions.

4. **Health problem:** Through liberation of trade occasioned by globalisation, different varieties of goods are imported into a country. Some of them may be dangerous or hazardous to the people.

5. **Environmental degradation:** Some goods which can cause serious pollution are imported into the country under the guise of globalisation. For example, expired computers, clothes and tires are massively imported into the country.

6. **Collapse of Business:** Some local businesses may go bankrupt and collapse as a result of the economic might and competition from rich and bigger ones from other countries.

7. Rich and wealthy countries can affect negatively the development of underdeveloped economies.

8. If there is an economic depression in a rich and influential nation, it can trigger adverse reaction to nations of the world. For example, if anything affects the economy of USA, many nations will be affected.

15.7 POLICY RESPONSE TO THE EFFECT OF GLOBALISATION

1. **Good governance**: For globalisation to be effective, the rule of law of each country should prevail. As a matter of fact, everything should be done transparently.
2. **Economic liberation:** All closed economies should be opened up through trade liberation. By so doing it will ensure economic integration.
3. **Strengthening of multilateral institutions:** Multilateral institutions like IMF, World Bank, WTO should be strengthened to ensure that they are effective in helping to sustain growth of developing countries.
4. **Enhancing the financial system:** The financial system of a country should be strengthened through supervision and regulation.
5. **Development of capital market**: For integration to be fully felt, the capital market of a country should be well developed and regulated to meet up with competition from other developed economics.
6. **Human capital development**: To ensure effective globalisation, it is expedient that nations should develop their human capital through training and quality education.
7. **Research and development:** Enough resources should be deployed to develop research in both the technical and technological education.

How to Manage Globalization in your Business?

Managing globalization in your business is a complex task that requires careful planning and execution. It involves understanding the cultural nuances of different regions, adapting to local laws and regulations, and keeping up with technological advancements:

One way to manage globalization is by conducting thorough research on your target markets. This includes analyzing consumer behavior patterns, identifying key competitors, and studying market trends.

Another important aspect of managing globalization is effective communication. This involves establishing clear lines of communication between employees, customers, suppliers, and other stakeholders across different countries and time zones. Utilizing technology such as video conferencing tools can help facilitate this process.

It's also crucial to establish a global supply chain network that can support your operations in various regions. This includes finding reliable suppliers who can provide high-quality products or services at competitive prices while adhering to local regulations.

Furthermore, it's essential to ensure compliance with local laws and regulations when operating in foreign markets. This may require hiring legal experts who have expertise in international law or collaborating with local partners who understand the regulatory landscape in that region.

Managing globalization requires a strategic approach that takes into account various factors such as market research, communication strategies, supply chain management practices, and legal compliance measures. By doing so effectively you will be able to reap the benefits of increased revenue streams from new markets while minimizing risksassociated with operating globally.

15.8 EFFECTS OF GLOBALISATION

The effect of globalization on business management practices has been immense. With the increasing interconnectedness of the world, businesses have had to adapt their strategies to remain competitive in a global market.

According to Ayodele and Stephen (2009), globalisation has various aspects, which affect the world in several different ways such as:

i. **Industrial (alias Trans nationalization**) – emergence of worldwide production markets and broader access to a range of foreign products for consumers and companies. Particularly movement of material and goods between and within transnational corporations, and access to goods by wealthier nations and individuals at the expense of poorer nations and individuals who supply the labour.

ii. **Financial** – emergence of worldwide financial markets and better access to external financing for corporate, national and sub national borrowers.

iii. **Economic** – realization of a global common market, based on the freedom of exchange of goods and capital.

iv. **Political** – Political globalization is the creation of a world government which regulates the relationships among nations and guarantee the rights arising from social and economic globalization.

v. **Informational** – increase in information flows between geographically remote locations.

vi. **Cultural -** growth of cross-cultural contacts; advent of new categories of consciousness and identities such as Globalism – which embodies cultural diffusion, the desire to consume and enjoy foreign products and ideas, adopt new technology and practices, and participate in a "world culture": loss of languages (and corresponding loss of ideas)

vii. **Ecological** – the advent of global environmental challenges that cannot be solved without international cooperation, such as climate change, cross-boundary water and air pollution, over-fishing of the ocean, and the spread of invasive species. Many factories are built in developing countries where they can pollute freely.

viii. **Social** – increased circulation by people of all nations with fewer restrictions. Provided that the people of those nations are wealthy enough to afford international travel, which the majority of the world's population is not.

ix. **Transportation** – Fewer and fewer European cars are now on European roads each year (the same can also be said about American cars on American roads), and the death of distance through the incorporation of technological to decrease travel time.

x. **International Cultural Exchange** – Spreading of multiculturalism, and better individual access to cultural diversity (e.g. through the export of Hollywood and Bollywood movies).

xi. **Technical** – Development of global telecommunications infrastructure and greater trans-border data flow, using such technologies as the internet communication satellites, submarine fiber optic cable, and wireless telephones.

xii. **Legal/Ethical** – The creation of the international criminal court, which the United States has refused to sign on to, and international justice movements. Crime importation and raising awareness of global crime-fighting efforts and cooperation.

The Different Facets of Globalization

Globalization is a complex and multifaceted phenomenon that encompasses various economic, social, cultural, and political dimensions. At its core, globalization refers to the increasing interconnectedness of people and businesses across borders. There are several key facets of globalization that have contributed to its growth over the past few decades:

One important facet is the rapid advancement in technology, which has made communication faster and more efficient than ever before. The rise of the internet has enabled businesses to reach customers all over the world with ease.

Another critical aspect of globalization is trade liberalization policies adopted by governments around the world. These policies involve reducing tariff barriers and other restrictions on international trade.

A third key facet is increased mobility for both people and goods. Modern transportation systems have made it easier for individuals to travel across borders as well as move products from place to place quickly.

There's cultural globalization – a process whereby different cultures meet each other due to migration or business-related activities. This results in an exchange of ideas, customs, traditions leading towards new hybrid culture forms.

These facets fueled by technological advancements continue shaping globalization trends today!

15.9 IMPLICATION OF GLOBALIZATION ON BUSINESS MANAGERS AND ORGANISATIONS

a. The Benefits of Globalized International Business Management

Globalization has opened new opportunities for businesses to expand their operations beyond the borders of their home country. This has resulted in numerous benefits for international business management practices:

A globalized approach allows businesses to tap into new markets and reach a wider customer base. By diversifying their customer base, businesses can reduce risks associated with economic downturns or political instability in one market.

International partnerships can lead to increased efficiency through sharing resources and knowledge transfer. Collaboration between companies from different countries can result in innovation and improved competitiveness.

Globalization provides access to a larger pool of talent as businesses seek out skilled workers from all over the world. This diversity also enables companies to better understand local customs and cultures, which is essential when expanding into foreign markets.

