# COURSE GUIDE

# CRD428 SMALL BUSINESS MANAGEMENT

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## INTRODUCTION

The course Small Business Management (CRD 428) is a core course which carries three (3) credit units. It is prepared and made available to all undergraduate students in Cooperative Management Programme, in the Faculty of Management Sciences/Department of Entrepreneurial Studies. This course is a useful material to you in your academic pursuit as well as in your workplace as managers and administrators.

## WHAT YOU WILL LEARN IN THIS COURSE

The course is made up of twenty (20) units, covering areas such as:

- Scope and nature of Small Business Management
- Business goals and characteristics of Small Business enterprises
- Basic concepts of Management
- Management principles; Organizing, planning, staffing, controlling, directing functions in Management
- Research and Budgeting and their application to Co-operatives and Small Business
- Cooperatives as a Social Organization; setting up a Cooperative Society, understanding the motives behind forming a Cooperative Society.
- Leadership and Authority in Cooperative Society
- Functions of Management committees
- Problems of Cooperative and Small Business Management

The Course Guide is meant to provide you with the necessary information about the course, the nature of the materials you will be using and how to make the best use of them towards ensuring adequate success in your programme as well as the practice of small business management in the society. Also included in this course guide is information on how to make use of your time and information on how to tackle the tutor-marked assignment (TMA). There will be tutorial sessions during which your facilitator will take you through your difficult areas and at the same time have meaningful interaction with your fellow learners.

The course consists of:

- Scope and nature of Small Business Management
- Business goals and characteristics of Small Business enterprises
- Basic concepts of Management
- Management principles; Organizing, planning, staffing, controlling, directing functions in Management
- Research and Budgeting and their application to Co-operatives and Small Business

- Cooperatives as a Social Organization; setting up a Cooperative Society, understanding the motives behind forming a Cooperative Society.
- Leadership and Authority in Cooperative Society
- Functions of Management committees
- Problems of Cooperative and Small Business Management

## COURSE AIMS

The main aim of this course is to equip you with adequate information on the concept and nature of Small Business Enterprises, its characteristics and its roles in a Cooperative Society. The course also aims at making you have a greater understanding of the roles of Leadership and Authority in a Cooperative Society, the different functions in management committees and the problems of Cooperatives and Small Business enterprises.

## **OBJECTIVES**

At the end of this unit, you should be able to:

- explain the scope and nature of small business management
- describe business goals and characteristics of small business enterprises
- understand the basic concepts of management
- discuss the management principles; organizing, planning, staffing, controlling, directing functions in management
- understand research and budgeting and their application to co-operatives and small business
- discuss cooperatives as a social organization; understand how to sett up a cooperative society, understanding the motives behind forming a cooperative society.
- know the roles of leadership and authority in cooperative society
- explain the functions of management committees
- identify the problems of cooperative and small business management and possible solutions

#### **Course Materials**

Major components of the course are:

- Course Guide
- Study Units
- Textbooks
- Assignment Guide

## **STUDY UNITS**

There are four modules of 20 units in this course, which should be studied carefully.

#### Module 1

| Unit 1  | Nature of Small Business   |
|---------|--|
| Unit 2  | Characteristics and Business goals of Small Business Enterprises |
| Unit 3  | Need for Small Business Enterprises                              |
| Unit 4  | Basic Concepts in Management                                     |
| TT '4 6 |  |

Unit 5 Management Principles

## Module 2

- Unit 1 Planning
- Unit 2 Organizing
- Unit 3 Staffing
- Unit 4 Leading/Directing
- Unit 5 Controlling

#### Module 3

| Unit 1 | Research   |
|--------|--|
| Unit 2 | Budgeting in Business                                |
| Unit 3 | Cooperative Business Enterprises                     |
| Unit 4 | Steps in setting up Cooperative Business             |
| Unit 5 | Motives for Forming or Joining a Cooperative society |

## Module 4

| Unit 1  | Leadership |
|---------|------------|
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- Unit 2 Authority
- Unit 3 Organizational Structure of Cooperative societies
- Unit 4 Management Committee
- Unit 5 Problems of Cooperative

## ASSIGNMENT

There are many assignments in this course and you are expected to do all of them by following the schedule prescribed for them in terms of when to attempt them and submit same for grading by your Tutor.

# **TUTOR-MARKED ASSIGNMENTS**

You are expected to submit all the TMAs to your Tutor for grading on or before the stated deadline. If for any reason you cannot complete your assignment on time,

contact your tutor before the assignment is due, to discuss the possibility of extension. Extension may not be granted after the deadline, unless on exceptional cases. The TMAs usually constitute 30% of the total score for the course.

# FINAL EXAMINATION AND GRADING

At the end of the course, you will write the final examination. It will attract the remaining 70%. This makes the total final score to be 100%.

# SUMMARY

This course, Small Business Management (CRD428) will expose you to issues involved in small business management and its roles in the cooperative society. On the successful completion of the course, you will have been armed with materials, expertise and skills necessary for efficient and effective management of a small business enterprise in relation to the cooperative society.

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# MODULE 1

- Unit 1 Nature of Small Business
- Unit 2 Characteristics and Business Goals of Small Business Enterprises
- Unit 3 Need for Small Business Enterprises
- Unit 4 Basic Concepts in Management
- Unit 5 Management Principles

# UNIT 1 THE NATURE OF SMALL BUSINESS

# CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Nature of Small Business
  - 3.2 Definition of Small Business
  - 3.3 Identifying a Small Business
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- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Reading

# 1.0 INTRODUCTION

In this unit, we shall discuss the nature of small business, how to identify a small business, the various types of small business and also talk about the advantages and disadvantages of small business.

# 2.0 OBJECTIVES

At the end of this unit, you will be able to:

• explain the nature of small business

- define a small business
- explain the advantages and disadvantages of small business

## 3.0 MAIN CONTENT

#### 3.1 The Nature of Small Business

If you look around you, you will note that a lot of micro businesses litter the Nigerian landscape. Here and there you will spot barber shops, meat shops, mechanic workshops and others owned and operated by what we had earlier described as proprietors. In terms of numbers, these small businesses are larger than the bigger and more established corporate bodies. These small businesses are largely important because they employ a lot of people and thereby contribute in no small measure to the economic development of Nigeria.

On a comparative basis, if we take a look at other nations of the world such as the United States of America (USA), you will discover that small businesses are also very important in the scheme of things.

#### **3.2 Definition of Small Business**

It is not easy to define small business. This is because the definition presents conceptual problems. The problems arise because different people see small business from different binoculars. The small urban hair dresser is a small business operator viewed from any viewpoint.

And so also is the urban chemist shop. In the Nigerian situation, the definition of small business varies between the various industries and also between different organizations.

The Manufacturers Association of Nigeria may see small business from a perception that is different from a chamber of commerce.

The Central Bank of Nigeria may also define a small business from a different outlook altogether. Because of the problems of harmonizing all the definitions of small business, we shall present a simple and functional definition of small business.

We shall define a small business as one that is independently owned and operated and is not dominant in its field of operation.

It is important for us to reflect on this simple definition of small business. The underlined words are very important if we are to fully appreciate the intended meaning of the definition. The definition seeks to focus on the ownership, operations and their scope of influence in the operating environment. Basically therefore, small businesses are not dominant in their field of operation.

#### **3.3** Identifying a Small Business

We have just defined a small business at least from a central point of view. We said that a small business is independently owned and operated and is not dominant in its field of operation. We shall now go a step further to provide a general framework that will enable us to identify any small business in our environment.

In identifying any small business, we need to have certain criteria which distinguish the small business from the bigger businesses. Some of the criteria are as follows:

# 3.3.1 Initial Capital Outlay (start-up capital)

Initial capital outlay or start-up capital ordinarily refers to the financial resources that are needed to start a business. If the initial capital outlay needed to start a business is small then that may lead us to conclude that the business is a small one.

For example with as low as  $\mathbb{N}10$ , 000 (ten thousand naira only) the following businesses can be setup:

- a newspaper vending business
- a pay phone center
- a pure water distribution business
- a street hawking business

Generally all of the businesses qualify as small businesses. Although any business that requires a small initial layout to start can be called a small business, there is no specific amount of capital that acts as a dividing line between small and big businesses.

Now let us take a look at the transportation business. A transporter who owns a luxury bus costing N25, 000,000 (twenty five million naira only) may not be said to be in big business because with one bus, he cannot be said to be dominant in an industry where such operators like Ekene Dili Chukwu Nig Ltd own fleets of luxury buses.

## **3.3.2** Number of Employees

A second criteria that can be used to distinguished between a small business and a big one is the number of employees that the business has. For example a business that has 5 (five) an employee is obviously a small one. But another business that has about 10,000 (ten thousand) employees cannot be said to be a small business. In the past the dividing line between a small business and a big business was 50 (fifty) employees. If a business had less than 50 employees, it was classified as a small business. But if a business had employees of 50 and above, it was then classified as a big business. That dividing line of 50 is no longer applicable or acceptable.

## 3.3.3 Ownership Structure

Another criteria, which can be used to distinguish between a small business and a big one is the ownership structure.

There are different forms of business organizations; there are many types of business organizations with different ownership structures. We have the proprietorship, the partnership and incorporated company. A business owned by an individual obviously is a small one. So also is a partnership operated by two lawyers.

But if you look at the private limited liability company with many shareholders, you will quickly realize that it is likely to lead to a big business.

Therefore, ownership structure is very important in distinguishing between a small business from a big one.

## 3.3.4 Types of Technology Employed

Another visible criteria used to distinguish a small business from a big business is the type of technology employed. Because of the small size and relatively low capital base, the small business employs relatively simple technology in operations. This is because the small businesses due to their low capital base cannot afford to acquire complex technology that comes expensive.

Consider for example a small cottage palm oil mill located in a rural area in Nigeria. The oil mill will obviously consist of a small drum used as a boiler. It will also have a manually operated screw press that extracts the oil from the oil palm. With this type of mill, production will be slow and tedious.

However if you compare this rural mill with the palm oil mill of Ada Palm in Imo State, you can spot the differences. The Ada Palm oil mill is automated and employs modern technology in extracting palm oil.

#### A practical business idea for class discussion

#### **Commercial production of ice cream**

If there is anything most loved by children, it is ice cream. Even at that a lot of adults like ladies also love to take ice cream. The Nigerian hot weather is another factor that favours the commercial demand of ice cream. Ice cream comes in various types: Mango ice cream, Vanilla Ice cream, Chocolate ice cream, Milk ice cream. However

this write – up focuses attention on milk ice cream and vanilla ice cream which appear to be more popular among consumers.

#### **TECHNICAL CONSIDERATIONS**

The project under consideration is a small ice cream production facility devoted mainly to ice cream manufacture. Working on a single shift of 8 hours, the facility can produce 1 ton of ice cream. On three shifts of 8 hours each per day, a production of 3 tons is possible. However this write-up is based on a production of 2 shifts per day and for 300 working days per year. It is important for the ice cream to be distributed through appointed sales distributors and also marketed by bicycle salesmen equipped with jingles and music that is enjoyed by children.

The key equipment required in the manufacture of ice cream are the mixer (stainless steel), ice cream machine, rotary stirrer / blender, nylon sealing machine and dedicated freezers.

#### **PRODUCTION PROCESS**

FORMULA FOR MILK ICE CREAM Saccharin 150 grams Sugar 2,000 grams Milk 8,000 grams Water 50 litres

## FORMULA FOR VANILLAICE CREAM

Vanilla flavour 10 grams Ground sugar 1000 grams Baking powder 10 grams Milk powder 1000 grams

#### PROCESSING

The production starts in the mixer with the mixture of sugar, khoya and milk in good concentration (to taste). Thereafter the mixture is pasteurized to kill any bacteria. After pasteurization, heat the mixture for about 15 to 30 minutes at a controlled temperature of about 600c - 700c. Add fruits where required and stir properly with the rotary blender to achieve good smoothness. After stirring, the mixture is cooled to about 120c - 150c. Add flavouring agent and transfer to freezing unit like dedicated freezers.

## **3.4** Types of Small Business

We have defined the small business and also discussed the criteria for distinguishing the small business from the big one. We will now go further to discuss the various types of small businesses so that we can identify them when we see them.

By business types we mean the various functional groupings in the economy. This grouping is based on the activities of the business concerned. The types of businesses are trading and commerce enterprises, service enterprises and small manufacturing enterprises. Let us now discuss each group.

# 3.4.1 Trading and Commerce Enterprises

Obviously trading is one of the commonest business activities in Nigeria. A trader is one who buys goods from A and sells the same goods to B at a much higher price. The difference between the selling price and the purchase price is the profit of the trader. Perhaps when you look around you, you will notice a lot of small businesses selling such items as:

- sachet water
- bread and biscuits
- recharge cards

These trading and commerce enterprises possibly constitute about over 80% of the total number of small business.

## **3.4.2** Service Enterprises

After the trading and commerce enterprises the next type of small businesses are the service enterprises. Service enterprises are not engaged in buying and selling. Rather, they are engaged in providing services to people and organizations.

Examples of service enterprises are:

- Barber shop
- Hair dressing salons
- Shoe repair shops
- A dentist shop
- A dance theatre
- A photographer shop.

## **3.4.3 Small Manufacturing Enterprises**

Small manufacturing enterprises are another and major group of businesses in the Nigerian economy. They engage in basic manufacturing activities that do not involve

complex processes or technology. Also they may not involve huge capital outlays. The examples include:

- soap making enterprises
- sachet water making enterprises
- exercise book making enterprises
- bread making enterprises

## 3.5 Advantages and Disadvantages of Small Business

We have discussed the definition of small business. We also discussed the identification of small business and then went ahead to discuss the types of small business. We will now go further to discuss the advantages and disadvantages of small business.

## 3.5.1 Advantages of Small Business

Small businesses obviously have some unique advantages and these are discussed here.

#### Low start- up capital

A major advantage of a small business is that it requires low start-up capital. So with a small sum of money like N10,000 (ten thousand naira) a small business can be started.

With N40, 000 (forty thousand naira only) someone can buy a fairly used motorcycle and start a transportation business. Also with as little as N10, 000 (ten thousand naira only) one can buy a mobile phone and start a phone call center. Obviously if you look around you, you will see a lot of people hawking various goods. They are engaged in a small business.

#### Ease of entry and exit

Due to the fact that low capital is required to start a small business, it also has ease of entry. For example with a sum as low as N10,000 (ten thousand) one can set up a mobile phone call center. However, this ease of entry also is responsible for ease of exit. This is in contrast to large corporations like Nigerian Breweries PLC which may not easily exit from the industry because of its huge investment.

#### **Operational flexibility**

Because of their relatively small size, small businesses have the advantage of operational flexibility. Obviously in a small business, decision making is usually vested in the sole proprietor who usually acts quickly and without any form of bureaucracy.

The sole proprietor does not need to consult any board to take decisions. This type of operational flexibility may not be enjoyed by a large organization like United Bank for Africa PLC.

In a large organization decision making may be very clumsy. There may be various committees along the line. There may be meetings at the divisional and regional levels.

This operational flexibility is obviously a big advantage to small business. It enables a small business to swiftly react in the environment to changes that require reaction.

## 3.5.2 Disadvantages of Small Business

We have discussed the advantages of small business. We shall now discuss the disadvantages.

#### Lack of capital

A major disadvantage of small business is their apparent lack of capital. Lack of capital obviously hinders the expansion of most small businesses. Because of their size, small businesses are unable to attract bank financing.

#### Lack of managerial skills

The inherent size of the small business makes it suffer from lack of managerial skills as it depends only on the managerial skills of the sole proprietor or the partners as the case may be.

In contrast, a big corporation like Nigerian Breweries PLC will have a rich pool of experienced managers on its pay roll because it can afford to hire and pay them.

But the small business because of its poor capital base will not be able to hire and retain experienced managers. Put together then you will now understand why lack of managerial skills will continue to be a major disadvantage of small business.

#### Lack of adequate technology

If you look around you today, you will notice that science and technology dominate the economic landscape. New products with advanced scientific features are churned out daily. And because the world is a global village, no nation is shielded from the economic onslaught organized by the rich and economically advanced nations.

In the face of these changes, small businesses find it difficult to cope with the rapid changes in science and technology. This is because they do not have the capital to embrace new technology. Obviously lack of adequate technology will continue to be a major set- back or disadvantage inherent in small business.

## 4.0 CONCLUSION

This unit treats the Nature of Small business. The treatment is very important because the management of small business is the primary focus of this course.

# 5.0 SUMMARY

In this unit, we discussed the Nature of small business. We discussed the definition of small business. We also discussed the identification of small businesses. We also went ahead to discuss the types of small business. And lastly we discussed the advantages and disadvantages of small business.

the next unit, we shall discuss business goals and the characteristics of small business enterprises.

## 6.0 TUTOR MARKED ASSIGNMENT

- 1. What do you understand by the term "Small Business"?
- 2. What features distinguish them from big business?
- 3. List the three main types of small businesses that you know.

## 7.0 REFERENCES/FURTHER READING

- Belbin, R.M. (1996). Management Teams: Why they succeed or fail, Oxford Butterworth Heineman (New paperback edition).
- Mbadiwe Ukaegbu (2005). Small business and entrepreneurship management. Nile Ventures, Lagos. pp 8 and 54-55.
- Oyedijo, A., Oladele, J. and Olumoko, Y. (2008) Entrepreneurship and Small Business. Strategic-international press ltd, Lagos.

## UNIT 2 CHARACTERISTICS AND BUSINESS GOALS OF SMALLBUSINESS ENTERPRISES

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- 2.0 Objectives
- 3.0 Main Content
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  - 3.3 Size of employees
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    - 3.3.3 Market Area
    - 3.3.3 Location
    - 3.3.4 Limited Investment
  - 3.5 Goals of Small Business
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assessment
- 7.0 References/Further Reading

## **1.0 INTRODUCTION**

In the previous unit, we discussed about the nature of small business. This unit contains information related to the characteristics of small business as well as the goals of small business.

#### 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- explain the major characteristics of small business
- define the goals of small business

#### 3.0 MAIN CONTENT

#### **3.1** Characteristics of Small Business

The characteristics of a small business vary from one place to another but there are few similar characters related to a small business. The following are few characters of a small business:

#### 3.2 Ownership

Small businesses mostly prefer to be organized as sole proprietorship, partnership or limited liability companies.

## **3.3** Size of Employees

Small scale businesses employ smaller teams of employees than companies that operate on a larger scale because most small businesses are labor-intensive. The smallest businesses are run entirely by single individuals or small teams.

## 3.3.1 Revenue and Profitability

Small scale business revenue is generally lower than companies that operate on a large scale. Note that lower revenue does not necessarily translate into lower profitability. Established small businesses often own their facilities and equipment outright, in which, in addition to other factors, helps to keep costs lower than more leveraged businesses.

## 3.3.2 Market Area

Small scale business serves a much smaller area than corporations or large businesses. A small convenience store might serve a single community and due to its size, it cannot serve areas much larger than a local area, since growing beyond that would increase the scale of the business operation and push it into a new classification.

## 3.3.3 Location

A small scale business is mostly found in a limited area, along busy streets or major mode of transport. Also, the business is often located closer to material and supply sources and to markets, easing the burdens of transportation and time.

## 3.3.4 Limited Investment

In a small business enterprise, capital is supplied by an individual or a small group of individuals.

#### **3.4** Goals of Small Business

Setting of goals is of great importance to a business, as it helps the growth of the business. Small business begins in almost as many ways as there, are entrepreneurs. Some are started by people who are out of work or unhappy where they are working. Some are started on a part-time basis to bring in extra income for the owner. Still others are begun for the sheer challenge or creativity involved. Some of these part-time operations never grow beyond their simple beginnings.

Owners may be content with small-scale operations and not went to get any bigger. Other businesses grow into full-time larger companies, sometimes becoming partnerships or corporation. Other small businesses are started by people who've developed a product or service that can be produced and sold only in a new business set up for that purpose. Historically, many such businesses have evolved into large corporations, providing employment opportunities for many other people.

The following are goals a small business owner must achieve;

#### Profitability

A common business goal is to run a profitable operation which typically means increasing revenue while limiting expenses. To reach this goal, objectives could consist of increasing annual sales by 10%.

#### • Efficiency

Efficiency in a business operation is a way to increase productivity. To improve efficiency, you might decide to get raw materials earlier than you normally do to satisfy your consumers.

#### • Growth

Most small business does not aim at growth at all thereby offering existing product, process and service. Growth should the goal of any small business.

#### 4.0 CONCLUSION

Characteristics of small businesses are used to identify a small business while the goals are driving forces of a business. Every business owner must strive for growth.

#### 5.0 SUMMARY

In this unit, we discussed the various characteristics of small businesses Also goals of a small business enterprise were discussed in this unit.

In the next unit, we shall discuss the need for small business enterprises.

#### 6.0 TUTOR MARKED ASSIGNMENT

- 1. List the various characteristics of a small business?
- 2. How does efficiency relate to productivity?

#### 7.0 REFERENCES AND FURTHER READING

Oyedijo, A., Oladele, J. and Olumoko, Y. (2008) Entrepreneurship and Small Business. Strategic-international press ltd, Lagos.

## UNIT 3 NEED FOR SMALL BUSINESS ENTERPRISES

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  - 3.1 General Importance of Small Business Enterprises
  - 3.2 Importance of Small Business Enterprises in the Economic Development
  - 3.3 Problems of Small Business Enterprises
    - 3.3.1 Inadequacy of Finance
    - 3.3.2 Lack of Continuity
    - 3.3.3 Poor Implantation of Government Policy
    - 3.3.4 Poor managerial skills
    - 3.3.5 Inadequate information base
    - 3.3.6 Inadequate Infrastructure
    - 3.3.7 Lack of adequate raw materials
    - 3.3.8 Poor accounting system
    - 3.3.9 Unstable policy environment
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assessment
- 7.0 References/Further Reading

## **1.0 INTRODUCTION**

In the previous unit, we discussed about the characteristics and goals of small business. In this unit, we will be talking about the need for small business enterprises.

## 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- explain the importance of small business
- explain the problems of small business

## 3.0 MAIN CONTENT

## **3.1** General Importance of Small Business Enterprises

The importance of small business enterprises cannot be overlooked and they include:

- It provides employment opportunities
- Helps to conserve foreign exchange

- Promotes indigenous entrepreneurial skills
- Enhances the quality of life in urban and rural areas
- Reduces rural/urban migration
- Responds promptly to the dynamic business environment than big businesses
- Helps in production of special and varied products and services which may not be attractive business options to large firms.
- Facilitates the use of untapped savings thereby encouraging capital formation which is the engine of growth.

# 3.2 Importance of Small Business Enterprises in the Economic Development

Small business enterprise account for substantial part of the total industrial employment, production and value added in an economy business concern.

- It act as catalyst for technological development
- Provides employment opportunities
- They provide training ground for establishment and management of a large firm, over time some of these firms grow in size either by expansion or by merging with other firms.
- They encourage and promote private sector initiatives and development.
- They help to fill the gap left and un-serviced by the large firms.
- They help to tab the relatively ignored and other unexploited resources and areas of production
- They said the process of redistribution of incomes in many countries both in pure financial terms and in regional terms.
- They act as industrial links between local producers of raw materials and industrial concerns
- They have positive implications for improving the standard of living of the citizens and generation of foreign exchange through export.

## **3.3** Problems of Small Business Enterprises

Even though small business enterprise has its importance, it is necessary to look at the problems facing small business enterprises. These problems include;

# 3.3.1 Inadequacy of finance capital

Majority have limited access to diverse sources of capital or even foreign exchange as institutional credit.

