

## **COURSE GUIDE**

### **ENT 202 INTRODUCTION TO ENTREPRENEURIAL VENTURES**

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COURSE GUIDE

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## INTRODUCTION

ENT 202 – Introduction to Entrepreneurial Ventures is a semester course work of 2 credit units.

It is available to all students taking the B.Sc Entrepreneurship programme in the Department of Entrepreneurial Studies, Faculty of Management Sciences. The course consists of 13 units which cover the concept and y of organization success. The course guide tells you what ENT 202 is all about, the materials you will be using and how to make use of them. Other information includes the Self-Assessment Exercise(s) and answers.

## COURSE CONTENT

The course content consists of entrepreneurial ventures

## COURSE AIMS

The aim of this course is to expose:

- understand the character of ventures
- explain the long-term character of venture
- explain the short – term character of venture

## 4.0. OBJECTIVES

After going through this course, you should be able to:

- define and explain the terms business and social venture
- understand the background of social venture
- explain and understand the scope of business/social venture

## COURSE MATERIALS

- Course Guide
- Study Units
- Text Books
- Self-Assessment Exercise(s)

## STUDY UNITS

UNIT 1: Scope of Business Social Ventures

UNIT 2: Character of Ventures

UNIT 3: Forms of Business Ownership

UNIT 4: Organization and Management

UNIT 5: The Marketing Function

UNIT 6: Production Function

UNIT 7: Finance and Accounting Function

UNIT 8: Human Resource Function

UNIT 9: Government and Business

UNIT 10: The Social Responsibility of Business

UNIT 11: International Business

UNIT 12: Concept of Social Goods

UNIT 13: The Creation of Social Networks

UNIT 14: Non-governmental Organizations and Practice in Evolving Non-profit Organization

Each study unit will take at least two hours. You are expected to study each unit and answer the Self-Assessment Exercise(s)

## THE MODULES

The course is divided into four modules.

Self-Assessment Exercise(s)

Each unit consists of questions and Possible Answers to Self-Assessment Exercise(s) within the content

## FINAL WRITTEN EXAMINATION

This will be done at the end of the course.

## SUMMARY

This course ENT 202 (Introduction to entrepreneurial ventures) exposes you to the forms, functions and concepts of various business and joint venture organizations.

## **MAIN CONTENT**

### **MODULE 1**

**UNIT 1: Scope of Business Social Ventures**

**UNIT 2: Character of Ventures**

**UNIT 3: Forms of Business Ownership**

**UNIT 4: Organization and Management**

### **MODULE 2**

**UNIT 5: The Marketing Function**

**UNIT 6: Production Function**

**UNIT 7: Finance and Accounting Function**

**UNIT 8: Human Resource Function**

### **MODULE 3**

**UNIT 9: Government and Business**

**UNIT 10: The Social Responsibility of Business**

**UNIT 11: International Business**

### **MODULE 4**

**UNIT 12: Concept of Social Goods**

**UNIT 13: The Creation of Social Networks**

**UNIT 14: Non-governmental Organizations and Practice in Evolving Non-profit Organization**

## **MODULE 1**

### **UNIT 1 SCOPE OF BUSINESS/ SOCIAL VENTURE**

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- 1.8 Possible Answers to Self-Assessment Exercise(s) within the content





## 1.1 INTRODUCTION

A business is a set of activities, which leads to the manufacturing of goods or provision of services to satisfy the consumers at a profit. In other words, any activity conducted by an individual or group of individuals which involves the accumulation of resources ( materials, capital, information, labour, equipment and tools) for the provision of goods and services to satisfy the needs felt by a consumer for a profit , is regarded as a business. On the other hand, a venture is an undertaking involving uncertainty as to the outcome, especially a risky or dangerous one. Therefore a social venture is an undertaking by a firm or organization established by a social entrepreneur that seeks to provide systemic solutions to achieve a sustainable, social objective.



## 1.2 Learning Outcomes

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

- i. Discuss three scope of business.
- ii. Analyze the background of social venture
- iii. Evaluate five sources of fund for social ventures
- iv. Demonstrate an understanding into the two classifications of trade



## 1.3 Scope of Business

The scope of business covers all the activities related to production and distribution of goods and services from the place of production to the final consumers with an aim to earn profit. There are three types of business activities. These business activities are also known as business components, which are actually defined as the scope of business. The scope of a business entails the following:

### **1.3.1 Industrial Sector**

The word Industry refers to that part of business activities which is apprehensive with the extraction, production or fabrication of products. The products which are raised, produced or processed by an industry may either be used by the ultimate consumer or by another concern for further production. If the goods produced by an industry are consumed by the final customers, these are named as consumer's goods e.g. clothes. If the goods are used for further production of wealth they are called producer's or capital goods. In case the goods produced by an industry are further processed into finished products by another concern they are known as intermediate goods. i.e. Plastic. There are different types of industry. These are:

#### **Extractive Industries**

Extractive industries are those industries which extract, raise or fabricate raw materials from above or beneath surface of the earth. i.e. Mining, fisheries forestry, agriculture.

#### **Genetic Industries**

Those industries which are engaged in reproducing and multiplying certain species of animals and plants and selling them in the market for profit are named as genetic industries. i.e. Cattle breeding farms, poultry farms, plant nurseries.

#### **Constructive Industries**

Constructive industries as the name signifies are engaged in the construction of building, canals, bridges, dams, roads etc.

#### **Manufacturing Industries**

Manufacturing industries are those which are concerned of converting raw material or semi finished products into finished products. E.g. Shoes Company, Textiles Mills.

### **1.3.2 Commercial Sector**

The second element that comes in the scope of business is commerce. It is a very important component of business and is concerned with the buying and selling of goods. It includes all the activities which are connected to the transfer of goods from the place of production to the ultimate consumers. The whole range of commercial activities is classified as trade, which is the process of buying and selling of goods. It is the exchange of goods and services among buyers and sellers in which both parties received a benefit. Trade is classified into two types.

#### **Internal Trade**

The process of buying and selling of goods within the edge of a country is called internal trade.

This could be wholesale trade or retail trade.

**Wholesale Trade:** The process of purchase of goods in huge quantity from producers and their resale to retailers is known as wholesale trade. The retailer then further sells these goods to the final consumers.

**Retail Trade:** The purchase of goods or services from the wholesalers and selling in small quantity to the ultimate consumers is known as retail trade.

#### **External Trade**

The purchase and sale of goods between two countries are called external trade. It is also called foreign trade. There are two types of external trade. These are import trade and export trade.

**Import Trade:** This involves the purchase of goods from foreign countries to be sold in the home country.

**Export Trade:** This involves the purchase of local goods to be sold in foreign countries.

## Self-Assessment Exercise 1

Question 1: What are the different types of industries, and how do they differ based on their primary activities?

Question 2: What are the main categories of trade, and how do they differ in terms of scope and operation?

### 1.4 Service Sector

Service sector is usually engaged in the provision of intangible products which cannot be seen or felt. The sector is made up of direct and indirect services. The direct services are those services that are provided by professionals, such as health care, teaching, legal services, etc. The indirect services are those that are offered to enhance the activities of industrial and commercial sectors. In business parlance, they are called aids to trade. "Aids to trade" is a term often used in economics and business to refer to various services or factors that facilitate the smooth functioning of trade and commerce. These aids to trade help businesses and individuals engage in buying and selling goods and services more efficiently. They encompass a wide range of activities and resources that support the trade process. The aids which are compulsory for the development of trade are as follows:-

**Transport:** The different ways of transport help in carrying goods from the places of production to centers of utilization e.g. Railways, ships, airlines etc.

**Insurance:** Insurance is very essential aid to trade. The risk of damage of goods due to fire, flood, earthquake or other causes is covered by insurance.

**Warehousing:** Warehousing is a kind of storeroom. Nowadays most of the goods are produced in anticipation of demand. They are stored in safe places and are released as and when demanded in the market. Warehousing thus helps in overcoming the barrier of time and creates time utility. **Banking:** The commercial banks play a vital role in financing the different trade activities. They are funding the traders for stock holding and transportation of goods. They also support the buyers and sellers of goods in receiving and making payments, both at the national

and worldwide level. The credit facility in the form of cash credit, overdrafts and loans is provided to the traders.

**Advertisement:** Selling of goods is the most difficult problem for the producer. Advertisement regarding the product through newspapers, magazines, radio and television has greatly helped the consumers in choosing the goods of their taste. So advertisements play a vital role in increasing sale of goods.

### Self-Assessment Exercise 2

<b>Question</b>	<b>1</b>
What are the primary differences between direct and indirect services in the service sector?	
<b>Question</b>	<b>2</b>
How do aids to trade contribute to the development of commerce?	

#### 1.4.1 Background of Social Venture

Social ventures may be structured in many forms, including sole proprietors, for-profit and not for-profit firms, non-governmental organizations, youth groups, community organizations, and more. Typically, government organizations are not considered to be social ventures, yet even government organizations can adopt entrepreneurial practices, possibly partnering with independent organizations, to explore innovative methods for providing social services. Elkington and Hartigan (2007) define three models for social ventures: leveraged nonprofit, hybrid nonprofit and social business. In the leveraged nonprofit venture the entrepreneur uses external partners for financial support in providing a public good. On the other hand, the hybrid nonprofit venture recovers a portion of its costs through sales of its goods or services. The social business venture generates profits, but rather than return those profits to shareholders, like business ventures, it reinvests those profits to further the social venture and the resulting social benefits.

The key differentiator between a social venture and a business venture lies in their primary purpose, which is to address social issues and create societal benefits. While a social venture may still yield profits, this is not its central goal. Instead, profitability is viewed as a potential avenue to ensure the sustainability of its efforts in delivering positive social impact. These

social ventures tackle a wide spectrum of societal challenges, encompassing issues such as poverty, inequality, education, environmental concerns, and economic development (Blundel & Lyon 2015).

### **1.4.2 Social Venture**

Social ventures, also known as social enterprises, prioritize generating positive social or environmental impact alongside financial sustainability. They aim to address social issues or environmental challenges.

**Scope:** The scope of social ventures can also vary widely. Some may operate locally, focusing on a specific community or region, while others have a broader national or global scope.

**Sectors:** Social ventures can operate in various sectors, such as education, healthcare, renewable energy, fair trade, poverty alleviation, and more (Jokela & Elo, 2015).

**Ownership:** Social ventures often have hybrid business models. They may be structured as nonprofits, for-profits, or benefit corporations, depending on their mission and legal framework.

**Overlap:** There is an increasing overlap between traditional business and social ventures, as more companies are adopting corporate social responsibility (CSR) initiatives, sustainable business practices, and ethical considerations into their operations.

B Corporations (B Corps) are an example of businesses that blend profit-making with a strong commitment to social and environmental goals.

**Challenges:** Both traditional businesses and social ventures face challenges related to market competition, regulatory compliance, financial sustainability, and management. Social ventures often have the additional challenge of balancing their social mission with financial viability.

**Future Trends:** The scope of social ventures is likely to expand as consumers and investors become more conscious of social and environmental issues, leading to increased demand for products and services that have a positive impact.

## **1.5 Funding for Social Ventures**

Funding for social ventures can come from various sources, depending on the nature of the venture, its mission, and its stage of development.

### **1.5.1 Types of Funding**

Here are some common funding sources for social ventures:

**Grants and Foundations:** Many social ventures, especially nonprofit organizations and projects with a strong social or environmental focus, rely on grants from foundations, government agencies, and charitable organizations.

These grants may be one-time awards or ongoing funding to support specific programs or initiatives.

**Impact Investors:** Impact investors are individuals or organizations that provide capital to social ventures with the expectation of both financial return and measurable social or environmental impact. Impact investment can take the form of equity investments, loans, or social impact bonds.

**Social Venture Capital:** Some venture capital firms specialize in funding social enterprises. They provide capital to startups and growing businesses that have a clear social mission and business model. These investors may take equity in the venture in exchange for funding.

**Crowd funding:** Crowd funding platforms, such as Kickstarter, Indiegogo, and GoFundMe, can be used to raise funds for social ventures. Crowd funding allows a broad base of individuals to contribute small amounts of money to support a project or business idea.

**Social Impact Bonds (SIBs):** Social impact bonds are a form of public-private partnership where private investors fund social programs, and the government pays them back with a return on investment if predetermined social outcomes are achieved.

**Community and Corporate Partnerships:** Social ventures can partner with local communities or corporations to access funding. These partnerships may involve financial support, in-kind contributions, or access to resources and networks.

**Earned Income:** Some social ventures generate revenue through the sale of products or services. This earned income can be reinvested in the venture to support its social mission.

**Microfinance and Community Development Finance Institutions:** Microfinance institutions and community development finance organizations provide small loans and financial services to social ventures and small businesses, especially in underserved communities.

**Bootstrapping:** In some cases, founders of social ventures use their own savings or resources to start and sustain their initiatives, at least in the early stages.

**Donations and Philanthropy:** Charitable donations from individuals, corporations, and philanthropic organizations can be a significant source of funding for nonprofit social ventures.

**Government Grants and Contracts:** Government agencies at various levels (local, regional, national) often provide grants and contracts to social ventures working on projects that align with government priorities and goals.

### **1.5.2 Benefit of Funding for Social Ventures**

- i. Enables expansion of operations and scaling up impact.
- ii. Investors often provide strategic advice and mentorship.
- iii. External funding can boost the venture's credibility and attract additional support.
- iv. Provides a stable financial base, reducing the risk of cash flow problems.
- v. Funds can be used for research, development, and innovation, leading to more effective solutions.
- vi. Allows better allocation of resources towards mission-critical activities.
- vii. Enables broader outreach and impact through marketing and distribution channels.

### **Self-Assessment Exercise 3**

Question 1: What are the common sources of funding for social ventures, and how do they differ based on the nature of the venture and its mission?

Question 2: How is the landscape of funding for social ventures evolving, and what factors are driving this change?