Economies of scale are achieved by producing goods on a global level which results in reduced costs per unit produced. This makes it easier for smaller businesses to compete with larger ones that have more resources at their disposal.

Globalization fosters an environment where best practices are shared across industries leading to overall improvement in standards worldwide. Businesses learn from each other's successes and failures creating an atmosphere conducive for growth and development of industry standards globally.

Globalization offers many advantages that allow international business management practices to thrive despite challenges posed by language barriers or cultural differences.

b. SKILLS REQUIRED OF THE GLOBAL MANAGER

A manager in a global corporation has to interact with colleagues from several countries or cultures. For instance, a global corporation might have top executives from more than 10 cultures. If they are to be effective, such managers will have to develop global skills as shown in Table 1

Table 1: Skills for Global Managers

S/No	SKILLS	DESCRIPTION
1.	Global perspective	Broaden focus from one or two countries to a global business perspective.
2.	Cultural responsiveness	Become familiar with many cultures.
3.	Appreciate cultural synergies	Learn the dynamics of multicultural situations.
4.	Cultural Adaptability	Be able to live and work effectively in many different cultures.
5.	Cross-cultural Communication	Engage in cross-cultural interaction every day, whether at home or in a foreign country
6.	Cross-cultural Collaboration	Work effectively in multicultural teams where everyone is equal.
7.	Acquire broad foreign experience	Move up the career ladder by going from one foreign country to another, instead of taking frequent home-country assignments.

Source: ***John D. Daniels and Lee H. Radebaugh, International Business, Addison-Wesley, Reading: Mass, 1995***

c. Some Negatives of A Globalized International Business Management

It is evident that globalization has both positive and negative impacts on international business management practices. While the benefits of a globalized approach cannot be overlooked, businesses must also be aware of the potential challenges that come with operating in an increasingly interconnected world.

The five negatives of a globalized international business management are:

i. Cultural barriers.

ii. Language differences.

iii. Legal complexities.

iv. Political instability.

v. Increased competition.

These factors can significantly impact on a company's ability to operate effectively in foreign markets. To overcome these challenges, companies need to invest in cross-cultural training for employees and develop effective communication strategies that consider language barriers. They also need to stay up-to-date with changing regulations and laws in different countries they operate in while minimizing their reliance on political stability by diversifying operations. Companies must continually innovate and differentiate themselves from competitors to succeed globally.

By understanding how globalization affects international business management practices both positively and negatively, businesses can navigate the complex landscape of today's global economy more successfully than ever before.

15.10 IMPLICATION OF GLOBALIZATION ON ECONOMY AND BUSINESS STAKEHOLDERS

It is a fact that globalization has implications on economic development and all business stakeholders. As we already know, Globalization represents an ongoing phenomenon characterized by the growing connectedness and interdependence among nations, individuals, and businesses worldwide. This process involves the integration of economic, political, social, and cultural systems across borders, resulting in increased flows of goods, services, capital, people, and ideas.

a) Impacts of Globalisation on Economic Development

The effects of globalization on economic development have been both positive and negative. Globalization has paved the way for new markets, enhanced trade, and investment, and fostered cross-border technology and knowledge transfers. These developments have contributed to greater economic growth, improved productivity, and job creation in numerous areas worldwide. However, globalization has also given rise to intensified competition, income disparity, and environmental damage in certain regions. (Takefman, 2023).

According to Takefman (2023), the effects of globalization on economic development include a variety of positive impacts on economic development as stated below:

i. Increased trade and investment opportunities: Globalization has created new opportunities for countries to trade and invest across borders. This has led to increased economic activity and higher levels of economic growth.

ii. Access to new markets and customers: Now, businesses can expand their customer base and access new markets, which has helped to boost sales and profits.

iii. Greater efficiency and productivity: Has increased competition among businesses, which has driven innovation and efficiency, leading to increased productivity.

iv. Spread of new technologies and knowledge: has facilitated the spread of new technologies and knowledge across borders, allowing countries to learn from one another and adopt best practices.

v. Increased competition: Among businesses, which has led to lower prices and higher quality products for consumers.

vi. Potential for economic growth and development: Globalization has the potential to drive economic growth and development, particularly for developing countries that have been able to attract foreign investment and benefit from increased trade opportunities.

Along with the above positive impacts of globalization on economic development, globalization has also brought about a range of negative impacts on economic development, including:

i. Loss of jobs and industries in some regions: Led to the relocation of industries and jobs to countries with lower labor costs, which has led to job losses and industry declines in some regions.

ii. Widening income inequality: Has increased income inequality between and within countries, with some countries and individuals benefiting more than others.

iii. Cultural homogenization: Led to the spread of Western culture and values, which has resulted in the homogenization of cultures and the loss of traditional cultures.

iv. Environmental degradation: Contributed to environmental degradation, with increased trade and economic activity leading to higher levels of pollution, deforestation, and climate change.

v. Dependence on foreign markets and investors: Led to increased dependence on foreign markets and investors, which can leave countries vulnerable to economic shocks and downturns.

vi. Vulnerability to global economic downturns: Has increased the interconnectedness of economies, making them more vulnerable to global economic downturns and crises.

b) Impacts of Globalisation on Business Stakeholders

Businesses have a lot of stakeholders – internally and externally - including governments, labour unions, civil society organisations, shareholders. For example, the labour unions are clamouring for businesses to uphold freedom of association and the effective recognition of the right to collective bargaining, elimination of all forms of forced and compulsory labor, effective abolition of child labor, and elimination of discrimination in respect of employment and occupation.

Whereas the civil society is championing that world business should support and respect the protection of internationally proclaimed human rights within their sphere of influence, and make sure they are not complicit in human rights abuses. Also, on environment, they desire that businesses should support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility, and encourage the development and diffusion of environmentally friendly technologies. (Blüthner, n.d.).

Shareholders' contribution is the determining factor in running the company. They are interested in assessing the control of the management department and guarantee that the appropriate decisions are made, while frequently assessing how well the company is doing and what changes might be made to improve things. Furthermore, shareholders ensures that companies are held responsible for their conduct, that companies' business is conducted ethically without violation or committing fraud, collaborate with the company's data analysts to choose the optimal strategy for the company's growth, and maintain the company's peace by resolving conflicts between the board and team members.