# 3.3.2 Lack of continuity

Most small business enterprises are sole proprietorship and ceased to exist as soon as the owner loses interest or he is dead.

## **3.3.3** Poor Implantation of Government Policy

So many government policies in respect of small business enterprises are poorly implemented, which makes it possible to continually sustain and support small business enterprises.

## 3.3.4 Poor Managerial Skills

Most owners do not have the require skills to successfully run the organization. More importantly there are no avenues for training to improve their skills.

## **3.3.5 Inadequate Information Base**

Small business enterprises are characterized by poor record keeping and there are no institutional support facilities for them to have access to require information for effective planning and management purposes.

## **3.3.6 Inadequate Infrastructure**

Facilities that are needed as support base to start, run a business successfully and to grow are grossly inadequate. In some cases these facilities have to be provided by the owners of the enterprises.

#### **3.3.7** Lack of Raw Materials

In some cases, needed raw materials are sourced externally. Hence the fate of such establishment is tied to the availability of foreign exchange, fluctuation in the exchange rate and strict government policy for accessing the foreign exchange.

#### **3.3.8** Poor Accounting System

Most small scale enterprises do not keep proper records and in some cases none is kept. It is therefore difficult to assess and evaluate their viability and package them for external credit facilities.

#### **3.3.9 Unstable Policy Environment**

Constant changes in government policy destabilize or lead some small business enterprises folding up. Some of these policies are not only contradictory sometimes they are out rightly discouraging.

## 4.0 CONCLUSION

The importance of small business enterprises are extensive but the problems of small business enterprises cannot be overlooked as it shows the area where business owners and the government work on in order have more successful enterprises.

## 5.0 SUMMARY

In this unit, we discussed the importance of small business enterprises and their importance on the economic development of where they are located. We also discussed the problems of small business enterprises.

## 6.0 TUTOR MARKED ASSIGNMENT

- 1. List 5 ways small business enterprises can influence the economic development of a place?
- 2. What are the problems facing small business enterprises?

## 7.0 REFERENCES AND FURTHER READING

- Belbin, R.M. (1996). Management Teams: Why they succeed or fail, Oxford Butterworth Heineman (New paperback edition).
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# UNIT 4 BASIC CONCEPTS IN MANAGEMENT

#### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Basic Concept of management
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assessment
- 7.0 References/Further Reading

## **1.0 INTRODUCTION**

In the previous unit, we discussed about the need for small business enterprises. In this unit, we will be talking about basic concepts of management and the functions of management.

## 2.0 OBJECTIVES

At the end of this unit, you will be able to:

- define management
- explain the basic concept of management

#### 3.0 MAIN CONTENT

#### 3.1 Basic Concepts of Management

Management is a universally acceptable and necessary concept irrespective of whether or not an organization exists to make profit. It takes place at all levels in an organization and every manager performs essentially the same function whether he belongs to top or middle or first line management. The difference lies in the magnitude of the task and the scope and degree of the authority.

Lawal (1993) noted that the word Management was derived from an Italian word "managgiare" meaning to train horses. It was originally used to indicate the process of managing, training, or directing sporting and housekeeping activities. Later it was extended to the operations of government and business. Management can thus be defined as a process by which scarce resources are combined to 'achieve given objectives. This describes an activity which can be better referred to as managing. It refers to the people who carry out the activities, that is, the managers.

Put differently, Management is the achievement of organizational goals through people and other resources. The manager's job is to combine and coordinate human,

material and technical resources in the best way to achieve these goals. Managers may not be directly involve in production; they do not produce a finished good, rather they direct the efforts and activities of other to achieving the organization's set goals. Management, indeed, is the critical ingredient in the six Ms' (Manpower, Machinery, Money, Market, Methods and materials,) these are the basic resources of any organization centered on the manufacturing processes as it is widely known today. Most production efforts especially that of consumer goods, was undertaken in the home.

According to Fredrick Winslow Taylor, "Scientific management means knowing exactly what you want men to do and seeing that they do it in the best and the cheapest way."

According to Harlow Person, "Scientific management characterizes that form of organization and procedure in purposive collective effort which rests on principles or laws derived by the process of scientific investigation and analysis, instead of tradition or on policies determined empirically and casually by the process of trial and error."

According to Jones, "Scientific management is a body of rules, together with their appropriate expression in physical and administrative mechanism and specialized executives, to be operated in coordination as a system for the achievement of a new strictness in the control and process of production."

The term Management can often be used to mean a discipline, or an activity or in reference to corporate leadership. When used to mean a corporate leadership the term refers to a body or group of people who assumes joint responsibility of formulating, interpreting and implementing the broad objectives and/or policies of an organization.

The American Institute of Management defines management, "it is used to designate either a group of functions or the personnel who carry them out; to describe either an organization's official hierarchy or the activities of men who compose it; to provide antonym to either labor or ownership".

Mary Parker Follett (1868-1933), who wrote on the topic in the early twentieth century, defined management as "the art of getting things done through people". She also described management as philosophy.

One can also think of management functionally, as the action of measuring a quantity on a regular basis and of adjusting some initial plan; or as the actions taken to reach one's intended goal. This applies even in situations where planning does not take place. From this perspective, Frenchman Henri Fayol (1919) considered management as: to forecast and plan, to command and organize and to co-ordinate and control.

Frenchman considers management to consist of seven functions:

1. Planning

- 2. Organizing
- 3. Leading
- 4. Coordinating
- 5. Controlling
- 6. Staffing
- 7. Motivating.

The above are in order to attain organizational goals and objectives.

Brech (1963) defines management. "A social process entailing responsibility for the effective and economic planning and regulation of the operations of an enterprise, in fulfillment of a given purpose or task".

Koontz and Donnell (1968) defined management as an operational process based on the analysis of managerial functions which includes planning, organizing staffing, directing, leading and controlling.

Drucker (1973) defined management as an objective function that ought to be grounded in the responsibility for performance.

Lawrence Appley (1981) in his book titled "Management in Action" defined management as the Art of getting things done through people.

Stoner and Wankel (1988) described management as the process of planning, organizing, leading and controlling the efforts of organization members and of using all other organizational resources to achieve stated organizational goals.

Sekaran (1989) defined management as the functional process of accomplishing the goals of the organization through the help of others.

Sherlekar (2001) defines management as a social process, involving co-ordination of human and material resources, through the function of planning, organizing, staffing, leading and controlling in order to accomplish stated objectives.

Massie defines management as "the process by which cooperative group directs actions toward uncommon goals. This process involves techniques by which a distinguishable group of people (managers) coordinates activities of other people; managers seldom actually perform the activities themselves". This definition buttresses that of Hicks and Follet above.

The definitions are endless; while some corroborates themselves; other are contrary to one another. What appears to be indisputable is the fact that management is a process by which responsible people (managers) in an organization get things done through the effort of other people in grouped activities. The size of an organization or number of employees does not determine who a manager is. Right from the very simple organization up till the more complex organization.

In short management has three distinct and different uses dimensions which are:

- Management as a process
- Special field of study (Profession)
- Organizational Positions (Managers).

## 4.0 CONCLUSION

Management as an activity or set of activities refers to the act, or the manner in which the affairs of an organization is conducted such that the organizational goal or objectives is achieved. In effect, management is the basic integrating process of organizational activities that characterize our daily lives. The need for management arises because of the need of resources needed to satisfy the innumerable human wants coupled with the growing diversity and complexity of human activities.

## 5.0 SUMMARY

In this unit, we discussed the basic concept of management and we looked at the various definition of management. We also defined management from a functional perspective as including the process of planning, organization, controlling, reporting and budgeting in addition to the implicit function of coordinating.

#### 6.0 TUTOR MARKED ASSIGNMENT

- 1. Define management?
- 2. What are the 3 distinct dimension of management?

#### 7.0 REFERENCES AND FURTHER READING

- Belbin, R.M. (1996). Management Teams: Why they succeed or fail, Oxford Butterworth Heineman (New paperback edition).
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# UNIT 5 MANAGEMENT PRINCIPLES

#### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Management Principles
  - 3.2 Universal Principles in Management
  - 3.3 Why Principles in Management are useful
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assessment
- 7.0 Further Reading/References

# **1.0 INTRODUCTION**

In the previous unit, we discussed about basic concepts of management and the functions of management. In this unit, we will be talking about management principles.

# 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- define management principle
- explain the usefulness of management principles

# 3.0 MAIN CONTENT

## **3.1 Management Principles**

Principles in management are fundamental truths (or what thoughts to be truths at a given time), explaining relationship between two or more sets of variables usually an independent variable and a dependent variable. Management principles may be described as how one variable relate to another — what will happen when these variables interact. For example, in management, the principle of unity of command states that the more often an individual reports to a single superior, the more likely it is that the individual will feel a sense of loyalty and obligation and the less the likely it is that there will be confusion about instruction.

## 3.2 Universal Principles of Management

The universal principle of management has been highlighted by Henry Fayol known as fourteen (14) principles of management these are as follow:

- 1. Authority and Responsibility; In order to get things done, management has the authority to give orders to the employees. With this authority comes responsibility. The accompanying power or authority gives the management the right to give orders to the subordinates. That responsibility can be traced back from performance and it is necessary to make agreements about this. Authority and responsibility essentially go hand in hand.
- 2. Centralization; this implies the concentration of decision making authority at the top management. Sharing of authorities for the decision-making process with lower levels (middle and lower management), is referred to as decentralization.
- 3. Discipline; It is often a part of the core values of a mission and vision in the form of good conduct and respectful interactions. This management principle is essential and is seen as the oil to make the engine of an organization run smoothly.
- 4. Division of work; Employees are usually specialized in different areas and have different skill sets. The levels of expertise can be differentiated within knowledge areas. As such, Fayol stated that Specialization promotes efficiency of the workforce and increases productivity.
- 5. Equity; This occurs in the core values of an organization. Employees must be treated kindly and equally. They also must be in the right place in the organization to do things right. Managers should supervise and monitor this process and they should treat employees fairly and impartially.
- 6. Esprit de corps; this stands for striving for the involvement and unity of the employees. Managers are responsible for the development of morale in the workplace, individually and in the area of communication. Esprit de corps contributes to the development of the culture and creates an atmosphere of mutual trust and understanding.
- 7. Initiative; Fayol argued that with this management principle employees should be allowed to express new ideas. This encourages interest, involvement and creates added value for the company. Employee initiatives are a source of strength for the organization. This encourages the employees to be involved and interested.
- 8. Order; This principle states that employees in an organization must have the right resources at their disposal so that they can function properly in an organization. In addition to social order the work environment must be safe, clean and tidy.
- 9. Remuneration; motivation and productivity are close to one another in terms of the smooth operation of an organization are concerned. Remuneration should be sufficient to keep employees motivated and productive. There are two types of remuneration namely non-monetary (a compliment, more responsibilities, credits) and monetary (compensation, bonuses etc.).
- 10. Scalar chain; this is basically the hierarchy in an organization. The principle states that there should be a clear line in the area of authority. This can be seen as type of management structure. Each employee can contact a manager or a superior in an emergency situation without challenging the hierarchy.

- 11. Subordination of Individual Interest; there are different kinds of interest in an organization. In order for an organization to function well, Fayol indicated that personal interests are subordinate to the interests of the organization. The main focus is on the organizational objectives and not on those of the individual.
- 12. Stability of tenure; this principle represents deployment and managing of personnel and this should be in balance with the service that is provided from the organization. Management strives to minimize employee turnover and to have the right staff in the right place. Focus areas such as frequent change of position and sufficient development must be managed well.
- 13. Unity of Command; This means that an individual employee should receive orders from one manager and that the employee is answerable to that manager. If tasks and related responsibilities are given to the employee by more than one manager, this may lead to confusion which may lead to possible conflicts for employees. This principle essentially brings about accountability.
- 14. Unity of direction; this principle is all about focus and unity. All employees deliver the same activities that can be linked to the same objectives. All activities must be carried out by one group that forms a team. These activities must be described in a plan of action. The manager is responsible for this plan and he/she monitors the progress of the defined and planned activities.

Nevertheless, Fayol's contribution to management theory is unique and valuable. He identified six activities that must be accomplished in all industrial organizations. These are:

- 1. Accounting
- 2. Commercial
- 3. Financial
- 4. Managerial
- 5. Technical and
- 6. Security

Fayol held that the importance of managerial ability increases managerial skill as the most important component of job performance.

## 3.3 Why Principles in Management are Useful

The following are reasons for the usefulness of principles in management;

- 1. To increase efficiency.
- 2. To give a definite and concrete shape to management.
- 3. To improve research in management.
- 4. To attain social goals by increase efficiency in the use of research.

# 4.0 CONCLUSION

In designing an effective organization structure, for example, a number of principles are interrelated and have a predictive value for manager. Some principles give guidelines for delegating authority; this includes the principle of delegating by results expected, the principle of equality of authority and responsibility, the principle of unity of command.

## 5.0 SUMMARY

In this unit, we discussed the various management principles and why the principles of management are useful.

## 6.0 TUTOR MARKED ASSIGNMENT

- 1. Define management principle?
- 2. Why are management principles useful?

## 7.0 REFERENCES/FURTHER READINGS

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SMALL BUSINESS MANAGEMENT

## MODULE 2

- Unit 1 Planning
- Unit 2 Organizing
- Unit 3 Staffing
- Unit 4 Leading/Directing
- Unit 5 Controlling

# UNIT 1 PLANNING

#### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Planning
  - 3.2 Significance of Planning
  - 3.3 Types of Planning
    - 3.3.1 Long range plans
    - 3.3.2 Medium range plans
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    - 3.3.4 Strategic plans
    - 3.3.5 Operational plans
    - 3.3.6 Tactical plans
  - 3.4 Principles of Planning
  - 3.5 Planning process
    - 3.5.1 Self-audit
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    - 3.5.3 Objectives of Goal Formulation
    - 3.5.4 Resources requirements and budgets
    - 3.5.5 Plan outputs
    - 3.5.6 Use of control in planning
  - 3.6 Evaluation of planning process
  - 3.7 Elements of planning
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor marked assessment
- 7.0 References/Further Reading

## **1.0 INTRODUCTION**

Planning involves forecasting objectives, decision making, strategies and policies. Planning is also concerned with the selecting of programs and procedures for achieving the objectives, either for the entire enterprise or for any organized part thereof. Planning is decision making since it involves choosing from among alternatives.

## 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- define planning
- explain the planning process
- list the element of planning

#### 3.0 MAIN CONTENT

#### 3.1 Planning

Planning is the management function of anticipating the future and determining the best courses of action to achieve an organization's objectives within the given circumstance and with available human and material resources. It incorporates decisions about the activities of the organization and how they should be performed, while putting in proper shapes the resources to be used in accomplishing the set objectives. Planning thus answers the question of what should be done, by whom, where, where, and how. Although, planning may not mean automatic success of an organization, as organizations that plan may still fail as a result of other variables or actors that are attached and go hand in hand to determine such success; but planning certainly aid the success of a business.

Planning is an organized foresight that includes corrective hind sight and guarantees the realization of an organization's objectives. It means to decide I advance, what is to be done. It is the opposite of improvising. The planning process starts with the assumption that the future will be different from the present, and therefore attempts to determine how the organization can take advantage of that difference. It is a device for change to meet future challenges.

It is however important to mention that business planning occurs in various stages and each sub-plan must be well coordinated. If the various parts of business seem uncoordinated, jumbled, and haphazard in the way they function, it may reflect a lack of planning. Financial plans must key in with raw material purchasing and payroll dates. Personnel plans must relate to production schedule so that here is neither too much nor too little labour available. Production plans or schedules must be line with sales special promotions, and market conditions.

#### **3.2** Significance of Planning

• Planning helps to define the purpose and activities of an organization. It enables the performance standard to be set and results can be evaluated to compare the expected with actual.

- It provides the framework against which the process of control is based on serving as a veritable management tool that ensures the realization of an organization's goals.
- Planning provides the premise for good and effective decision making by knowing the goals of an organization and how best to achieve them, which ensures the acceptance of the best course of action.
- It is expected that planning is flexible in order to cope with the changing business environment borne out of stiffer competition and ever changing technology. By this, it assists organizations in coping with environment dynamics.
- More attention is paid to planning at the level of top management as they set the goals, formulate policies and outline strategies for long range purpose.

#### 3.3 Types of Plan

This is concern with the planning horizon of a business which is usually a function of the purpose for which a plan is made. The following are type of plan identified;

#### **3.3.1 Long Range Plans**

These are fundamental plans to the basic goals and objectives of the organization. They are plans that can be used in determining the nature of products, markets, location, capacities etc. such plans usually extend beyond one year, although they provide basis for short range plans.

#### **3.3.2 Medium Range Plans**

This includes plans that pay attention to such things as seasonal variations in sales of product, production in relation to demand, particularly where such sales is seasonal. It answers questions like, should labour be hired for the seasonal peak? Or should inventories be accumulated during the lull to be sold during the peak season? What are the risks involved in taking either type of decision? It is expected that the personnel, materials and financial plans must be coordinated with the production plan. Medium range plan is considered within one month or one year and ought to be developed within the framework of the long range plans.

#### **3.3.3 Short range Plans**

They are made to implement goals that emanates from the medium range plans. They are plans that involve the daily operations and hence, range between one-day and one-month e.g. schedules for labour, machines, materials flow etc. it ensures the required lead time between planning and execution.

Apart from the 3 afore-stated types of planning, it is not uncommon to hear.

# 3.3.4 Strategic plan

It is a statement that outline the organization's mission and future direction, exposing the performance targets and means or strategies in which the organization's goal will be accomplished taken into cognizance the strengths, weakness, opportunities and threats that the organization is confronted with.

## **3.3.5** Operational Plans

It reflects the extent to which strategies plan are implemented on a daily basis and ensures the realization of the set objectives. It is handled by middle and lower level officers or managers.

## **3.3.6 Tactical Plans**

This is the hard-care of organization's plan that formulates policies and determines the strategies to be adopted to ensure the success of an organization. It is the responsibility of top management, considered to be the "think-tank" of the business.

Other types of business plans include posture plan, portfolio planning, centralized planning, decentralized planning, contingency plans, corporate strategic, scenario planning, project planning etc. An organization can adopt any or a combination of these to guarantee the success of the business.

## **3.4 Principles of Planning**

- i) Plans should be based on clearly defined objectives using available information optimally.
- ii) It should take into consideration environmental factors as the environment makes or mares the success of the business.
- iii) It should take into account the existing organizations and provide for control, so that performance can be checked against established standard.
- iv) It has to be precise, realizable and simple to understand and operate.
- v) It must be flexible and accommodate change whenever the need arise.

#### 3.5 Planning Process

Planning is said to be the essence of management yet there is no formula for planning. Business people have attempted so much while striving to get effective process of planning. The following are identified steps in planning process;

## 3.5.1 Self Audit

It presupposes knowing where a business is now. An assessment of the present status of the business is required to know where it is should be in the future. An objective analysis devoid of bias is important and must be ensured at this point. This is because a plan provides a springboard from the present. The planner should start looking into the conditions that affect the company's future opportunity. These conditions include; the environment, internal conditions and obligations of the enterprise. It is equally expected that a self-audit, that I meaningful enough will determine the current status of the following factors; financial position, condition of facilities and equipment, quantity and quality of workforce, appropriateness of organizational structure, major policies and strategies, competitive position and profitability of product lines.

## 3.5.2 Survey Environment

The business organization exists in 3 kinds of environment, which are; the total economy, in a particular industry and in a specific geographical area. If the organization is in a position to make its own independent appraisal of the total economy, it will want to consider a broad range of business indicators. The more important parameters are industrial production, wholesale prices, retail prices, employment and unemployment, personal incomes, sales and inventories, merchandise exports and imports, availability of credit, raw material prices, new incorporations, business failures, gross national product, corporate profits, central budget etc.

Competition is part of the enterprise's environment. It is important to know that what competitive advantage one has, and at what pint to launch an offensive or defensive strategy. The business must consider its direct and indirect customers. The frailties of consumer acceptance impose constant challenge.

It should be mentioned that, some of the factors in the environment that might be surveyed are population growth and movement, economic conditions, government regulations (taxes, wage and price controls, safety, pollution control, equal opportunity etc.), labour supply, competitors, suppliers, social values etc.

## **3.5.3** Objectives or Goal Formulation

It is an important aspect of planning process as it poses to be the bedrock of the ideas which the organization stands for. It is the review and comprehensive of the organization mission and the translation f mission into concrete terms.

One value in scanning the environment is to uncover available opportunities. The objectives selected maybe of various types. They might involve increased market shares, penetration of new geographic area or product lines, profitability goals, development of new technologies, or cost reduction programs. Forecasts, therefore, is a major input to the process of setting objectives. Objectives must be realistic in terms of the future.

## 3.5.4 Resources Requirement and Budgets

The formulation of goals determines the strategies to be adopted in achieving results and provides the basis for organizational resources requirements.

It is expected that forecasts and objectives are converted into actual resource requirements that must include labour, material, space, equipment etc. for effectiveness, budgets must be taken into cognizance as they are important expression of business plans. A budget is expected to state estimated costs, workloads, output etc. It is the basis for controlling the plan once it is developed.

# 3.5.5 Plan Outputs

A plan output is expected to be financially sound, and must be communicated to people in the company that is to implement it. The efficacy of a plan lies in its implementation. The plan output may be in several possible forms: statement of objectives, policies, rules and procedures and budgets.

## **3.5.6** Use of Control in Planning

Planning must go being implementation as the implemented plans ought be measured against set objective and control mechanism must be available and be reviewed periodically to determine progress.

## SELF-ASSESSMENT EXERCISE

- i. List the various types of plans
- ii. State the steps involved in a planning process

## **3.6 Evaluation of Planning Process**

The evaluation of planning is premised on its output. People must make the process work, and this is only possible when the process is well understood. The following must be considered:

## a) Statement of Objectives

It is important that those who are to implement the plans understand the targets or goals of the organization so as not be working at cross-purposes. As the overall organization management must set goals, so also must each department, section or division. In fact, business is better managed today by objectives.

## b) Strategies and Policies

Policy making is important, so also is strategies in the process of planning. Policies are general statements that serve as guides for the actions of managers. They are

indeed guidelines for actions which help subordinates to carry on their work in harmony with the overall business objectives. Strategies are the general ways in which an organization intends to achieve objectives. Strategies may carry with them new or changed policies, since policies eliminate some of the possible actions and point decisions towards the objective of a plan. The overall policies are made by top management and departmental managers may make policies for their respective department. Strategies and policies are therefore some of the important results of planning. They provide specific direction than statement of objectives, and are the first bold steps towards successful implementation of plans.

### c) Procedures and Rules

Procedures are more specific with respect to what to do. Hey reduce the judgment a person may use in solving problem. They are more restrictive than policies but reflect a planned approach. They are rigid, as they leave little or no room for use of discretion. It smacks of bureaucracy and red-tapism, but when appropriately applied it provides the best result.

Rules on the other hand are specific instructions in regard to what or may not be done e.g. "No smoking in the plant", "Safety shoes must be worn before entering the plant". They are more restriction than procedures.

### d) Budgets

Budget is the process setting planned activities while looking into the future. It is expressed in financial and quantitative terms, stating the financial implications of an organization's plans. Budgets indicate expected performance. It is easier to measure result as they are expressed in numerical terms.