## 1.6 Summary

You have learnt in this unit about business and social ventures with particular emphasis on the scope, which include industrial sector (extractive, genetic, constructive, and manufacturing), commercial sector (internal trade and external trade), and service sector (professional services and aids to trade). These components define the range of business activities. The scope of a business reflects its industry presence, market engagement, and service provisions. For social ventures, the scope varies based on their mission and objectives. Securing funding for a social venture often requires a well-thought-out business plan, a clear articulation of the social impact, and a strategy for sustainability. Many social ventures use a combination of these funding sources to meet their financial needs and achieve their mission.



## 1.7 REFERENCES/FURTHER READINGS/WEB RESOURCES

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- Martin, R. & Osberg, S. (2007). Social entrepreneurship: the case for definition. *Stanford Social Innovation Review*, Spring:28-39.
- Thom-Otuya, V.C., Keme, T.A.E., & Akenbor, C.O. (2005). *Introduction to Business*. Port Harcourt, Anclet De Austere & Co.



## **1.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT.**

### **Possible Answers to Self-Assessment Exercise(s) one**

Question 1: What are the different types of industries, and how do they differ based on their primary activities?

Answer 1: Industries can be categorized into several types based on their primary activities. These categories include:

**Extractive Industries:** These industries involve the extraction, raising, or fabrication of raw materials from the earth's surface or beneath it. Examples include mining, fisheries, forestry, and agriculture.

**Genetic Industries:** Genetic industries focus on reproducing and multiplying specific species of animals and plants for sale in the market. Examples include cattle breeding farms, poultry farms, and plant nurseries.

**Constructive Industries:** Constructive industries are engaged in the construction of various structures, such as buildings, canals, bridges, dams, and roads.

**Manufacturing Industries:** Manufacturing industries are concerned with transforming raw materials or semi-finished products into finished products. Examples include shoe companies and textile mills.

Question 2: What are the main categories of trade, and how do they differ in terms of scope and operation?

Answer 2: Trade is a significant component of commerce, involving the buying and selling of goods. It can be classified into two main categories:

**Internal Trade:** Internal trade refers to the buying and selling of goods within the boundaries of a single country. It includes two subtypes:

**Wholesale Trade:** Wholesale trade involves purchasing goods in large quantities from producers and reselling them to retailers. Retailers then sell these goods in smaller quantities to end consumers.

**Retail Trade:** Retail trade involves purchasing goods or services from wholesalers and selling them in small quantities directly to end consumers.

**External Trade:** External trade, also known as foreign trade, involves the purchase and sale of goods between two or more countries. It encompasses two primary types:

**Import Trade:** Import trade involves buying goods from foreign countries to be sold within the home country.

**Export Trade:** Export trade involves selling locally produced goods to foreign countries.

### **Possible Answers to Self-Assessment Exercise(s) two**

#### **Question1**

What are the primary differences between direct and indirect services in the service sector?

#### **Answer:**

Direct services in the service sector are provided by professionals, such as health care, teaching, and legal services, which directly impact individuals and businesses. Indirect services, also known as "aids to trade," support the industrial and commercial sectors by facilitating trade and commerce, including transport, insurance, warehousing, banking, and advertising.

#### **Question2**

How do aids to trade contribute to the development of commerce?

#### **Answer:**

Aids to trade, such as transport, insurance, warehousing, banking, and advertising, contribute to the development of commerce by enhancing the efficiency and effectiveness of trade activities. Transport ensures goods are moved from production sites to markets, insurance mitigates risk, warehousing addresses storage needs, banking provides financial support, and advertising helps in promoting and selling products.

### **Possible Answers to Self-Assessment Exercise(s) three**

Question 1: What are the common sources of funding for social ventures, and how do they differ based on the nature of the venture and its mission?

Answer 1: Social ventures seek funding from various sources tailored to their specific characteristics and goals:

**Grants and Foundations:** Social ventures, especially those with a strong social or environmental focus, often rely on grants from foundations, government agencies, and charitable organizations. These grants can be one-time awards or ongoing support for specific programs or initiatives.

**Impact Investors:** Impact investors, whether individuals or organizations, provide capital to social ventures with the expectation of both financial return and measurable social or environmental impact. They can invest through equity, loans, or social impact bonds.

**Social Venture Capital:** Some venture capital firms specialize in funding social enterprises. They offer capital to startups and growing businesses that have a clear social mission and viable business models, often in exchange for equity.

**Crowdfunding:** Crowdfunding platforms like Kickstarter, Indiegogo, and GoFundMe enable social ventures to raise funds by allowing a broad base of individuals to contribute small amounts of money to support a project or business idea.

**Social Impact Bonds (SIBs):** Social impact bonds are a form of public-private partnership where private investors finance social programs, and the government reimburses them with a return on investment if predefined social outcomes are achieved.

Question 2: How is the landscape of funding for social ventures evolving, and what factors are driving this change?

Answer 2: The landscape of funding for social ventures is undergoing significant evolution, driven by several factors:

**Growing Consciousness:** Increasing awareness of social and environmental issues among consumers and investors is leading to higher demand for products and services with a positive impact. This trend encourages more funding sources to emerge.

**Corporate Social Responsibility (CSR):** Traditional businesses are incorporating CSR initiatives and sustainable practices into their operations, blurring the lines between traditional and social ventures. This convergence creates new opportunities for funding and partnerships.

**Impact Measurement:** Investors and stakeholders are placing greater emphasis on measuring and demonstrating the actual social or environmental impact of social ventures. This focus on outcomes influences investment decisions.

**Policy and Regulation:** Governments are introducing policies and regulations that support social ventures, such as tax incentives and favorable legal structures like benefit corporations (B Corps).

**Innovation:** Advances in technology and finance have made it easier for social ventures to access diverse funding sources, such as crowdfunding and impact investment platforms.

**Collaboration:** Collaboration between governments, nonprofits, and private investors through instruments like social impact bonds is fostering innovative funding models that address complex social challenges.

## **UNIT 2      CHARACTER OF VENTURES**

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## **2.1 INTRODUCTION**

Entrepreneurial influence is no doubt strongest at the birth of a venture and may decline thereafter. For example, in his case study of the founding of a medical school, Kimberly (1997), notes that although knowledge of the entrepreneur and his values and objectives is essential for an understanding of an organization, the importance of the person at the top diminishes in explaining organization outcomes as that organization matures. Organizations do continue to reflect their entrepreneurs, while those entrepreneurs are in charge and to a degree thereafter as well. Thus it is justified to view entrepreneurs not merely as ephemeral or transient agents in an organization's life but as fundamentally influential actors who set the tone of activity for substantial periods of time.



## **2.2 Learning outcomes**

By the end of this unit you should be able to:

- i. Discuss the character of ventures
- ii. Analyze four long-term character of venture
- iii. Evaluate the short – term character of venture
- iv. Demonstrate four short-term character of venture



## **2.3 Character of ventures**

Character of Ventures could refer to the ethical, moral, or value-driven aspects of business or entrepreneurial activities. It might involve examining how the values and principles of individuals or organizations influence the way they conduct their ventures, make decisions, and interact with stakeholders.

### **2.3.1 Long – Term Character of Ventures**

Long – term entrepreneur tends to be committed over the long run to particular ventures. The long-run success of an enterprise and the degree to which it continues to reflect its original intent appears to be directly related to the length of time that the entrepreneur remains

committed to it. The entrepreneurial screening processes can be expected to differently influence the long-run stability and dependability of organizations in alternative sectors. In a few cases, success was attributable to the stable guidance of the entrepreneur coupled with the commitment of hand-picked administrators to assume control and to carry on the original intent beyond the continued involvement of the entrepreneur. The impact of entrepreneurship has waned, and many ventures have experienced setbacks due to the primary entrepreneurs' inability to dedicate themselves on a full-time or long-term basis. Conversely, in cases where entrepreneurs could fully commit their efforts to their ventures over an extended period, these enterprises encountered fewer challenges and stayed more aligned with their original objectives. (Pei et al, 2020).

### **2.3.2 Types of Long – Term Character of Ventures**

Long-term character of venture includes independents, believers, conservers, architects, and controllers.

#### **Independents**

Independents are essentially one-time venturers who having established their autonomous enclaves, will simply act to maintain them into the indefinite future.

#### **Believers**

Believers tend to create venture frameworks within which they can continue to innovate and build according to a consistent structure or idea. The believer, for example, will establish an agency or program centered on a singular idea or mission, but may continue to expand or elaborate on this theme with further ventures. The success of the mission is of paramount importance to the believer, and all his efforts go into maintaining its viability and elaborating on it.

#### **Conservers**

Conservers are of a similar nature; having come to the rescue of a cherished institution, the conserver will also continue to exert his efforts and retain responsibility for maintaining it on an even keel.

#### **Architect**



The architect is especially committed to continual elaboration of his enterprise, but this requires maintenance of the structural foundations as well. Although the architect will be substantially more flexible than the believer in adjusting the rationale for ventures to suit changes in the environment, he will remain committed to a given venture as long as it maintains the potential for growth and experimentation. The pride with which the architect can trace his impact to the venture's roots is a fundamental source of his satisfaction.

### **Controllers**

Controllers share similarities with independent individuals, but they exhibit a somewhat lower level of reliability when it comes to long-term commitment. The controller will be tempted to move from one venture to a larger one until he arrives at one that tests his limits, sense of security, and viability of central control. At that point he resembles the independent, seeking largely to maintain that enterprise in balance.

### **Self-Assessment Exercise 1**

Question 1. What is meant by the "Character of Ventures" in entrepreneurial and business contexts?

Question 2. Explain briefly the following Long-term character of venture : independents, believers, conservers, architects, and controllers.

## **2.4 Short-Term Character of Venture**

Short-term venturers tend to be loosely committed to particular ventures but dedicated to enterprising as an ongoing activity. The connection between entrepreneurial commitment and short-run outcome prompts the question. Are different varieties of entrepreneur more or less likely to give short-term attention to their ventures or establish conditions under which they will be competently administered and remain true to original purpose?

### **2.4.1 Types of Short-Term Character of Venture**

Short-term venturers include income seekers, players, poets, professionals and searchers.

## **Income Seekers and Players**

Income seekers and players are essentially opportunists, willing to abandon one venture for another if better opportunities arise to increase their personal wealth or power. Hence their commitments to a given venture, its integrity of purpose or its long-term economic well-being, will be precarious. So long as alternative opportunities do not call, income-seeking and power seeking players will stress the economic growth of their enterprises, following whatever path the environment makes most lucrative (in the case of income seekers) or most socially noteworthy (in the case of players). If attractive alternative opportunities for venture arise, however, these entrepreneurial types will be quickest to move on. The income seekers will leave first. The player, as a public-oriented personality, depends heavily on keeping his reputation unblemished. He will therefore take some pains to avoid abrupt abandonment of an enterprise whose failure may be blamed on him. The player will work to establish a credible transitional arrangement that would absolve him of any culpability should the venture founder after he leaves.

## **Professionals**

The professionals are short-term venturers in the sense that their attention spans for a given enterprise depend on the venture's level of intellectual or emotional novelty or freshness. The professional is intent on working at the frontier of current disciplinary thought and knowledge generation. His ventures tend to have an experimental or demonstration quality to them, especially in industries governed by scientific disciplines.

## **Poet**

The poet also has a relatively short attention span and a chronic need to explore new avenues of experience. Rather than key himself to the currents of disciplinary activity (like the professional), however, the poet is more of a free spirit, driven internally to move away from ventures that have reached a plateau of initial success and preferring to undertake some new experience. Of all entrepreneurial types, the poet is most likely to disdain the managerial role, preferring to coax, catalyze, and cajole others to contribute to and manage the new enterprise. If ventures require the poet to manage for a while, that responsibility will be assumed only reluctantly until a managerial team can be put into place.

## **Searcher**

The searcher is the least predictable of entrepreneurial types in terms of his long-term commitment to venture. Two conflicting effects exist in his case. On the one hand, a searcher may undergo long periods of exploration and restlessness during which he may dabble in a number of ventures. Like the poet, a searcher in this phase cannot be depended on for long-term leadership and ventures that he establishes face an uncertain future. On the other hand, a searcher will grasp tenaciously to his venture, once having found his true calling. At this point, the searcher begins to resemble the believer or independent and may be counted on to provide long term commitment.

#### **2.4.2 Benefits of Long-Term Character of Ventures**

- i. Long-term ventures allow for sustained growth and development, enabling businesses to build a solid foundation and expand gradually over time.
- ii. A long-term outlook facilitates comprehensive strategic planning, helping ventures align their operations with long-term goals and objectives.
- iii. Ventures with a long-term character can allocate resources more effectively, investing in research, development, and infrastructure that may take time to yield returns.
- iv. Long-term ventures tend to be more stable and resilient, capable of weathering economic fluctuations and market changes better than short-term initiatives.
- v. They have the opportunity to build and nurture long-lasting relationships with customers, suppliers, and stakeholders, which can lead to increased loyalty and collaboration.
- vi. Long-term ventures can establish a strong market position and brand reputation, becoming leaders in their industry over time.

#### **Self-Assessment Exercise 2**

<b>Question</b>	<b>1:</b>
What differentiates income seekers and players from other types of short-term venturers?	

**Question****2:**

How do professionals and poets differ in their approach to short-term ventures?

**2.5 Importance of Long-Term Character of Ventures**

- i. They have the potential to create a lasting impact and leave a legacy, contributing to societal and economic development in meaningful ways.
- ii. Long-term ventures have the time and resources to invest in sustained innovation, leading to the development of new products, services, and technologies that can drive future growth.
- iii. By focusing on long-term goals, ventures can achieve financial stability through strategic investments and careful financial planning, reducing the risks associated with short-term volatility.
- iv. A long-term perspective allows for more comprehensive and effective strategic planning, aligning short-term actions with long-term objectives and vision.
- v. Long-term ventures can build stronger brand equity and customer loyalty over time, establishing a trusted and reputable presence in the market.
- vi. Long-term ventures can develop and maintain better relationships with stakeholders, including investors, employees, suppliers, and customers, fostering trust and collaboration.

**2.5.1 Goal of Long-Term Character of Ventures**

- i. The primary goal of maintaining a long-term character in ventures is to achieve sustainable success and growth over an extended period. This involves several key objectives:
- ii. Ensuring consistent and sustained profitability that supports the venture's operations and growth over the long term.