Now, how does globalization of business benefits shareholders of an organization? According to Scaling partners, globalization has helped organizations flourish not only in local marketplaces but also throughout international markets, as we've mentioned. This indicates that the company can create a lot of profit and income. The organization's globalization affects its shareholders thus:

i. It has helped organizations achieve capital efficiency and improve technology to remain relevant and compete.

ii. When a company is successful, shareholders receive higher dividends and can take advantage of numerous advantages and bonuses. They get better returns on the capital they provide.

iii. Shareholders will have the freedom to take bigger risks.

iv. Shareholders can enjoy the profits and expand their business.

v. Because of globalization, the companies these stockholders own generate more revenue and profit.

vi. Companies that globalize have a greater chance of increasing shareholder value than those that do not.

vii. Organizations that go worldwide see a huge increase in revenue because it has attracted new clients base, retained old ones, while innovating with more new products and trusted brands.

viii. Ability to negotiate better terms with suppliers because of the new firm's track record of success, and assist them in better managing other firms' elements such as marketing budgets, payrolls, etc.

ix. Companies benefit from globalization by having more inventory, and a high inventory turnover ratio translates to more revenue, which also helps businesses manage holding costs, storage space rent, and other expenses.

Globalization has revolutionized how we trade and generate revenue. The concept of globalisation originated from the need to enhance global interaction and integration in terms of political, economic, social, cultural, and technological capacity. It was started to enable countries to interact freely and import or export their unique capabilities with other countries. Now, companies no longer restrict themselves to their local businesses. They are continuously striving to expand and evolve.

Ristovska, K., et al. (2014) stated that globalisation has contributed to the expansion of the world market since from a confined and more restricted market to an open and more integrated market where goods and services can flow freely. As a result, the concept of globalisation has greatly influenced normal business operations with several organisations being forced to transform their business process to meet the global market demands. These changes have made several organisations remain profitable and relevant in the global market and to adopt global market strategies that enable them to remain competitive.

c) Strategies for Government and Businesses to Adapt and Use to take Advantage of the Globalisation

Globalization has generated both favorable and adverse effects on economic development. To capitalize on these outcomes, governments must adjust and seize the opportunities presented by a globalized economy.

According to Takefman (2014), there are several strategies that governments and businesses can implement to adapt to and take advantage of a globalized economy, such as investing in education and training, diversifying industries, developing infrastructure, supporting Small and Medium-sized Enterprises (SMEs), implementing environmental and social standards, promoting foreign investment, and finally promoting networking and collaboration.

i. **Investment in Education and Training:** Governments and businesses can invest in education and training to improve the skills of their workforce and increase their competitiveness in a globalized economy. This can include providing training programs for employees, supporting vocational and technical education, and investing in research and development.

ii. **Diversification of Industries:** Governments and businesses can diversify their economies and industries to reduce their reliance on a single industry or market. This can help to reduce the impact of economic shocks and increase resilience to global economic trends.

iii. **Infrastructure Development:** Governments can invest in infrastructure such as roads, ports, and airports to facilitate trade and attract foreign investment. This can help to improve the efficiency and competitiveness of local businesses, increase trade flows, and create employment opportunities.

iv. **Support for Small and Medium-sized Enterprises (SMEs):** Governments can provide support for SMEs to help them compete with larger firms in a globalized economy. This can include providing access to finance, facilitating market access, and providing training and advisory services.

v. **Implementation of Environmental and Social Standards:** Governments and businesses can implement environmental and social standards to ensure sustainable economic development. This can include implementing environmental regulations to reduce pollution and waste, promoting sustainable resource use, and protecting workers' rights.

vi. **Promotion of Foreign Investment:** Governments can promote foreign investment by offering incentives such as tax breaks, low-interest loans, and simplified regulations. This can help to attract foreign investment and create new employment opportunities.

vii. **Collaboration and Networking:** Governments and businesses can collaborate and network with other countries and industries to share knowledge, expertise, and best practices. This can help to improve competitiveness, access new markets, and create new business opportunities.

15.11 GLOBAL WARMING

Climate change poses a fundamental threat to places, species, and people's livelihoods. Humans and wild animals face new challenges for survival because of climate change. More frequent and intense drought, storms, heat waves, rising sea levels, melting glaciers, and warming oceans can directly harm animals, destroy the places they live, and wreak havoc on people's livelihoods and communities.

The global warming definition is one that many organisations such as National Geographic, the Met Office and other environmental groups agree on. It is the greatest environmental challenge facing the planet today**.** Global warming is caused by the increase in concentration of greenhouse gases in the atmosphere related to human activities.

Global Warming is defined as follows:

“Global warming is a gradual, long-term increase in the average temperature of Earth's atmosphere due to the greenhouse effect where gasses from various human activities, including the burning of fossil fuels, trap heat from solar radiation.” – Palmetto

“Global warming is the phenomenon of a gradual increase in the temperature near the earth’s surface. This phenomenon has been observed over the past one or two centuries. This change has disturbed the climatic pattern of the earth.” – BYJUS

“Global warming is the continual rise in the Earth’s surface temperature and its subsequent impact on its climatic conditions. Global warming has caused adverse effects on the earth’s atmosphere. It has led to extreme weather conditions which in turn have adversely affected the life on the planet.”

Global warming is the long-term heating of Earth’s surface observed since the pre-industrial period (between 1850 and 1900) due to human activities, primarily fossil fuel burning, which increases heat-trapping greenhouse gas levels in Earth’s atmosphere. – NASA.

This term is not interchangeable with the term "climate change." Global warming is the cause of climate change. (See below). However, the concept of global warming is quite controversial, but the scientists have provided relevant data in support of the fact that the temperature of the earth is rising constantly. Years 2011-2020 was the warmest decade recorded, with global average temperature reaching 1.1°C above pre-industrial levels in 2019. Human-induced global warming is presently increasing at a rate of 0.2°C per decade.

An increase of 2°C compared to the temperature in pre-industrial times is associated with serious negative impacts on to the natural environment and human health and wellbeing, including a much higher risk that dangerous and possibly catastrophic changes in the global environment will occur. The current warming trend is unequivocally the result of human activity since the 1950s and is proceeding at an unprecedented rate over millennia.

For this reason, the international community has recognised the need to keep warming well below 2°C and pursue efforts to limit it to 1.5°C.

Now, to differentiate between Global Warming vs Climate Change. While some people use “global warming” and “climate change” interchangeably, they are technically two different terms that describe weather and climate and warrant their own definitions.

i. Global warming is the rise in the temperature of the Earth's atmosphere.

ii. Climate change is the transition from one climatic state to another over an extended time frame – including temperature, precipitation, and wind patterns.

iii. Global warming is caused by the heat-trapping gasses that come from increased human activity.

iv. Climate change is caused by global warming and other climatic shifts that happen naturally.

According to one of the latest reports from the IPCC (Intergovernmental Panel on Climate Change), global warming of more than 1.5°C would cause unprecedented climatic consequences, such as: bigger and more intense storms, rain followed by more prolonged and intense droughts, etc**.** These extreme weather events could be more frequent and intense and have irreversible repercussions on the environment. Nevertheless, climate change varies from place to place**.** For example, the polar zones are warming twice as fast as the rest of the world. Continuing the current trajectory of global warming, the Arctic ice sheet could completely disappear in a few decades.