## **3.7** Elements of Planning

The following are important element that ought to be incorporated in any comprehensive planning activity set out achieve the desire results:

- i) **Organization Planning** that determines what function a business requires, relates these functions in a systematics manner, assigns responsibilities and authorities to individuals and periodically review the organization's plans.
- ii) Financial Planning requires the various sources of funds available to an organization and determine the future financial requirements of the organization, viz-a-viz the means for developing plans and policies to fulfill those requirements and goals.
- **iii) Operational Planning** is concerned with the techniques of production, standard practices, types and quantities of production equipment and the production capacities.
- iv) **Product Planning** where the organization is involve in production of tangible items (not services), it will be expected that a product line that is most

profitable is developed. This includes the consideration for new product development, addition of new product line etc.

- v) Human Resource Planning human beings are the most difficult resources to manage due to their unpredictability and insatiability nature. An organization is expected to put in place planning procedure to take into consideration the human element without which the organization cannot function. There should be provision for motivation and incentive must be given to increase productivity that ensures the realization of organizational goals.
- vi) Facility Planning this determines production facilities, their types, capacities, quantities and locations that will aid the achievement of set goals.
- vii) **Production Planning** deals with the effort that coordinates and harmonizes men, materials, money and machines that creates a product or service and satisfies human needs while simultaneously fulfilling the basis for an organization's existence.
- viii) Material Supply and Inventory Planning deals with the type and quantity of stock to be acquired and placed in inventory and its systematic location, storage and control. This is to ensure the supply of desired quantity of product to customer and other sections of the business.
- ix) Commercial Planning deals with effective means of marketing the products that have been produced to the consumers at reasonable and affordable prices, at the right time and place, and give value for consumers' money.
- x) Development Planning attempts to probe into possible ways and means of securing opportunities for utilizing the enterprises total resources. It provides avenues for an organization to grab opportunities and appraise the effect of possible changes in social, economic and political conditions.

# 4.0 CONCLUSION

All managers must plan, irrespective of the level or status in an organization. This becomes important as planning tends to reduce risk and uncertainty; it is needed to guarantee the success of the business. Planning is very essential for long-term survival of any business as it determines the most profitable means of allocating limited scarce human and material resources among competing ends.

## 5.0 SUMMARY

In this unit, we discussed the definition of planning, types of plan, principles of planning, planning process, the evaluation of planning process and the various elements of planning.

## 6.0 TUTOR MARKED ASSIGNMENT

- 1. Define planning?
- 2. List the elements of plans

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# UNIT 2 ORGANIZING

### CONTENT

- 1.0 Introduction
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    - 3.1.2 Importance of Organizing
    - 3.1.3 Process of Organizing
    - 3.1.4 Organizing Principles
    - 3.1.5 Benefits of Organizing
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assessment
- 7.0 References/Further Reading

## **1.0 INTRODUCTION**

Organizing is concerned with the basic departmentation (it divides an organization along functional lines), span of management, line and staff relationship, decentralization' of authority, committee and making organization effective.

## 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- define organizing
- identify an organization structure

## **3.0 MAIN CONTENT**

## 3.1 Organizing

To plan what to do, the need arises that what is to be done should be divided into tasks and assigned to people to perform. So planning intricately involves an organizing function. Organization involves the structure of responsibilities and relationships allocated to the various executives and supervisors. It is concerned with such matters as setting up divisions, areas offices, etc. and their responsibilities and the efficient running of the enterprise for the purpose of achieving the objectives set out in the plan.

It groups similar activities and assign the men, materials and money resources needed for the work unit. In dividing work and assigning resources, it identifies the relevant relationship between groups and establishes the hierarchy which is one of the attributes of organizations. Thus it gives people at various levels of the hierarchy, the authority or right to act at all stages necessary for the work and considers the social and economic consequences associated with the various organizational designs.

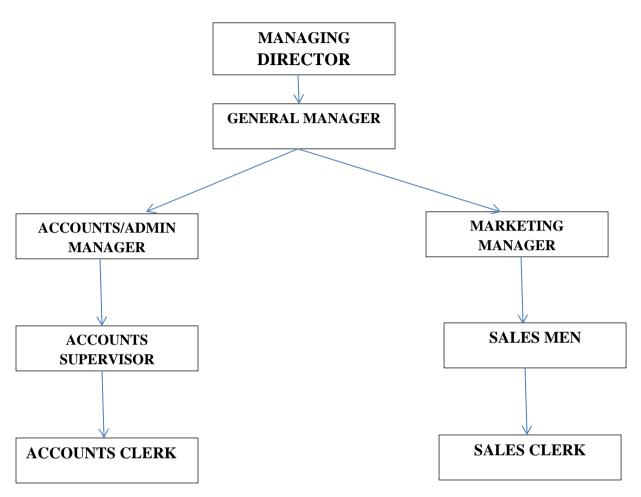


FIGURE 7.1: A simple organization structure

Organizing is the next important function of management after the planning. In case of planning the management decides what is to be done in future. In case of organizing, it decides on ways and means through which it becomes easier to achieve what has been planned. Hence, organizing refers to the following process.

- Identifying and grouping of the work to be performed.
- Defining and determining responsibility and authority for each job position.
- Establishing relationship among various job positions.
- Determining detailed rules and regulations of working for individuals and groups in organization.

The organizing function leads to an organizational structure which defines precisely the authorities and the responsibilities. Organization structure is the pattern of relationships among various components or parts of the organization which prescribes the relations among various activities and positions. It defines the system of relations between elements, factors, and activities within the organization.

## **3.1.1** Process of designing the Organizational Structure

The organizational structure is to be designed for some concrete conditions and objective needs of the organization. The following are the important factors which are to be taken into consideration in the process of designing of the organizational structure.

- Environment The environment is relevant for behaviour and the organization structure. The most important characteristics of environment that determine organization structure are complexity (determined by the number of elements affecting the organization, their variety and intensity of influence on the operations), stability (measured by the rate of changes in time, similarity of changes, and possibility of their foresight and comprehension), and uncertainty (related to availability of relevant information for rational decision-making).
- Technology It enables transformation of organizational inputs into outputs and it is an important determinant of the internal efficiency of the organization. Technology includes technical equipment for manufacturing, knowledge and ability for using the equipment, and working activity necessary for the transformation process. Considering the relationship between technical complexity of the organization and its structural characteristics, there are three groups of the organizations. The first group consists of the organizations which are having individual or small-lot production. In this organization the technology is universal, the technological process is subject to frequent changes, and they have a way of production which is characterized by a low level of centralization, a small number of hierarchy levels, informal proceedings. and verbal communication, which implies an organic organizational structure. The second group consists of the organizations with large-lot and mass production. In these organizations the activities are routine, the technological process is complex and not easy to change, there is a high level of standardization and specialization, and more hierarchy levels in the organization structure having a high level of formalization and routine distribution channels. The third group consists of the organizations with continually-process production. In these organizations the working process is continual in a certain production cycle, the operations and procedures are synchronized, the production is highly automated, technical complexity is at the highest level, centralization is low, communicating is verbal, and formalization is on a low level. All of these characteristics imply an organic structure of the organization.
- Strategy Starting from its internal potentials, chances and threats of environment, the organization designs its strategy for the realization of the objectives. This strategy requires a certain organization structure as the frame. The concept of organization structure as a consequence of the adopted strategy has evolved in the sense that the relationship between strategy and structure is that of reciprocity, which means that the organization structure also influences the strategy.

- Size Connection between the size of the organization (measured by the number of employees, power of installed capacities, total revenue, value of capital investment, and other factors) and its organizational structure is very easy to notice. Namely, when the organization grows up, its organization structure becomes more complex, and vice versa.
- Forms of aggregating The essence of aggregating in the process of organizational structuring is a result of the need to control, coordinate, and communicate, which implies linkages on vertical and horizontal bases. Vertical aggregating is suitable for large organizations, with a long hierarchical chain, as well as for organizations with stable and simple environment and routine technology. The aim of vertical aggregating is to enable top bottom coordination in organization through different levels of management structure, strong control, and two-way communication. However, an environment which is turbulent and also the complex technology need horizontal coordination of activities. Vertical aggregating with formal authority and horizontal aggregating, as its complement, is a way of achieving internal and external efficiency of an integral totality.

## 3.1.2 Importance of Organizing

Organizing function follows the planning function. Plans prepared under the function of planning govern all aspects of organizing function. Since the organizing follows planning it is closely related to it. The organizing begins after the plans are prepared and is governed by the prepared plans. While the plans state where the organization is to go, organizing helps the organization how to get there. Organizing function shows the management how the organization is to be built or how the existing one is modified to ensure that the goals set in the plans are achieved.

Organizing is essential because it facilitates administration as well as operation of in the organization. By the proper grouping of the work and the employees, production increases, overload of work is checked, wastage is reduced, duplication of work is restricted and effective delegation becomes possible. Organizing also facilitates growth and diversification of activities through clear division of work. It helps in developing a proper organization structure and the extent and nature of ecentralization can be determined. In addition to the above, it becomes possible through organizing to provide for the optimum use of technical and human resources. Besides organizing also encourages creativity and enhances interaction among different levels of management which leads to unification of efforts of all.

Organizing facilitates development of the organizational structure which becomes a tool for the management to achieve plans. This organizational structure is to be responsive with the changes in the plan. The organization which has taken the time, energy, and money to develop quality plans needs management who understand the importance of organizing.

## **3.1.3 Process of Organizing**

Organizing, like planning, is a process which is to be carefully worked out and applied. This process involves determining what work is needed, assigning those tasks, and arranging them in a decision-making framework (organizational structure). If this process is not conducted well, the results may be confusion, frustration, loss of efficiency, and limited effectiveness. The process of organizing consists of the following five steps;

- **Identification of activities** Each organization exists for fulfilling a specific purpose. This purpose identifies the activities which are performed by the organization. For example, in a manufacturing organization, production of the goods and their selling are the major activities in addition to the routine activities. And these activities are in variance with the activities of a service organization or an organization involved in the trading activities. Hence the identification of the various activities of the organization is an important step in the organizing function.
- **Grouping of activities** Once the activities have been identified, then there is a necessity that they are grouped. The activities are grouped in various ways. The activities which are similar in nature can be grouped as one and a separate department can be created. For example, activities related to the purchasing, production, marketing, and accounting and finance can be grouped respectively under purchase, production, marketing, and finance departments etc. Further in each department the activities can be further subdivided into various specific jobs.
- Assignment of responsibilities Having completed the exercise of identifying, grouping and classifying of all activities into specific jobs, the individual employees comes into picture since the employees are to be assign with the responsibilities to take care of activities related to the specific jobs.
- **Granting authority** On the basis of specific responsibilities given to individual employees, they are to be provided with the necessary authority for the discharge of the assigned responsibilities in order to ensure their effective performance and in turn the performance of the organization.
- **Establishing relationship** This is a very important part of the organizing function since each employee in the organization is to know as to whom to report and which are the employee who are to work with him. This establishes a structure of relationships in the organization which helps to ensure that the organization has clear relationships. This structure of relationships also facilitates the delegation.

For carrying out the organizing function usually four approaches are followed for designing the organization structure of the organization.

• The first approach is the functional approach. It is the most common approach. It groups activities under the major headings such as production, marketing, finance, and personnel etc. It is a logical approach. Lines are clearly drawn between departments. But, difficulties can arise because employees get separated department wise and hence from each other. Their understanding and concern for the specialty areas outside of their own is not easy to achieve. It can lead to communication difficulties and lack of cooperation between functional areas. Also, it does not develop generalists in the management area.

The second approach is the geographic approach which groups the activities and responsibilities according to the geographical location. Expanding organizations often locate plants and sales units or repair facilities in various parts of the country because of favourable labour and materials costs, tax incentives, easy access to transportation, or the need to be located near customers to serve them quickly and efficiently. Geographic patterns work best when different laws, currencies, languages, and traditions exist, and have a direct impact on the ways in which the organizational activities are to be conducted. The geographic structure furnishes a training ground to develop general management abilities. A limitation of this approach is the cost of employees and facilities. When the organization makes the decision to expand geographically it automatically incurs cost through duplication of employee's positions and additional building sites.

- The third approach is the production line approach. This approach assembles the activities of creating, producing, and marketing each product into one department. This approach is normally considered if each product of the organization needs a unique marketing strategy, production process, distribution system, or capital resources. The major disadvantage is similar to the geographic approach which is the additional cost through duplication of the functions within each product line.
- The fourth approach is the customer approach which groups activities and resources in response to the needs of specific customer groups. If customers have a different set of demands, needs, and preferences then the following of this approach is appropriate. If the decision is made to use this approach with only some of the organizational customers then there will be difficulty in coordinating the customer-based departments with departments organized in other patterns. Another possibility in this approach is the overspecialization. The facilities and employees may become so specialized to solve the needs of the customers that they cannot be used for any other purpose.

#### **3.1.4 Organizing principles**

Organizing function is effective only if the management follows some guiding principles in order to make important decisions and act upon them. For an efficient organizing function the following are the guiding principles.

• **Principle of specialization** – According to the principle, the entire work of the organization is to be shared among the subordinates based on their qualifications, abilities and skills. Hence, effective organization can be achieved through specialization of sharing or dividing work.

- **Principle of functional definition** The principle states that all the work in the organization is to be fully and clearly described to the managers and subordinates. For instance, the initial work of production, marketing and finance, the authority of managers and the responsibilities of the workers and their relationships towards each other must be clearly described to all the employees working in the department. Hence, clarification in the authority and responsibility helps in the growth of the organization.
- **Principles of supervision or span of control** The principle states that the span of control shows the number of employees that a single manager can handle and control efficiently. Hence, the management is to decide the number of employees that a manager can handle and this decision can be chosen from either a wide or narrow span of employees. There are two types of span of control namely (i) wide span of control in which a manager can easily supervise and effectively handle a big group of subordinates independently, and (ii) narrow span of control in which a manager does not have to supervise and control a large group of employees as the work and authority is shared among many subordinates. Hence, the manager needs to supervise only a selected number of employees at one time.
- **Principle of scalar chain** It is that chain of command or authorization in which there is minimum wastage of resources, communication is unaffected, overlapping of work is prevented, and this facilitates effective organization. The flow of authorization from the top level to the bottom level enables the managers to understand their positions of authority and this helps in an effective organization.
- **Principle of unity of command** As per this principle, one subordinate is accountable to only one superior at one time. This helps in preventing lack of communication and feedback and also brings about quick response. Hence, the principle of unity of command leads to effectively combine both physical and financial resources which in turn aids in effective coordination and organization.

## **3.1.5 Benefits of Organizing**

The benefits of the organizing function are as follows:

- The end result of the organizing process is an organization which is whole consisting of unified parts (a system) acting in harmony to execute tasks to achieve goals, both effectively and efficiently.
- A properly implemented organizing process results in a clarified work environment. Everyone in the organization knows what to do. The tasks and responsibilities of all individuals, departments, and major divisions gets clarified. The type and limits of authority also gets determined.
- There is an environment of coordination and cooperation in the organization. The interrelationships of the various work units get developed. The principle of unity of direction which calls for the establishment of one authority figure for

each designated task of the organization is achieved. This person has the authority to coordinate all plans concerning that task.

• A formal decision-making structure gets established in the organization. This chain of command allows the orderly progression up and down the hierarchy for decision making and decision-making communications.

## 4.0 CONCLUSION

In general, organizing is concerned with combining people, work to be done and physical factors into a meaningful structure that will contribute to an achievement of goals. Organizing also co-ordinates, that is, blends effort of all members for an effective result.

## 5.0 SUMMARY

In this unit we discussed organizing as a part of management functions. We defined organizing and came up with a simple organization structure.

## 6.0 TUTOR MARKED ASSIGNMENT

Define organizing as a management function

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# UNIT 3 STAFFING

### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Staffing
    - 3.1.1 Nature of Staffing Function
    - 3.1.2 Importance of Staffing
    - 3.1.3 Process of Staffing Function
    - 3.1.4 Benefits of Staffing
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Reading

## **1.0 INTRODUCTION**

Staffing entails the definition of work-force requirements for the job to be done, it also includes the selection, recruiting and appraising candidates for positions, compensating training/ development to acquire the needed skills and experience to perform a job efficiently.

## 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- define staffing
- explain the staffing process

## 3.0 MAIN CONTENT

## 3.1 Staffing

Staffing involves the nature and purpose of staffing, selecting of managers, filling and keeping filled, the positions provided for by the organization structure. It thus involves defining human requirements for the job to be done and includes appraisal and selecting candidates for positions; compensating, and training and development of manager's position holders to do their tasks effectively.

## **3.1.1 Nature of the Staffing Function**

The following points describe the nature of the staffing function:

- Staffing is an important managerial function. Staffing function is normally the sub function of the organizing function. All the five functions of the management viz. planning, organizing, directing, coordinating, and controlling depend upon the employees of the organization which are made available through the staffing function.
- Staffing is a pervasive activity. It is carried out in every organization and at all the levels of the management in the organization.
- Staffing is a continuous activity. This is due to the fact that the function of staffing continues throughout the life of the organization.
- The basis of staffing function is the efficient management of personnel. The process involved in the staffing function in the organization is efficiently managed by a system or with well-tried procedures.
- The function of staffing helps in placing right men at the right job. It can be done effectively through proper recruitment procedures and then finally selecting the most suitable candidate as per the job requirements.
- All the levels of management are involved in the function of staffing though the personnel department coordinates it.

## **3.1.2 Importance of staffing**

The staffing function is a very important function of the management due to the following reasons:

- Staffing helps in discovering and obtaining competent personnel for various jobs.
- It helps in the optimum utilization of the human resources.
- It helps in developing professionals in every field of organizational activity.
- It helps to improve the quantity and quality of the output by putting the right person on the right job.
- It helps in developing competencies in the organization to face the challenges.
- It helps to improve job satisfaction of the employees and hence their morale.
- It facilitates higher productive performance of the organization by appointing right man for right job.
- It reduces the cost of manpower by eliminating the wastage of the human resources.
- It facilitates growth and diversification activities in the organization.
- It provides for the development of the employees and through them it ensures continuous survival and growth of the organization.

# 3.1.3 Process of Staffing Function

The process of the staffing function involves human resource planning i.e. estimating the size and nature of the personnel required for the recruitment and selection of the best candidates to train, to induct, to reward and to have regular and effective communication with them. The process of staffing consists of the following steps:

- **Manpower planning** It is the very first step of the staffing function. It involves forecasting and determining the future manpower needs of the organization. It is the estimation of the required manpower keeping in view the present and future needs of the organization. It is regarded as the quantitative and qualitative measurement of work force required by the organization. It involves in creating and evaluating the manpower inventory after considering the development of the required talents among the existing employees through their promotion and advancement.
- **Recruitment** Once the requirements are known, the organization invites and solicits applications from the desirable candidates. Recruitment is a positive process of searching for prospective employees and stimulating them to apply for the jobs in the organization. It is the process of creating the application pool. It is the process to attract maximum number of applicants so as to have more options for the selection. In other words, recruitment stands for discovering the source from where potential employees are likely to be selected. The scientific recruitment leads to greater productivity, better wages, higher morale, reduction in the employees' turnover and better reputation for the organization. For the process of recruitment high skills are not essential.
  - **Selection** It is the screening step of staffing in which the solicited applications of those candidates which are not found suitable as per the requirements of the notified post are screened out. It is the process of elimination of the candidates who appear unpromising for the post. It is the process of picking the best amongst the application pool. The purpose of selection process is to determine whether a candidate is suitable for employment in the organization or not and involve rejection of the candidates not found suitable. Selection process needs high skills since only those are to be selected that are fit for the job. The chief aim of the process of selection is choosing the right type of candidates to fill in various positions in the organization. Selection process requires exactness. A well planned selection procedure is of utmost importance for the organization.
- Placement and orientation Once selection process is over, the selected candidates are appointed. After this, the placement of the appointed employees takes place by putting right man on the right job. It means putting the appointed employee on the job for which he is selected. Orientation is the introduction of the appointed employee with the job. He is made familiar to the work units and work environment through the orientation programmes.
- **Training** After appointment of an employee, the most important and established part of the personnel programme is to impart training to the new comer. With the rapid technological changes, the need for training employees is being increasingly recognized so as to keep the employees in touch with the new developments. Training is generally given according to the nature of activities and scope of expansion in it. It is given to acquaint the appointed employees with the processes and the procedures which they are required to follow for the job. It provides the appointed employees benefits of in depth knowledge of their functional areas. It is necessary that the organization has a

systematic training programme otherwise employees will try to learn the job by trial and error which can prove to be a very costly method.

- **Development** A sound staffing policy in the organization calls for the process of the development of the employees so that they can take higher responsibilities. The process of development is for preparing the employees for variety of jobs. It widens their outlook and enhances their conceptual ideas. It opens promotional avenues for them and thus provides for their growth in the organization. With the avenues of growth available the employees do not get frustrated and remains motivated and this helps in getting enhanced output from him.
- **Promotion** Promotion implies upgrading of an employee to a higher position involving increase in rank, prestige or status. It generally consists of shifting the employee to a higher job which requires bigger responsibilities. Generally increase in pay and enhancement of powers accompanies promotion but it is not essential ingredients. Promotion can be given to the employees in the same department in which they are working or by transferring them to different department where similar job opportunities are available to them.
- **Transfer** It normally implies movement of the employees from one job to another without any increase in pay, status or responsibilities. Usually employees are transferred to different work units and branches of the organization. Normally transfer takes place between jobs paying approximately the same salaries but sometimes employees are also transferred during their promotion. Employees of the organization who have been identified for taking up of higher positions in the organization are being transferred to different departments so that they can learn intricacies of the functioning of different departments. This helps them when they take up positions in the higher management.
- **Appraisal** it is normally done in order to keep a track or record of the behaviours, attitudes as well as opinions of the employees towards their jobs. Appraisal of employees reveals as to how efficiently the employee is performing in his job. Appraisal of the employees is also done to know their aptitudes and other qualities necessary for performing the job assigned to them. The qualities for which the employees are generally apprised through performance appraisal include (i) ability to do work, (ii) spirit of cooperation, (iii) job knowledge, (iv) discipline and sincerity, (v) managerial ability, (vi) self-confidence, (vii) initiative, (viii) problem solving abilities, and (ix) intelligence etc. The main objective of performance appraisal is to improve the efficiency of the employees by mobilizing their best possible efforts and through them achievement of the objectives and the goals of the organization.
- **Remuneration** It is a kind of compensation provided monetarily to the employees for their work performances. This is given according to the nature of job- skilled or unskilled, physical or mental, etc. Remuneration forms an important monetary incentive for the employees. Fixation of remuneration is the most difficult and complex function of the management since there are no definite or exact means to determine the correct wages. Job evaluation is one of

the systematic techniques to determine the worth of the job but much remains to be done in this regard.

# 3.1.4 Benefits of Staffing

The benefits of an effective staffing function are as follows:

- Staffing helps in getting right people for the right job at the right time. The function of staffing enables the management to find out as to how many employees are needed and with what qualifications and experience.
- Staffing contributes to improved organizational productivity. Through proper selection the organization can enhance the quality of the employees, and through proper training the performances level of the employees can also be improved.
- Staffing helps in providing job satisfaction to the employees and thus keeps their morale high. With proper training and development programmes their efficiency improves and they feel assured of their career advancements.
- Staffing maintains harmony in the organization. Through proper staffing, individuals are not just recruited and selected but their performance is regularly appraised and promotions made on merit. For all these, certain procedures are made and are duly communicated to all concerned. This fosters harmony and peace in the organization.

## 4.0 CONCLUSION

The performance of any organization depends on the quality of its staff. This is why staffing in any organization must be approached professionally and carefully. Development of staff should be a very important task so that the organization will be able to move along with the times.