- iii. Establishing and maintaining a strong market position through strategic planning, innovation, and competitive advantage.
- iv. Building and nurturing long-term relationships with customers by consistently meeting their needs and exceeding their expectations, leading to increased loyalty and repeat business.
- v. Investing in research, development, and innovation to continuously improve products, services, and processes, ensuring the venture remains competitive and relevant.

### **2.5.2 Case Study: Toyota Motor Corporation**

Toyota Motor Corporation

**Background:** Toyota Motor Corporation, founded in 1937, is a prime example of a company that has thrived due to its long-term character and strategic vision. Over the decades, Toyota has grown to become one of the largest and most successful automobile manufacturers in the world.

#### **Key Strategies and Practices:**

##### **1. Continuous Improvement (Kaizen):**

Toyota's commitment to Kaizen, which means continuous improvement, has been a cornerstone of its long-term success. This philosophy encourages all employees to look for ways to improve processes, products, and services, leading to sustained innovation and efficiency.

##### **2. Long-Term Vision:**

Toyota's long-term vision focuses on sustainable growth, quality, and innovation. The company invests heavily in research and development to pioneer new technologies, such as hybrid and electric vehicles, positioning itself as a leader in environmentally friendly automotive solutions.

### 3. Strategic Planning:

Toyota's strategic planning involves setting long-term goals and aligning its operations to achieve these objectives. The company's strategic focus includes expanding its global footprint, enhancing product quality, and maintaining a competitive edge through technological advancements.

### 4. Strong Brand Equity:

Over the years, Toyota has built a strong brand reputation for reliability, quality, and innovation. This brand equity has resulted in high customer loyalty and strong sales performance worldwide.

### Self-Assessment Exercise 3

**Question****1:**

Why is a long-term perspective essential for achieving financial stability in ventures?

**Question****2:**

How does a long-term character contribute to building stronger brand equity and customer loyalty?



## 2.6 SUMMARY

You have learnt in this unit about character of ventures as to whether long-term venturer or short-term venturer. Long-term character of venture could be independents, believers, conservers, architects, and controllers while short-term character of ventures could be income seekers, players, poets, professionals and searchers. Those entrepreneurial types with the strongest tendencies toward long-term consistent venture commitment, the believers and conservers will gravitate to the nonprofit sector, whereas those with the strongest transient tendencies, the income seekers and power seekers, will tend to concentrate outside the nonprofit sector.



## **2.7 REFERENCES/FURTHER READINGS/WEB RESOURCES**

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## **2.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT**

### **SAE 1**

Question one : What is meant by the "Character of Ventures" in entrepreneurial and business contexts?

Answer: The "Character of Ventures" refers to the defining qualities and attributes associated with specific entrepreneurial or business initiatives. It encompasses various factors, including the ethical values, integrity, risk tolerance, objectives, and strategic direction that characterize a particular venture.

Question two. Explain briefly the following Long-term character of venture : independents, believers, conservers, architects, and controllers.

Answer:

**Independents:** These entrepreneurs are committed for the long term, often prioritizing individuality and innovation in their ventures.

**Believers:** They maintain a steadfast, principled approach, driven by strong convictions and a sense of mission in their ventures.

**Conservers:** Focused on stability, they value tradition and preservation, making them inclined to maintain the long-term character of their ventures.

**Architects:** They meticulously plan for the future, strategically shaping their ventures to align with their long-term vision.

**Controllers:** While committed, they may exhibit a degree of rigidity, being cautious and less flexible in long-term ventures, often emphasizing control and stability.

## **SAE 2**

**Question** **1:**

What differentiates income seekers and players from other types of short-term venturers?

**Answer:**

Income seekers and players are opportunists who prioritize personal wealth or social status, respectively. They are quick to abandon ventures for better opportunities, with income seekers moving first. Players, being public-oriented, will ensure a credible transition to avoid blame for any subsequent failure. Unlike professionals, poets, or searchers, their commitment to a venture's integrity or long-term success is precarious.

**Question** **2:**

How do professionals and poets differ in their approach to short-term ventures?

**Answer:**

Professionals are driven by intellectual or emotional novelty, focusing on experimental or



demonstration ventures at the frontier of their field. They move on once a venture loses its innovative appeal. Poets, on the other hand, are free spirits who seek new experiences and avoid managerial roles. They leave ventures after achieving initial success, preferring to inspire others to manage the enterprise.

### **SAE 3**

**Question** **1:**

Why is a long-term perspective essential for achieving financial stability in ventures?

**Answer:**

A long-term perspective allows ventures to achieve financial stability by enabling strategic investments and careful financial planning. This approach helps reduce the risks associated with short-term volatility and ensures steady growth and profitability over time.

**Question** **2:**

How does a long-term character contribute to building stronger brand equity and customer loyalty?

**Answer:**

Long-term ventures build stronger brand equity and customer loyalty by consistently meeting customer needs and maintaining high standards over time. This sustained commitment fosters trust and establishes a reputable presence in the market, leading to increased customer retention and brand strength.

## **UNIT 3      FORMS OF BUSINESS OWNERSHIP**

### **CONTENTS**

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Forms of business ownership
  - 3.3.1 Non Corporate Business
  - 3.3.2 Sole Proprietorship
  - 3.4 Partnership
    - 3.4.1 Corporate Business
    - 3.4.2 Private Corporate Business
  - 3.5 Public Corporate Business
    - 3.5.1 Formation of Companies
    - 3.5.2 Memorandum of Association
- 3.6 Summary
- 3.7 References/Further Readings/Web Resources
- 3.8 Possible Answers to Self-Assessment Exercise(s) within the content



## **3.1 INTRODUCTION**

Forms of business ownership refer to the legal implication of setting up and owning a business. There are different forms of business ownership. These can be classified as non corporate business and corporate business.



## **3.2 Learning Outcomes**

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

- i. understand the six forms of business ownership
- ii. evaluate the difference between corporate and non corporate business
- iii. understand the contents of a partnership deed or article of partnership
- iv. analyze the process of company's formation
- v. discuss and conceptualize the different forms of share capital



## **3.3 Forms of Business Ownership**

Forms of business ownership refer to the different legal structures that businesses can adopt to operate and conduct their activities. The choice of business ownership structure is a critical decision for entrepreneurs and business owners, as it affects various aspects of the business, including liability, taxation, management, and funding. Here are some common forms of business ownership:

### **3.3.1 Non-Corporate Business**

A non-corporate business is the type of business organization that is formed without any formal authority from an existing government. It may be registered with the corporate affairs

commission or relevant authority, but has no separate entity of its own. However, at the time of making contractual agreements in the course of operations, its legal requirement is imperative. A non-corporate business includes sole proprietorship and partnership.

### **3.3.2 Sole Proprietorship**

Sole proprietorship is otherwise known as one man business. It is a type of business that is formed and owned, by one man and members of his immediate family. However, the owner of this form of business is required to register the business name with the ministry of commerce, and the business premises with the local government authority in which territory the business is conducted. Sole proprietorship means when there is single ownership in business. Intellectual property of a sole trader requirements and concerns are, therefore, dependent on the nature and scale of operations and on relationship of business with other entities and enterprises (Singh et al, 2014).

Sole proprietorship is the most common form of business practiced all over the world. It is found in every facet of business such as agriculture, mining, shoes making, wholesaling, retailing, warehousing, transportation, health care, legal services etc. The reasons why people may like to operate sole proprietorship are:

1. Psychological satisfaction of one's own boss - When one is the sole owner of a business, he usually has a certain pleasant feeling that he is his own boss and is responsible only to himself.
2. Decision-making is fast: - In this form of business the owner manager can act promptly in times of emergencies without consultation with others.
3. Privacy and secrecy of business: - The records of the business are not required by law to be published at the end of the accounting year. However, the accounting records of the business may be required by bankers or lenders when the owner needs to borrow money.
4. Owners' personal interest: - The interest of the business and the owner manager is the same. There is no conflict of interest thus goal congruence is achieved. The owner manager puts his responsibilities on his heads rather than his shoulders.

5. Ease of formation and management: - This is the easiest form of business to run. There is no special documentation involved in operating this business. Again, it requires little amount of capital.

6. There is no double taxation: - The owner pays tax for himself and not the business. In this form of business, there is avoidance of tax.

7. The owner manager has all the profit to himself: - When profit is made out of the business, it is not shared to any other person.

8. The owner manager has freedom of management. He may decide to rest at home for sometime before going to the office, and he may at times decide to over-labour himself to work over — time and close late.

In spite of all these advantages enumerated above for operating a sole proprietorship, some people equally see this form of business as evil rather than good for the following reasons.

1. There is a limit to growth and expansion because of insufficient capital.

2. The sole proprietor may not have the appropriate skills and techniques required for running the business. He is a jack of all trade. Hence, there is no specialization.

3. Lack of perpetual existence: -. The death, permanent illness and insanity of the owner manager may lead to the termination of the business. .

4. In a welter of business failure the liability of the owner is unlimited. He may lose his personal assets to pay business debts.

5. The business owner borne all risks associated with the business alone. Since he shares profit with no body, he equally suffers all loses and other perils alone.

6. Lack of accurate stock taking and other accounting records makes it difficult for the business owner to have a true picture of the financial position of the business.

7. The principle of separate entity is non-existent hence; there is always room for drawings, which is tantamount to a business.

### Self-Assessment Exercises 1

<b>Question</b>	<b>1:</b>
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What are some advantages of operating a sole proprietorship?	
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<b>Question</b>	<b>2:</b>
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What are some limitations of a sole proprietorship?	
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### 3.4 Partnership

According to the English Partnership Acts of 1890, partnership is defined as —the relationship, which subsists between persons carrying on a business in common with a view of profit. It is a form of business owned by a minimum of two and a maximum of twenty persons. In actual sense, partnership business exists as one of the weapons business investors could use to overcome some of the problems of sole proprietorship.

Partnership, like sole proprietorship is not subject to any government authority in its formation but fundamentally an agreement of intent, which may be oral, written or implied by the conducts of the parties, has to be made. It is preferable that the agreement be in writing to avoid any possible disputes or misunderstanding arising in the future. This agreement is called the partnership deed or articles of partnership.

#### The Partnership Deed

Although the English Partnership Act of 1890 provided a model partnership agreement, each partnership is free to develop its own agreement, which may incorporate some of the clauses in the agreement provided by the act. This is called the article of partnership. It is a legal agreement and not a legal requirement, which specifies the rights, powers and interests of the members of the partnership.

The Partnership Deed is made up of the following;

- Name and address of business
- Name and address of partners
- Nature of business
- Duration of the agreement
- Amount of capital contributed by each partner
- Method of sharing profits or losses
- Provision for salaries or drawings accounts of partners.
- Statement of the rights and duties of partners
- Procedure for the admission of a new partner
- Procedure for dissolution of the partnership
- Method of determining a partner's investment if he wishes to withdraw

However, it is important to note that although the partnership business is not subject to formal authority in its formation, it must be registered with the registrar of. companies within 14days of its existence by supplying all the information in the partnership deeds. Also, the number of partners in professional business like medicine, law, banking, insurance etc. is limited to ten members.

### **Types of Partnership**

There are different types of partnership recognized by law. These are — ordinary partnership, limited partnership, industrial partnership, and Joint Venture.

### **Ordinary Partnership**

This is the partnership business where the liability of members is not restricted to their investment. In the event of business failure, the creditors of the .firm will have recourse to the private property of the partners. Members of the ordinary partnership are:

- (1) **General or Ordinary Partner:** This is a partner who has an invested capital in the business and participates actively in running the affairs of the business.
- (2) **Sleeping or Dormant Partner:** A partner who does not take part in the management of the business but has an invested capital in the business.
- (3) **Nominal Partner:** This is a partner who has no invested capital in the business and is not involved in its management but lends his name either as a result of his goodwill or public image. In actual sense, he is not a partner.
- (4) **Quasi Partner:** - A quasi partner is a partner who had retired from the partnership leaving his capital in the business as loan, which attracts interest varying with the profit. In real sense, he is a partner, but a deferred creditor since the loan will only be repaid after all outside creditors have been paid.

### **Limited Partnership**

This is the type of partnership in which the liabilities of the partners are restricted to the business assets in case the business fails in a welter of indebtedness. However, it is required by law that in every limited partnership, there must be a general partner whose liability is unlimited. .

A limited partner is a partner whose liability to the partnership debts and obligations is limited to the amount of capital, which he contributes.

As a result of development in the business world, industrial partnership and joint venture are equally seen as part of partnership.

### **Industrial Partnership**

This involves a liaison between existing private and public organizations each of which is able to contribute highly specialized services or facilities to the common enterprise, which is usually of major industrial significance. An example of industrial partnership is the arrangement between the Shell Petroleum Development Company and the Nigerian Government, which led to the establishment of Port Harcourt Refinery.



## **Joint Venture**

Joint venture is a form of business where two or more parties come together to undertake a particular business transaction for a common benefit. When the transaction is fully executed, the business may be terminated.

In every joint venture, parties to the venture usually state the terms and conditions on which they will undertake the venture, such as capital invested the part to be played by each party, share of profit and loss, commission on sale etc.

One unique advantage of joint venture is that the venturers can be engaged in other business without affecting their roles in the joint venture. More so, the parties to the joint venture may not necessarily be residing in the same city. Mr. A in Port Harcourt could be in joint venture with Mr. B in Kano.

## **Rights and Liabilities of Partners**

1. Every partner must consent to the admission of a new partner.
2. The English Partnership Act of 1890 provides that every partner is entitled to equal share of profit, unless the partnership deed states something different.
3. Every partner has the right to inspect the firm's book of account.
4. Every partner is entitled to interest on capital
5. All partners are liable to debts and financial obligations.
6. No partner should keep any business information secret. Such information should be declared to others.
7. Each partner is liable to the action of others. (Collective responsibilities).
8. Every partner has the right of indemnity for any injury sustained in the course of running the business.

9. Every partner has the right to share in the partnership assets when the is terminated.
10. The liability of a partner even the retirement of the partner, provided all other partners are notified of the retirement.