(1) The Causes and Consequences of Global Warming

a) What Causes Global Warming?

Global warming occurs when carbon dioxide (CO_2) and other air pollutants collect in the atmosphere and absorb sunlight and solar radiation that have bounced off the earth’s surface. Normally this radiation would escape into space, but these pollutants, which can last for years to centuries in the atmosphere, trap the heat and cause the planet to get hotter. These heat-trapping pollutants—specifically carbon dioxide, methane, nitrous oxide, water vapour, and synthetic fluorinated gases—are known as greenhouse gases, and their impact is called the greenhouse effect.

So, global warming is attributable to the over-accumulation of greenhouse gasses (GHGs) such as carbon dioxide (CO2), nitrous oxide (N2O), and methane (CH4) in the Earth's atmosphere. The excess GHGs can come from a variety of sources:

i. **Burning Fossil Fuels:** Machinery and power plants that relies on coal, natural gas, or oil to run releases carbon dioxide (a major greenhouse gas) into the atmosphere.

ii. **Deforestation:** Deforestation removes the trees that act as a natural GHG filter, absorbing carbon dioxide and releasing oxygen into our atmosphere.

iii. **Agricultural Practices:** Modern farming accounts for more than 10% of all human-produced greenhouse gas emissions, largely due to livestock and rice cultivation.

iv. **Consumer Goods:** The energy used in the manufacturing and transportation of consumer goods leads to increased greenhouse gas emissions.

v. **Mining:** Operations that rely on fossil fuels emit significant levels of GHGs.

vi. **Waste Disposal:** When plastics and other non-biodegradable waste decompose, it releases toxic gases into the environment.

vii. **Exponential increase in population**.

viii. **Destruction of marine ecosystems**.

ix. **Permafrost melting**: As permafrost melts, ancient stores of methane and carbon dioxide are released, and the cycle is set off again. Plant and animal life, humans, and infrastructure are threatened. Permafrost thaw can’t be reversed, so we must reduce emissions and stop the process.

The more greenhouses’ gases there are in the atmosphere, the more heat is retained. This eventually leads to global warming. And the largest contributor to an increase in greenhouse gases is human activity. Through their activities, humans are increasing the greenhouse effect and contributing more to the effects of global warming. The rapid increase in greenhouse gases and the consequence of global warming is worrisome because the climate is changing so rapidly that some living things cannot adapt. It is up to us collectively to reduce that or else...?

b) Consequences/Effect of Global Warming

Global warming refers to the rise in the temperature on Earth and the subsequent changes in the atmosphere. This rise is mainly a result of the emission of carbon gases from different sources. The consequences of global warming differ based on different regions. However, overall, it is having a negative impact on life on Earth and its effects are likely to worsen in the times to come.

A scientific report published by the United Nations Intergovernmental Panel on Climate Change (IPCC) outlines the serious effects of global warming and global climate change as follows:

1. **Rise in the Sea Level**: Sea level has risen because of global warming. The changes have been more evident since the 20th century. Mainly caused due to the melting of the glaciers and warming of the ocean water, the rise in the sea level is a threat for the people living in the coastal and low-lying areas as there is an increasing risk of flood.
2. **Erratic Rainfall Pattern:** Rise in the temperature level has worst affected the rainfall pattern. Over the last few decades, while certain areas are experiencing drought others are faced with heavy floods. This has disrupted the life of people living in these areas.
3. **Ocean Acidification:** Because of escalating carbon dioxide emissions, oceans are becoming more acidic and harmful to marine life.
4. **Increase in Wildfire:** The rise in temperature has resulted in frequent wildfires and longer wildfire seasons. This is a huge threat to wildlife.
5. **Intense Heat Waves:** Constant increase in the temperature on Earth has also given rise to the heat waves. Heat waves have become more intense and much more frequent and are causing several health issues.
6. **Growth in Health Problems:** Health problems are on an all-time rise due to global warming. The increased level of pollution in the air is causing breathing problems, lung infections and aggravating the problem for asthma patients. Intense heat waves also cause health problems and so do heavy floods. Water accumulated in different areas due to flood is a breeding ground for mosquitoes, flies and other insects and the infections caused by these are known to all.
7. **Damaging of Crops:** Erratic rainfall pattern is not only having negative repercussions on the lives of the people but is also having adverse effect on the crops grown in those areas.

Droughts as well as floods are damaging the crops. The agricultural lands are also being impacted badly due to such climatic conditions.

8. **Extinction of Animals:** Global warming has not only been a cause of several health issues in human beings but has also made life difficult for various animals. The changes in the weather conditions have made survival difficult for many species of animals. Many of these have disappeared and several others are on the verge of going extinct.
9. **Extreme Weather Conditions:** Global warming is also causing extreme weather conditions in various regions. Extreme summer season, heavy storms, intense cyclones, hurricanes, heavy rainfall, extreme drought are all a result of global warming.
10. **Disappearing Polar Ice:** When the water frozen in polar sea ice melts into the oceans, it can have a huge impact on rising sea levels and speed up the heating of Earth's atmosphere.
11. **Biodiversity:** Climate change is also leading to indirect impacts on biodiversity through changes in the use of land and other resources. Direct impacts include changes in phenology (the behaviour and lifecycles of animal and plant species), species abundance and distribution, community composition, habitat structure and ecosystem processes.
12. **Availability of Fresh Water**: As the climate heats up, rainfall patterns change, evaporation increases, glaciers melt, and sea levels rise. All these factors affect the availability of fresh water. More frequent and severe droughts and rising water temperatures are expected to cause a decrease in water quality. Such conditions encourage the growth of toxic algae and bacteria, which will worsen the problem of water scarcity that has been largely caused by human activity.

Global Warming is a cause of huge concern. It is time we people started taking this issue seriously. Reduction in carbon emission can bring down the consequences of global warming. Hence, each one of us should do our bit to control it.

(2) The Role of Businesses and Governments in Mitigating and Adapting to the Effects of Global Warming

With climate change becoming more severe, international organizations, national governments, nongovernmental organizations, and local communities need to find new ways to work together to prepare for, and survive, its effects. Many of the major policy responses to climate change fall under two categories. First is mitigation, which means ‘reducing or preventing the emission of greenhouse gases.’ Second is adaptation, i.e., ‘reacting to the effects of climate change that have already occurred or are projected to occur in the future.’