## 5.0 SUMMARY

Staffing function starts from identifying jobs, the level of skills required to perform the tasks, recruitment of people who fit properly into the jobs then the deployment of staff to various jobs. The staffing function doesn't end here as the entrepreneur is expected to monitor the performance of all staff through the effective appraisal system.

## 6.0 TUTOR MARKED ASSIGNMENT

- 1. Define staffing?
- 2. Mention 5 processes involved in staffing

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# UNIT 4 LEADING/DIRECTING

## CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Leading
    - 3.2 Concept of Leadership
      - 3.2.1 Job-centered leadership
      - 3.2.2 Employee-centered leadership
    - 3.3 Directing
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

## **1.0 INTRODUCTION**

Organizing establishes a hierarchy in organization, making for superior –subordinate relationship at work and thus gives rise to superiors directing their subordinates to do tasks assigned to them.

## 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- define leading
- explain directing
- types of leadership styles

## 3.0 MAIN CONTENT

## 3.1 Leading

This is concern with the nature of directing and leading, motivating, leadership, communication, and making directive and leading effective. To lead is to guide, conduct, direct and precede. Leaders act to help a group achieve objectives with the maximum application of their capabilities. They do not stand behind a group to pus and to prod; they place themselves before the group as they facilitate progress and inspire the group to accomplish organizational goals.

Leadership is the defining of the entrepreneurship task and the motivating of human energies and material resources to accomplish it. It is also the human factor which binds an organization or group together and motivates it towards its goals. The primary essence of leadership in entrepreneurship is followership. Since leadership implies followership and people tend to follow those in whom they see a means of satisfying their own needs, wishes and desires this area of management involves motivation, leadership styles and approaches and effective communication. Leadership can also be referred to as commanding.

According to Ross (1957), the effectiveness of the leader is dependent upon meeting 3 functional needs:

## i) Task Function

This involves the leader being capable of defining group tasks, planning necessary work assignments, allocating resources, organizing duties, controlling quality, checking performance and achieving the objectives of the organization.

#### ii) Team Function

This involves maintaining morale and building team spirit. It also involves the cohesiveness of the group, setting standards and maintaining discipline, communicating with and training the group, and also appointing sub-leaders.

#### iii) Individual Function

This involves meeting the needs of members individually, attending to personal problems, giving praise and status, reconciling conflict between group needs and individual needs, as well as training the individuals in the organization.

## **3.2** Concept of Leadership Styles

It is of great importance to discuss the concept of leadership style since leadership is the human factor that binds a group together. There are two types of leadership styles;

## 3.3 Job-Centered Leadership

In this type of leadership style, the leader simply structures the job of his subordinates and ensures that they perform the assigned tasks. This type of leadership style pays little or no attention to the fact that the workers are human beings and should be treated as such.

## **3.3.1 Employee-Centered Leadership**

The leader pays more attention to the human aspects of managing employees thereby building high performance teams. In employee-centered leadership, the leader will strive to motivate the workforce. Motivation has been defined as all those inner striving condition described as wishes desires and drives etc. it is an inner state that activates or moves. From a management perception, a motivated person:

- works hard
- sustains the pace of hard work
- has self-directed behavior towards important set goals

In motivating employees, the leader has to properly understand what actually motivates people. Motivators are simply defined as those things, which influence an individual to perform. They will include the following:

- Good pay
- Good and prestigious job title
- Recognition by colleagues
- Job enrichment

## 3.3 Directing

Directing guides the activities of personnel in a way that is previewed to be necessary for accomplishing organizational goals. In this sense, directing of activities of subordinates by their superiors is done through communication, motivation, leadership, training and personal influence while directing provides a sense of direction for behavior at work, it is closely inter-related with other functions of planning, organizing and controlling.

Communication in the directing function closely relates to responsibility and authority relations established during organizing actions. It is a facilitating function of organizational relation.

## 4.0 CONCLUSION

The overall purpose of effective leadership is to be an aspiration to the team, group and organization at large. A leader must be a person with purpose and vision. A leader must also be disciplined, decisive, discrete, intellectual, and capable of necessity for change and managing change.

## 5.0 SUMMARY

Leadership and management are important ingredients in the success of an organization. Leadership is the capacity to cause others to see and purse a different direction than they would likely pursue on their own. A leader must recognize the importance of motivators in designing personnel policies.

#### 6.0 TUTOR MARKED ASSIGNMENT

- 1. Define leadership
- 2. What are the 3 functional needs a leader's effectiveness depends on?
- 3. Mention the types of leadership style

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# UNIT 5 CONTROLLING

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    - 3.3.1 Types of controls and control systems
    - 3.3.2 Roles of Control in an organization
    - 3.3.3 Monitoring of controls
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

## **1.0 INTRODUCTION**

Managerial control involves the process of measuring actual results, comparing these results to plans predetermined standards and diagnosis the reasons for the deviations of actual from desired result then taking corrective action when necessary.

## 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- define controlling
- understand the two pre-requisites for control to be effective
- list the 3 critical stages of control process

## 3.0 MAIN CONTENT

## 3.1 CONTROLLING

Controlling is concerned with system and procedures of controlling, special control techniques, tools of control and overall performance, along with the following:

- Seeing that the programmes and the goals laid down in the plan are adhere to bringing to light the reasons for deviating from the plans.
- Controlling also implies corrective actions for the negative deviations from the plan.

Controlling is the action by which a superior monitor or checks current operations and compares results with goals and other standards of performance established during the planning function if current activities and/or results deviates from original plans, or standards, corrective action is required to get things back on path. So, the establishment of standards, the comparison of performance with standard set at the planning stage, the feed-back of any deviations to a higher level of management for action, and the correcting of such deviations from the standard are all the factors that come within the embrace of controlling.

## **3.2 Requisites of Effective Controls**

We must note that for control to be effective, there are pre-requisties:

The following are the requisites of effective controls:

- **Focus on critical points** The critical control points which need focus include all the areas in the organization which directly affect the success of its key operations. Such points focus specifically on those areas at which failures cannot be tolerated and where time and costs are crucial.
- **Integration** Controls must not be haphazardly placed. They must function harmoniously within the established processes of the work. In short, they should not be bottleneck in the operations. Trust, confidence, and acceptance of all controls must be a part of the culture. Employees must have faith in these devices.
- Acceptability As with integration, employees must accept the devices, tools or methods of control. The necessity, usage, and appropriateness of the controls must blend with the personnel involved. The acceptability of controls is important for their effectiveness and efficiency.
- **Timeliness** Deadlines, time costs, and punctual needs are apparent in these criteria. Costs are frequently attributed to time shortcomings or failures.
- **Economic feasibility** Economic feasibility of controls is important. The accompanying expenses to any control or system of controls need to be analyzed and the costs are to be compared with the benefits.
- Accuracy The information for the control must be useful and accurate. Reliability and validity of diagnosed deviations from standards must be accurate. They are to be consistent and they measure what is intended.
- **Comprehensibility** Complexity can cause confusion. Management must favour simplicity. Control system must be as simple as practicable. Ease of understanding and application is often associated with simplicity.

Key areas of concern include quality concern, financial control, sales control and inventory control, analysis of variances rewards and sanctions.

The tools of management control include:

i) Organization charts and job specifications

- ii) Statement of policies, procedures and budgets
- iii) Personal contact between superiors and subordinates and the informal organization process

The series of activities performed in carry out managerial functions is termed the control process;

### a) Standard setting

This is the first stage in the control process standards are bench marks against which performance are measured. These are usually set in the planning process. These standards may be set on daily, weekly, monthly, quarterly or annual bases.

### b) Measuring actual performance

This is the stage at which the activities are measured to know the actual results that have been achieved. Since benchmarks have been set, it is necessary that activities are measured at specified points in time to ascertain the true state of affairs.

### c) Comparing the actual with the expected

The main function of control is to ensure that the actual results conform to the expected. That is, after measuring actual performance, the manager goes on to compare it with the expected result as established in the planning process.

#### d) Taking correction action

The result of the preceding activity will determine the type of action to be taken by the manager. Where the actual is less than the expected, corrective actions are taken and where the actual correspondence with the expected it is reinforced.

The concept of control implies the following:

- All the principles, criteria, norms and methods concerning the organization inside the entity, including the mood or the specific strictness
- All internal procedures
- Preventive financial control
- Marketing controls
- Human resources controls
- Other forms of internal controls

The concept of control does not define only actions, mechanisms, procedures, but also a 'philosophy' developed within the organization which allows the activity evolution in accordance with stakeholders' plans, purposes, and expectations. Controlling is the management function of establishing performance standards, measuring actual performance activities to see if the standards have been met, and taking corrective action. The purpose of controlling is to determine whether people and the various departments of the organization are on target and are achieving the progress toward the objectives that they planned to achieve. While planning determines goals and maps out the necessary strategy and tactics, controlling attempts to prevent failure by providing the means to monitor the performances of individuals, departments, divisions, and the entire organization. Controlling is also critical because organization resources are limited. Their acquisition and use are critical to the survival of the organization. Hence the organization cannot set resources in motion toward a goal without monitoring the progress of the resources. Hence the organization operates with monitoring of the performance of employees, the expenditure of funds, or the production of goods. Controlling affects and is affected by the other four functions of the management.

Controlling is an instrument for planning, accounting, analysis and control of the status of the operations within an organization. It is used for decision-making on the basis of a system for data collection and processing, which is a system of constant assessment from different points of organizational departments, organizational branches, managers and employees. The processing comprises accounting, analysis and control as an integrated function. It requires;

- i. Increase of the level of knowledge of the specialists within the organization and activation of their intuitive and logical awareness, which promotes flexibility of the management system and attain the objectives of the organization at the same time,
- ii. Formation of a controlling system which is to become the basis for the timely improvement of the informational and methodical support of organizational management and to minimize the probability of an occurrence of collapses between the needs of the environment and opportunities of the organization to satisfy the same,
- iii. A Creation of instruments in the field of prediction of the efficiency of the interaction of the controlling and the management within the organization, of the choice of the rational direction of their development and the analysis of the production processes and realization of the produce of the organization.

The controlling function of the management acts through the following phases in sequence (fig 1).

- Planning, where for the organizational unit a set of objectives must be defined, that is of specific expected results, which need to be understandable, agreed, and measurable in extent and time, reachable, consistent with one another and with the available resources.
- Programming, where a programme is drawn up in order to get the planned objectives, taking into account the internal and external restraints to the organization.

- Result checking, where it is measured whether the organizational unit has achieved or not the assigned objectives.
- Shifting analysis, where the possible shifting between objectives and results is analyzed.
- Corrective action implementation, in order to optimize the behaviour of the unit against the planned objectives

## **3.3** Characteristics of Controlling Function

Thus, controlling involves (i) knowing the nature, quantum and time frame of the work, (ii) comparing the performance with the plan, (iii) analyzing deviation, if any, (v) taking corrective steps, and (vi) suggesting revision of plans, if necessary.

The following are the basic characteristics of controlling function:

- Controlling function is a management process
- Controlling is closely linked with planning. Control is said to be checking performance as per what has been planned. So planning precedes controlling and sets the standards and targets of performance.
- Controlling is a continuous process. It is an ongoing and dynamic function of management. It involves a continuous review of performance and is not a one-time exercise. The period of control normally depends upon the nature of work, the amount of work and the policies of management.
- Controlling is all pervasive. It is embedded in each level of organizational hierarchy. Control is exercised at all the levels of management, and is done in every functional area and at each unit or department.
- Controlling is a tool for achieving organizational activities. It is an actionoriented process. It points out errors in the execution process. The very purpose of control is defeated if corrective action is not taken for improvement of performance or the revision of plans.
- Controlling is forward looking. Control is futuristic in nature. It measures current performance and provides guidelines for the corrective action. This ensures future performance as per plans.

Due to these characteristics, controlling (i) helps in achieving the targets, (ii) helps in taking corrective action on time, (iii) helps in monitoring and improving employees performance, (iv) helps in achieving better coordination, (v) helps in better planning, (vi) helps in minimizing errors, (vii) facilitates decision making, and (viii) simplifies supervision.

## **3.3.1** Types of Controls and Control Systems

There are three types of control. They are (i) feed forward controls, (ii) concurrent controls, and (iii) feed-back controls. These are described below:

- Feed forward controls are future directed. They are designed to detect and anticipate deviations from standards at various points. Such preventative controls focus on establishing conditions that makes it difficult or impossible for deviations from norms to occur. Examples include safety equipment, safety procedures, job descriptions, job specifications, inductions and orientation training etc.
- Concurrent controls are sometimes known as 'in-process' controls, these controls apply to processes as they happen. Audible warnings mark this type of control.
- Feedback controls are post-performance controls and they focus upon the end results of the process. The information obtained is used for corrective purposes. Adjustments and/or corrections follow the feedback input.

Control systems are the composite feed forward, concurrent, and feed-back controls. Control system can consist of a combination of any two or more controls. Any combination of these controls is used to accommodate various management control needs.

Further controls can be grouped according to three general classifications namely:

- i. the nature of the information flow designed into the system (open- or closed-loop control),
- ii. the kind of components included in the design (man or machine control systems),
- iii. the relationship of control to the decision process (organizational or operational control).

## **3.3.2** Roles of Control in an Organization

Controls can play five important roles in organizations. These are as follows:

- Control systems enable managers to cope with uncertainty by monitoring the specific activities and reacting quickly to significant changes in the environment.
- Controls help managers detect undesirable irregularities, such as product defect, cost overruns, or rising personnel turnover.
- Controls alert managers to possible opportunities by highlighting situations in which things are going better than expected.
- Controls enable management to handle situations by enhancing coordination within the large organization.
- Controls can decentralize authority by enabling management to encourage decision making at lower levels in the organization while still remaining in control.

The control process is generally a three step process of measuring actual performance, comparing it against standard and taking managerial action to correct deviation or inadequate standards.

## **3.3.3** Monitoring of Controls

Controls are required to be monitored to determine the degree of organizational impact that they have, both on people and on systems. When controls are developed, employees may resent them as unnecessary, strict, or demeaning. Employee involvement in the design and implementation of the control is critical to reduce or eliminate anxiety and resentment. Controls also need to be monitored to limit the potential impact on organizational patterns and systems because controls can have side effects.

One potential answer for management is to use program evaluation techniques to monitor the system. One technique, before-and-after comparison, looks at the environment before and after the system is installed to note any differences and why they occurred. Other potential options include time trend data comparisons, comparisons between affected and unaffected parts of the organization, and controlled experimentation.

In determining the impact of controls on various parts of the organization, questions need to be asked in the areas of goals, structure, decision-making, and human relations.

Management need to know the impacts of controls. Controls can generate support or antagonism. Involving employees in the design of controls can help ensure support. Controls that employees believe are equitable seldom encounter resistance. When ensuring the effectiveness of controls, management can use these techniques namely:

- i. conducting before-and-after comparisons,
- ii. surveying the employees affected by the controls,
- iii. performing controlled experiments, and
- iv. updating the controls when necessary or as required.

Controls are effective as long as:

- they do what they are intended (prevent deviation, diagnose deviations, treat deviations, or provide information for future planning), and
- they do not create organizational problems that result in costs greater than the benefits of the control devices.

Controls are effective only as long as they do what they are intended to do. When the control devices are designed, they are with a certain set of expectations and under specific circumstances. If these circumstances and expectations change within the organization, the control devices need to be reviewed and possibly updated or

replaced. The instant changes are planned or occur in operations, managers should begin to examine how adequate the present controls will be for these changes. Controls need to be current.

Again, controls need to be monitored for the degree of impact they have on people and organizational patterns and systems. It should be expected that control systems will affect employees and organizational operations, but extreme changes should be avoided. If employees resent control, they will limit the effectiveness of the control. If a control device has side effects on the organizational patterns and systems, it can impact morale, timeliness of decisions, and the decision-making environment.

## 4.0 CONCLUSION

Control process is completed once the actual result conform with expected result and when there is a problem it is easy to know where the problem is coming from and how it can be tackled.

## 5.0 SUMMARY

In this unit, we discussed controlling as a managerial function and we discussed the steps involved in a control process.

## 6.0 TUTOR MARKED ASSIGNMENT

- 1. Define controlling
- 2. Explain the two pre-requisites for control to be effective
- 3. List the 4 critical stages of control process.

## 7.0 REFERENCES/FURTHER READINGS

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## MODULE 3

- Unit 1 Research
- Unit 2 Budgeting in Business
- Unit 3 Cooperative Business Enterprises
- Unit 4 Steps in Setting up Cooperative Business
- Unit 5 Motives for Forming or Joining a Cooperative Society

## UNIT 1 RESEARCH

### CONTENT

- 1.0 Introduction
- 2.0 Objectives
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## **1.0 INTRODUCTION**

This unit attempts to put together issues critical to a good understanding of the basics of research methodology. After an exploratory discussion of what research is, the unit reviews types and misconceptions related to research.

## 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- define research
- explain research process
- list the types of research
- write a research proposal

## 3.0 MAIN CONTENT

#### 3.1 Research

What is Research?

There is no agreement or consensus between writers on how the word `research' should be defined or interpreted. One reason for this is that `research' means different things to different people.

A useful starting point in answering the question 'What is research?' is to see how research is defined in a dictionary. Dictionary definitions use words such as `systematic', 'careful', 'facts', 'information', and `investigation'. However, the problem with these definitions is that they are not sufficiently rigorous or detailed for our purposes. For example, the word `information' is often used when 'data' should be used. If the dictionary would not fully satisfy us, we turn to research methods textbooks.

From the many definitions offered in the textbooks, there are some agreements that research:

- is a process of gathering facts (data)
- is systematic
- reviews, questions and synthesizes existing knowledge
- involves analysis
- possibly increases knowledge
- is a combination of all of these.

Research is about **process** (the approach you take) and **thinking** (questioning, synthesis, analysis, and criticality).

## **3.2** Research Process or Methodology

The research' process or methodology is the approach to an entire study - it is the master plan. It is the blueprint for achieving stated objectives, one of which is the production of a master's dissertation. Irrespective of the research one is going to

conduct, there are several fundamental stages one will have to go through. The diagram below is a simplified, traditional and highly structured view of the research process.

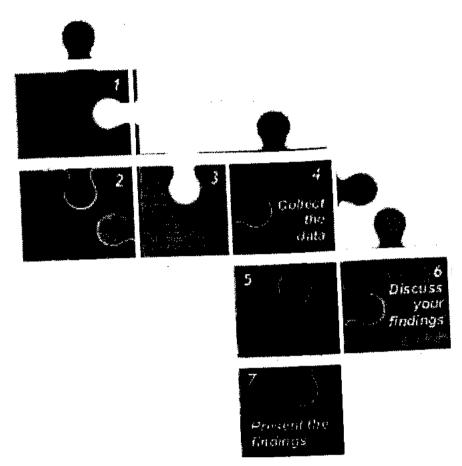


Figure 11.1. The Research process

The diagram shows the systematic nature of the research process. Unfortunately it is not quite so straightforward as many of the stages overlap and there is much 'looping back' to previous stages.

In this simplified diagram, the underpinning theoretical issues and questions that have to be addressed are presented in sections 1 and 2 while section 3 depicts the research methodology.

## **3.3** Theory of Research

Superficially the research process can appear to be relatively simple - if you carry out the basic steps methodically and carefully, then you should arrive at useful conclusions. However, the nature of research can be very complex and when you are reading textbooks on research methodology you will come across many unfamiliar words and terms. We first look at types of research and explain some of the terms.

## 3.4 Types of research

The main different types of research can be classified by its purpose, its process and its outcome. These can in turn be broken down further:

The purpose of the research can be classified as:

- Exploratory,
- Descriptive,
- Analytical,
- Predictive.

The process of the research can be classified as:

- Quantitative,
- Qualitative.

The outcome of the research can be classified as:

- Applied,
- Basic or pure,
- Action.

## 3.5 Purpose of Research

#### • Exploratory research

This is conducted when there are few or no earlier studies to which references can be made for information. The aim is to look for patterns, ideas or hypotheses rather than testing or confirming a hypothesis. In exploratory research the focus is on gaining insights and familiarity with the subject area for more rigorous investigation later. In the MBA dissertation, it is likely that you will be drawing on previous studies and so pure exploratory research is not generally appropriate for studies at this level — it is more appropriate for M.Sc., Ph.D. and post-doctoral research. However, it is possible that you may carry out an initial survey to establish areas of concern (exploratory research) and then research these issues in more depth, perhaps through interviews, to provide a deeper understanding (explanatory research).

#### • Descriptive research

This describes phenomena as they exist. It is used to identify and obtain information on the characteristics of a particular issue. It may answer such questions as:

- a) What is the absentee rate amongst a particular group of workers?
- b) What are the feelings of workers faced with redundancy?

The data collected are often quantitative, and statistical techniques are usually used to summarize the information. Descriptive research goes further than exploratory research in examining a problem since it is undertaken to ascertain and describe the characteristics of the issue. An MBA dissertation may include descriptive research, but it is likely that it will also include one of the following two types (explanatory, or predictive) as you are required in your, dissertation to go beyond description and to explain or predict.

#### • Analytical or explanatory research

This is a continuation of descriptive research. The researcher goes beyond merely describing the characteristics, to analyze and explain why or how something is happening. Thus, analytical research aims to understand phenomena by discovering and measuring causal relations among them. It may answer questions such as:

- a) How can the number of complaints made by customers be reduced?
- b) How can the absentee rate among employees be reduced?
- c) Why is the introduction of empowerment seen as a threat by departmental managers?

#### • Predictive research

Predictive research goes further by forecasting the likelihood of a similar situation occurring elsewhere. It aims to generalize from the analysis by predicting certain phenomena on the basis of hypothesized, general relationships. It may attempt to answer questions such as:

Will the introduction of an employee bonus scheme lead to higher levels of productivity?

What type of packaging will improve our products?

Predictive research provides 'how', 'why', and 'where' answers to current events as well as to similar events in the future. It is also helpful in situations where 'What if?' questions are being asked.

## **3.6 Process of Research**

There is no consensus about how to conceptualize the actual undertaking of research. There are many methods of collecting primary data and the main methods include:

- a) Questionnaires, interviews, focus group interviews, observation
- b) Case-studies
- c) Diaries
- d) Critical incidents
- e) Portfolios.

All methods of data collection can supply quantitative data (numbers, statistics or financial) or qualitative data (usually words or text). Quantitative data may often be presented in tabular or graphical form. Each approach demands different research methods.

#### • Quantitative research

The quantitative approach usually starts with a theory or a general statement proposing a general relationship between variables. With this approach it is likely that the researchers will take an objective position and their approach will be to treat phenomena as hard and real. They will favour methods such as Surveys and experiments, and will attempt to test hypotheses or statements with a view to generalizing from the particular.

This approach typically concentrates on measuring or counting and involves collecting and analyzing numerical data and applying statistical tests.

#### • Qualitative research

The alternative tradition is the qualitative approach. Here the investigator views the phenomena to be investigated as more personal and softer. He or she will use methods such as personal accounts, unstructured interviews and participant observation to gain an understanding of the underlying reasons and motivations for peoples' attitudes, preferences or behaviors. With this approach, the emphasis is more on generating hypotheses from the data collection rather than testing hypothesis.

The following points should be noted:

- Qualitative and quantitative research methods are neither clear-cut nor mutually exclusive most researches draw on both methods
- Both approaches can generate quantitative and qualitative data
- The difference between the two methods is in the overall form and in the emphasis and objectives of the study.