### **Advantages of Partnership**

1. Ease to form and manage: Partnership unlike corporation has no much protocol in its formation. A minimum legal restriction is required to form it.
2. There is the avoidance of double taxation because partners are taxed individually rather than the business income.
3. There is secrecy and privacy, of business records because the partnership book of account is not for public inspection.
4. Every partner is an expert in his own field. Their skills and abilities are pooled together for efficiency. Hence, there is specialization,
5. There is likelihood for growth expansion because of the possibility of raising additional capital.
6. Where two or more businesses are combined as partnership, there is room for economies of scale.
7. Drawings of business resources are charged with interest, thus drawings is discouraged.
8. The losses and risks associated with the business are borne by every partner.
9. There is possibility for continuity because the death, permanent illness or insanity of a partner may not terminate the business.
10. Since one man does not own the business; a partner may take holidays or rest due to illness without harming the business.

## **Disadvantages of Partnership**

1. Decision-making is slow because the decision committee is made up of members of the partnership,
2. Partners may not have personal interest in the business, hence, business affairs are carried on their shoulders not their heads.
3. There could be disagreements and clashes among the partners in the process of managing the business.
4. The profit realized from the business is not for one person rather it is shared among all the partners..
5. There could be mistrust and dishonesty among partners and this will negatively affect the
6. The liability of the partners is unlimited to their investment, except for a Limited partner.

### **3.4.1 Corporate Business**

This is the form of business that .is subject to legal and government regulations before they can be formed. A corporate business is an association of individuals, artificial being, invisible, intangible and only existing in the contemplation of law. Being a creature by law, it possesses only those properties conferred on it by the charter of its creation.

As the terms suggest, a corporate business has an existence and probably a legal personality distinct from, that of the men and women owning or working within it. A corporate business or corporation can on occasion make agreements, even sue and be sued in its own right rather than in the person of its owners. The interests of a corporation may therefore differ from those of the individuals associated with it. The liabilities of its members are limited.

There are different ways of classifying a corporate business or corporation. A convenient one is a two-fold division with sub-divisions. Hence, we can classify corporate business.

### **3.4.2 Private Corporate Business**

These are corporations owned by members of the public. They are formed as a result of private investments made by individuals. Such corporations that are limited by shares are for profit while those that are limited by guarantee are non-governmental organizations (NGOs) such as social, religious, charitable, recreational or educational corporations are not for profit. Private corporations are as well known as joint stock companies. However, there are two sub-divisions of private corporate business. There are private companies and public companies.

#### **Private Companies**

These are companies that are owned by minimum of two and a maximum of fifty persons, who buy shares from the company and become shareholders. In a private company, a shareholder is not permitted to transfer his share without the consent of the company and the company cannot invite the general public to subscribe for shares. In real sense, private companies are formed by sole proprietors that want, to take advantage of limited liability. These companies are designated LTD.

#### **Public Companies**

These are companies that enable the investing public to share from the profit of the business without necessarily participating in the management of the business. In its formation, at least seven persons must sign the various documents of registration. These companies are designated PLC.

The major differences between private and public companies are the number of shareholders and the issuing of shares. While a private company has a minimum of two and maximum of fifty members, a public company has a minimum of seven and a maximum of infinity. Secondly while the public company can invite and issue shares to the general public, the private company cannot.

## **Advantages of Private Corporations**

- (1) There is the possibility of perpetual existence. The death, withdrawal, or permanent illness of a shareholder may not terminate the business.
- (2) The capital base of this form of business is very large.
- (3) The liabilities of members are limited to their investments. If the business fails in a welter of indebtedness, shareholders will only lose what they have invested to settle financial claims.
- (4) There is economics of large-scale production; hence unit cost of production may be low.
- (5) There is room for specialization because the companies are made up of experts in various disciplines.
- (6) Protection of shareholders and creditors by legal requirements.
- (7) There is possibility of obtaining more capital or funds when the need arises.

## **Disadvantage of Private Corporations**

- (1) Private corporations are very difficult to form because of the need to file documents with the appropriate government authorities.
- (2) There is separation of owners from managements, so there may be less drive for efficiency.
- (3) There may be possible clash of interest between the shareholders and workers (higher dividend as against higher wages).
- (4) There is no privacy and secrecy of the business since the books of account are made public.
- (5) There is loss of personal relationship between owners or managers and customers.
- (6) There is problem of double taxation.

## Self-Assessment Exercises 2

<b>Question</b>	<b>1:</b>
What are the main types of partnerships, and how do they differ?	
<b>Question</b>	<b>2:</b>
What are some key advantages and disadvantages of a partnership?	

### 3.5 Public Corporate Business

Public corporate business means an entity that is created by the state to carry out public missions and services. In order to carry out these public missions and services, a public corporation participates in activities or provides services that are also provided by private enterprise. A public corporation is granted increased operating flexibility in order to best ensure its success, while retaining principles of public accountability and fundamental public policy. The board of directors of a public corporation is appointed by the President or Governor and confirmed by the legislators.

A public corporate business is a corporate body created by the special Act of the parliament. Such Act defines the power, duties, privileges and pattern of management of these organisations. Such an organization is a statutory body to serve the general public. A public corporation is clothed with the power of the government, but possessed with flexibility and initiative of private enterprises. A public corporation enjoys complete autonomy in management.

#### Characteristics of Public Corporation

The followings are some of the essential characteristics of public corporation:

- (i) It is a corporate body created by the special act in the state or central legislature. The power and duties of these corporations are defined by this Act.
- (ii) It enjoys the status of a legal entity and as such it can enter into contract in its own name.

- (iii) It is completely owned by the government and as such no private individuals are entitled to purchase shares of these organisations.
- (iv) A public corporation is managed by a board of directors. The members of the board are from all walks of industry and commerce. The chairmen of these corporations are appointed by the government.
- (v) The entire capital is financed by the government. It was set up with a capital of its own and is entitled to borrow, use and re-use revenue from the sale of goods.
- (vi) A public corporation is primarily meant to render service and making profit is its secondary considerations.
- (vii) The employees of corporation are subject to service conditions laid down by the corporation. Civil service rules for the government do not apply to the employees of the corporation.
- (viii) There are no shareholders in public corporations. The funds come from the government, from government approved loans and from the private sector.

### **Advantages of Public Corporation**

A public corporation enjoys a substantial advantage over other forms of public enterprises. The following are some of the advantages of public corporations:

- i. A public corporation is able to manage its affairs with independence, initiative because it is an autonomous set up.
- ii. It is relatively free to adapt to changing circumstances because of its autonomy nature.
- iii. It maintains continuous existence in spite of changes in the government.
- iv. It leads to high morale among the executives and other employees because of least government interference.
- v. It can utilize the service of competent persons because it has its own cadres of employees.
- vi. The board of directors consists of experts from business, labour and consumers. So a board of director can give better advice for the operation of the corporation.
- vi. Since public corporations are accountable to the parliament, they are intended to render maximum service to the public instead of maximum profit.

## **Disadvantages of Public Corporation**

- (i) They can be difficult to manage and control. The large size of the organisations may mean that time has to be spent on meetings and communicating with staff, slowing down decision making.
- (ii) They may become inefficient, produce low quality products and charge relatively high prices, due to a lack of competition and the knowledge that they cannot go bankrupt.
- (iii) They will need to be subsidized if they are loss making. The use of tax revenue to support them has an opportunity cost. It could have been used for staff training or other activities.

### **3.5.1 Formation of Companies**

The full procedure for formation, registration, and filing of specific documents and returns of companies whether private or public companies in Nigeria is governed by the Companies Decree No.51 of 1968.

In the formation of a company, the company has to be floated by a promoter who takes all the necessary steps to form the company before its incorporation. -A company is incorporated when its existence as a separate entity is recognized. A promoter will have to decide on the objects of the business, where it is to be carried out, as well as the name of the company and the amount of funds needed. The documents, which have to be sent .to the Registrar of companies for registration, are the memorandum of association, articles of association and prospectus.

### **3.5.2 Memorandum of Association**

The memorandum of Association regulates the powers of the company and fixes its objects in relation to the outside world. The range of activities in which it is proposed to operate will usually be made quite wide so that any expansion of the firm's activities does not necessitate adjustments to the memorandum. The memorandum of association contains the following.



- (i) Name of the company, the last word of which must be limited'. This word has to appear on all documents of the company such as orders and correspondences so that people dealing with the enterprise know that its liability is limited. The only time when the word limited is not necessary is when companies are limited by guarantee. The name chosen must be distinct from any existing company but the addition of the name of a town is sufficient to distinguish the company from others. For example, Christoe Global Resources (Port Harcourt) limited is sufficient to distinguish the company from any other Christoe Global Resources limited.
- (ii) The registered office-: The city or town where the head office of the company is located is usually stated.
- (iii) The amount of capital-: This is the amount of authorized capital. The authorized capital may not have to be raised immediately. The company could raise part to start with and the rest will be called up when needed. The capital amount must be divided into shares. For instance, if the authorized share capital is N80, 000,000 of N0.50 each, then the number of share will be 160,000,000 shares.
- (iv) A brief statement that the liability of the company is limited.
- (v) A statement stipulating the conditions for the alteration of the memorandum, which must be for the benefit of the company.

### **Articles of Association**

The Articles of Association are sent to the Registrar of companies at the same time with the Memorandum of Association. They deal with the internal organization and functioning of the company. They cover the following.

1 Meetings: Three different types of meeting are stated in the articles of association. A statutory meeting, which a new public company must call within three months of starting a business, annual general meeting (AGM), which must be called once in every calendar year: and never more than fifteen months after the last one, and an extraordinary meeting, which can be called by one tenth (1/10) of the shareholders. The Articles will also include the rights of members

at these meetings. These rights will depend upon the type of share held in the company by the individual.

2. The procedure for the issue and transfer of shares.
3. Alteration of capital and the borrowing powers of the company. . .
4. Procedures for the appointment of directors.
5. Method and system of accounting and auditing.
6. The procedure for winding — up or liquidation: This refers to the process by which the assets of the business are sold and all debts paid, with the balance, if any going to the members.

Generally it means the company is bankrupt and is going out of business.

### **Prospectus**

This is an offer of shares to the public, and must also be sent to the Registrar of Companies. It is intended as a means of getting the public interested in the company, and may contain statements by ‘experts’ as to the profitability prospects of the company. The prospectus will be included in any advertisement in the press inviting members of the public to subscribe for shares. Careful watch is kept on the issue shares to ensure that unscrupulous operators do not issue shares in fictitious companies and then disappear with the money subscribed. It is necessary to protect the public from such activities or else the shareholding habit will be discouraged, and the savings of many people will not be made available for development purposes. In Nigeria, the issue and sale of shares requires clearance from the Security and Exchange Commission, which is also concerned with the implementation of the Nigerian Enterprises Promotion Decrees. The promoters of the company, who will often become the Directors, may enter into contracts before they are incorporated, but these are not binding on the company unless later ratified.

## **Incorporation**

Having received all the necessary documents and found them to be in order, the Registrar of Companies will issue a Certificate of Incorporation. The new company has come into existence from this moment. The public company must also receive a minimum subscription from the public in respect of shares issued, and each director must pay the amount due on his qualifying shares.

## **Shares Subscription**

Shares subscription is when the general public is invited to buy shares. The shares can be offered or issued at par, premium, or discount. When shares are issued at par, it means that the shares are offered to the public at market value, but at premium it means that the shares offered are more than the market value. But when shares are issued at discount it means that the shares are offered at a price less than the market value.

The share which a company offers to the public is called share capital. The share capital is of different forms. These are authorized capital, issued capital, called-up capital, paid-up capital and capital reserve.

1. Authorized Capital: This is the capital requirement of a firm by the registrar of companies or the corporate Affairs of a business. It is also known as registered capital or nominal capital. It is the value of shares a firm can issue.
2. Issued Capital: The amount of capital a firm can issue might not necessarily be the value of shares issued. The actual value of shares, which a firm has offered from its authorized capital, is known as issued capital.
3. Called — Up Capital: All shares offered to the public may not necessarily be paid for before such shares are allotted to the subscribers. This is to enable a firm have a large number of shares. When shares are issued, part amount will be received for allotment while the balance is paid in future. The value of share capital that a subscriber, is called up to pay, is known as called up capital.

4. **Paid Up Capital:** The total value of shares which have actually been paid for when the subscriber was called up, is known as paid up capital.

5. **Capital Reserve:** The balance of share capital that is yet to be paid by a subscriber which was voluntarily made so by the firm is called reserve capital. The subscribers are made to pay the balance according to the requirement of the firm.

### **Company Amalgamation**

Amalgamation refers to the merging of companies to form an organized whole. When companies are amalgamated the name of the company, the management of the company and probably, the structure of the company may change.

There are two types of company amalgamation. These are vertical and horizontal integration

#### **Horizontal Integration**

This occurs where firms in the same stage of productive process come together as one: For example, where two or more furniture manufacturers come together as one.

#### **Vertical Integration**

This occurs where firms at different stages of productive process merged together. For example, where a timber dealer merges his business with a furniture manufacturer, there is said to be a vertical integration.

### Self-Assessment Exercises 3

Question 1: Explain the concept of amalgamation?

Question 2: Explore the concept of Share Subscription?



### 3.6 SUMMARY

In this unit, you've learned about various types of business ownership, their advantages, disadvantages, formation, management, and amalgamation. Determining the legal owner of a business is crucial for understanding who benefits or suffers from its activities. Business ownership can be broadly categorized into non-corporate and corporate forms. Non-corporate includes sole proprietorship and partnership, while corporate comprises private and public corporations. Private corporations are established and owned by individuals or groups, while public corporations are government-owned. Selecting the right business ownership form is a fundamental decision for entrepreneurs, with implications for government regulations and tax considerations.



### 3.7 REFERENCES/FURTHER READINGS/WEB RESOURCES

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### **3.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT**

#### **Possible Answers to Self-Assessment Exercise 1**

**Question** **1:**

What are some advantages of operating a sole proprietorship?