So, what are examples of climate change adaptations? The fact is that there are a few international efforts to assist adaptation in developing countries, which are often hit the hardest by the effects of climate change. Other efforts are led by local governments or community groups working to make their homes and livelihoods more climate resilient. Because the effects of climate change are so varied, adaptations need to vary too to respond to the needs of the affected areas. Adaptations run the gamut from relocating residents of areas susceptible to flooding to securing food and water supplies in regions affected by drought.

However, government and businesses have a great role to play in both efforts highlighted above.

Environmental problems are sometimes hard to detect until they reach a critical threshold and emerge as public health or ecological threats. When the underlying causes are spread widely over space or time or a solution requires significant cost or behavioral change, capturing public focus can be even more challenging.

Mitigating climate change is about reducing the release of greenhouse gas emissions that are warming our planet. Mitigation strategies include retrofitting buildings to make them more energy efficient; adopting renewable energy sources like solar, wind, and small hydro; helping cities develop more sustainable transport such as bus rapid transit, electric vehicles, and biofuels; and promoting more sustainable uses of land and forests.

About 1.4 billion people around the world rely on traditional fuels like coal and wood to meet their basic energy needs. This is not only harmful to the environment; it can also lead to premature deaths for millions of people, especially women and children. By 2035, global energy demand is projected to grow by more than 50 percent, and even faster in developing countries. All these new consumers need clean energy that will not hurt them or the environment.

If action requires overcoming entrenched interests that benefit from the status quo, then the political mobilization necessary to produce collective action will be particularly difficult. Climate change presents an extreme case on all counts.

After decades of inaction, however, 195 nations committed in the 2015 Paris Climate Change Agreement to reduce greenhouse gas emissions that have been building up in the atmosphere for centuries. The 2018 Intergovernmental Panel on Climate Change (IPCC) special report Global Warming of 1.5°C highlights the urgency of needed climate actions: global emissions will need to peak by 2030 and rapidly decrease to net-zero by 2050 if we are to be able to stay within the safety limits established by the Paris Agreement.

a) **The Role of Businesses**

It has never been more important for companies to adopt measures to fight the climate crisis. It is a collective role for everyone across the world, so it's essential that we all play a significant role. However, many companies are unsure how to go about implementing changes that will positively impact the environment.

On the complexities of addressing the climate crisis, Schenk et.al. (2021) asked Harvard Business School faculty members to discuss how business leaders can help spur change and what opportunities might emerge. Some of their ideas are shared below:

i. **Fund environmental innovation:** There are considerable "unknown unknowns" in the future of climate change, and government alone cannot fund it. So, businesses can adapt and allocate capital nimbly as these unknown unknowns arise and take prominence. - Lauren Cohen

ii. **Make decarbonization profitable: Businesses contribute much to the carbonization challenge.** If enough will is put into aligning profit with decarbonization, business leaders should be able to drive large scale impact while generating an abundance of profitable business opportunities. (Boris Vallée).

iii. **Combine forces to increase impact:** Business leaders, including capital providers, can work to preserve shared value so that we the people aren't all hurt by chaos in the decades ahead. This involves thoughtful benefit-cost analysis that looks into a future where the exposures are uncertain, and not evenly distributed. The best investors, operators, innovators, and policymakers will assess probabilities of the perils as they evolve over time. They will fully count the value of co-benefits in public health and environmental justice as they filter their opportunities in construction, finance, engineering, sensors, and climate risk modeling. – John Macomber

iv. **Build meaningful partnerships:** Business leaders have two roles in this extraordinary moment. The first is to move as fast as possible to reduce greenhouse gas emissions from their own operations and from their supply chains. The second is to support effective climate regulation. Decarbonizing the world's economy requires rebuilding not only the entire electric power industry, but also transportation, infrastructure, construction, and agriculture. Action by individual firms can take us a long way, but we won't solve the problem of climate change without building real partnerships between the public and private sector to ensure that everyone has the skills—and the incentives! —to reduce their emissions.

v. **Support the developing world:** The world needs abundant quantities of clean, 24x7x365, reliable, geopolitically secure, and affordable energy NOW to revitalize and redesign the stagnant industries in the developed worked and to relieve and redress the human suffering in the developing world. There has to be a politically realistic path from the realities of the present to the promise of the future that meets the urgent, immediate concerns of those whose voices are often too easily downplayed or even ignored in the drive for a net-zero future. - Joseph Lassiter.

vi. **Bolster impact investing:** Business leaders should embrace evolving capital markets, and seek to communicate to investors how their businesses will navigate the upcoming climate transition. We are seeing significantly greater commitment from both asset owners and asset managers to engage with management to seek meaningful change. - Shawn Cole.

vii. **Lead with moral conviction:** Moral leaders have an obligation to accept science, and identify the role that they are playing in climate change. Moral leaders have an obligation to consider factors beyond profit maximization. Those other factors should include the rights of future generations. And moral leaders have an obligation to think about how they can change not only their own behavior, but how they can influence the behavior of those whom they lead. - Max Bazerman

viii. **Mine the research:** The planet is in trouble and we need a combination of science, technology, community relationships and innovation to fix it. So, there's urgent need for partnerships and innovation as core to solving the climate crisis. -Lynda Applegate.

Other roles that businesses can fit in include:

ix. **Measure and analyse your greenhouse gas emissions**: If businesses really want to reduce carbon footprint and impact the environment positively, the first step is to measure the company's greenhouse gas emissions (GHG). Measuring and analysing their greenhouse gas emissions helps them to have clear statistics of the approximate amounts of emissions company is releasing to the environment. Once businesses have completely measured their greenhouse gas emissions, analyse them and determine the main activities that result in these emissions. Then, they can now establish a plan to tackle these emissions from their main sources.

x. **Encourage sustainable commuting**: Companies that wants to get serious about curbing global warming need to be at the forefront of scaling down transport emissions. One way of doing this is to encourage employees to use transport services that do not emit greenhouse gases. Also, encourage employees to walk to the workplace, cycle, or shift to electric vehicles.

xi. **Reduce emissions in the workplace:** To substantially cut down emissions, businesses can ensure that their organisation is managed in an environmentally responsible manner. An effective way to do this is to ensure that buildings are insulated to the highest standards, as well as built using sustainable materials that are low carbon or recyclable. The less energy consumed in the company, the fewer emissions are released to the environment. Well-designed buildings can potentially be zero-carbon through reduced heating and cooling.

xii. **Practice responsible waste management:** Adopt the "Reduce, Reuse, Recycle" mind-set. Minimize waste by opting for reusable products, avoiding single-use items, and recycling materials whenever possible. Composting organic waste can also contribute to reducing landfill waste.

xiii. **Invest in greener equipment and infrastructures:** Another way to combat climate change is to choose more environmentally-friendly equipment and infrastructures. For example, company vehicles could be upgraded to electric or hybrid models to reduce emissions. Office necessities such as printers, air conditioners, bulbs etc. could be swapped for more energy-efficient and sustainable equipment where possible.