#### **3.7** Outcome of Research

#### • Applied research

Applied research is problem-oriented as the research is carried out to solve a specific problem that requires a decision, for example, the improvement of safety in the workplace, or market research. For the MBA dissertation, one may want to carry out applied research limited to one establishment or company, or look at issues of wider significance extending to an entire industry as a whole or to a sector of it.

#### Basic research

Basic research is also called fundamental or pure research, and is conducted primarily to improve our understanding of general issues, without any emphasis on its immediate application. It is regarded as the most academic form of research since the principal aim is to make a contribution to knowledge, usually for the general good, rather than to solve a specific problem for one organization. This may take the form of the following:

- a) **Discovery** where a totally new idea or explanation emerges from empirical research which may revolutionize thinking on that particular topic. An example of this would be the Hawthorne experiments.
- **b) Invention** where a new technique or method is created. An example of this would be the invention of TQM (total quality management).
- c) **Reflection** where an existing theory, technique or group of ideas is reexamined possibly in a different organizational or social- context. For example, to what extent can Herzberg's theory of motivation be applied to front-line workers in the catering and hospitality sector?

#### • Action research

This is a form of research where action is both an outcome and a part of the research. The researcher 'interferes' with or changes - deliberately - what is being researched. The critics of action research argue that since the researcher is changing what is being researched during the process of research, the work cannot be replicated. If it cannot be replicated its findings cannot be tested in other situations. This prevents general knowledge being developed and thus it cannot contribute to theory. Also, as the researcher is involved in the change process there is a loss of critical, detached objectivity. There are two approaches to action research:

- a) **Classical action research** begins with the idea that if you want to understand something you should try changing it.
- b) New paradigm research is based on a new model or framework for research. It claims that research can never be neutral and that even the most static and conventional research exposes the need for change in what is being researched. It involves inquiry into persons and relations between persons, and is based on a close relationship between researcher and those being researched. The research is a mutual activity of a 'co-ownership' involving shared power with respect to the process and the outcomes of the research. Those being researched can, for example, decide how the research will be undertaken, in what form and with what questions being asked. The researcher is a member of a 'community' and brings to it special skills and expertise. The researcher does not dictate what will happen. This type of research is most easily carried out when working with individuals or small groups. It means that the researcher must be highly skilled not only in research methods but also in the interpersonal skills of facilitating others.

As you can see, there are a number of types of research and not all may be suitable for you in your dissertation. The key points to remember are as follows:

- While the purpose of your dissertation may have some elements of exploratory or descriptive research you should concentrate on research that will mainly fall into the explanatory area or perhaps predictive research if you are very confident. Explanatory research gives you the opportunity to demonstrate the skills of analysis and evaluation which will help you to score highly in your final marks.
- The process of your research can either be quantitative or qualitative and the different methods that can help you to carry out your research in this way are outlined more fully later.
- It is likely that you will be carrying out basic or pure research in the reflection mode (rather than applied or action research) as this will give you the best chance of showing that you can test out a theory in a new situation.

#### **3.8** Some Methodological Misconceptions

A misconception, and source of confusion for many people, is the belief that qualitative research generates just qualitative data (text, words, opinions, etc.) and that quantitative research generates just quantitative data (numbers). Sometimes this is the case, but both types of data can be generated by each approach. For instance, a postal questionnaire or structured 'interview (quantitative research) will often gather factual information, for example, age, salary, length of service (quantitative data) - but may also seek opinions and attitudes (qualitative data).

A second misconception is that statistical techniques are only applicable for quantitative data. Once again, this is not so. There are many statistical techniques that can be applied to qualitative data, such as ratings scales, that has been generated by a quantitative research approach.

Unfortunately, many people are worried about numbers, and in particular about statistics, and everything that word implies. Quantitative research and the analysis of quantitative data is consequently -something to be avoided. But as we have indicated above, this is rarely possible because qualitative data can also be analyzed using statistics. An understanding of basic statistical terms and ideas and the ability to carry out some statistical analysis (elementary or otherwise) is essential for most researchers. Also competence in these techniques, even at a basic level, is a useful skill in its own right.

A third misconception is that qualitative data analysis is easy. There are many ways of conducting qualitative research and thus many ways of analyzing the resulting (qualitative) data. For example, having conducted an interview, transcription and organization of data are the first stages of analysis. This would then be continued by systematically analyzing the transcripts, grouping together comments on similar themes and attempting to interpret them and draw conclusions.

We deal with data that can be analyzed statistically (quantitative data and some types of qualitative data) which are more akin to the MBA programme, in this write-up.

## **3.9** The Research Proposal

The difference between a dissertation and almost any other piece of work is that you have to decide on a **topic** and the **title.** You start with a blank sheet. This, for most students, is daunting, troublesome and challenging. So where do you, begin?

You begin with the 'research proposal'. This is the document which sets out your initial ideas and thinking and shows, to a certain extent, how much thinking you have devoted to the issue.

The research proposal specifies the need for:

- Topic and title,
- A research question or hypothesis (not both),
- A review of some literature associated with the title,
- Some indication of how you are going to collect the primary data,
- A time plan,
- A bibliography of the literature consulted in putting the proposal together.

The above is calling for a research proposal put in a research proposal form or format (which includes 6 items as stated above), not just title as presently done, as if one were still in the undergraduate class.

The other key point is that it has to concern something that you are interested in. The 6-point research proposal format above helps to bring out the motivation in the candidate at the early stage. Motivation in undertaking research rises and falls. If one has little or no interest to start with, then it will be difficult to lift that interest should one encounter problems and a drop in motivation later on.

#### **3.9.1** Topic and Title

Where does the inspiration for your dissertation topic come from? There are various sources of getting a topic but the most common from which interest in a topic may arise from are:

- Personal experience
- Something someone has said
- Something you read
- Career aspirations.

What is an acceptable topic? Basically any topic is acceptable but:

• It must be in the area of your major pathway

- It has to be suitable for the level of study
- There has to be a literature base which discusses the various theories, concepts and models that underpin your topic.

Start by identifying the general topic area, then have a conversation with yourself that narrow the topic down to something that is more focused and then come up with main aim or purpose of the dissertation.

# 3.9.2 Research Question

Whereas the aim or purpose statement explains the general direction of the study and is summarized by one's title (aim for a maximum of 12 words for the title), the research questions (or hypotheses) expand on this by providing details. This is a critical stage in the research, even though it appears early in the process.

If appropriate questions are not asked, suitable data cannot be collected and sensible conclusions arrived at. By research questions we do not mean the detailed questions you might use in interviews or questionnaires, but questions which identify the general nature of research or issues you wish to focus on.

At the proposal stage we want the core or key question or to put it in another way, we want a grand tour question. After further reading, you might identify another key question but remember, the more core questions that you have, the more work you will need to do.

A core research question should imply:

- An explanation of some phenomenon
- A relationship between variables
- A comparison between variables
- Prediction
- Analysis

# **3.9.3 Research Hypotheses**

An alternative way of posing a research question is to state a hypothesis. A hypothesis is a proposition about the area that you are studying and is expressed as a statement of fact or what you believe to be true. You then try to find out whether the statement is true or false.

A good hypothesis:

- Is based on current knowledge and understanding (facts and theory)
- Compares two variables
- Can be tested by the collection and analysis of data.

A hypothesis is worded such that it implies that it implies that the two variables are independent of each other. Strictly this is called the **null hypothesis.** If we consider the example on the type of degrees obtained by younger and older students, we can state the (null) hypothesis as:

- There is no difference in the level of degree obtained by younger and older students
- Younger and older students do not differ in the level of degree attained.

This hypothesis is then tested by trying to disprove it by saying, "let us look for evidence that would show the null hypothesis to be incorrect". In this example, this means trying to show that there is a difference in the level of degree obtained. If we could find sufficient evidence to show a difference we would reject the null hypothesis:

- There is no difference in the level of degree obtained by younger and students in favor of the alternative hypothesis
- There is a difference in the level of degree obtained by younger and older students.
- Of course, if you show there is a difference it introduces the questions, what is the difference and why?
- Though the notion of a hypothesis is a difficult one, it is still a good and necessary exercise in trying to phrase one's research in this way as it helps to clarify one's ideas.

A similar type of hypothesis is a statistical hypothesis. These hypotheses tend to be used when research are dealing with large amounts of numerical data. Also theoretical statistical tests are used to prove or disprove the null hypothesis.

# 3.9.4 Preliminary Literature Review

For the research proposal, you are required to write an essay that identifies the main underpinning concepts/theories/models that are relevant to your topic/title/research question. The preliminary literature review is a smaller version of the actual literature review that would be found in the main dissertation, but provides a starting point that can put in the preliminary research proposal.

# 3.9.5 Primary Data Collection

As with the literature review you are being asked in the proposal to do something that you have not yet covered in great detail. In particular, you have to try to identify how you are going to collect your primary data.

# **3.9.6 Time Planning**

You have now thought and written about the:

- Title
- Core research question or hypothesis
- Preliminary literature review and bibliography
- Primary data collection

The penultimate stage of the proposal is to produce a time plan of what you are going to do when. The plan should be detailed and include all the tasks necessary to complete your dissertation. Remember these are not discrete many of the tasks have to be thought about in advance and overlap with other activities. They also take a lot longer than you actually think. For example, it is no good thinking that the literature review will take four weeks. You have to spend time finding material, reading the material, writing a draft, submitting it to your supervisor, giving him or her time to read it, get feedback and redraft based on the comments.

Students often underestimate how long data analysis and evaluation takes. It should take a minimum of four weeks. Many students, because of poor planning, or things going wrong, find themselves short of time towards the end of the dissertation and rush the analysis and evaluation. This often negates all the good work that may have gone before. A number of approaches are possible in preparing a time plan. The basic method is to list the weeks from the commencement of the dissertation to the submission and slot in detail. In this way you can identify holidays and other times when you may not be able to work on the dissertation. You can also identify milestones and key dates.

# 3.9.7 Assessment of the Proposal

By now you have almost completed the proposal. The final step is to reflect on your proposal. You probably tempted to put in the final full stop and not look at it again! However, you need to reflect and re-assess what you have written.

Remember that you have to convince the supervisor who assesses your proposal that you know what you are talking about, that you have given sufficient thought to the proposal and that you have devoted some effort to it. To do this, you need to ask the same questions the supervisors ask when assessing proposal;

- Is the title clear and concise?
- Is the core research question appropriate and answerable?
- Does the preliminary literature review draw on authors from both textbooks and journals?
- Is it up to date?
- Is it sufficiently detailed?
- Is it descriptive or does it include discussion and debate?
- Is it written in a fluent, easy-to-read style?
- Is the proposed primary data collection reasonable at this stage?
- Is the time plan detailed and feasible?
- Is the bibliography correct?

- Has the proposal ben spell-checked? Is it grammatically correct?
- Does it look professional?

Once the research proposal has scaled through successfully, indeed a great deal of the work has been accomplished. What remains is building up on these foundation blocks that have been well set. In this regard, one starts to take cognizance of the structure and indeed, content of the entire dissertation.

#### **3.10** The Structure of Dissertation

The structure of the dissertation is in the following order;

- Title page
- Abstract
- Acknowledgements
- Contents page
- Chapter 1: Introduction
- Chapter 2: Literature Review
- Chapter 3: Methodology
- Chapter 4: Discussion of Analysis and Findings
- Chapter 5: Conclusions
- Bibliography
- Appendices

# 4.0 CONCLUSION

Research being a scientific method of investigation to gather data involves steps like identifying a problem, defining the problem, analyzing the problem, deducting reasoning based on the analysis and making recommendations to solve the problem

#### 5.0 SUMMARY

In this unit, we talked about research, research methodology, the types of research, some methodological misconceptions and how to write a research proposal.

#### 6.0 TUTOR MARKED ASSIGNMENT

- 1. Define Research.
- 2. List the types of research.
- 3. Discuss the various methodological misconceptions.

# 7.0 REFERENCES/ FURTHER READING

Lawal, K.A.A and Oludimu, O.L (2011). Management Principles, Pratice and Focus. Asogun Books, Ibandan. Pp 29 and 52

# UNIT 2 BUDGETING IN BUSINESS

#### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Budgeting in Business
  - 3.2 Purpose of Budgeting
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    - 3.4.6 Physical Property Budget
    - 3.4.7 Fixed Budget
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- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

# **1.0 INTRODUCTION**

The need to efficiently and effectively manage a business is not in doubt, and such management requires coordination and control of the total business efforts to achieve the business goals. The process of managing is facilitated when management charts its course of action in anticipation of the future events. Budgeting is thus, a systematic approach for achieving management performance. It is an integral part of management.

It is noteworthy to mention that a budget is more than a financial instrument, for it relates to quantities of product and to operations, and consequently serves as a complete programme of business activities in the period to which it relates. Budgeting is thus, the planning of the conduct of a business.

It defines the absolute annual expenditures in terms of the naira, men, time etc., which will be permitted by a functional unit, with a possible refinement showing monthly breakdowns in those cases where costs are not expected to be constant throughout the budget period.

## 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- define budget
- explain the purpose of budgeting
- types of budgetary system

#### 3.0 MAIN CONTENT

#### **3.1** Budgeting in Business

A Budget is a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for some specified period in the future. It is the plan of the business expectations in the future usually for twelve months. It should be noted that an overall organization budget for one fiscal year with each department in the organization submitting her inputs to aid a comprehensive budget, Besides, the department later breakdown into weekly or monthly their budgets depending on the nature and size of business.

According to the Institute of Chartered Marketing Association (ICMA), England, a "budget is a financial and quantitative statement, prepared and approved prior to a defined period of time of the policy to be pursued during a given period for the purpose of attaining a given objective. e.g. profit or sales volume". The budget provides a guidepost to point the way, and the actual steering of the vehicle is in the hands of the driver-manager.

Planning involves the control and manipulation of relevant variables, and reduces the impact of uncertainty and risk. A budget &presses the plan in formal terms and helps to realize the firm's expectations. A budget is thus, a mechanism to plan for the organization's overall operations. The most important aspects of every operation are: revenues and expenses.

The budget must plan for quantity revenues and expenses related to a specific operation. Planning should not only be done for revenue and expenses, but must include planning for assets and the sources and uses of funds.

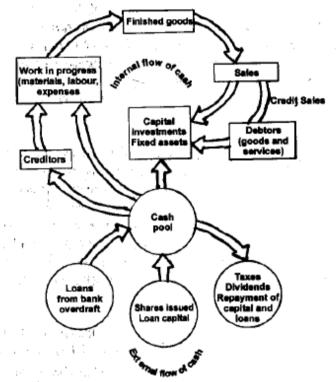
The sources and uses of funds statements shows the new wealth that has become available to a business in the year and how it has been invested in the organization. They can be constructed to highlight changes in the firm's cash position, as they tend to emphasize different aspects of management of finance. The major sources of funds include:

- Cash introduced by owner(s)
- Available loan to business

- Sale of assets
- Income from operations

The uses of funds are in the areas of:

- i Owner's withdrawals
- ii Loan repayments
- iii. Purchase of assets
- iv. Losses from operations
- v. Payments to tax authorities



The success of a budget depends greatly on the control instruments or mechanisms put in place, hence, the need for budgetary control. Budgetary control is a system which uses budget as a means of planning and controlling, defined as the establishment of budgets relating to the responsibilities of executive to the required policy and the continuing comparison of actual with the budgeted results, either to secure by individual or collective action of the objective of that policy, or to provide basis for revision.

The realization of an organization's goals in terms of comprehensive profit planning and controlling or budgeting is a systematic and formalized approach for stating and communicating the firm's expectations and accomplishing the planning, coordination, and control responsibilities of management in such a way as to maximize the use of given resources all rest on effective budgetary control system. It is a management technique.

#### **3.2** Purposes of budgeting

The main reasons for budgeting are:

- 1. To state a firm's expectation categorically and unambiguously to avoid possible confusion and facilitate their attainability. With this, individuals are motivated and performance can be evaluated. A number of both endogenous and exogenous variables affects such expectations, such as, socio-economic factors, political factors, supply and demand conditions, competitive environment, technological dynamism etc.
- 2. It is used to reduce inherent risks and uncertainty that characterizes every business and to ensure proper direction of individual and group efforts to achieve goals. This is the impact of planning.
- 3. To provide a parameter to measure and control the performance of individuals and units in the organization and recommend corrective steps that will guarantee the achievement of the organization's goal. It serves as a feed-back mechanism.
- 4. To provide a means to effectively communicate organizational expectation to all parties involved in managing the business. A clear and written communication of objectives through budgets will help employees to understand, support and accomplish goals.
- 5. To help employees in coordinating resources and projects. This entails the harmonization of the activities of all departments for the realization of the organization's common goal.

#### **3.3 Budget Preparation**

The preparation of a comprehensive budget will include:

- a. Sales budget
- b. a production budget
- c. a purchasing budget
- d. labour budget
- e. cash budget.

The illustration given below is used to demonstrate what the preparation of budget is like.

#### Illustration

Ajons and Co. Ltd. is contemplating the preparation of budget for May, June, and July. It sells its two products in three different sales areas. The company's balance sheet for the year just ended is shown in Table 1 below Sales areas A, B and C respectively produce 10 percent, 20 per cent and 70 per cent of product X sales and 50 per cent, 30 per cent, and 20 per cent of product Y sales. The selling price for product X is  $\frac{N}{10}$  and  $\frac{N14}{14}$  for product Y.

Sales are made on 50 per cent cash and 50 per cent credit basis. The credit sales are collected in the following month.

#### Table 1

| Ajons & Co. Ltd                    |          |                 |  |  |
|------------------------------------|----------|-----------------|--|--|
| Balance Sheet, 31st December, 1999 |          |                 |  |  |
|                                    | ₽        | N               |  |  |
| Creditors for December purchases   |          | 12,300          |  |  |
| Dividend payable (due on Jan.      |          | 3,000           |  |  |
| Y2K)                               |          | <u>2.91.210</u> |  |  |
| Share Capital                      |          | <u>3,06.510</u> |  |  |
| Total                              |          | 12,000          |  |  |
| Cash                               |          | 15,000          |  |  |
| Debtors (for December Sales)       |          |                 |  |  |
| Stock:                             | 15,750   |                 |  |  |
| Raw materials (15,750 at N1        | 5,760    |                 |  |  |
| each)                              | 18.000   | 39,510          |  |  |
| Product X(720 at N8)               | 3,00,000 |                 |  |  |
| Product Y (1800 at N10)            | 60.000   | 2.40.000        |  |  |
| Plant and Machinery                |          | 3,06.510        |  |  |
| Less: Accumulated depreciation     |          |                 |  |  |
| Total                              |          |                 |  |  |

Finished goods are valued at the cost of direct labour and direct materials. Sales for December 1999 were N30,000. The monthly forecast of sales (units) are:

| Units | May   | June  | July  | August |
|-------|-------|-------|-------|--------|
| Х     | 900   | 1,050 | 1,200 | 1,350  |
| Y     | 2,250 | 2,400 | 2,550 | 2,70   |

The production of products X and Y uses one common material which costs NI per unit. Two units of material are required to produce one unit of product X while product Y requires four units of the same material. Wages are paid at the rate of N6 per hour during which it can produce one unit of X or Y. Ajons & Co. Ltd has a policy of maintaining a basic finished products inventory equal to 80 per cent of next month's sales and a raw material inventory equal to 150 per cent of current month's production needs.

The payments to creditors are made during the month of the following purchase. Salaries and wages are paid during the month they accrue. Sales commission is 5 per cent of sales and is paid during the month earned. An equipment costing \$1,500 will be purchased in June and the payment will be made in the same month. A minimum cash balance of \$12,000 at the end of each month is intended to be maintained by Ajons & Co. Ltd. Money can be borrowed or repaid in multiples of \$3,000. Interest

rate on loans is 6 per cent per year. Loans are initiated on the first day of the month, and repaid on the last day of the month. Interest is paid when the principal is repaid.

The following are other estimated monthly expenses:

| Salaries      | <del>№</del> 1,500 | paid as incurred  |
|---------------|--------------------|-------------------|
| Rent          | <del>N</del> 600   | paid as incurred  |
| Depreciation  | <del>N</del> 1,800 |                   |
| Miscellaneous | 1% of Sales        | paid as incurred. |

#### Note

(The above illustration shall be used as we progress on the types/classifications of budgetary system).

#### 3.4 Types of Budgetary System

The size of an average business organization determines the type of budgetary system to be adopted. Most businesses are too large to permit the detailed planning of the total business in a single budget. It is thus necessary to use a master budget that encompasses all the plans and shows how they affect the business as a whole. With this details being left for various specialized budgets. The following are the major types or classifications of budgets:

#### 3.4.1 Sales Budget

It forms the fundamental basis on which all other budgets are based. In most organizations, it is the starting point of the budgeting plan; therefore, it is the level of sales that determine the budgeting plan in the organization. As sales are the primary source of cash receipts, such sales estimates is the foundation of financial planning.

It can be asserted that a budget is a forecast of sales to be achieved in a budget period, as production cost is based on all activities, most of which again depends on predicted sales level. The sales prediction is the foundation for the qualification of the entire business plan.

In preparing sales budget, the following must be taken into consideration:

- i yearly break-down
- ii product break-down
- iii. territory break-down
- iv. past sales experience
- v. sales-man estimate
- vi. plant capacity
- vii. pricing policy and strategy
- viii. government control

#### ix. competition

x. political situation.

#### Table 2

| Ajons & Co. Ltd.    |               |               |               |               |
|---------------------|---------------|---------------|---------------|---------------|
| Sales Budget        |               |               |               |               |
| Area and            |               | Mor           | ths           |               |
| products            | May           | June          | July          | Total         |
|                     | Ν             | Ν             | Ν             | Ν             |
| Sales Area A        |               |               |               |               |
| Product X           | 900           | 1,050         | 1,200         | 3,150         |
| Product Y           | <u>15.750</u> | <u>16.800</u> | <u>17.850</u> | <u>50.400</u> |
| Total               | <u>16.650</u> | <u>17.850</u> | <u>19.050</u> | <u>53.550</u> |
| Sales Area B        |               |               |               |               |
| Product X           | 1,800         | 2,100         | 2,400         | 6,300         |
| Product Y           | <u>9,450</u>  | <u>10.080</u> | <u>10.710</u> | <u>30.240</u> |
| Total               | <u>11,250</u> | <u>12.180</u> | <u>13.110</u> | <u>36.540</u> |
| Sales Area C        |               |               |               |               |
| Product X           | 6,300         | 7,350         | 8,400         | 22,050        |
| Product Y           | <u>6.300</u>  | <u>6.720</u>  | <u>7.140</u>  | 20.160        |
| Total               | <u>12.600</u> | <u>14.070</u> | <u>15.540</u> | 42.210        |
| Total of all assets | <u>40.500</u> | <u>45.100</u> | <u>47.700</u> | <u>33.300</u> |

#### Limitations

- 1. Plant capacity may not be enough
- 2. Non-availability of required personnel
- 3. Non-availability of the needed raw materials
- 4. Inadequate capital
- 5. Since sales is mostly on credit the cash position is a determinant factor.

#### 3.4.2 Cash Budget

It represents the cash requirement of the business during a budget period and attempt to compare the estimated cash receipt and cash disbursement of the company over the budget period and is designed to show the periodical cash balancing position. Cash balance must be kept at optimum level, that is, too little cash can lead to illiquidity or insolvency, whereas, too much cash tends to affect profitability negatively.