**Answer:**

Advantages of a sole proprietorship include fast decision-making, privacy and secrecy of business records, ease of formation and management, no double taxation, and the owner retaining all profits. The owner also enjoys the psychological satisfaction of being their own boss and has the freedom to manage the business as they see fit.

**Question** **2:**

What are some limitations of a sole proprietorship?

**Answer:**

Limitations of a sole proprietorship include limited growth potential due to insufficient capital, lack of specialization, lack of perpetual existence (as the business may end with the owner's death or incapacity), unlimited personal liability for business debts, and challenges in maintaining accurate financial records.

## Possible Answers to Self-Assessment Exercise 2

### Question 1:

What are the main types of partnerships, and how do they differ?

#### Answer:

The main types of partnerships are:

1. **Ordinary Partnership:** All partners share equal liability for business debts. There are general partners who manage the business, sleeping partners who invest but do not participate, nominal partners who lend their name for goodwill, and quasi partners who contribute capital but are deferred creditors.
2. **Limited Partnership:** Includes at least one general partner with unlimited liability and other limited partners whose liability is restricted to their investment.
3. **Industrial Partnership:** Involves collaboration between private and public organizations for industrial projects, contributing specialized services or facilities.
4. **Joint Venture:** A temporary partnership for a specific project, where parties share resources and profits for a particular business transaction. It dissolves once the project is complete.

### Question 2:

What are some key advantages and disadvantages of a partnership?

#### Answer:

##### Advantages:

1. **Ease of Formation:** Fewer legal requirements compared to corporations.
2. **Avoidance of Double Taxation:** Partners are taxed individually, not on the business income.
3. **Specialization:** Partners bring different skills and expertise.
4. **Growth Potential:** Additional capital can be raised by bringing in more partners.
5. **Continuity:** Business can continue despite changes in partnership.

### **Disadvantages:**

1. **Slow Decision-Making:** Decisions must be made collectively, which can be time-consuming.
2. **Potential Conflicts:** Disagreements among partners can arise.
3. **Unlimited Liability:** General partners face unlimited liability for business debts.
4. **Profit Sharing:** Profits are divided among partners, reducing individual earnings.
5. **Risk of Mistrust:** Dishonesty or mistrust among partners can harm the business.
- 6.

### **Possible Answers to Self-Assessment Exercise 3**

Question 1: Explain the concept of amalgamation?

Answer:

Amalgamation involves the merging of companies into a unified entity, often resulting in changes to the company's name, management, and structure. Two primary types of company amalgamation exist: horizontal integration, where firms in the same production stage merge (e.g., multiple furniture manufacturers merging), and vertical integration, where firms at different production stages combine (e.g., a timber dealer merging with a furniture manufacturer)

Question 2: Explore the concept of Share Subscription?

Answer:

Shares subscription involves inviting the public to purchase shares, which can be offered at par (market value), premium (above market value), or discount (below market value). Share capital takes various forms, including authorized capital (the total shares a firm can issue), issued capital (the actual shares offered from authorized capital), called-up capital (amount to be paid for allotted shares), paid-up capital (total value paid for allotted shares), and capital reserve (unpaid balance made voluntary by the firm, to be paid as required). Each form serves distinct purposes in a company's financial structure, enabling flexibility and resource allocation.



## **UNIT 4: ORGANIZATION AND MANAGEMENT**

### **CONTENTS**

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 Organization and Management
  - 4.3.1 Development of Organization
  - 4.3.2 Management in Organization
- 4.4 Why Study Organization and Management
  - 4.4.1 Time and Human Relations Management
  - 4.4.2 Factors that influences time and human relationships management
- 4.5 The Management Process
  - 4.5.1 Four Main Management
  - 4.5.2 Benefits of Management Process
- 4.6 Summary
- 4.7 References/Further Readings/Web Resources
- 4.8 Possible Answers to Self-Assessment Exercise(s) within the content



## 4.1 INTRODUCTION

We are social animals with a propensity for organizing and managing our affairs. We do so in an increasingly complex and dynamic environment. Many disciplines are contributing to an eclectic body of knowledge—organization theory—which, coupled with experience, is the foundation for management practice. An organization refers to two or more people who are working together in a structured way to achieve a specific goal or set of goals. There has been the widespread notion that organizations, irrespective of the social relationships or network of relationships that exist, are basically physical structures. Pfeffer (1982) has argued that organizations are basically physical structures because they do not only wear or resemble physical entities but they, like other physical structures, assume the form of offices, buildings, factories, furniture, equipment and other tangible assets found in the workplace.

Management is the process of using available resources to achieve stated organizational objective by directing and controlling the efforts of the organizational members. Management is the practice of consciously and continually shaping organizations. All organizations have people who are responsible for helping them achieve their‘ goals. These people are called managers.

These managers may be more obvious in some organizations than in others, but without effective management, organizations are likely to founder.



## 4.2 Learning Outcomes

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

- i. understand the development of organization
- ii. discuss organization and management
- iii. explain time and human relation management
- iv. evaluate the management process
- v.



### **4.3 Organization and Management**

Organization and management are two fundamental concepts in the world of business and administration. They are closely related but distinct concepts that play a crucial role in achieving the goals and objectives of any entity, whether it's a business, government agency, nonprofit organization, or any other type of organization.

An organization refers to the structure and arrangement of people, resources, and activities within an entity to achieve specific goals and objectives effectively and efficiently. It involves the formal and informal relationships, roles, responsibilities, and processes that define how work is divided, coordinated, and executed within the organization (Phillips & Lawrence, 2012).

Management involves the planning, organizing, directing, and controlling of an organization's resources (including people, finances, materials, and information) to achieve its stated goals and objectives. It is the process of coordinating and overseeing the activities of individuals and groups within the organization to ensure that they work together toward common objectives.

#### **4.3.1 Development of Organizations**

People are social by nature. The tendency to organize and cooperate in interdependent relationships is inherent. The history of the human race could be traced through the development of social organizations. The first were families and small nomadic tribes; then came permanent villages and tribal communities. The feudal system and nation states were further developments. This evolution of organizations has accelerated in recent years. Dramatic changes have occurred over the past century. We have been transformed from a predominantly agrarian society with emphasis on the family, informal groups, and small communities to a complex industrial society characterized by the emergence of large, formal organizations.

Groups and organizations are a pervasive part of our current existence. Typically, we are born into a family with the aid of a medical organization, the hospital. We spend a great deal of time in educational institutions. Informal groups develop spontaneously when several people

have common interests and agree (often implicitly) to pursue common goals—a picnic or a fishing trip. Work organizations account for a large part of our time, with formal or informal relationships often carrying over into the leisure-time activities such as bowling or softball teams. It is easy to see that all of us, except for hermits, are involved in a variety of groups and organizations.

Organizations are not distant, impersonal phenomena; they are inexorably interwoven into our daily lives. They are everywhere and they affect all of us. Ekekhen Youth Association, Super Eagle, Dangote Group of Companies, and the United Nations are all organizations. They provide goods and services that people use. We are all members of an organizational society—people cooperating in groups to accomplish a variety of purposes. Organized activity today ranges on a continuum from informal, ad hoc groups to formal, highly structured organizations. Military and religious activities were among the first to become formally organized. Elaborate systems were developed and by and large have persisted, with modifications, to the present. Business, government, and education are other spheres of activity that have developed formal organizations geared to task accomplishment. We engage in many voluntary organizations in our leisure time—some recreational, some philanthropic, and some of a crusading nature.

Humans are activists. We have created and destroyed civilizations. We have developed vast technological complexes. We have utilized natural resources in ingenious ways and in the process have wreaked havoc with the ecosystem. We have even broken the umbilical cord holding us to mother earth; we have been to the moon and returned. Future generations may see us go to the planets and beyond. We are all amazed at (and probably fail to comprehend fully) the enormity of modern scientific and technological achievements. But a second thought causes us to recognize a major factor underlying these achievements—our ability to develop social organizations for accomplishing our purposes. The development of these organizations and effective management of them is truly one of our greatest concerns.

The organization uses knowledge and techniques in the accomplishment of its tasks. Organization implies structuring and integrating activities, that is, people working or cooperating together in interdependent relationships. The notion of interrelatedness suggests a social system. Therefore we can say that organizations consist of the following:

- (1) Goal-oriented arrangements, that is people with a purpose;
- (2) Psychosocial systems, that is people interacting in groups;
- (3) Technological systems, that is people using knowledge and techniques; and
- (4) An integration of structured activities, that is people working together in patterned relationships.

It is worth reminding ourselves that management does not really exist. It is a word, an idea. Like science, like government, like engineering, management is an abstraction. But managers exist. And managers are not abstractions; they are human beings-particular and special kinds of human beings. Individuals with a special function: to lead and move and bring out the latent capabilities—and dreams—of other human beings. Managerial life seem to be the broadest, the most demanding, by all odds the most comprehensive and the most subtle of all human activities.

#### **4.3.2 Management in Organization**

Management involves the coordination of human and material resources toward objective accomplishment. We often speak of individuals managing their affairs, but the usual connotation suggests group effort. Four basic elements can be identified: (1) toward objectives, (2) through people, (3) via techniques, and (4) in an organization. Typical definitions suggest that management is a process of planning, organizing, directing and controlling activities. Some increase the number of sub processes to include assembling resources and motivating; others reduce the scheme to include only planning and implementation. Still others cover the entire process with the concept of decision making, suggesting that decisions are the key output of managers.

Management is mental (thinking, intuiting, feeling) work performed by people in an organizational system. It spans the entire organization and is the vital force that links all other subsystems. Management involves the following:

- Coordinating the human, material, and financial resources toward accomplishing organizational goals effectively and efficiently.

- Relating the organization to the external environment and responding to societal needs.
- Developing an organizational climate where people can accomplish their individual and collective goals.
- Performing certain definable functions such as goal setting, planning, assembling resources, organizing, implementing, and controlling.
- Carrying out various interpersonal, informational, and decisional roles.

Managers convert diverse resources of people, machines, material, money, time, and space into a useful enterprise. Essentially, management is the process whereby these unrelated resources are integrated into a total system for objective accomplishment. Managers get things done by working with people and physical resources in order to accomplish the objectives of the system. They coordinate and integrate the activities and work of others. However, a recurring question is the distinction between the terms management and administration. —Administration|| often has had the connotation of governmental or other nonprofit organizations, whereas —management|| has been relegated to business enterprises. However, there is considerable overlap in usage.

### **Self-Assessment Exercises 1**

Question 1:What is the primary focus of management within an organization?

Question 2:How do organizations typically structure and arrange their resources and activities?

#### 4.4 Why Study Organization and Management

Studying organizations and management is important for several reasons, as it provides valuable insights and skills that are applicable in various professional contexts. Here are some key reasons why studying organizations and management is beneficial:

- i. **Understanding Organizational Behavior:** By studying organizations, you gain insights into how people behave within them. Understanding human behavior in a work setting is crucial for effective leadership, teamwork, and conflict resolution.
- ii. **Effective Decision-Making:** Management studies provide tools and frameworks for making informed and effective decisions. This includes decision-making processes, problem-solving techniques, and data analysis skills.
- iii. **Improving Efficiency and Productivity:** Learning about management practices and techniques can help organizations operate more efficiently. This can lead to cost savings, increased productivity, and a competitive edge in the market.
- iv. **Effective Leadership:** Management studies often focus on leadership principles and styles. Developing leadership skills is essential for guiding teams, motivating employees, and achieving organizational goals.
- v. **Conflict Resolution and Communication:** Organizations can be rife with conflicts. Studying management equips individuals with conflict resolution strategies and effective communication skills, which are essential for maintaining a harmonious work environment.

- vi. **Adaptation to Change:** In today's rapidly changing business landscape, adaptability is crucial. Management studies teach individuals and organizations how to adapt to new technologies, market trends, and economic shifts.
  
- vii. **Strategic Planning:** Strategic management is a core component of organizational studies. It involves setting long-term goals, formulating strategies to achieve them, and aligning resources and actions accordingly.
  
- viii. **Resource Management:** Learning how to efficiently manage resources such as finances, human capital, and time is essential for organizational success. Effective resource allocation is a key skill in management.
  
- ix. **Innovation and Creativity:** Organizations need to continually innovate to stay competitive. Management studies can foster creativity and provide frameworks for innovation management.
  
- x. **Ethical and Responsible Business Practices:** Understanding ethics and corporate social responsibility is essential for maintaining an organization's reputation and stakeholder trust. Management studies often include discussions on ethical decision-making.
  
- xi. **Career Advancement:** For individuals, studying management can open doors to various career opportunities. It can lead to promotions, leadership roles, and greater responsibilities within organizations.
  
- xii. **Entrepreneurship:** If you aspire to start and run your own business, knowledge of management principles is crucial. It helps you build and grow a successful venture.



- xiii. Global Perspective: In today's interconnected world, organizations often operate on a global scale. Studying management can provide insights into international business practices and cross-cultural management.

#### **4.4.1 Time and Human Relations Management**

Management is a specialty in dealing with matters of time and human relationships as they arise in organizations. The idea about time in organizations has several elements:

1. Management is an attempt to create a desirable future, keeping the past and the present in mind.
2. Management is practiced in and is a reflection of a particular historical era.
3. Management is a practice that produces consequences and effects that emerge over time.

The importance of human relationships also involves several ideas:

1. Managers act in relationships that are two-way streets; each party is influenced by the other.
2. Managers act in relationships that have spillover effects for other people, for better and for worse.
3. Managers juggle multiple simultaneous relationships.

These twin themes of time and human relationships can greatly aid the learning of management. Managers think about time and human relationships all the time. And so do you. The university years, regardless of your age, are a period in your life when you envision a new or revised future for yourself. These are also years when you may develop new relationships (or modify existing relationships) with spouses, friends, teachers, and employers. Since you

are —living‖ these two themes every day, we appeal to that personal experience when we define management as a specialty in time and human relationships.

#### **4.4.2 Factors that Influences Time and Human Relationships Management**

Various factors can influence how individuals and organizations manage their time and relationships .Here are some key factors:

**Cultural Factors:** Cultural norms and values play a significant role in how people perceive and manage time and relationships. In some cultures, punctuality and strict time management are highly valued, while in others, a more relaxed approach may be acceptable. Cultural norms also influence how people build and maintain relationships.