xiv. **Reduce your value-chain emissions:** The value-chain emissions include those that are outside the boundaries of your company. Examples include emissions released by your suppliers and sold products. This might actually represent the largest share of your total footprint. Work closely with your suppliers to reduce activities that increase carbon emissions. Also, evaluate suppliers' code of conduct criteria and re-design products that emit greenhouse gases.

xv. **Conduct an environmental impact assessment:** Begin by assessing your current lifestyle and habits to identify areas where you can make improvements. Understand the environmental issues and their impacts, such as resource depletion, pollution, and climate change, and how your actions may contribute to them.

xvi. **Conserve energy:** Reduce your energy consumption by turning off lights and appliances when not in use, utilizing energy-efficient light bulbs, and opting for energy-saving devices. Consider using renewable energy sources such as solar or wind power if feasible.

xvii. **Conserve water:** Be mindful of your water usage by taking shorter showers, fixing leaks promptly, and using water-efficient appliances and fixtures. Collect rainwater for gardening purposes to minimize reliance on freshwater resources.

xviii. **Support sustainable products and businesses:** Make informed choices by selecting products that have a minimal environmental impact, such as those made from recycled materials or with eco-friendly production processes. Support businesses that prioritize sustainability and environmental protection.

While it is often discussed in boardrooms as a major risk, climate change is also a business opportunity. The low-carbon transition creates opportunities for efficiency, innovation and growth that extend beyond high-carbon industries like energy and transport to all sectors. Companies can save energy and materials costs, serve new customer needs, enhance their reputations, and better attract and retain talent — all as a consequence of working to reduce their emissions and those of their customers and suppliers. Through their governance role, boards can help to ensure that climate opportunities are captured by reviewing corporate strategy and focusing on long-term value. (McDonald and Bailey, 2020).

b) The Role of Government

All experts agree that governments—not just individuals or private businesses—play a critical role in the fight against climate change. However, they disagree on the most effective options to address the problem. Outlined below are seven government policies aimed at combating global warming:

i. **Carbon Taxes:** Greenhouse gas emissions, such as carbon dioxide, pollute the atmosphere and change the climate. Carbon taxes attempt to minimize those emissions by requiring the largest greenhouse gas producers—for instance, coal-fired power plants—to pay for the damage they cause. By attaching fees to emissions, carbon taxes encourage people, businesses, and governments to emit less. Governments can use the revenue generated from these fees to pay for social programs, invest in clean energy, or lower taxes for the public.

ii. **Cap and Trade:** The term cap and trade refer to a government program designed to limit (or cap) private-sector greenhouse gas emissions. In cap-and-trade systems, governments allocate or sell a set number of permits, each of which represents the right to emit a specific amount of greenhouse gases. If a company needs more permits to make its product, it must trade with another company to buy them. So, as with a carbon tax, companies directly pay for their pollution.

iii. **Clean Energy Standards:** Electricity generation accounts for 31 percent of U.S. greenhouse gas emissions. To decrease emissions, around two-thirds of U.S. states have implemented clean energy standards—laws that encourage utility companies to generate a certain percentage of their electricity from low-emission energy sources, such as solar or wind power. However, each state's standard varies in how it defines clean energy, what percentage of low-emission energy it requires or recommends, and whether the standard is mandatory or voluntary.

iv. **International Agreements:** In 2020, UN Secretary-General Antonio Guterres announced the world needed to reach net-zero greenhouse gas emissions by 2050 in order to limit global warming to 1.5°C. His statement made one thing clear: climate change is a global problem that requires a global response. Over the past three decades, countries have worked together to coordinate this response through international agreements such as the Kyoto Protocol. However, those agreements have varied in effectiveness, with countries disagreeing on goals for emissions reductions and rules on how to enforce emissions cuts.

One of the most significant climate agreements in history, the Paris Agreement requires its almost two hundred signatories to set individual goals to reduce greenhouse gas emissions. Nearly every country in the world has signed on, and over sixty countries (including top emitters the United States and China) have pledged to achieve net-zero emissions by 2060. Although participation in the voluntary agreement is near universal, experts believe countries' pledges are not ambitious enough to meet the agreement's target of limiting global warming to 1.5°C.

v. **Adaptation Policy:** Extreme weather events such as heat waves, droughts, and floods are getting worse. To address these consequences of climate change, governments have instituted adaptation policies aimed at making cities, states, and even countries less vulnerable to these disasters. Adaptation policies range from creating evacuation plans to building roads and bridges that can withstand rising sea levels and extreme weather conditions. Some governments have also turned to innovative strategies such as building public parks that can absorb and store water in the event of floods.

vi. **Minimizing financial risks of climate change**: On the world's current climate trajectory, researchers predict the global economy could lose up to $23 trillion per year by 2100 due to climate factors such as falling crop yields, increasing disease rates, and rising sea levels. For comparison, that's around double the global economic losses from the 2008 financial crisis. To avoid future financial instability, governments have begun implementing policies to prepare for climate-related economic shocks. These policies include mandating that all citizens have access to fire insurance and requiring that banks disclose whether climate change has the potential to affect their investments.

vii. **Tech Investment:** From the internet to self-driving cars, governments have long invested in cutting-edge technology. And for the past few decades, many have supported the research and development of technology designed to greatly reduce greenhouse gas emissions. A few of those technologies include renewable energy technologies, which harness energy generated by natural resources including wind and the sun., nuclear energy uses fission—a reaction that occurs when splitting an atom—to generate electricity without producing greenhouse gas emissions, carbon capture technology, factories and power plants can cut their emissions by up to 90 percent by capturing and storing the carbon they produce underground instead of sending it into the atmosphere, and geoengineering projects that aim to change natural systems to combat climate change.

(3) Ethical Implications of Global Warming for Businesses and Society at Large

Climate change presents a severe ethical challenge, forcing us to confront difficult questions as individual moral agents, and even more so as members of larger political systems. It is genuinely global and seriously intergenerational, and crosses species boundaries. It also takes place in a setting where existing institutions and theories are weak, proving little ethical guidance (Gardiner, 2016).

The major ethical issue of the global warming debate revolves around the issue of justice regarding the distribution of costs and benefits of greenhouse gas emissions. The requirements of justice are determined by ethical debate, which is shaped and reshaped by the politics of the environment. The debate involves three major questions: Who is responsible for the global warming problem? Who bears the burden of the consequences of global warming? Who should pay or sacrifice to ameliorate global warming? (Joanne Bauer).

The changing climate will bring many challenges for society and business, some which are known now and some which it may be difficult to predict. Climate change is likely to directly impact businesses in a number of ways:

i. extreme weather and more variable weather;
ii. more flooding events;
iii. water restrictions;
iv. supply chain disruption or collapse;
v. government mitigation measures.