It is a special type of budget which reveal the happenings or the likelihood of how other sub-budgets succeed in view of the levels of cash in the organization. Hence, it relates to other budgets because all other plans has to be tested and reviewed in relation to how they affect the cash position.

| Ajons & Co. Ltd.              |               |               |               |
|-------------------------------|---------------|---------------|---------------|
| Sales Budget                  |               |               |               |
|                               | Months        |               |               |
|                               | May           | June          | July          |
|                               | Ν             | Ν             | Ν             |
| Beginning cash balance        | 12,000        | 13,080        | 13,944        |
| Add. Cash Collections:        |               |               |               |
| 50% of sales                  | 20,250        | 22,050        | 23,850        |
| Collection from debtors       | 15.000        | 20.250        | 22.050        |
| Total Cash receipts           | <u>47.250</u> | <u>55.380</u> | <u>59.844</u> |
| Less: Cash disbursements      |               |               |               |
| Raw materials purchases       | 12,300        | 13,050        | 13,770        |
| Salaries                      | 1,500         | 1,500         | 1,500         |
| Wages                         | 20,340        | 22,140        | 23,940        |
| Sales commission              | 2,025         | 2,205         | 2,385         |
| Rent                          | 600           | 600           | 600           |
| Miscellaneous                 | 405           | 441           | 477           |
| Purchase of equipment         | -             | 1,500         | -             |
| Dividends                     | 3,000         | -             | -             |
| Total Cash disbursement       | 40.170        | 41.436        | 42.672        |
| Cash surplus or deficit       | 7,080         | 13,944        | 17,172        |
| Minimum Cash balance (ending) | 12.000        | 12.000        | <u>12.000</u> |
| Borrowing (repayment)         | 6,000         | -             | (3,000)       |
| Interest                      | -             | -             | (45)          |
| Cash balance ending           | <u>13.080</u> | <u>13.944</u> | 14.127        |

#### Table 3

#### Advantages

- a. It ensures sufficient cash position
- b. It reveals shortage or surplus and suggests necessary actions to be taken.
- c. It shows whether or not required expenditure could be internally financed or not
- d. It shows the availability of cash, so that the advantages of cash discount may be exploited.

# 3.4.3 Production Budget

The sales estimate shows the volume of each line of product which is expected to be required, periodically. The production budget is aimed at assuring that finished goods meet the demands of the sales management.

The budget determines the quantity of such goods on hand which must be maintained at the proper size in relation to sales. If the stock on hand is too large, a financial loss may results due to deterioration, changes in style, spoilage, cost of storage, maintenance expenses etc. If the stock becomes too small, there is the fear of losing sales and customers due to non-availability or inadequate supply of goods.

The production budget is prepared after the sales budget as it is based on sales forecast. A meaningful production budget requires the need to combine the sales forecasts for each product with information about the beginning level and the expected level of ending inventories of the finished products.

Budgeted production unit is thus:

Sales estimate + expected ending inventory - Beginning inventory.

| Ajons & Co. Ltd.           |              |              |              |
|----------------------------|--------------|--------------|--------------|
| Sale                       | s Budget     |              |              |
|                            |              | Months       |              |
|                            | May          | June         | July         |
|                            | Ν            | Ν            | Ν            |
| Estimated sales of X       | 900          | 1,050        | 1,200        |
| + Desired ending inventory | <u>840</u>   | <u>960</u>   | <u>1,080</u> |
|                            | 1,740        | 2,010        | 2,280        |
| - Beginning inventory      | 720          | 840          | 960          |
| Units of X to be produced  | <u>1,020</u> | <u>1,170</u> | <u>1,320</u> |
| Estimated sales of Y       | 2,250        | 2,400        | 2,550        |
| + Desired ending inventory | <u>1,920</u> | <u>2,040</u> | <u>2,160</u> |
|                            | 4,170        | 4,440        | 4,710        |
| - Beginning inventory      | <u>1,800</u> | <u>1,920</u> | <u>2,040</u> |
| Units of Y to be produced  | <u>2,370</u> | <u>2,520</u> | <u>2,674</u> |

#### Table 4

#### SELF-ASSESSMENT EXERCISE

- i. What is a budget?
- ii. What are the advantages of cash budget?

# 3.4.4 Raw Material Budget

Having prepared the production budget, the materials usage and the purchasing budget will have to be estimated and constructed. The raw materials are the items from which the product is made. Their costs are direct or prime costs. The direct cost of working capital which these stocks represent and the indirect burden of deterioration, provision of storage space, maintenance and supervision all must be taking into cognizance.

These problems must be solved along with when, how much and where to buy. The materials budget is a tool that enables the purchasing department to plan and secure materials timely. The material usage depends upon the level of production and the level of beginning inventory and desired ending inventories. The units of material to be purchased are thus, determined as:

Purchases (units) = Budgeted usage + Desired ending inventory (material) - Beginning inventory (material)

#### Table 5

| Ajons & Co. Ltd.<br>Sales Budget     |               |               |               |  |
|--------------------------------------|---------------|---------------|---------------|--|
|                                      | Months        |               |               |  |
|                                      | May           | June          | July          |  |
|                                      | N             | Ν             | N             |  |
| Material needed to produce X         |               |               |               |  |
| (1 unit of X x 2 units of material)  | 2,040         | 2,340         | 2,640         |  |
| Material needed to produce Y         |               |               |               |  |
| (1 unit of Y x 4 units of materials) | <u>9,480</u>  | 10,080        | 10,680        |  |
| Total production needed              | 11,520        | 12,420        | 13,320        |  |
| + Desired ending balance             | 17,280        | 18,630        | <u>19.980</u> |  |
| Total needs                          | 28,800        | 31,050        | 33,300        |  |
| - Beginning balance                  | <u>15,750</u> | 17,280        | 18,630        |  |
| Purchases (units)                    | 13,050        | 13,770        | <u>13,770</u> |  |
| Cost of purchases (N)                | <u>13,050</u> | <u>13,770</u> | <u>13,770</u> |  |

# 3.4.5. Labour Budget

A business organization must have adequate work force who must be available whenever their services are required to aid in achieving the realization of the organization's objectives. The problem with the preparation of labour budget is that sometimes labour may be idle (as there may not be work) yet the organization cannot afford to dismiss them, and their presence requires that management provides services like good working environment - canteens, Wash rooms etc.; in order to keep the workforce irrespective of the volume of work done. The budget helps in the comparison of relative costs of productive and idle-time of labour.

A direct labour schedule is presented below from the data given in the production budget; the direct labour hours required to be produced and the labour hours required per unit of output.

| Tuble 0   |               |              |              |  |  |
|---|---------------|--------------|--------------|--|--|
| Ajons & Co. Ltd.<br>Sales Budget                          |               |              |              |  |  |
| Months  |               |              |              |  |  |
|   | May June July |              |              |  |  |
|   | N             | Ν            | N            |  |  |
| Units of X to be produced                                 | 1,020         | 1,170        | 1,320        |  |  |
| Units of Y to be produced                                 | <u>2,370</u>  | 2,520        | 2,670        |  |  |
| Total Units   | <u>3,390</u>  | <u>3,690</u> | <u>3,990</u> |  |  |
| Total hours at 1 hr per unit                              | <u>3,390</u>  | <u>3,690</u> | <u>3,990</u> |  |  |
| Total labour cost N6, per unit $20,340$ $22,140$ $23,940$ |               |              |              |  |  |

#### Table 6

# **3.4.6 Physical Property Budget**

This is the need to budget for physical properties like building, machinery and equipment that constitute a relatively permanent investment, which though depreciate over time. The proposed programme as based upon the sales estimate may call for the installation of additional equipment.

Anything in form of permanent equipment can be justified only in the light of long term considerations. An increase in demand of permanent nature may justify further installation; but a temporary demand may have to be met by putting out work to sub-contractors during the peak period, or by overtime or double shift working or by the accumulation of stocks in slack period against the time of peak demand.

# 3.4.7 Fixed Budget

It is a budget designed to remain unchanged regardless of the level of activity actually attained. It is prepared on the basis of standard cost.

However, because of its unrealistic nature, essentially due to changing purchasing power of money, particularly, during inflation, it has suffered the following drawbacks:

- a. it is difficult for management to assess performance at different departmental levels;
- b. it may not conform with actual production level; and
- c. it is often difficult to revise, in case the business condition undergo basic change.

Fixed budget has limited application and also ineffective as a tool for cost control. Many organizations try to give up the concept as it does not provide for automatic adjustment with changing volume. It is however, advantageous as it ensure judicious and prudent disbursement of limited financial resources. It does not encourage extrabudgetary budgeting. There is financial discipline.

# 3.4.8 Flexible Budget

It is a budget designed to accommodate changes in the level of activities that is experienced in an organization. It is thus, a more dynamic concept, but its flexibility gives room for easy manipulation and provides for extra-budgetary allocations. It is advantageous in the following ways:

- a) desirable when business (sales) conditions are unpredictable e.g. luxurious goods or new products;
- b) it is necessary for control of operating condition;
- c) it is easily adaptable, elastic and more practical;

d) it is useful when external factors such as weather variation, exporting activities, new products etc. are common in an economic environment.

Its defects are observed as follows:

- a. it is very costly;
- b. it depends on accuracy of data collected; and
- c. it is incapable of replacing good management.

It can be asserted from the foregoing that every organization has a basket of budgetary systems and uses that which is relevant to it at different times.

The budget is a solution to all problems, hence, those who administer it and those that are influenced directly by it must understand and actively support it to ensure it success.

# **3.5** Merits of Budgeting

- 1. It ensures that management plans for the future, by having the foresight of looking ahead and planning into the future.
- 2. It results in goal congruency by helping to co-ordinate, integrate and balance all departmental efforts to attain the overall organization's objectives.
- 3. It jolts the consciousness of a business towards cost implications, financial plans and profitability
- 4. It boosts the employees morale by posing challenges to them, giving them sense of belonging and allowing their participation in plans formulation and policy recommendations.
- 5. It measures efficiency and pave way for self-auditing and evaluation.
- 6. It improves the quality of free flow of communication.
- 7. It aid in optimizing the use of an organization resources, both human and materials, and channel the efforts of the organization towards the realization of its goals.
- 8. It facilitates control by providing definite expectations in the planning, phase that can be used as a reference point for judging the subsequent performance.
- 9. It permits inter-departmental comparisons within an organization periodically.
- 10. It complements planning efforts.

# **3.6 Demerits of Budgeting**

- 1. It is very expensive and time consuming
- 2. It hinders dynamism, innovations and change which is a requisite for the development of any organization
- 3. It is not an exact science; thus, it is not free of value-judgment, personal biases and subjectivism.
- 4. Its success is not in its beauty but on proper implementation.
- 5. It largely depends on accuracy of data supplied and other information provided by the Research and Development department.

- 6. It will lower morale and productivity if unrealistic targets are set and use as a pressure tactic.
- 7. It shields inefficiencies rather than revealing them, hence, calls for regular performance evaluation.
- 8. It should be applied with caution, for it is only one of the management tools, and should not make management complacent.

# 4.0 CONCLUSION

It is obvious that no business will survive without profit planning which must be based on certain budget or estimation of both income and expenditure to determine whether or not the business opportunity available is worthwhile.

# 5.0 SUMMARY

Budgeting plans future activities of a business organization and in this unit we were able to define budget, the purpose of budgeting, how to prepare a budget and types of budgetary systems.

#### 6.0 TUTOR MARKED ASSIGNMENT

- 1. What are the limitations of sales budget?
- 2. Define budget
- 3. State 5 merits of budgeting

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# UNIT 3 COOPERATIVE BUSINESS ENTERPRISE

#### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Definition of Cooperative Business Enterprises
  - 3.2 Attributes of Cooperative as a Social Organization
  - 3.3 Benefits of Cooperative as a Social Organization
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/ Further Reading

#### **1.0 INTRODUCTION**

Cooperative Business Enterprise is a cooperative is a jointly owned long-term/permanent business enterprise and as an instrument for producing goods and/or services.

#### 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- Define Cooperative business management
- Explain the benefits of cooperative as a social organisation

# 3.0 MAIN CONTENT

#### 3.1 Definition of Cooperative Business Enterprises

The flexible peculiarities of cooperatives have provided wider room to accommodate diverse views from persons and group of persons on the singular definition of this popular term. Until on 23<sup>rd</sup> September, 1995, on the attempt by the International Cooperative Alliance (I.C.A) to issue a new list of principles of Cooperation "for the beginning of the 21' century at Manchester Congress, made cooperative movement to show its face by bringing the most widely acceptable definition of cooperative movement. According to Onuoha (2002), the Manchester Congress review of Cooperative principles by ICA as identity statements. The International Cooperative Alliance (ICA) defined cooperative at the Manchester Congress, 23" 1<sup>st</sup> September 1995, as "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise". This justifies that a cooperative is a business entity with social context: (Berko. 1989).

As such, Chukwu opined that cooperation is an economic system with a social content. Its idealism penetrates both its economic and its social elements. The economic spheres cover business transactions expressed mainly in monetary terms while the social deals with direct link on the relationship among the people that make up the society, particularly as it affects the membership and personal relations (Berko, 1989, 5 9).

Cooperative can be viewed in 2 main ways of a coin, namely:

- i) The dual/double nature shows that cooperative is both an economic entity, in which resources are manipulated into outputs or surplus as in the case with cooperative. The social context depicts the personal relations among the members to achieve their commonly felt needs that are mainly to improve them by identifying a class in the case of capitalist society.
- ii) Dual/double nature/identity of members guarantee a rights as owners of a business enterprises equally as consumers of the services/goods provided by the same business jointly owned and controlled at a price though at reduced cost. This feature also marks a cooperative business enterprise different from others. Little surprise, the ICA copied the principle of member's economic participation from the age long principles of the Rochdale Equitable Pioneers (1844).

# 3.2 Attributes of Co-operative as a Social Organization

In the absolute sense, cooperative is an assemblage of persons in which case; it could be deliberate or coincidental, short-term or permanently grouped, organized or unstructured, formalized or informal. The obvious parameter becomes that two or more people are working hand in hand. According to Chukwu, the group is referred to as a sociological group. In that narrower sense, before the coming together of two or more persons can give rise to "group" several characteristics regarding the group must exist as follows: Ficliter, 1957: 109tt):-

#### a. Common Goals

This is vital as it could be very pivotal in binding all individual members together on the heartfelt objectives that their social and economic welfare can only be improved by team work rather than individual participation. Thus, the co-operative business enterprise is formed intentional to exhibit not only social interest, but also economic goals.

#### b. Sharing of Roles

This is related to the expected participation either by individuals as members or a group as a segment of the entire group. In essence, the individuals can play such roles as having executive positions as officers as the President, Treasurer, Financial Secretary and General Secretary. This is singular in peculiarities. Among the group a

segment of individual members could be collectively formed as committee in handling special activities with their specialized skills. The entire roles are complementary to each other to achieve the common goods.

#### c. Mutual Agreement

This consists in the acceptable values of issues that are seen as do's which should be stipulated in the bye-laws against their don'ts. Those agreed value are meant to be observed and encouraged as valid. As such any action either by omission or commission breaching the book of conduct attracts fine or any punishable offence as enshrined in the byelaws of the members. This serves as a guide to pursue the common aim by reducing internal friction and Luke warmness.

#### d. Existence of Effective Communication

This facilitates the working together of members as a group. It could be highly effective when the members are educated, and equally share mutual understanding among themselves.

#### e. Existence of Common Identity

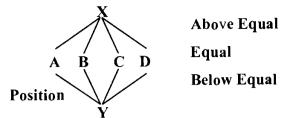
There is a standard phenomenon by which the members can be easily identified even in the midst of large population. This could be operated through legally acceptable name or particular dressing or even by an adopted style of handshake. It could intensify belongingness and brotherhood among the members.

#### f. Long-term Operation

Cooperative being a business unit still adheres to the concept of a going concern. This infers that it has not co me to go especially when the founders are satisfied with their commonly felt needs. This is imperative since cooperative engages in a capital intensive and long-term projects that could span a long time before maturity is attained.

#### g. Existence of Internal Structure

The individual member's capacity determines the position occupied by each and every member. This position of individual member could be equal, above equal below equal as the case may be. This varied position determines the organizational structure in the system. This organization can be illustrated as:



This ensures clear direction of leadership which coordinates the relationship among all positions of members.

# **3.3** Benefits of Cooperative as a Social Organization

From the analysis of cooperatives as a social unit very many benefits are achieved, namely Mutuality this is presupposed element in cooperative to enhance members working together by utilizing the social element consists in cooperatives. This could result to avoidance of conflict, achieving democratic control, group builders by persons abiding by certain ethical values as honesty, openness, social responsibility and caring for others.

On the whole, the social unit of cooperative is only a single facet to portray the course cooperative that involves economic complex. Hence, the economic interests realized leads to the effective participation by members to be influenced in their attitudes too.

# 4.0 CONCLUSION

The importance of cooperative boils down to its flexibility broad nature as a socioeconomic entity which offers various service in a variety of a nation's economic sectors.

# 5.0 SUMMARY

In this unit, we discussed the attributes of cooperative as a social organization and the benefits of cooperative as a socio-economic organization.

# 6.0 TUTOR MARKED ASSIGNMENT

- 1. List the attributes that makes cooperative a social organization
- 2. What are the benefits of cooperative as a social organization?

# 7.0 REFERENCES/FURTHER READING

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# UNIT 4 STEPS IN SETTING UP COOPERATIVE BUSINESS

#### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Organization/Formation of Cooperative Business Enterprise
  - 3.2 Finding an Organizer/Initiator
  - 3.3 Identifying a commonly Felt-need
    - 3.3.1 Creating Public Awareness
    - 3.3.2 Preliminary meeting and Pre-member Education at the Inception of Activities
    - 3.3.3 Drawing of Bye-Laws
    - 3.3.4 Conducting a Feasibility Study
    - 3.3.5 Commencement of Business
    - 3.3.6 Application for Registration
    - 3.3.7 Inaugural Meeting/Launching
    - 3.3.8 Affiliation
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

# **1.0 INTRODUCTION**

The organization/formation of cooperative business enterprises are not always an easy task. This is mainly because cooperatives are peculiar type of business and there is usually government involvement especially in developing countries. Cooperative business enterprises are joint business with formal procedures/steps which must be adhered to if such society is to be registered. Also membership is voluntary and open to all potential patrons with divergent views and ideologies.

# 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

• Identify the steps in organizing a viable cooperative society

# 3.0 MAIN CONTENT

#### **3.1** Organization/Formation of Cooperative Business Enterprises

According to Dr. Enyeribe Onuoha, there are ten steps which should be followed if a proposed society is to be viable. These steps are as follows:

- 1) Finding an organization/initiator
- 2) Identifying commonly felt-need
- 3) Creating public awareness.
- 4) Preliminary meeting and pre-member education
- 5) Drawing of the bye-laws
- 6) Conducting a feasibility study
- 7) Commencement of business
- 8) Application for registration
- 9) Inaugural meeting and launching
- 10) Affiliation

#### 3.2 Finding an Organizer/Initiator

The first step in the exercise of organizing a cooperative is the initiation of idea. The basic question here is, how does the idea of forming a cooperative society for credit mobilization, agricultural production, marketing and distribution etc. come from a prospective member who had experienced the viability of cooperative business enterprises.

Sometimes, the initiative may not come from the prospective members. Although the need may be felt, but the people may be too ignorant to make a move. In that case, the initiative may have to come from outside the group, usually from the government, philanthropist, social reformer, community leader etc. even when the initiative came from the people themselves, they may still need government assistance especially at the formative stage.

Cooperative creates more impact when the initiative/idea of its formation comes from the members themselves rather than from government or outsider.

# **3.3 Identifying a Commonly Felt-Need**

There is usually a felt-need for starting a cooperative society by prospective members. A cooperative society therefore is formed when the prospective members had a feltneed and thus expects that the cooperatives would solve their socio-economic problems. Prior to the formation, there must have been identified need, a commonlyfelt need(s) in the community. There can be the need for savings, credit, a shop transport, food production, employment etc. their grievances may result from high interest rates, inflation , no canteen, poor services and no storage facilities, exploitation by middlemen etc.

Credit cooperatives are usually widely spread because people are constantly in need of financial help.

Also multi-purpose cooperatives usually start with thrift savings (credit) in order to mobilize funds and later invest on other economic activities.

Also, for commonly felt-need to have an impact there must also be a common-bond. According to Onuoha (1996) common-bond builds trust and confidence among members, makes them homogeneous instead of heterogeneous, reduces tension and opposition, fosters unity of purpose, promotes discipline, and facilitates decision making. This is why solidarity is the second most important cooperative value after self-help. Group effort is the driving spirit of any prospective cooperative society.

#### 3.3.1 Creating Public Awareness

Cooperatives before they are registered require minimum number of members. It is therefore necessary that the organizer/promoters ensure that the minimum number of members is achieved. Also, since cooperatives are voluntary organizations, members are drawn through enlightenment and connection.

Cooperatives are not secret societies; membership is open to the public/potential patrons.

The organizers should reach out for people with the same felt-need and bond. This can be achieved through churches, village meetings, market squares, town criers and other forms of interpersonal means of communication. This method is best for rural cooperatives.

Organizers of urban cooperatives with enlightened members can use instruments of mass media like; televisions, radios, newspapers, magazines, posters etc. also in areas where the target audience are concentrated, loud speakers mounted at strategic locations or vehicles can be used.

Potentials members will like to know:

- Why they should form/join a cooperative
- What they stand to gain from such membership (economic benefits).
- Why they should invest in a cooperative instead of their private business enterprises.
- What are their rights, liabilities and privileges as members etc.

# 3.3.2 Preliminary Meeting and Pre-Member Education at the Inception of Activities

Preliminary meetings are held for the interested/prospective members usually on weekly/monthly basis. This is done in the form of free discussion of relevant issues concerning cooperative activities. The discussions in the meeting concern some key issue as:-

- The necessity of a cooperative
- The type of cooperative to be formed
- How such cooperative work.

• The cooperative law and principles

In the process, some officers of the cooperatives are elected. Similarly, some contributions, shares, thrift, savings are initiated. The duties of members are also stressed such as attendance to meetings, payment of dues, loyalty to the society etc. other issues for discussion at the meeting include the right of members, decision making, voting, savings, dividend, the right to inspect reports and accounts, right to criticize as well as the benefits of membership.

#### **3.3.3 Drawing of the Bye-Laws**

Cooperatives are democratic institutions that operate according to laid down rules and regulations. They are guided by constitution which is referred to as bye-laws.

The International labour Organization (ILO) define a cooperative bye-laws as "set of agreements voluntarily adopted by the members in order to define their relation with one another within their association, their relation in the common undertaking, their rights and duties, and the organs of the institution (their functions and powers").

Section 11 (2) of the Nigeria Cooperative Societies Decree no 90 of 1993 gave a cooperative society powers to make bye-laws in respect of the following matters; that is:

- a) The name and registered address of the society.
- b) The objective for which the society is established.
- c) The area of its operation
- d) The qualifications for membership, the terms of admission of members, the admission fees, if any and the mode of election.
- e) The purpose of which its funds may be applied and the mode of custody and investment of its funds.
- f) The nature and extent of the liability of members.
- g) The withdrawal and expulsion of members.
- h) The transfer of shares or interest of members.
- i) The manner of raising the share capital, if any, and other funds.
- j) The general meetings, and the procedure for and power of those meetings.
- k) The appointment, suspension and removal of members of any committee appointed by the society and the powers and duties of the committee.
- 1) The authorization of an officer to sign documents and to use the seal on behalf of the society and the disposal of annual surplus.