**Technology:** Advancements in technology have transformed the way we manage time and relationships. Tools like email, social media, and project management software have made communication more efficient but can also lead to distractions and overwhelm if not managed effectively.

**Work Environment:** The nature of one's work environment, whether it's a traditional office, remote work, or a hybrid model, can impact how time is managed and how relationships are built and maintained. Remote work, for example, may require more intentional effort to maintain relationships.

**Time Constraints:** The availability of time is a crucial factor. Busy schedules and tight deadlines can make it challenging to allocate time for relationship building, both personally and professionally.

**Personal Values and Priorities:** Individual values and priorities play a significant role in time and relationship management. Some people prioritize work over personal relationships, while others prioritize family and social connections.

**Communication Skills:** Effective communication is essential for building and maintaining relationships. People with strong communication skills tend to manage their relationships more successfully.

## Self-Assessment Exercises 2

Question 1: Why is studying organizational behavior crucial in the context of management?

Question 2: How does studying management improve efficiency and productivity in organizations?

### 4.5 The Management Process

Since the late nineteenth century, it has been common practice to define management in terms of four specific functions of managers: planning, organizing, directing, and controlling. Although this framework has come under some scrutiny, it is still generally accepted. We can thus say that management is 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.

A process is a systematic way of doing things. We refer to management as a process to emphasize that all managers, regardless of their particular aptitudes or skills, engage in certain interrelated activities in order to achieve their desired goals.

#### 4.5.1 Four Main Management Process

The four main management activities are :

##### **Planning**

Planning is the determination of objective and the possible strategies to accomplishing it. It is the act of deciding at present what to be done in future. Planning implies that managers think through their goals and actions in advance and that their actions are based on some method, plan, or logic rather than on a hunch. Plans give the organization its objectives and set up the best procedures for reaching them. In addition, plans are the guides by which (1) the

organization obtains and commits the resources required to reach its objectives; (2) members of the organization carry on activities consistent with the chosen objectives and procedures; and (3) progress toward the objectives is monitored and measured so that corrective action can be taken if progress is unsatisfactory.

The first step in planning is the selection of goals for the organization. Goals are then established for each of the organization's subunits—its divisions, departments, and so on. Once these are determined, programs are established for achieving goals in a systematic manner. Of course, in selecting objectives and developing programs, the top manager considers their feasibility and acceptability to the organization's managers and employees.

Relationships and time are central to planning activities. Planning produces a picture of desirable future circumstances—given currently available resources, past experiences, etc. Plans made by top management charged with responsibility for the organization as a whole may cover periods as long as five or ten years. In a large organization, such as a multinational energy corporation like Shell Petroleum Development Company, those plans may involve commitments of billions of naira. On the other hand, planning in particular parts of the organization spans much shorter periods. For example, such plans may be for the next day's work, or for a two-hour meeting to take place in a week.

## **Organizing**

Organizing is the process of arranging and all locating work, authority, and resources among an organization's members so they can achieve the organization's goals.

Different goals require different structures. An organization that aims to develop computer software, for example, needs a different structure than does a manufacturer of blue jeans. Producing a standardized product like blue jeans requires efficient assembly-line techniques; whereas producing software requires organizing teams of professionals such as systems analysts and programmers. Although these professionals must interact effectively, they cannot be organized like assembly-line workers. Thus, managers must match an organization's structure to its goals and resources, a process called organizational design.

Relationships and time are central to organizing activities. Organizing produces a structure for the relationships in an organization, and it is through these structured relationships that future plans will be pursued. Another aspect of relationships that is part of organizing is seeking new people to join the structure of relationships. This search is called staffing.

### **Directing**

Directing is the process of leading and influencing the task-related activities of members of the organization. It involves leading, influencing, and motivating employees to perform essential tasks. Relationships and time are central to leading activities. In fact, leading gets to the heart of managers' relationships with each of the people working for them. Managers lead in an attempt to persuade others to join them in pursuit of the future that emerges from the planning and organizing functions. By establishing the proper atmosphere, managers help their employees do their best.

### **Controlling**

Control is the process of ensuring that actual activities conform to planned activities. The manager must be sure that actions of the organization's members do in fact move the organization toward its stated goals. This is the controlling function of management and it involves these main elements: (1) establishing standards of performance; (2) measuring current performance; (3) comparing this performance to the established standards; and (4) taking corrective action if deviations are detected. Through the controlling function, the manager keeps the organization on track. Increasingly, organizations are establishing new ways to build in quality to the control function. One popular approach is Total Quality Management (TQM). TQM focuses management on the continuous improvement of all operations, functions, and, above all, processes of work. Meeting the customer's needs is a primary concern.

#### **4.5.2 Benefits of Management Process**

The management process offers several benefits to organizations. Here are four key advantages:

1. By following a structured management process, organizations can streamline their operations, optimize resource use, and reduce waste. This leads to higher productivity and more efficient achievement of organizational goals.
2. The management process involves planning, organizing, leading, and controlling, which provides a systematic approach to decision-making. Managers can use this process to gather relevant information, analyze options, and make informed decisions that align with the organization's objectives.
3. Through the planning and organizing stages of the management process, organizations can set clear goals and develop strategies to achieve them. This helps ensure that all efforts are aligned towards common objectives, increasing the likelihood of success.
4. The management process encourages continuous monitoring and controlling of performance, allowing organizations to quickly identify and respond to changes in the external environment. This adaptability helps organizations stay competitive and resilient in dynamic markets.

### Self-Assessment Exercises 3

Question 1: What are the four main functions of the management process?

Question 2: How does the planning function contribute to achieving organizational goals?



#### 4.6 SUMMARY

In this unit, you have learnt about development of organization, management in organization, reasons for the study organization and management, time and human relations management, and the management process.



#### 4.7 References/Further Readings/Web Resources

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#### **4.8 Possible Answers to Self-Assessment Exercise(s) within the content**

##### **Possible Answers to Self-Assessment Exercise 1**

###### **Question 1:**

###### **What is the primary focus of management within an organization?**

**Answer:** The primary focus of management within an organization is to coordinate and oversee the activities of individuals and groups to achieve the organization's stated goals and objectives. This involves planning, organizing, directing, and controlling resources, including people, finances, materials, and information.

###### **Question 2:**

###### **How do organizations typically structure and arrange their resources and activities?**

**Answer:** Organizations structure and arrange their resources and activities through formal and informal relationships, roles, responsibilities, and processes that define how work is divided,

coordinated, and executed. This ensures that specific goals and objectives are achieved effectively and efficiently.

### **Possible Answers to Self-Assessment Exercise 2**

Question 1:

**Why is studying organizational behavior crucial in the context of management?**

**Answer:** Studying organizational behavior is crucial in management because it provides insights into how people behave within organizations. This understanding is essential for effective leadership, teamwork, and conflict resolution, which are vital for achieving organizational goals.

Question 2:

**How does studying management improve efficiency and productivity in organizations?**

**Answer:** Studying management improves efficiency and productivity by teaching management practices and techniques that help organizations operate more effectively. This can lead to cost savings, increased productivity, and a competitive edge in the market.

### **Possible Answers to Self-Assessment Exercise 3**

Question 1:

**What are the four main functions of the management process?**

**Answer:** The four main functions of the management process are planning, organizing, directing, and controlling. These functions help managers coordinate and oversee the activities of an organization to achieve its goals efficiently and effectively.

Question 2:

**How does the planning function contribute to achieving organizational goals?**



**Answer:** The planning function contributes to achieving organizational goals by determining objectives and possible strategies to accomplish them. It involves deciding in advance what actions are needed in the future, setting goals for the organization and its subunits, developing programs to achieve these goals, and ensuring resources are obtained and committed. This systematic approach helps ensure that all activities are aligned with the organization's objectives and progress is monitored for necessary corrective actions.

## **MODULE 2**

### **UNIT 1 THE MARKETING FUNCTION**

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1.5.2 Distribution Policies

1.6 Summary

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1.8 Possible Answers to Self-Assessment Exercise(s) within the content



## 1.1 INTRODUCTION

Marketing has been defined in different ways by different scholars. However, we shall define marketing as the organization of a firm's resources to meet the needs of customers or potential customers profitably. Peter Drucker asserted that marketing is the unique and distinguishing function of a business. Any business in which marketing is absent or incidental is not a business and it should not be run as if it were one.

Marketing functions can be divided into three broad categories. These are exchange functions, facilitating functions, and logistic functions. Exchange function involves the buying and selling functions. Buying and selling are two of the basic marketing functions. In buying, the buyer selects the source of supply determines the quantities and qualities of goods required, selects and analyses the goods, determine the delivery time etc. The selling function is the very heart of marketing. It involves helping the consumers discover their unconscious needs and wants. . The functions include advertising, personal selling, and sales promotion. Facilitating functions are functions that facilitate the sale of goods and services. They include the provision of market information, product standardization and grading, granting of credit and risk taking, and logistic functions are functions related to physical distribution. They include transportation, storage and other activities that have to do with the physical handling of goods in their movement by rail, roads, trucks, pipelines, water and air transport.



## 1.2 Learning Outcomes

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

- i. analyze the difference between market research and marketing research
- ii. explain the marketing concept
- iii. understand the marketing mix variables
- iv. evaluate the four stages in product life cycle



## 1.3 Market Research and Marketing Research

A market is defined as an individual or organization that has the willingness and ability to buy goods and services that have been offered for sale. By this definition it means that if an individual or organization has the willingness to buy a product and the means to buy is not able, such is not a market. In the same vein, if the individual has the ability to buy where there is no willingness, such cannot constitute a market. So in a market, there must be willingness and ability to buy.

On the flip side, marketing research focuses on the examination of products and customer behavior. It encompasses the evaluation of product quality, pricing, promotional strategies, distribution channels, and gathering information about customers (Babin & Zikmund, 2015). Therefore, the marketing activity that is concerned with the analysis of the market to examine and constantly monitor the consumers' needs and wants, preferences, perception and level of satisfaction is known as market research.

### 1.3.1 Marketing Concept

The marketing concept is a business philosophy which states that customer's want satisfaction is the social and economic justification for a firm's existence: The success of a market-driven company lies on the marketing concept, which consists of customer orientation, market focus, integrated marketing effort and goal-oriented behaviour.

1. **Customer Orientation:** The business organization must recognize the fact that different customers have different wants and needs. It has to bear in mind and recognize the heterogeneity of needs, differences in taste preferences and perceptions. In order to achieve customer satisfaction, a marketer must ensure that his product has an added-value compared to competitors.

2. **Market Segmentation:** The needs and wants of the consumers in the market differ. Therefore to effectively satisfy the consumers, the market has to be separated into groupings with related consumers needs and wants so that the appropriate marketing programmes are

designed for each group. The process of dividing a heterogeneous market into small homogeneous units is called market segmentation.

Market segmentation will result to different market segments and the business firm should decide on which market segment it should serve. The market segment chosen by the firm is known as the target market. A firm may as well decide to choose more than one market segment. If the firm serves the different chosen market segments with the same marketing programme, (product, price, place, promotion), the firm is using a concentration strategy. But if it serves the different market segment with different marketing programmes, it is operating a diversification or multi-segment strategy.

3. **Integrated Marketing Effort:** This is concerned with ensuring that all categories of staff of a firm are interested in the needs and wants of the customers. The staff of the company in marketing, production, personnel, finance, research and development and even administration, should be integrated toward the attainment of marketing objective.

4. **Goal-Oriented Behaviour:** The essence of marketing concept is to achieve the goal of the organization through customers' satisfaction. These goals include: profitability, corporate image, market share, and good will.

### 1.3.2 Product Concept

A product is anything that can be offered to the market for attention, acquisition or consumption, including physical objects, services, personalities, organizations and desires. According to Akenbor (2002), a product is the nucleus upon which other marketing mix variables (price, promotion and distribution) rotate.

A product is classified into goods and services. Goods are the tangible part of a product which can be seen, felt, handled etc: They are the physical products. Services on the other hand are intangible. They are activities or benefits offered which does not result to the physical ownership of anything examples are health care, laundry, banking etc.

A physical product is further classified into consumer and industrial goods. Consumer goods are those goods for immediate consumption the group includes the following.

(1) **Convenience Goods:** These are goods that are bought without proper planning. Purchases of these goods are very irregular and the consumption almost immediately as they are bought. Such goods are bought with little care. Examples are bread, biscuits, pure water, newspapers, chew gum etc.

(2) **Shopping Goods:** These are goods that are bought after comparison on price and quality has been made by the buyer among competitive sellers: Those goods are particularly for household use. Examples are foodstuffs, toiletries, kitchen utensils etc.

(3) **Specialty Goods:** These are goods that are bought after proper planning has been made on series of negotiations with the sellers: The cash outlay for such goods is usually high. Examples are electronics, furniture, motor vehicles etc.

(4) **Unsought Goods:** These are those goods a buyer would not ordinarily want to buy because there is no felt need for them. The buyer may even afford to pay a price to avoid the purchase of such goods. Examples are casket, medical operations, drugs etc.

Industrial goods on the other hand, are those goods that are meant for further production or for the routine operations of a business firm. These goods are not for immediate consumption. The demand for such goods is derived demand. Examples are raw materials, component parts, accessories, operating supplies etc.

#### Self-Assessment Exercises 1

Question 1: What are the two essential elements that define a market?

Question 2: What is the primary focus of marketing research?

## 1.4 Product Concept Level

A product is made up of three different levels. These are the cores, formal and augmented.

**Core Product:** This is the part of a product that gives utility or satisfaction to the consumer. The core product is the reason why consumer buys a product. It is the mechanical functioning of the product. For instance a woman who buys a lipstick is not buying colour but beauty.