Furthermore, unpredictable weather can affect businesses directly, for example by increasing the risk of water shortages or flooding. This can cause significant disruption to businesses and make it more difficult to get insurance. Businesses may also be affected by measures imposed by the government to help meet greenhouse gas reduction targets. These measures include:

i. **Climate Change Levy** - a method designed to improve business' energy efficiency. Some organisations may already be paying this levy as part of current energy bills. You can reduce The amount of levy to be paid can be reduced by cutting the amount use and switching to renewable energy.

ii. **Climate change agreements** – if the business is in an energy-intensive sector, the firm may be eligible for a reduction in the climate change levy by meeting energy reduction targets.

iii. **Emissions trading and reporting** - if the business is in one of the energy-intensive sectors covered by the scheme, firms must report and meet targets to reduce own greenhouse gas emissions or take part in a voluntary reporting scheme.

Reducing a firm's emissions can bring other benefits, such as lower energy bills and improving the way stakeholders view the business. The company may also be able to take advantage of related tax breaks. The most effective way of cutting firm's carbon emissions is likely to be by using a systematic approach to managing emissions reduction, such as by using an environmental management system.

The changing weather patterns may pose the most dramatic risk to businesses large and small. Since 2010 in US, public companies are requested to disclose to their shareholders any issues related to climate change that could have a significant impact on their business operations. According to Fontinelle (2022), some of these include:

i. **Capital Expenditures for Emission Control Systems:** Some companies have been required to spend significant amounts of money on upgrades to polluting facilities and on the installation of emission control systems in order to comply with regulations on greenhouse gas emissions.

ii. **Cap and Trade Rules:** Cap-and-trade policies aim to lower carbon emissions by placing an upper limit on the amount of pollution a company can emit and allowing companies to sell any of their unused allowances to other companies.

iii. **Higher Prices for Goods and Services:** Even companies that aren't in the energy industry can be indirectly affected by energy regulation and the costs they create. Broad changes in prices for utilities and transportation must be passed on by suppliers. And the companies in the middle must pass them on to their customers.

iv. **Changing Weather Patterns:** Storms are expected to become more severe, with a variety of negative consequences for businesses. These could spread well beyond the obvious losses for insurance companies. International shipping could become more dangerous. Long-established agricultural regions could be decimated. Coastal communities and infrastructure could suffer repeatedly.

v. **Changing Demand for Good:** The combination of changing prices and changing weather patterns create changes in demand for certain goods. Demand for cold-weather products such as heating oil and ski equipment might decline. Here, new opportunities may be created for environmentally-friendly corporations.

vi. **Obligations Under Foreign Regulations:** Many, if not most, large public companies operate abroad as well as at home these days, and that places them under the jurisdiction of a wide range of climate change laws and regulations, whether or not the home country has adopted them.

vii. **Changing Public Perceptions:** Reputation is supremely important to businesses and, these days, many want to earn reputations for environmental responsibility.

Three factors determined a company's ethical climate: the environment in which the organization functions, the form of the organization (centralized, divisional, multinational) and the organization's history (Cullen, Victor& Stephens, 1989).

The real climate challenge is ethical, and ethical considerations of justice, rights, welfare, virtue, political legitimacy, community, and humanity's relationship to nature are at the heart of the policy decisions to be made. We do not "solve" the climate problem if we inflict catastrophe on future generations, or facilitate genocide against poor nations, or rapidly accelerate the pace of mass extinction. If public policy neglects such concerns, its account of the challenge we face is impoverished, and the associated solutions quickly become grossly inadequate. Ongoing political inertia surrounding climate action suggests that so far, we are failing the ethical test. (Gardiner, 2016).

15. 12 SUMMARY

This chapter discussed globalization, the close integration of peoples and countries around the world. It is the technological efforts in reducing the physical distance among nations through information technology to bring about socio-economic integration.

Globalization means the speedup of movements and exchanges (of human beings, goods, and services, capital, technologies, or cultural practices) all over the planet. One of the effects of globalization is that it promotes and increases interactions between different regions and populations around the globe.

Globalization is driven by the convergence of cultural and economic systems. This convergence promotes -- and in some cases necessitates -- increased interaction, integration, and interdependence among nations. The more countries and regions of the world become intertwined politically, culturally, and economically, the more globalized the world becomes.

Simply put, the aim of globalisation is to secure socio- economic integration and development of all the people of the world through a free flow of goods, services, information, knowledge, and people across all boundaries.

Globalization is a complex and multifaceted phenomenon that encompasses various economic, social, cultural, and political dimensions. At its core, globalization refers to the increasing interconnectedness of people and businesses across borders.

Some of the factors responsible for globalization include change in technology, trade liberalization, mobility of labour, growing consumer pressures as well as expanded cross-national cooperation.

Some of the benefits of globalization free flow of capital, improvement in the quality of goods as well as expansion of market for export.

Challenges of globalization include the dependence of one country on another, massive outflow of capital, loss of culture, health problem and collapse of some local businesses.

The effects of globalization are industrial, financial, political, legal and cultural, among others. Managing globalization in your business is a complex task that requires careful planning and execution. It involves understanding the cultural nuances of different regions, adapting to local laws and regulations, and keeping up with technological advancements.

The skills required of the global manager were used to conclude the chapter. These skills include global perspective, cultural responsiveness, cross-cultural communication among others.

The effects of globalization on economic development have been both positive and negative. Globalization has paved the way for new markets, enhanced trade, and investment, and fostered cross-border technology and knowledge transfers. These developments have contributed to greater economic growth, improved productivity, and job creation in numerous areas worldwide. However, globalization has also given rise to intensified competition, income disparity, and environmental damage in certain regions. (Takefman, 2023).

Globalization has generated both favorable and adverse effects on economic development. To capitalize on these outcomes, governments must adjust and seize the opportunities presented by a globalized economy.

Global warming is the long-term heating of Earth’s surface observed since the pre-industrial period (between 1850 and 1900) due to human activities, primarily fossil fuel burning, which increases heat-trapping greenhouse gas levels in Earth’s atmosphere. – NASA. This term is not interchangeable with the term "climate change." Global warming is the cause of climate change.

Global warming occurs when carbon dioxide (CO_2) and other air pollutants collect in the atmosphere and absorb sunlight and solar radiation that have bounced off the earth's surface. Normally this radiation would escape into space, but these pollutants, which can last for years to centuries in the atmosphere, trap the heat and cause the planet to get hotter. These heat-trapping pollutants—specifically carbon dioxide, methane, nitrous oxide, water vapour, and synthetic fluorinated gases—are known as greenhouse gases, and their impact is called the greenhouse effect.