Sub-section (3) states that if the objects of the registered society include the creation of funds to be lent to the members (credit societies) additional bye-laws shall be made in respect of conditions on which loans may be granted to members including:-

- a. The rate of interest
- b. The maximum amount which may be lent to a member.

- c. The maximum period which should be granted for the repayment of loan.
- d. The extension of the time for repayment of loans.
- e. The purpose for which loans can be granted and,
- f. The consequences of account of shares or loans and the consequences of failure to use a loan for the purpose for which it is granted.

Also sub-section (4) states that a bye-law made under this section may empower a registered society to impose a fine upon a member of the society for breach of the bye-laws and the fine shall be recoverable by the society as a civil debt due to the society.

# **3.3.4** Conducting a Feasibility Study

Feasibility study is an economic survey report usually carried out on the economic activities of a proposed society. It's primary aim is to forecast whether the proposed activity will be attainable (feasible) and if it is feasible, whether is will at the same time be economical (viable). The Nigerian Cooperative Societies Decree no 9 of 1993 states that any cooperative society that is not viable should be liquidated. In order to avoid this ugly incident, it is therefore advisable that cooperative carryout proper feasibility study before embarking 'on any economic venture.

Feasibility study helps to assess a business plan whether the plan will succeed or not. It helps to answer such questions as:

- What are the legal, political and cultural requirements of business?
- What are the technical requirements?
- What are the financial requirements (capital expenditure)
- What are the management requirements?
- What are the market requirements (customers)
- What are the expected returns on investment?
- What will be main source of supplies?
- Who are our competitors?

Before commencing business, members should ensure that they have a factual feasibility study. Members will be deceiving themselves in the long-run if they manipulate their feasibility study to show a fanciful one.

# **3.3.5** Commencement of Business

Primary cooperatives by nature are expected to operate for some time before they are registered. This is usually in the form of pre-inaugural meetings. The essence of this is to ensure that the proposed society meets all the necessary requirements and is on a sound economic footing before taking off. At this stage, members must have paid their share capital. In credit cooperatives where members do not pay share capital, they must have started paying their monthly thrift savings.

Starting a business venture is not always an easy task especially group businesses like cooperatives. Raising of the capital requirement is primarily left for members and the law does not allow a member to have more than 20 percent  $(1/5^{\text{th}})$  of the total shareholding.

When the necessary funds have been raised, care should be taken on the percentage to be invested on the fixed capital and also on working capital. The type and nature of the cooperative business should determine this.

# **3.3.6** Application for Registration

This application for registration must be submitted in writing to the Director of Cooperatives with three copies of the proposed bye-laws. The application should be signed by the minimum membership required by law (10 persons for auxiliary/service cooperatives and 6 persons for productive cooperatives).

In the case of a secondary cooperative, that has registered primary societies as its members, by a dully authorized member on behalf of every such registered primary society, and when they are less than ten, by all the members. (N.C.S.D. (NO 90) 1993: Sec. 4 (2b).

The Director may make such alternations in a society's proposed bye-laws as he may deem necessary to bring them into conformity with the provision of the cooperative law. Before the Director of Cooperative will consider any society for registration, he must be convinced that the society is viable. Based on this, he must be supplied with the background information regarding the new society in form A.

Economic Survey (the history), occupation and trial balance of the society). Usually a registration fee of N 100 is paid for incorporation. The Director is bound to dispose of the application within 60 days, sign, and seal and deliver registration certificate. Also if the Director refuses to register a society, he has to communicate the society in writing the reason(s) for his refusal to register such society. The members can within 60days of such refusal, appeal against the refusal to the minister or commissioner as the case may be. The right of appeal shows that the Director's decision is not final.

# 3.3.7 Inaugural Meeting/Launching

The first general meeting to be held immediately after registration is known as inaugural meeting. This is aimed at electing substantive officers of the cooperative. The cooperative law specified the period within which the inaugural meeting must be held after registration. Eastern Nigeria cooperatives Societies law cap 28 of 1963 stipulates one month. Also arrangements are made for the launching of the cooperative, launching serves as a morale booster to the members.

During launching, cooperative officers/experts are invited. Money are raised and other philanthropists are invited.

# 3.3.8 Affiliation

One of the I.C.A. principles is cooperation among cooperatives (cooperative integration). This means that cooperatives societies in order to enjoy the economics of scale should cooperate among themselves. This can be horizontal integration, vertical integration or through inter-cooperative exchange. This is what led to cooperative unions. We have primary, secondary, and tertiary societies both at village/town, state, national and international levels.

# 4.0 CONCLUSION

The next step after the formation of a cooperative society is the registration of the cooperation but the cooperative societies operate for some time before they are registered. This especially applies to primary societies which often may have to operate for about twelve months before they are registered. Secondary societies are usually faster. By their nature they cannot operate as an unregistered body for a long time. Conditions for registration are generally the same for both primary and secondary societies, except in few instances

#### 5.0 SUMMARY

In this unit we discussed the various steps involved in organizing a cooperative society.

#### 6.0 TUTOR MARKED ASSIGNMENT

Explain the various steps involved in organizing a cooperative society.

#### 7.0 REFERENCES/FURTHER READING

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# UNIT 5 MOTIVES FOR FORMING OR JOINING A COOPERATIVE SOCIETY

#### CONTENTs

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Definition of motives
  - 3.2 Types of Motives
  - 3.3 Economic motives
    - 3.3.1 Sociological/Emotional motive
    - 3.3.2 External Pressure
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-marked assignment
- 7.0 References/Further reading

#### **1.0 INTRODUCTION**

In the formation of cooperatives, one major element being considered is the aim(s) which binds the members together. Cooperatives are usually seen as an alternative to other forms of business.

# 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- define cooperative business management
- explain the benefits of cooperative as a social organization

#### **3.0 MAIN CONTENT**

#### **3.1 Definition of Motives**

Motive means desires or intentions. Motives can also be defined as compelling force, a motivating factor that propels an individual towards forming a cooperative with others or joining an existing cooperative society. We know that cooperative afford for socio economically disadvantaged people an alternative way of doing business. It follows naturally that the intention or motives for establishing a sole trade, partnership or joint stock company are similar but not the same for established a cooperative society.

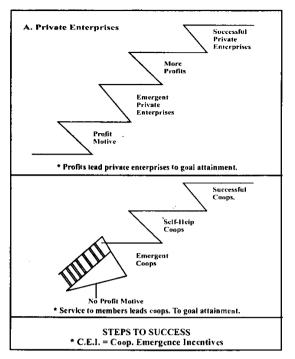


Fig 1; Steps to Success (Onuoha, 1999)

According to Onuola (1999) profit motive is the motivating factor for private entrepreneurs while service to members is the motivating force for cooperative. Having identified the crux of motive that propels individuals to join cooperative, let us now take a detailed study of this.

Professor Chukwu (1990) identified essentially 3 motives why individuals join a cooperative society, namely economic motives, sociological/emotional motives and external pressure.

#### 3.2 Types of Motives

#### **3.3.3 Economics Motives**

Economist believe that economics as a study is relevant because it helps us to make choice. And choice is necessary because resources are scare to meet all needs. So, the economics motives means decision taken by a prospective member to better his lot in other words, economics motive entails the naira and kobo benefit, which a member intends to derive. "Cooperatives offer individuals an alternative means of doing business".

In doing business of any kind, increase income is usually desired by all and sundry. So cooperatives provide a basis for this increased income. Cooperatives become an alternative because we know that 'united we stand, divided we fall'. Through the pooling of resources, through the emphasis on human-being not capital, individuals can in cooperatives accomplish what they cannot realize in competition. In auxiliary cooperatives this is done through the member transferring one or few of his problems

to the cooperative enterprises. The remaining problem he takes care of on his own. In productive societies the whole problem is taken by the cooperative.

This quest for increase in income expressed in naira and kobo, dollars and cents, pounds and pence can be accomplished in three ways depending on the type:

- a. Minimizing cost incurred by member's business enterprise. Cooperatives that do this include consumer, supply, purchasing, and credit.
- b. Increasing member's income or revenue. Instances of this cooperative include marketing, worker or industrial cooperatives.
- c. Combining both types of activities, cooperatives that do this include farmer's multi-purpose cooperative society (FMCS).

# **3.3.1** Sociological/Emotional Motive

Sociological or emotional motives are those other considerations, which propels individuals to join or form cooperatives but not related to monetary reward. Sociological or emotional motives include:

- Isolation and Loneliness
- Search for Security
- Search for protection
- Personal admiration of others
- Avoid being the odd man out
- Not missing out any unspecified possible advantage
- Using cooperative as a spring board

# **3.3.2 External Pressure**

Individuals join cooperative societies not entirely by out of free volition but because there is a power or force compelling hem to do so. All over the world, some governments tags itself "revolutionary", while others lean more to communist or socialist ideologies. These governments usually use cooperatives as a tool of reaching out to the people. In these arrangements individuals have no alternative but to join cooperatives. In some of these countries, government enact a law, which makes membership of such societies mandatory example for farmers who eek to retain the use of land are expected to join Agricultural cooperatives.

External pressure may come in form of access to specify services example supply of essential consumer commodities, necessary and specially subsidized inputs are made conditions upon membership in such cooperative societies.

# 4.0 CONCLUSION

Different motives or combination of motives map propel an individual to join a cooperative. In some cases, an individual may not pin-point what motive led him/her to join a cooperative society.

# 5.0 SUMMARY

The motive for joining for joining or forming a cooperative society differs from one individual to another but these motives can be divided into 3 major groups which includes economic, sociological/emotional and external pressures.

# 6.0 TUTOR MARKED ASSIGNMENT

- 1. Define motive?
- 2. List the 3 major basic reason why people join/form cooperatives

# 7.0 REFERENCES/FURTHER READING

- Ajonbadi Hakeem Adeniyi (2000). Applied Business Management Theory. Vantage publishing company, Lagos. Pp83-99.
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# MODULE 4

- Unit 1 Leadership
- Unit 2 Authority
- Unit 3 Organizational Structure of Cooperative Societies
- Unit 4 Management Committee
- Unit 5 Problems of Cooperative

# UNIT 1 LEADERSHIP

## CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Leadership
  - 3.2 Leadership Attributes
  - 3.3 Essential qualities of good and effective leadership
  - 3.4 Functions and responsibilities of leadership
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-marked Assignment
- 7.0 References/Further reading

## **1.0 INTRODUCTION**

Leadership is the ability to influence a group towards the achievement of goals. Therefore a leader is one that influences others towards the achievement of a goal. In management, it is the ability to direct, guide and motivates people towards the attainment of a given set of goal in an organization.

## 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- define leadership
- explain the functions and responsibility of leadership

## 3.0 MAIN CONTENT

#### 3.1 Leadership

Since the dawn of recorded history, the concept of leadership and the role of leadership styles have fascinated people all over the world.

Every age, every era and indeed, every generation throughout human history and diverse human civilizations, seems to have been preoccupied with the search for good and credible leadership. Not the least is the relevance of effective leadership as a key factor in organizational growth and performance. Not only do successful leaders vigorously exploit opportunities, they also anticipate change, motivate their followers to higher levels of productivity, correct poor performance and lead the organization towards its objectives.

It is against this background that Kotler (1990) posited' that what is needed for the future is to produce many more people who know something about leadership. He argued that if we have another generation of people running (our) big companies that are just managers, they will never produce the kind of cultures that are going to be necessary to adapt to rapidly changing twenty-first century. Drucker (2003) also claimed that the prosperity of any organization or nation depends largely on the burden of management and leadership, and the way they are both handled successfully. In a similar vein, Ogundele (2005) argued that 'without dynamic leadership, which in turn depends on a well-articulated and nurtured management ideology and effectiveness, there can never be meaningful development in any given organization.'

It can be argued therefore that leadership competences, whether in business, education, religion or government, have great effect on organizational performance and the degree of their success. In this paper, a fairly in-depth review of the concept of leadership (especially with regard to leadership approaches and essential qualities) is undertaken and its linkages with organizational performance and rejuvenation highlighted.

In the next section, the question is asked as to what leadership entails. This involves an examination of essential qualities' of good and effective leadership as weft as the functions and responsibilities of leadership. 'Who is a leader' and 'what makes a leader' are the highlights of discussion models in section III. The roles of leadership in effective organizational renewal, and the conclusions of the study are contained in the last two sections.

## **3.2 Leadership Attributes**

Organizations, small or large, are always faced with diverse and complex challenges. According to Akingbola (2000), 'the concepts of leadership and management are absolutely vital to the successful running of contemporary challenges'. Both concepts are required for the administration of almost every venture but, according to Imaga (2001), they must be recognized as separate and kept within their own spheres of authority.

Managers must be details-oriented to be successful while leaders must be conceptoriented; indeed, a successful leader must know how to choose good managers (Imaga, 2001). Here, leadership is the capacity to cause others to see and pursue a different direction than they would likely pursue on their own. It is the defining of the entrepreneurship task and the motivating of human energies and material resources to accomplish it. It is the human factor which binds an organization or group together and motivates it towards its goals. It is the ability to persuade others to seek defined objectives enthusiastically.

The next two sub-sections examine some of the essential qualities of good and effective leadership as well as the functions and responsibilities of leadership.

## **3.3** Essential Qualities of Good and Effective Leadership

Leadership is one of the most powerful forces on earth. With it, Napoleon - an obscure soldier from Corsica - took a bankrupt and war-devastated France and defeated the most powerful nations on earth, dominating Europe during his time. With it a humble lawyer from India, Mahatma Ghandi, without firing a shot, without holding a political office or military position, broke the strength and will of the greatest empire in the world then and gave birth to a nation, India. Thus, leadership is a social influencing process for the attainment of group goals and a good leader is one who is capable of persuading others to move enthusiastically towards the achievement of group goals. According to Ross (1957), the effectiveness of the leader is dependent upon meeting three functional needs:

## (i) Task function

This involves the leader being capable of defining group tasks, planning necessary work assignments, allocating resources, organizing duties, controlling quality, checking performance and achieving the objectives of the organization.

## (ii) Team Function

This involves maintaining morale and building team spirit. It also involves the cohesiveness of the group, setting standards and maintaining discipline, communicating with and training the group, and appointing sub-leaders.

#### (iii) Individual Function

This involves meeting the needs of members individually, attending to personal problems, giving praise and status, reconciling conflict between group needs and individual needs, as well as training the individuals in the organization. Given the above, the overall purpose of effective leadership is to be an inspiration to the team, group or organization. He must be a man of purpose, a man of vision. He must be disciplined, decisive, discrete and intellectual. He must be capable of necessity for change and managing change.

According to Ososanmi (1999), the ability 'to change, manage change or cope with change separates the men from the boys, and industries or nations that will survive from those that will go under'. Ososanmi (1999) believes that the challenges facing Nigerian businesses today are managing changes and maintaining competitiveness. 'It is hard to find an organization in business, government, health care or even in the non-profit sector that is not experiencing the stress of change. These changes are the workings of large unruly forces, the globalization of markets, rapid technological changes and the spread of information technology and the dismantling of hierarchy'. Mojekwu (2003) concurred when he argued that 'globalization and liberalization entail new markets, new products, new mindsets, new competencies and new ways of doing business'. It is all tantamount to the ability of management and leadership to be capable of adapting to the realities of the changing environment.

Maxwell (2003) listed twenty-one indispensable qualities of a leader as 'vision, character, charisma, commitment, competence, courage, good communication skills, discernment, focus, generosity, initiative, good listening attitude, passion, positive attitude, problem solving, responsibility, security, self-discipline, servant's spirit, teach ability, and ability to maintain good relationship. Maxwell's position agrees with Munioe (1993)'s aversion that a good leader must have the following essential qualities:

- He must be a man of vision; discrete and intellectual
- He must be full of integrity and sincerity, high on morals, ethics and maturity;
- He must be corrector, conciliator, and mobiliser; decisive,.
- He must be an independent decision-maker;
- He must have the ability to govern himself and control his anger;
- He must know how to handle disappointments and inspire confidence He must be disciplined,

Marshall (1991) had argued that 'emotional intelligence is the sinequa- none of leadership' and that the components of emotional intelligence are self-awareness, self-regulation, motivation, empathy and social skill.

These virtues have high correlation with the functions of leadership. In the next subsection, the functions and responsibilities of leadership are discussed.

#### **3.4** Functions and Responsibilities of Leadership

Bums (1978) identified not less than twelve leadership functions. They are as follows:

- The leader as an expert a source of readily available information and skills.
- The leader as an executive top coordinator of the group activities and overseer of the execution of policies.
- The leader as a planner -deciding the way and means by which the group achieves its ends; he gives the managers direction, vision and inspiration.

- The leader as an ideologist serving the source of beliefs, values and standards of behavior for individual members of the group.
- The leader as an arbitrator and mediator he controls inter-personal conflicts within the group.
- The leader as an external group representative he is the official spokesman for the group and channel for outgoing and incoming communications.
- The leader as a symbol of the group enhancing group unit by providing some kind of cognitive focus
- The leader as a substitute for the individual responsibility relieves the individual members of the group from the necessity of personal decision.
- The leader as a purveyor of rewards and punishment controls other group members by the power to provide rewards and apply punishment.
- The leader as a father figure serving as focus for the positive emotional feelings of individual members and the object of identification and transference.
- The leader as a servant to provide service to the group.
- The leader as an example a model of behavior for the members of the group, setting an example of what is expected' Thus, to all intents and purposes, leadership resides in the functions and not in a particular person. In effect, the enumerated functions are often shared among members of the group.

According to Mary Parker Follett (1971), what matters in leadership is obeying the laws of the situation. In what she called 'depersonalizing of orders and obeying the law of the situation', Follett argued that what matters is to discover the law of the situation and obey it, She suggested that one person should not just be the one to give orders to another, but both should agree and 'take their orders from the situation'. It has to be understood however that other factors also affect the situational leadership model. They include: technology, the structure of the organization, the goals they are striving to achieve, environmental factors (political, economic, social) that interact to influence the leader and subordinates, and the time involved.

# 4.0 CONCLUSION

The importance of leadership in management is based on the fact that organizational success is largely based on the quality of leadership. Thus the quality of an organization's leadership determines the quality of the organization itself.

## 5.0 SUMMARY

Leaders anticipate change, vigorously exploit opportunities, motivate their followers to higher levels of productivity, correct poor performance and lead the organization toward its objectives.

# 6.0 TUTOR MARKED ASSIGNMENT QUESTION

1. Define leadership?

#### 2. Mention 5 functions of leadership

#### 7.0 REFERENCES AND FURTHER READING

Lawal, K.A.A and Oludimu, O.L (2011). Management Principles, Pratice and Focus. Asogun Books, Ibandan. Pp 29 and 52

Ogundele, O.J.K (2007). Introduction to Entrepreneurship Development, Corporate Governance and Small Business Management. Molofin Nominees, Lagos.

# UNIT 2 AUTHORITY

## CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Definition of Authority
  - 3.2 Sources of Authority
  - 3.3 Types of Authority
  - 3.4 Delegation of Authority
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further reading

#### **1.0 INTRODUCTION**

One of the major problems that have brought about conflict in many organizations is the inability to recognize that authority and responsibility must be coterminous. Organizations have developed what is called organogram – an organizational chart that shows the flow of authority and responsibility from the most superior executive to the least of the cleaners in organization. It shows the flow of communication as it leads to the attainment of the organization set objective.

#### 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- Define authority
- Explain the sources of authority

## 3.0 MAIN CONTENT

#### **3.1** Definition of Authority

Authority is the right to do something or ask someone else to do it. It is the power to act and make decisions in carrying out assignments. It is a system of legitimate control over subordinate by a superior, since voluntary compliance is expected. It is therefore, the right to give order, and the power to exact obedience. Authority over people is said to be effective only when it is accepted.

Authority is the right to delegate responsibility and it evolves in an organization from the shareholders to the Board of Directors (B.O.D.) and down the scalar chain. By accepting authority an individual shows his acceptance of responsibility and accountability. The person is delegating requires subordinates to allow their performance to be reviewed and evaluated and holds them accountable for the consequences.

Therefore; in an organization, a manager's authority includes his right to:

- i. Make decisions within the scope of his own authority;
- ii. Assign tasks to subordinates, and
- *iii.* Expect and require satisfactory performance from subordinates.

#### **3.2** Sources of Authority

Authority can either come from above or below. When it comes from the above, it means it flows from superiors to subordinates. This is called **top-down authority.** 

Authority may also come from subordinates to the superiors and this is called **bottom up authority**. The question has always being how can authority come from subordinates? If the subordinate follows the instructions as given by the superior, he gives authority to the boss. Should he refuse to obey an order, or he follows it but does not really try to do a good job, he reduces his boss's authority or challenges it. This is an informal type of authority as it is not reflected in the organizational chart and structure.

Apart from the "top-down" and "bottom-up" authority, an organization may also give authority to a manager, this is called **conferred authority** and the scope of the superior's job description will determine the extent of the authority conferred on one. Also, one may **command authority** based on ones charisma or personal qualities which earn one respect. Again, it may be an authority acquired by the virtue of one's intellectual audacity. This is different from the previous ones, as it is often derived from relevant experiences, training and information over a period of time.

## **3.3** Types of Authority

There are different types of authority, such as:

- a) **Formal Authority** this is conferred by law or delegated within an organization. The exercise of such authority to the course of discharging one's responsibility goes unchallenged.
- b) **Functional Authority** this is based on specialized knowledge, ' usually determined by the status and role that one performs in an organization.
- c) **Personal Authority -** this is based upon seniority or leadership. That is, one's hierarchical position as it exists in an organization.
- d) **Line Authority -** It is the ultimate authority to decide upon matters, affecting others and is the main feature of the superior or subordinate relationship. It is not absolute on its own. It must be applied within discretion, within the limits

of delegated authority, and must relate to the performance of jobs which result in the achievement of the organization's set objectives.

- e) **Staff Authority -** It is concerned with assisting and advising and is used where line authority is inadequate, and mostly used in small organizations. Staff authority is subordinates to line authority which are directed and controlled by the line organization. For instance, a personnel manager who has line authority over his own staff (in his department) cannot control production workers (in production department) even on personnel matters.
- f) **Functional Authority** It confers upon the holder the "right to command" in matters relating to the function. It has a limited right to command and help the superior to delegate authority to command to specialists without bestowing full line authority. For instance, the head of personnel renders staff function for the whole organization, but he usually exercises functional authority on personnel matters in his relationships with branch personnel officers. This paves way for with uniform organizational policy.

## **3.4 Delegation of Authority**

This occurs when a superior vests decision-making power on a subordinate. Superiors can only delegate authority which they have:-

The process of delegation involves

- i. The determination of results expected
- ii. The assignment of authority for accomplishing these tasks
- iii. The execution of responsibility for their accomplishment.

Steps in Delegation of authority include;

- 1. **Clarify of Assignment**: delegation should start with the determination of what is to be delegated and when. Provision of clear information on what is being delegated is important. The results expected and the subordinates allowed to decide on the mean must also be specified.
- 2. **Specify the subordinate's range of discretion**: every delegation comes with constraints; subordinates should know the issues and parameters within which to act.
- 3. Allow the subordinate to participate: subordinate should be allowed to participate in determining what is delegated, how much authority is needed to get the job done, and the standards by which they will be judged. This will increase employee motivation and satisfaction.
- 4. **Inform others that delegation has occurred**: delegation should not take place in a vacuum; others who will be affected by the act of delegation should be informed.
- 5. **Establish feedback control**: the establishment of controls to monitor the subordinate's progress increases the likelihood that important problems will be identified early and that the task will be completed on time and to the desired specifications.