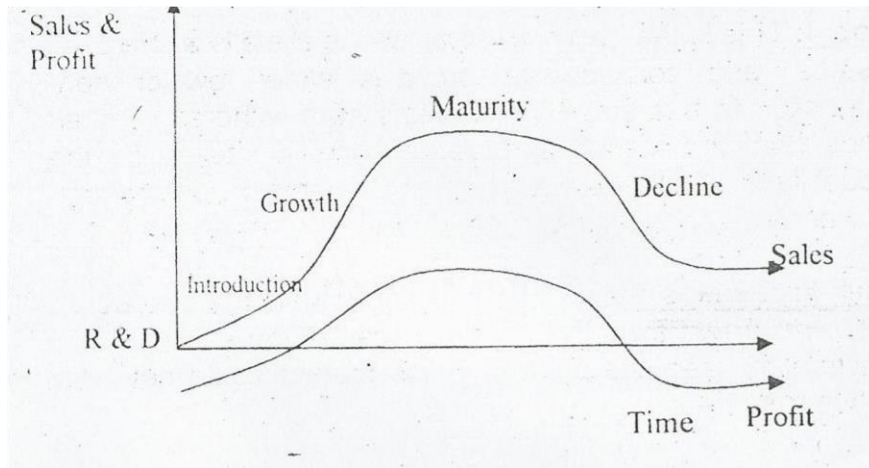
**Formal Product:** The formal product is the physical nature of a product upon which competition is made. The attributes of the formal product include — designs, brand name, packaging, quality and features. A manufacturer could use any of these features to differentiate his product from competitors. Product differentiation is a marketing strategy of ensuring that a firm's product is perceived differently from competitive brands by the consumer. This is possible when the product is different from competitors product in terms of quality, packaging, features etc.

**Augmented Product:** This is concerned with adding services to the core and formal products. For example warranty, guarantee, installation, delivery and other after-sale services.

### 1.4.1 Product- Life Cycle Concept

The product-life cycle concept states that a product passes through a life cycle as human beings. It's born, grows, matures and dies.

Cundiff et al. (1973) posit that from the time a product idea is conceived, during its development and up to its market introduction, a product is in various prenatal stages (i.e. it is going through various product development phases). Its life begins with its market introduction. It then goes through a period during which its market grows rapidly. Eventually, it reaches market maturity, afterwards its market declines, and finally its life ends'. This is as illustrated in the graph below with different stages.



**Stage 1:** This is the introductory stage of the product in the market. At this stage potential buyers are relatively uninformed about the product hence the cost of promotion is usually high. This period witness lo sales turn-over and profit is negative because the little sales revenue is used to recover research and development cost.

**Stage 2:** This is the stage, which is generally characterized by rapid growth, increased sales, entry of aggressive competitors and decline in unit cost of production. Research and development cost is fully recovered t this stage making room for profit realization. \_The strategies focus of the firm, at this stage is distribution,

**Stage 3:** This is known as the maturity stage where the product gets to its climax. The product has come to a point of no-returns in growth. Sales has saturated, it can no longer grow beyond where it is presently. There is a shakeout of marginal competitors and the product dealers are faced with the profit squeeze situation. Price reduction is a possible weapon at this state.

**Stage 4:** This is the declining stage where there is a sharp fall in sales, and consequently profit is either low or nonexistence. At this stage, competitors start withdrawing their brands from the market and the consumers‘ interest for the product falls. At this stage, the firm can embark on product- value analysis for cost reduction.

**Stage 5:** This is the extinction stage where the product is finally withdrawn from the market because the concerted effort of cost reduction to keep the product in the market could not yield positive result.



## 1.4.2 Pricing Concept

According to Thom-Otuya and Akenbor (2003) a manufacturer is not a father christmas. He incurs costs to make goods and services available to satisfy the consumers. When he offers such product to the market he attached a value to it which has to be paid by the users of the product. Hence, price is the monetary value attached on a product. It is the cost, which has to be borne by a consumer in obtaining a product to satisfy his needs. Pricing on the other hand is the mechanisms involved in putting a price on a product.

### Methods of Pricing

In order to determine the price of a product, researchers on pricing revealed different available methods. Some prices are based on total cost some are based on expected demand, while some are equally based on competitors' prices.

#### (1) Cost—Oriented Pricing

This is the technique of pricing based on the manufacturing cost and the allocated operation overheads of the product. There are two types of cost-oriented pricing. These are:

**(a) Mark-Up Pricing:** This is the pricing method whereby a predetermined percentage is added to the cost of a product in order to determine its price. This is commonly used by manufacturers, wholesalers and retailers.

**(b) Target Pricing:** Where it is difficult to price a product in advance, an estimate of the price with considerable returns on investment is made.

Where the actual cost of the product is equal to or greater than the estimated price, an adjustment could be made. This is known as target pricing. In a situation of pricing without competition, most construction companies use this pricing method.

#### (2) Demand-Oriented Pricing

This is the pricing method that calls for setting a price based on consumer perception and demand intensity of the product.

There are two approaches to this pricing method. These are perceived-value and demand differential.

(a) **Perceived-Value Pricing:** This technique of pricing views the pricing of a product on the buyer's perception of the product value. Price setters using this method attempt to measure the relative perceived value of their offer and utilize this in setting the price. If the perceived-value of the product is high, a high margin is set, otherwise the product price is set low.

(b) **Demand-Differential Pricing:** Price can also be fixed on products on the basis of discriminations. This means that different prices could be fixed on the same product based on certain circumstances, such as the type of customer, the form of the product, the place where the product is to be sold and the time of selling the product. In economics, this pricing method is called price discrimination.

### (3) Competition-Oriented Pricing

Price setters could also fix a product price on the basis of competition irrespective of cost and or demand. What is applicable here is that the seller follows the price offered by other sellers. However, it does not mean that the price of the product should exactly be at the same level with competitors. The two types of competition-oriented pricing are:

(a) **The Going-Rate Pricing-** This involves pricing a product at the average level charged in the industry. It is commonly used in pure competition and oligopolistic market where homogenous products are sold.

(b) **The Sealed- Pricing:** This is commonly used when firms compete for jobs or contracts on the basis of bids. The method is on the expectations of how competitors will price rather than on the relation based on the firm's own cost or demand: This pricing method holds when a firm may like to find out what other competitive firms have quoted for a particular job before making its own quotations. The objective of the firm in, a bidding situation is to get the contract and therefore it hopes to set its price lower than that set by any other bidder.

## **Pricing Policy**

A new product is a product that is introduced into the market for the first time. It could equally, be regarded as an existing product, which has been modified in one form or the other. There are two possible strategies in pricing a new product. These are penetration pricing and skimming pricing.

**Penetration Pricing:** When a firm charges a low price on its product to gain market acceptance, it is practicing penetration pricing. The aim of penetration pricing is to increase buyer's patronage.

**Skimming Pricing:** This is when a firm initially charges a high price on a product and thereafter brings the price low to accommodate the price elastic segments of the market, skimming pricing is in use.

## **Promotional Pricing**

A firm could also fix a product price in order to promote its entire product-line. This could be done through prestige pricing, bait and switch pricing, and discount pricing.

**Prestige Pricing:** This is a pricing strategy whereby a high price is set on a product in order to enhance the quality or image of the product-line.

**Bait and Switch Pricing:** This is a situation whereby a reseller who has varieties of goods advertised the price of the quality product low in order to sell a competitive product of a lower quality. When the quality product is advertised low, customers' traffic will increase and they will be switched over to buy the less quality product.

**Discount Pricing:** This is a reduction in the price of a product offered to a customer as a motivation to make him actively participate in purchasing the seller's product. This is also known as trade discount.

## **Self-Assessment Exercises**

Question 1: What are the three levels of a product?

Question 2: What are the stages of the product life cycle?

## 1.5 Promotion Concept

Promotion is the process of stimulating and increasing sales through market awareness and customer service. It is a catalyst that speeds up exchange transactions of goods and services. According to Strong (1992), the objective of promotion is described as AIDA

A = Awareness

I= Interest

D =  
Desire

A =  
Action

It is aimed at creating product awareness, stimulating consumers' interest to desire the product and take a purchase action. To achieve this, the promotional tools must be used. Promotional tools are the instruments or means of achieving promotional objective. They include advertising, personal selling, sales promotion, and publicity/public relations. In this text, we cannot discuss these instruments in details rather we shall highlight them one by one.

(1) **Advertising:** Advertising can be defined as a non- personal paid form of sales presentation through various media by an identified sponsor. This means that in advertising, the sender of the message does not have face-to-face contact with a buyer. In transmitting the message, the sender must have a price to pay to the media owner, and the message must be in the form that can arouse consumer's purchase. Also, the firm that is presenting the sales messages must be known.

(2) **Personal Selling:** This is an interactive process between a seller and a potential buyer for exchange transaction of goods and services. it is one of the most effective means of achieving promotion objective because:

- (i) It demands greater attention from the buyer than any other promotion tools.
- (ii) The language of presentation used by the sales person is very convincing, forceful and persuasive.

(iii) It is a reinforcement agent for other promotion tools.

(iv) Immediate feed-back is obtained from the prospect after presentation.

**(3) Sales Promotion:** Sales Promotions any incentive or concession offered by a seller to a potential or existing buyer to stimulate sales. Sales promotion activity could be targeted at the final consumers or at middlemen. Examples of sales promotion, tools -are-free samples, coupons, push money, discount, specialties, competition, exhibition etc.

**(4) Publicity:** Publicity is a non-paid commercially significant news or editorial comments about ideas, product or institution. Thom-Otuya and Akenbor (2003) described publicity as free advertisement. Publicity is mostly used in product launching. A firm uses publicity for the following reason:

(i) It is very credible

(ii) It is an off-guard instrument for other promotion tools.

(iii) It secures prospect's attention because the product can be dramatized

(iv) Its promotional budget is usually small.

### **1.5.1 Distribution (Place)**

Distribution is the movement and handling of goods from the point of production to the point of consumption. In the process of moving goods from the producer to the consumers, there are set of institutions involved in ensuring that these goods get to the final users. These institutions are called the channels of distribution.

#### **Channels of Distribution**

Achieving efficient production in factories and on farms is one problem, but putting the consumer in possession of the commodities produced is another. In addition to transportation complications, there is the question of the intricate maze of middlemen and markets which

goods have to pass through during their journey from producer to consumer. The paths, which they follow, are known as the channels of distribution.

There are three principal sources of goods, agricultural commodities which are grown locally; locally manufactured goods; and finally, imported agricultural and manufacture. Each of these three groups has its characteristic patterns of distribution.

**(a) Distribution of Agricultural Produce:** The marketing of agricultural produce presents special difficulties arising from the perish ability of much of the produce, the long distances over which it must often be transported, the widely dispersed farms from which it must be collected, and, since much of it is exported, the technical and commercial procedures involved.

In the case of agricultural product consumed locally, distribution usually involves nothing more complex than its transport to the local market and its sale there. These functions may be carried out by the producer. Alternatively, the transport may be arranged by a lorry owner who passes the produce to stall-holders in the market or to traders who sell from door to door. In areas where the produce is grown in small quantities by a host of widely dispersed farmers, the lorry owner performs the valuable function of making bulk — i.e., of collecting enough together from a number of producers to make transport to market an economic proposition. The bulk-maker is an important intermediary, and performs a function that is peculiar to Nigeria.

The collection and sale of agricultural produce is often performed by producers' co-operatives.

Where production is for a world market the problems involved are such that, after collection from individual farmers, the produce is usually channeled through a marketing board.

**(b) Distribution of Locally Manufactured Goods:** Industrial manufacturing is of recent development in the countries of Africa, and the general tendency, as yet, is for such goods to be marketed on a national scale only, and not exported. Such goods normally pass through the hands of intermediaries known as wholesalers and retailers. A wholesaler is a person who buys in large quantities directly from manufacturers and who re-sells in smaller quantities to retailers, who then sell in smaller quantities to consumers.

The wholesale function may be performed by an organization specializing in such work, or it may be carried out by the larger traders, who combine both wholesaling and retailing. The true wholesaler is to be found in large but inexpensive premises of the warehouse. These are usually located in low-rent areas near transport routes. His basic functions are to supply the retailer in the quantities that the retailer wants, possibly giving him also the choice of the products of a number of manufacturers. Since he usually has a large warehouse, he undertakes a very valuable storage function, relieving the manufacturer of the burden of much paper work and of holding large quantities of goods until such time as retailers require them. By ordering in advance and storing until required, he helps to shoulder part of the manufacturer's risk in producing goods: he also helps to keep manufacturers in touch with the changing requirements of retailers.

Wholesalers are often able to allow retailers longer credit terms, than they themselves enjoy from manufacturers, and this is particularly valuable since it allows manufacturers to reinvest quickly in raw materials for production purposes while allowing retailers to present the largest possible range of goods to the public. Many retailers would not be able to operate at all if it were not for the extensive credit facilities allowed them by their immediate suppliers.

Traders performing retail functions can be seen everywhere: Their functions are simply to provide what the customer wants, when he wants it, where he wants it, in the quantities that he desires.

In order to fulfill these requirements the retailer will open his shop or set up his stall in a position convenient to his customer. This will usually mean a residential area, a main shopping centre, or a market. He may, however, take his wares to the houses of his customers. Retail shops and stalls tend to be large in number and small in size, though there are indeed some exceptions to this rule.

Customers look to retailers for expert advice and help; this can be very important where technical products are being sold, such as photographic equipment and motor spares. Often ancillary services are also offered: the typewriter shop, for example, may provide servicing facilities in the same way as the car-sales organization usually undertakes repairs.

The wholesaler-retailer modified in either of two wholesaler is excluded scheme of distribution is often principal ways. In both cases the n the one case the manufacturer supplies direct to his own retail outlets, as in the case of the Baa shoe organization now FAMAD. In the other case he sup plies direct to independent retailers. This is common among many of the smaller manufacturers in Nigeria.

Ownership of the retail outlet is attractive to the ambitious manufacturer as it gives him the advantage of being able to offer his full range of products in the retail shop without having to compete with the similar products of competitors does, however, mean that the manufacturer must find the capital to finance the retail outlet, and this may be considerable Supplying direct to independent retailers overcomes this problem of capital, but the manufacturer loses the advantage of having his good displayed without competition A compromise is some-times achieved by the manufacturer, allowing the retailer Considerably better terms of sale in return for an undertaking from the retailer not to sell or display the goods of rival producers.