Businesses and Government have critical roles to play in mitigating and adapting to the effects of global warming. Mitigating climate change is about reducing the release of greenhouse gas emissions that are warming our planet. Mitigation strategies include retrofitting buildings to make them more energy efficient; adopting renewable energy sources like solar, wind, and small hydro; helping cities develop more sustainable transport such as bus rapid transit, electric vehicles, and biofuels; and promoting more sustainable uses of land and forests.

15.13 ILLUSTRATIVE AND PRACTICE QUESTIONS

A) THEORY QUESTIONS

1. What is globalization? What are the five components of globalization?
2. Explain the factors responsible for globalization.
3. List the merits and demerits of globalization.
4. Explain the challenges of globalization before the managers of multinational corporations.
5. Who is a global manager? What are the skills required of a global manager?
6. Discuss the effects of globalisation on business management practices.
7. Managing a foreign culture is a challenging job. Explain this statement and give reasons for your answer.
8. What is Globalization and its significance?
9. What are the four qualities of globalization?
10. What is globalization? What are the factors responsible for globalization?
11. What do you understand by the title "Globalization"? Justify the validity and falsity of its existence.
12. Discuss the role of businesses in mitigating and adapting to the effects of global warming.

13. List the role of government in mitigating the effects of global warming.

B) MULTIPLE CHOICE QUESTIONS

1. Globalization means the speedup of movements and exchanges (of human beings, goods, and services, capital, technologies, or cultural practices) all over the planet.
   a) Globalisation
   b) Socialisation
   c) Multi global
   d) Globeralisation

2. What is the amalgamation and rapid unification between countries identified as?
   a) Globalisation
   b) Liberalisation
   c) Socialisation
   d) Privatisation

3. Globalisation has improved the living structure of which of the following?
   a) All the people
   b) People living in developing countries.
   c) People living in developed countries.
   d) None of the above

4. Which of these organisations emphasise on the liberalisation of foreign investment and foreign trade?
   a) International Monetary Fund
   b) World Health Organisation
   c) World Trade Organisation
   d) International Labour Organisation

5. Tax on imports is considered as an example of
   a) Collateral
   b) Trade barriers
   c) Foreign trade
   d) Terms of trade

6. Which of the following is the main reason behind the investments of MNCs?
   a) To benefit foreign countries
   b) To provide financial support to the country's government
   c) For the welfare of underprivileged people
   d) **To increase the assets and earn profits.**

7. According to WHO __________________ can be defined as “the increased interconnectedness and interdependence of peoples and countries.

a) International trade
b) Globalisation
c) Multi global
d) Global trade

8. _____________________ is generally understood to include two inter-related elements: the opening of international borders to increasingly fast flows of goods, services, finance, people, and ideas; and the changes in institutions and policies at national and international levels that facilitate or promote such flows.

a) International trade
b) Globalisation
c) Multi global
d) Global trade

9. ____________________ is the technological effort in reducing the physical distance among nations through information technology to bring about socio-economic integration.

a) Globalization
b) Integration
c) Technology
d) Global Trade

10. Globalisation caused…

a) Easy movement of goods, capital and services
b) Increasing the international trade
c) Companies easily operating in various countries.
d) All of the above

15.14 REFERENCES

Arnold, D. G., & Bustos, K. (2005). Business, Ethics, and Global Climate Change. *Business & Professional Ethics Journal*, *24*(1/2), 103–130. http://www.jstor.org/stable/27801374

Ayodele, A.D and Stephen, O.O. (2009) Introduction to Business Management, Lagos. High Rise Associate ventures.

Bauer, Joanne. Global Warming, Poverty, and Ethical Issues. Encyclopedia of Life Support Systems (EOLSS). Climate Change, Human Systems, And Policy –Vol. I Available at https://www.eolss.net/sample-chapters/c12/E1-04-03-02.pdf

Blüthner, Andreas. "We, the Stakeholders of Globalization . . .A Role for Business in New Forms of Global Democracy? Paper presented at the Fourth Annual Kent State University Symposium on Democracy. Available at https://www.kentstateuniversitypress.com/wp-content/uploads/symposium/Nieman/We_Stakeholders.htm

Chhabra, T.N. (2011). Principles and practice of management. Nai Sarak, Delhi: Gagan Kapur publishers.

Fontinelle, Eric. August 22, 2022. 7 Ways Climate Change Affects Companies. https://www.investopedia.com/financial-edge/0210/7-ways-climate-change-affects-companies.aspx

Gardiner, Stephen. January 9, 2016. Why climate change is an ethical problem. Available at https://www.washingtonpost.com/news/in-theory/wp/2016/01/09/why-climate-change-is-an-ethical-problem/

Gardiner, S. M. & Hartzell-Nichols, L. (2012) Ethics and Global Climate Change. *Nature Education Knowledge* 3(10):5

https://www.zurich.com/en/knowledge/topics/climate-change/how-climate-change-will-impact-business-everywhere

https://world101.cfr.org/global-era-issues/climate-change/how-do-governments-combat-climate-change

McDonald, Scott and Bailey, Rob. (2020). Climate Change Is An Opportunity For Business To Thrive. Available at https://www.oliverwyman.com/our-expertise/insights/2020/oct/climate-change-is-an-opportunity-for-business-to-thrive.html

Peng, M.W. (2009). Global Strategy, Secod Edition: South Western Cengage Learning.

Ristovska Katerina and Ristovska Aneta, (2014) The Impact of Globalization on Business. Economic Analysis, Vol. 47, No. 3-4, 83-89.

Sandström, Johan. (2011). Stakeholder Theory and Globalization: The Challenges of Power and Responsibility. Organization Studies. 32. 473-488. 10.1177/0170840611400290.

Schenk, Lynn and Gerdeman, Dina. 30 NOV 2021. What's the Role of Business in Confronting Climate Change? Available at https://hbswk.hbs.edu/item/whats-the-role-of-business-in-confronting-climate-change

Takefman, Bruce. April 11th, 2023. The Effects Of Globalization On Economic Development. Available at https://researchfdi.com/resources/articles/the-effects-of-globalization-on-economic-development/

Teresi M, Pietroni DD, Barattucci M, Giannella VA and Pagliaro S (2019) Ethical Climate(s), Organizational Identification, and Employees' Behavior. Front. Psychol. 10:1356. doi: 10.3389/fpsyg.2019.01356

RECOMMENDATIONS FOR FURTHER READING

Basic Principles and Practice of Business Administration by Dr. Ambrose E. Edebe.
Business principles and management by James L. Burrow, Brad Kleindl and Kennet E. Everard.
Business Administration Handbook: Current trade and new global trends by David Isaac Ruiz.
Fundamentals of Business Administration Management by Caroline Anderson.