## 4.0 CONCLUSION

It is appropriate that every manager must have the authority to do his job i.e. get things done through people. This is because managers rely on, and make use of their official authority to earn the cooperation of their subordinates. In fact authority is the basic foundation of every manager-subordinate interaction.

#### **5.0 SUMMARY**

This unit talked about the importance of authority to a manager, sources of authority, types of authority and also processes involved in delegating authority.

#### 6.0 TUTOR MARKED ASSIGNMENT QUESTION

- 1. What is authority?
- 2. List and explain the types of authority
- 3. State the processes involves in the delegation of authority.

#### 7.0 REFERENCES AND FURTHER READING

Lawal, K.A.A and Oludimu, O.L (2011). Management Principles, Pratice and Focus. Asogun Books, Ibandan. Pp 29 and 52

Ogundele, O.J.K (2007). Introduction to Entrepreneurship Development, Corporate Governance and Small Business Management. Molofin Nominees, Lagos.

# UNIT 3 ORGANIZATIONAL OF STRUCTURE COOPERATIVE SOCIETIES

## CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Primary Cooperative Societies
  - 3.2 Secondary Cooperative Society
  - 3.3 Organizational Structure of Cooperative movement at Staff and National Levels
    - 3.3.1 State Cooperative Apex
    - 3.3.2 State Cooperative Federation
  - 3.4 Cooperative Federation of Nigeria LTD
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-marked assignment
- 7.0 References/Further reading

## **1.0 INTRODUCTION**

Structure here, entails layout, framework and composition of cooperative movement.

#### 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- Define primary cooperative
- The organizational structure of cooperative societies

## 3.0 MAIN CONTENT

## **3.1 Primary Co-Operative Societies**

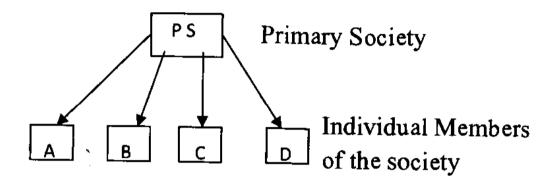
Primary cooperative societies are societies where individual persons are members. It is usually organized at village/town levels. It is the type where individuals voluntarily joined together in order to achieved their commonly felt-need through a democratically controlled business enterprise.

Their members usually contribute to the capital required to set-up the cooperative business enterprise which means that the members are both own (shareholders) and patrons (users) of the enterprises. This goes further to explain the dual (double) nature of members of primary societies.

The members of primary cooperatives also undertake to accept a fair share of the risks and benefits arising from their cooperative business enterprise. Examples of primary societies includes: -

Consumer, marketing, agriculture, thrift and loans, thrift and credit etc. Their major sources of finance are usually internally generated from members' shares capital contribution.

#### PRIMARY SOCIETY



#### Figure 1; An illustration of a primary cooperative society

A primary (auxiliary) society may be registered under the cooperative society's law, if it consists of at least ten persons each of whom is qualified for membership under section 22 of this decree and is economically viable (NCSD No 90, 1993 Sec 3(1).

Also a primary (productive) society may be registered under this law if it consists of a minimum of six persons and is economically viable (NCSD No90, 1993 Sec 3 (2).

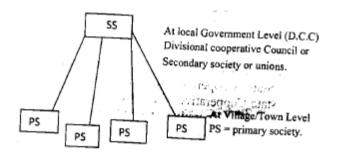
## 3.2 Secondary Cooperative Societies (DCC)

A secondary cooperative society is a society that is made up of at least five registered primary societies. Its objective is to facilitate the operations of registered primary societies that it is made up of. The application for the registration of a secondary society shall be signed by duly authorized member on behalf of every such registered primary society, and where some of the members of the society are not registered societies, by ten other members and when they are less than ten members, by all the members.

A secondary cooperative society is formed by primary cooperative societies that join their resources together to enable them meet up with their expected desires. This is the second in hierarchy ladder of the structure. In order words, it is called **DIVISIONAL COOPERATIVE COUNCILS.** 

A secondary cooperative is a union of primary societies at the local government level. In Enugu state, as well as other states, this type of cooperatives is usually found in each Local Government Area of the state. It is expected that each primary cooperative must affiliate to this type of cooperative and has to be a member of such secondary society.

Here, the elected management team is called Board of Directors and members are called Board Members. Secondary societies render a lot of services to its affiliate members (primary societies), such services include: - Advisory role, financial assistance, marketing of affiliate members produce etc.



## Figure 2; An illustration of a secondary cooperative society

# **3.3 Organizational Structure of Cooperative Movement at State And National Levels**

#### **3.3.1 State Cooperative Apexs**

At the state level, some cooperatives exists to handle some special functions for the D.CC's, Example, the Enugu State Cooperative Financing Agency Ltd is charged with the functions of acquiring and extension of credit to secondary and primary cooperatives while the marketing/consumer cooperatives apexes assists producer cooperatives in marketing their products and also procurement and sale of essential consumer goods at controlled prices to member cooperatives.

#### **3.3.2 State Cooperative Federation**

This acts as the "FATHER" of all cooperatives in the state, it is at the peak of cooperative structure in the state. Each state in the country has a primary, secondary and tertiary structure of cooperative societies. The primary societies are found in the villages, towns and wards while the secondary cooperatives are located at the local government levels, which represent their unions.

However, these secondary cooperatives and unions federate into state Apexes.

In Enugu state, its Apex body is called Enugu State Cooperative Federation (ECOFED). This apex body is followed by other functionally specialized apexes like the Enugu State Cooperative Financing Agency Ltd and Enugu State Cooperative wholesales and Supply Services ltd. The state cooperatives federation (ECOFED) takes care of other cooperatives in the state by providing education through seminars, workshops etc, and other services for improvement of cooperatives generally in the state.

The state cooperative federation represents the state in the Cooperative Federation of Nigeria Ltd (C.F.N).

# 3.4 Cooperative Federation of Nigeria LTD (CFN)

In the cooperative structure, this is the highest level in the country and represents the country on cooperative matters internationally. The Cooperative Federation of Nigeria (CFN) was founded in 1968 and its base is at Ibadan. It is affiliated to the International Cooperative Alliance (ICA).

| COOPERATIVE FEDERATION OF             | NATIONAL APEX                          |
|---------------------------------------|--|
| NIGERIA (CFN)                         |  |
|                                       |  |
| ECFALTD                               | (STATE LEVELS)                         |
| Enugu cooperative Finance Agency Ltd; | State cooperative federation           |
|                                       |  |
| Enugu cooperative Federation ltd      |  |
| (ECOFED)                              |  |
| Divisional Cooperative Council        | Local Government Level (DCC's) (17) in |
|                                       | Enugu State.                           |
| All types of primary cooperatives     | Village/Town/ward levels               |

## Table 1: Cooperative Federation of Nigeria and National Apex

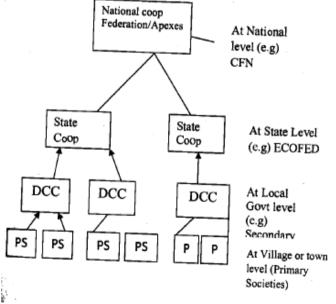


Fig.3: In Organization of Organizational Structure of Cooperative Movement from Village/Town level to National Level.

## 4.0 CONCLUSION

Primary structure is the smallest structure of a cooperative society followed by the secondary society and it further extends to the state cooperative apex and state cooperative federation.

## **5.0 SUMMARY**

The organizational structure in a cooperative society can be classified into three namely; primary structure, secondary and apex structure (which can also be called tertiary structure)

#### 6.0 TUTOR MARKED ASSIGNMENT QUESTION

- a) What is a primary cooperative?
- b) What are the features of a secondary cooperative society?

#### 7.0 REFERENCES AND FURTHER READING

Felix Aniocha Onoh (2007). Cooperative Administration and Management. Computer Edge Publishers, Enugu

Lawal, K.A.A and Oludimu, O.L (2011). Management Principles, Pratice and Focus. Asogun Books, Ibandan. Pp 29 and 52

# UNIT 4 MANAGEMENT COMMITTEE

## CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 The Management Committee
  - 3.2 Duties of Management Committee/Board of Directors
  - 3.3 Prospects of Management Committee
  - 3.4 Sub-Committees
  - 3.5 Problems of Management Committee
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-marked assignment
- 7.0 References/ Further reading

## **1.0 INTRODUCTION**

The cooperative law and rules refer to the governing body of a registered cooperative society to whom the management affairs is entrusted as a "COMMITTEE". It is usual to refer to this central governing body as MANAGEMENT COMMITTEE in a primary cooperative society. Also, a committee of secondary society below the state apex is known as MANAGEMENT COMMITTEE, whilst the committee of societies at the state apex level and above is called BOARD OF DIRECTORS.

#### 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- State the duties of the management committee
- List the prospects of management committee
- State the duties of the sub-committee
- Problems of management committee

#### 3.0 MAIN CONTENT

#### 3.1 The Management Committee

In the case of a primary society, the law requires the committee members to be elected for a period not exceeding one year. However, in the secondary societies, the bye-laws may specify that the maximum length of office shall be 3years and equal proportion of the members shall retire annually in such manner as the bye-laws may specify (Rule 22 (1) ENSCR).

Furthermore, in a primary society, as well as in secondary, 'A retiring officer shall, unless the bye-laws otherwise provide, be eligible for re-election.

## **3.2 Duties of Management Committee/Board of Directors**

As earlier stated, the management committee is the management organ of a cooperative society and the rule provide that "the committee shall meet as often as the case may be, but not less frequently than once a month, where committee meeting are fixed, the secretary shall summon meeting in writing" Rule 26 (1).

Also rule 27 (1) of the cooperative societies rules specifies some functions of the committee as follows:

The committee shall represent the registered society before all competent public authorities and in all dealing and transactions with third parties, to institute or defend suits brought in the name of or against the society, and in general, it shall carryout such duties in the management of the affairs of the registered society except those reserved for the general meeting and subject to any transactions or restrictions duly laid down by the society in a general meeting or in bye-laws.

Some other duties of the committee according to Rule 27 (2) shall include:

- a) To ensure compliance with the law, rules and bye-laws of the society.
- b) To maintain true and fair account of the society's assets and liabilities.
- c) To present to the Annual General meeting, an annual report and account approved by the Director of cooperatives.
- d) To assists in the inspection and auditing of books of the society by any person authorized to inspect and audit the books annually.
- e) To take adequate securities from employees
- f) In credit societies, to supervise the application of loans to the purpose for which they are granted.
- g) To ensure that money is not borrowed in excess of the society's maximum liability and that money is not lent to members in excess of their maximum credit limits.
- h) To make prompt action to put right faults pointed out in audit reports, Directors audit comments or inspection reports.

The committee members shall exercise prudence and diligence OF ordinary men of business in conducting the affairs of the society. Members of the committee may be held responsible for any lapse discovered in the conduct of the affairs of the society. Rule 27 (37)

In addition to the functions specify above, some additional duties of the committee are:

- 1. One of the primary roles of the committee members is to serve as the trustees of the members they represent. Their responsibility is to act in the interest of all members and not on their own behalf.
- 2. Initiating long term objectives and making long term plans. The committee/board must play a major role in carrying out this if the cooperative is to serve the felt-needs of the members, which are subject to constantly changing socio-economic conditions. They must ensure that any project to be executed by the society is based on the outcome of a properly conducted economic survey or feasibility study.
- 3. The committee/board must ensure at all times, that the cooperative character is maintained.
- 4. The committee/board members must be conversant with the cooperative law and rules as well as the bye-laws of the society.
- 5. Committee members must at all times, strive to attend regular and special meetings of the committee or board as well as the general meetings of the cooperative society.
- 6. The committee/board members should keep the members of the cooperative well informed about the going on in the society.

## **3.3 Prospects of Management Committee**

- The aim of management committee is to promote the emergence of independent, economically viable and democratic cooperative organizations in all sectors of the economy.
- It aims to strengthen national apex, develop human resources and promote trade among national cooperative movements.
- It also strives to reduce government control over cooperatives by getting cooperative laws amended.
- They shall ensure that the business of the society is well run.
- They shall be signatory to the society and can represent the society internally and externally.

## 3.4 Sub-Committees

The management committee/board in cooperative societies are usually sub-divided into:-

- 1. Education committee
- 2. Arbitration committee
- 3. Loan committee for credit cooperatives
- 4. Quality control committee for marketing cooperatives, land acquisition and technical committees for housing cooperatives.

## **Duties of sub-committees**

Sometimes, need may arise for sub-committee to handle specific functions or inquiry and advice the management committee. Usually some committee/board members are members of sub-committees. Sub-committees could be ad-hoc or permanent depending on functions designed for them. For example, a farmers' cooperative society's committee could have a sub-committee on land allocation, purchase of fertilizers etc. sub-committees are assigned their duties by the Management Committee and they report directly to the Management Committee/Board, not to the General Meeting unless otherwise stated or the sub-committees was elected by the General Meeting and made directly answerable to it.

#### **3.5 Problems of Management Committee**

- 1. Poor accounting and record keeping of cooperative business activities.
- 2. Management committees of cooperative societies in Nigeria often are notable to invest on un-bankable projects etc.
- 3. Problems associated with low membership size and general poverty of the members of cooperative affects the operations of the committee.
- 4. Lack of credit worthiness in the estimation of potential borrowers in case of credit societies.
- 5. Dishonesty and corruption among the leaders and employees of the societies.
- 6. Lack of independent, economically viable and democratic cooperative organizations in all the sectors of economy.
- 7. Undeveloped human resources due to illiteracy of the members of the cooperative is a major concern.
- 8. Weak national apexes.
- 9. Some of the principles of cooperative negatively affect cooperative business activities.
- 10. Inadequate cooperative education among members and officers.
- 11. Competition from capitalists that engage in the same line of business as the cooperative business enterprises.
- 12. Poor infrastructure facilities among cooperative societies.

## 4.0 CONCLUSION

The functions of the committee are regulated by the rules. In addition to the bye-laws of every society may give other functions and power to this body (section 11 (2)). The management committee being responsible for the smooth running of a society has varying degrees of responsibility, depending on the type/nature of the society.

#### **5.0 SUMMARY**

The management committees conduct the affairs of the society and are held responsible for any loss sustained through their failure to exercise prudence and diligence of men of business.

## 6.0 TUTOR MARKED ASSIGNMENT QUESTION

- 1. State 5 problems of management committee
- 2. What are the functions of the management committee?
- 3. What are the duties of sub-committee?

## 7.0 REFERENCES AND FURTHER READING

Felix Aniocha Onoh (2007). Cooperative Administration and Management. Computer Edge Publishers, Enugu. Pp 265-269

Lawal, K.A.A and Oludimu, O.L (2011). Management Principles, Pratice and Focus. Asogun Books, Ibandan. Pp 29 and 52

## UNIT 5 PROBLEMS OF COOPERATIVE

#### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Problems of Cooperative Management in Nigeria
  - 3.2 Solutions/Recommendations to the Problems of Nigeria Cooperatives
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-marked assignment
- 7.0 References/Further reading

## **1.0 INTRODUCTION**

There are certain problems facing cooperative in Nigeria no doubt constitute constraints to its development. They include: dishonesty and corruption among the leaders and employees.

#### 2.0 **OBJECTIVES**

At the end of this unit, you will be able to:

- List the problems of Cooperative business management
- Provide solutions to the problems of cooperative

## 3.0 MAIN CONTENT

## 3.1 Problems of Cooperative Management in Nigeria

#### a) Overlapping Functions of the Director as Adviser and Auditor of Cooperative Business

The assignment of the functions of adviser and auditor to a single department (Director's office) was felt undesirable and thus it became necessary to separate the two functions by sitting up a special audit section. In fact, it does not seem feasible to employ the same officer(s) as adviser on one hand and auditor on the other hand.

Sometimes, the adviser can give out a wrong advice to his advantage and go further to audit the record which he is a part. It is therefore better to employ a neutral objective observer who should act as an auditor. This problem is common because of shortage of staff in the cooperative (government) department, in which case, one group should be appointed as advisers while another neutral body should act as auditors.

## b) The Change From State Sponsorship to State Control

It was learnt that the original theoretical concept of cooperative development was for the government to create a self-reliant cooperative department, and cooperative movement responsible for education and training of members, raising the standard of technical knowledge and business skills of committee members and staff of registered cooperatives. However, lack of sufficient number of qualified personnel made it difficult for them to concentrate on long-term educational work. It is hoped that these cooperatives would learn to operate on their own after some time of practical experience. Where the cooperative committees are incompetent and failed to aide their duties properly, the reaction of the Director's department was to interfere with the administration and management (control) of registered societies rather than to intensify educational efforts. In addition, some potential decisions of committees had to be submitted for the Director's approval; before legally binding on the cooperatives. As a result, state sponsorship generally turned into state control.

## c) Conflict Of The Director's Duties As An Arbitrator

Where the Director and his staff are given statutory powers which allow direct interference in the administration and management of cooperatives, disputes may arise of which directly, the Director and his staff are a party. Where such conflict of interest exists, it would be desirable to hand over the settlement of the dispute to an arbitrator who is not appointed by the Director.

#### d) Corruption

Nigeria "is rated by Transparency International (World's corruption Watchdog) as one of the most corrupt countries in the world. Since cooperatives exist within the society, it cannot be an exception. Most officers of cooperatives and government cooperatives officers were found to have been involved in corrupt practices.

#### e) Poor Remuneration

In Nigeria, most civil servants are not promptly paid; this includes cooperatives officers in the ministry. This discourages qualified personnel from joining cooperatives departments; instead they enter into politics to make quick money.

## f) High Level Of Illiteracy

Most members of cooperative societies are not properly educated, this makes it difficult for such societies to be easily educated, this makes it difficult for such societies to be easily supervised and managed. This is why small societies with small capital and knowledgeable members are more preferable to big societies with large amount of capital but with illiterate members. This assumption is based on the premises that the large societies, with large amount of capital but illiterate members will eventually go into dissolution. While the small society with small amount of

capital but intelligent members will consolidate and expand into a bigger and viable society.

## g) Disincentives In Cooperatives

Most people believe that those who join cooperatives are people that cannot manage their business. Also lack of government incentives to cooperatives also discourages people. The capitalist nature of our economy does not favour business like cooperatives.

The problems of co-operative management with special emphasis on Nigeria are very numerous to mention. But for the purpose of this unit, we will concentrate on the followings:

- a) Poor management of the co-operative business enterprise
- b) Dishonesty among the leadership. Many cases involving embezzlement of funds among co-operative complex.
- c) Improper funding, both within and outside the cooperative complex.
- d) Poor member education and high rate of illiteracy among members.
- e) Apathy among members; low level of active participation.
- f) Government stiffing control and over dependence on government financial handout.
- g) The top-bottom approach" which leads to lack of effective national integration of the Nigeria cooperative movement.
- h) Suspicion and distrust among co-operative practitioners leading to distorted approach in cooperative matter.
- i) Lack of qualified and trained executives and officers.
- j) Governments in Nigeria do not give concession to specialized banks which will enable them to extend adequate funds to co-operative societies.
- k) Majority of cooperatives are moribund and do not create the impact expected of them. (Obodoechi, 2002:).

From the above therefore, it is unfortunate that the success stories expected of cooperative development in Nigeria have not been as expected in the majority of instances. Two main types of factors have contributed to this situation, external factors (factors due to circumstances in the country or stay, and internal factors (factors within the cooperatives themselves).

In developing countries like Nigeria, cooperatives were often usually funded and controlled by the state instead of being small-scale voluntary associations controlled by the members themselves. Consequently, cooperatives were often misused for government purposes and memberships were made compulsory.

Therefore, instead of appreciating cooperatives as essential member-oriented and member-controlled entities, the rural population considered cooperative as instrument of exploitation by government or otherwise as easy avenues to obtain government funds. This has led to shifting members' initiative and enthusiasm for cooperative practices while enthroning inefficiency and corruption. The problem is structures to see, if in that case, there would be real need for new cooperatives which would be organization that the members themselves want and originated.

#### 3.2 Solutions/Recommendations to the Problems of Nigeria Cooperatives

The job of managing Nigeria cooperative to success is an enormous one. The cooperative organizations in Nigeria are currently very weak, but with dedication, we can turn things round. All we need is to take care of things at the correct time, open up and be strong and resolute. We would have respect for our fellow human beings and be faithful to our cooperatives. We should stop being dishonest in our dealing with our cooperatives so that the capital of cooperatives can be used to the advantage of all members and the larger community

- i. For any cooperative to realize its aim, it must obey the English maxim "No man or institution is an island". It must cooperate with other cooperatives. This, it can do by affiliation, that is joining forces with other cooperatives in the same local, state and national level. The relevance of integration or affiliation is for cooperatives to be economically relevant.
- ii. Also from the evidence contained in this unit, one can understand that the main concern of cooperatives all over the world is to improve the quality of life of their members and in the long-run, the community in which they operate. In view of that, it has become imperative to call upon the government to support encourage the formation of viable cooperatives in the country.
- iii. Furthermore, the attention of the government needs to be drawn to a healthy relationship that exists between cooperatives and some government of developing countries such as India, Kenya, Uganda etc. Government needs the support of cooperatives and likewise the movement needs government to take measures that will improve its operation.
- iv. Government should provide adequate funding to government cooperative department at federal, state and local government levels. With adequate funds, the departments at various levels can organize and conduct sound programmes of education and training, through conferences, workshops, seminars, and short courses towards promoting viable cooperatives.
- v. Government should provide substantial grants, subsidies and guaranteed loans to facilitate cooperative members. Economic and social activities, at national, state and local government levels.
- vi. Government should as a matter of urgency, constitute a cooperative review committee in order to review Babangida's Nigeria Cooperative societies Decree No. 90 of 1993 which is regarded as outdated and overdue for review. An immediate review of the decree will certainly improve rapid growth and development of Nigeria Cooperative Movement and ensure that it is organized and operated in accordance with cooperative principles and practice.
- vii. Government should ensure that government officials who are concerned with the policies and programmes affecting the movement are conversant with its

principles, laws and regulations. This will enable them to appreciate its problems and

viii. Finally, government should re-constitute the National Cooperative Advisory Council with a view to making the council more effective and result oriented. This will eventually check against the apparent lack of regular dialogue between cooperatives and government in the field of joint policy formulation and evaluation.

#### 4.0 CONCLUSION

There is no need trying to separate cooperative development in Nigeria from government involvement. This is because the level at which cooperatives in Nigeria are operating is still below the level it can operate as autonomous and independent organizations.

Therefore, for cooperative development in Nigeria to succeed and achieve the desired result this time around, cooperatives will need the support and contributions of government. There is a need to draw attention of the government towards involving targeted beneficiaries preferably in groups such as cooperatives, farmers associations, workers unions, women and, youth development associations and other development associations.

For instance, cooperatives have proved indispensable to many countries faced with similar tasks on economic, social, political and moral rehabilitation and Nigeria will not be an exception.

#### **5.0 SUMMARY**

In this unit we discussed the problems of cooperative. The main concern of the cooperative movement all over the world is to improve the quality of life of its members and in the long-run the community in which it operates.

#### 6.0 TUTOR MARKED ASSIGNMENT QUESTION

- a) List 4 problems of cooperatives
- b) List 5 solutions to the problems of cooperative.

#### 7.0 REFERENCES/FURTHER READING

- Felix Aniocha Onoh (2007). Cooperative Administration and Management. Computer Edge Publishers, Enugu
- Lawal, K.A.A and Oludimu, O.L (2011). Management Principles, Pratice and Focus. Asogun Books, Ibandan. Pp 29 and 52