In both cases, the manufacturer loses the benefits to be obtained by supplying through wholesalers

Although one organization may well act as both wholesaler and retailer, one of the .changes creeping across the African commercial scene, as indigenous retail units develop, is the withdrawal of the larger expatriate firms from the retail market and their concentration upon the Wholesale function. This is particularly the case where the supply of technical goods is concerned. In addition, there has been a limited advance of indigenous traders into the general wholesaling field. Some of the independent distributors of the Nigerian Tobacco Company for instance, have- become quite substantial operators. .

### **(c) Distribution of Imported Manufactured Goods**

The importation and marketing of commodities produced overseas forms a very important part of the trade of Africa. In the absence of developed local industry the standard of living depends very heavily upon these imports, for which there is an over-growing demand.

The commercial procedure involved in distributing goods from overseas is necessarily more complex than that involved in marketing locally produced goods. Initially, the importing



function itself must be attended to; this involves complying with all the formalities necessary to obtain the release of the goods from the shipping or Air Company, and from the customs authorities. This function may be carried out by a representative employed by the original manufacturer or the importer who is to sell the goods, or it may be carried out by a clearing agent appointed by them. A clearing agent is one who specializes in attending to all the documentation necessary to obtain the release of the goods; he also undertakes responsibility for forwarding them to the purchaser, who may be a wholesaler, a retailer, or a consumer.

Summarily, there are different channels of distribution. These are zero channel, one channel, and two channels as represented in the diagram below:

**Manufacturer ----- Consumers (Zero Channel)**

**Manufacturer ----- Agents ----- Consumers (One Channel)**

**Manufacturer-----Wholesalers ----- Retailers ----- Consumers (Two Channels)**

The zero channel is where goods are moved from the manufacturer directly to the consumers without any intermediary. This channel is particularly useful for distributing perishable and agricultural goods. One channel is where goods are moved from the manufacturer through the agent to the consumers. This channel is particularly useful for industrial goods. The two channels is the conventional channel of distribution where goods are moved from the manufacturer to the consumers through the wholesalers and retailers.

### **1.5.2 Distribution Policies**

Distribution policies are those rules and regulations laid down by a manufacturer in terms of the degree of market exposure sought by him. Ordinarily, a product should have a wide spread distribution system. But a manufacturer for reasons best known to him may decide to determine the number of distributors to handle the movement of his product the consumer. The different market exposures are:

(i) **Intensive Distribution:** This is the distribution of a product through all possible and suitable outlets for mass coverage.

(ii) **Selective Distribution:** This is where a manufacturer carefully selects some reputable dealer in a bid to ensure better market coverage.

(iii) **Exclusive Distribution:** The manufacturer may equally have, the policy, to deliberately limit the number of distributors handling his product. It is the policy of granting dealers exclusive right to distribute the product in their respective regions.

### **Modes of Transportation**

Transportation is the means used in the movement of goods from the producer to the consumer. There are different modes through which goods can be transported. These are porter age, road, rail, inland water, sea, air, and pipelines.

**Porterage:** This is the movement of goods through head- loaded by human porter. Farmers carry their farm produce from their farmland through the track path to the market where they are sold.

**Road:** This is the movement of goods through roads; constructed by Federal, State or Local Governments. It is the commonest means of transportation in developing nations like Nigeria. The equipment used in road transportation are motor vehicles, lorries, trucks etc.

**Rail:** This is the transportation of beds through; tracks on which trains run. Rail transport is most, long-distance haulage services. The Nigerian System links the North and the South of the country.

**Inland Water:** This is a transportation mode where goods moved through the rivers. This type of river is very shallow and sometimes may even dry up. Inland water transport is suitable for short distance between one community and the other. It is very slow but cheap; its route is highly inflexible. Examples are canoes.

**Sea:** This is the movement of goods through the ocean., It is suitable for long‘ distance haulage. Examples are boats and ships.

**Air:** Air transport is the movement of goods through the air by aircrafts. It is described as the fastest means of transportation in the world today. There are many airlines in Nigeria, they are Virgin Air, Arik Air, Air Peace, Dana Air, British Air ways, Air France etc.

**Pipelines:** Pipelines are used for the movement of liquids and gases. It is relatively low in cost and extremely low in product damage and theft. .

However, in determining the mode of transport to be used by a manufacturer in distributing his goods, the following factors should be considered.

- (i) The cost of the transportation mode
- (ii) The urgent need of the goods
- (iii) The nature of the goods in terms of perishability weight
- (iv) The distance to be covered
- (v) Cost of handling the goods due to their fragile nature
- (vi) The terminal point of the transportation mode.
- (vii) The safety nature of the transportation mode.

### Self-Assessment Exercises 3

Question 1: What are the objectives of promotion according to Strong (1992)?

Question 2: What are the main promotional tools?



### 1.6 Summary

You have learnt in this unit about market research and marketing research, the marketing concept, product concept, pricing concept, promotion concept, and distribution concept.

Marketing is the process of identifying and satisfying consumer needs profitably, guiding business functions accordingly. Market-driven success hinges on the marketing concept, encompassing customer orientation, market focus, integrated marketing efforts, and goal-oriented behavior. Achieving marketing objectives relies on analyzing the four essential elements known as the four Ps of marketing: product, price, place, and promotion.



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### **1.8 Possible Answers to Self-Assessment Exercise(s) within the content**

#### **SAE 1**

**Question 1: What are the objectives of promotion according to Strong (1992)?**

**Answer:** The objectives of promotion are described as AIDA:

1. Awareness: Creating awareness of the product.

2. Interest: Stimulating interest in the product.
3. Desire: Creating a desire for the product.
4. Action: Encouraging the consumer to take a purchase action.

**Question 2: What are the main promotional tools?**

**Answer:** The main promotional tools are:

1. Advertising: A non-personal paid form of sales presentation through various media.
2. Personal Selling: An interactive process between a seller and a potential buyer.
3. Sales Promotion: Any incentive or concession offered to stimulate sales, such as free samples, coupons, and discounts.
4. Publicity: Non-paid commercially significant news or editorial comments about ideas, products, or institutions.

**SAE 2**

**Question 1: What are the channels of distribution and what do they entail?**

**Answer:** The channels of distribution are:

1. Zero Channel: Goods move directly from the manufacturer to the consumers without any intermediary.
2. One Channel: Goods move from the manufacturer through an agent to the consumers.
3. Two Channels: Goods move from the manufacturer to the consumers through wholesalers and retailers.

**Question 2: What are the different distribution policies?**

**Answer:** The different distribution policies are:

1. Intensive Distribution: Distribution through all possible and suitable outlets for mass coverage.

2. Selective Distribution: Carefully selecting some reputable dealers for better market coverage.
3. Exclusive Distribution: Limiting the number of distributors handling the product and granting dealers exclusive rights to distribute the product in their regions.

### **SAE 3**

**Question 1: What factors should be considered when determining the mode of transportation for goods?**

**Answer:** Factors to consider when determining the mode of transportation for goods include:

1. The cost of the transportation mode.
2. The urgent need for the goods.
3. The nature of the goods in terms of perishability and weight.
4. The distance to be covered.
5. The cost of handling the goods due to their fragile nature.
6. The terminal point of the transportation mode.
7. The safety of the transportation mode.

**Question 2: What are the different modes of transportation for distributing goods?**

**Answer:** The different modes of transportation for distributing goods are:

1. Portage: Movement of goods by human porters.
2. Road: Movement of goods via motor vehicles, lorries, and trucks on roads.
3. Rail: Movement of goods via trains on tracks.
4. Inland Water: Movement of goods via rivers, typically using canoes.
5. Sea: Movement of goods via the ocean using boats and ships.
6. Air: Movement of goods via aircraft.
7. Pipelines: Movement of liquids and gases through pipelines.

## **UNIT 2      PRODUCTION FUNCTION**

### **CONTENTS**

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Elements of production
  - 2.3.1** Objectives of Production
  - 2.3.2** Long-Term Objectives
- 2.4 Methods of Production
  - 2.4.1 Production Planning and Control
  - 2.4.2 Selection of Plant Location
- 2.5 Importance of Production
  - 2.5.1 Factors Affecting Production
  - 2.5.2 Case Study
- 2.6 Summary
- 2.7 References/Further Readings/Web Resources
- 2.8 Possible Answers to Self-Assessment Exercise(s) within the content



## **2.1 INTRODUCTION**

Production is a business function concerned with the creation of goods and services with the objective of satisfying human needs and wants. It is geared towards the conversion of inputs to outputs. The inputs may include machines, materials, information, funds and professional skills while the output may be goods and services. Outputs are produced by processing and refining resources to increase their value. This is achieved through coordinated efforts of several individuals.

Thus, the essential features of the production function, according to Lockyer (1974) as enunciated by Anyanwu and Onuoha (1999) include the bringing together of people, plants and materials to provide goods and services for sale. The major obstacles in a production process are the supply of inputs and the demand for outputs. Therefore the aim of the production manager is to ensure that the required inputs are adequately available and by working with the marketing manager ensures that the outputs (final products) are demanded by the customers.



## **2.2 Learning Outcomes**

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

- i. analyze three elements of production
- ii. understand two objectives of production
- iii. evaluate the three production methods
- iv. identify the stages of production planning and control
- v. discuss the factors influencing selection of plant location

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## 2.3 Elements of Production

Production involves three basic elements. These are inputs, transformation and output.

**Inputs:** These are the resources, which are to be fed into the production system. They must be available before any productive activity can take place. Input includes - men, money and materials.

**Transformation:** The transformation process is inherent in the production system. It is the idle production system waiting to be energized by the input and it consists of machines and facilities on the one hand and the transformation of technology on the other hand. It is the configuration of men and machines.

**Output:** Output is the final product that results from the transformation of inputs.

### 2.3.3 Objectives of Production

The production objectives can be classified into two, namely, short-term and long-term objectives.

**Short-Term Objectives:** These are the objectives that ensure the survival of the production process. These include:

- (i) Establishing product characteristics
- (ii) Establishing process characteristics
- (iii) Delivering the required service to the customer by producing quantities to meet expected demand and meeting customer specified delivery date for goods and services.
- (iv) Producing the right quality of goods and services
- (v) Effective employee relation and labor cost control Materials cost control
- (vi) Cost control in facility utilization.

### 2.3.4 Long-Term Objectives

The long-term objectives utilize resources in such a way that meets long-run market demand for the firm. If successful, this process will generate the necessary funds to acquire additional resources, and the cycle of producing to meet market demand can begin again. The objectives include:

- (i) Profit maximization
- (ii) Cost minimization
- (iii) Sales maximization .
- (iv) Maximization of the number of satisfied customers.

#### Assessment Exercises 1

Question 1: What are the three basic elements of production?

Question 2: What are two examples of short-term production objectives?

### 2.4 Methods of Production

The method of production depends on the product and the quantity produced. The different methods of production may include.

(1) **Job Production:** This is also known as intermittent production. It is the production of one or small number of identical products that meets the specification of the individual customer. This method is particularly used for product with high variety and low volumes. It is custom- made production.

(2) **Batch Production:** This is sometimes referred to as repetitive production. It refers to the production of goods, the quantity, which is known in advance. By this method, job is done

on all the required units in a particular work-station before they are transferred to the next work station until the operation is over.

(3) **Flow or Process Production:** When all the operations in the manufacture of a product are going on concurrently, flow production is in progress. In other words, as work on each part of product is, the unit is passed to the next stage instead of waiting for the work on the entire batch to be completed. Standard time is usually set for each operation to ensure smooth flow of operations. This method requires strict control and inspection so that a fault occurring at one stage is not transferred to other stages of production.

#### 2.4.1 Production Planning and Control

Production planning is a pre-operating activity concerned with the determination, acquisition and arrangement of the facilities necessary for future operations. In other words, it is the establishment of a programme of action for resource conversion into goods and services.

Production control is a during-operating activity concerned with the implementation of predetermined operations plan and the control of all aspects of operations according to such a plan. This implies the setting of standards and objectives, the co-ordination of the various stages, and the variation of plans a circumstances dictate.

The stages of production planning and control engaged in by the production department are:

(1) **Routing:** This refers to the determination of the processing steps and detailed tasks required to produce each completed product.

(2) **Scheduling:** .This is the determination of what to produce, the quantity to produce, and when the outputs are to be completed a each processing step in the productive system. it is a detailed time-table for the stages of production.

(3) **Dispatching:** This implies specific orders is issued to production departments concerning movement of materials, due dates, and other directives to insure that schedules are met.

(4) **Expediting:** Expediting or progress chasing system of checking and taking necessary action. Specifically, it is the system of determining whether schedules are being met and taking corrective action ensure timely performance to schedule. This the real work of production control starts.

(5) **Inspection:** The essence of inspection is to see that the work of the desired quality is done. Inspection could be done in one of the two ways viz; either the quality of work is compared with standards at the end of production process or the quality of work is checked at the end of each process. This latter method of inspection minimizes the chances of rejection and hence it is be adopted in most organizations. In most cases, random sampling techniques are employed to check on the quality of work done.

#### 2.4.2 Selection of Plant Location

The decision to locate a plant in a particular geographical area must meet economical and social considerations. The most cogent factors that influence the choice of plant location are outlined below.

- Accessibility to labour and staff
- Availability of raw materials
- Accessibility to the market
- Accessibility of technical customers and competent suppliers
- Proximity to power and other services
- Nearness to other plants □ Government policy.

Since these factors are relevant in the sitting of plant, it becomes imperative to allocate weight to each of the factors in order to determine optimal location. There are different quantitative methods for determining optimal location, such as comparative index, locational break-even analysis, simple media model; centre of gravity model among others.

## Self-Assessment Exercises 2

Question 1: What is the difference between job production and batch production?

Question 2: What are the key stages in production planning and control?

### 2.5 Importance of Production

- i. Production increases the output of goods and services, contributing to the overall economic growth of a country.
- ii. Production processes create jobs, reducing unemployment and improving the standard of living for individuals.
- iii. Production ensures a steady supply of goods and services to meet the needs and wants of consumers.
- iv. Businesses and individuals involved in production earn income, which can be reinvested into the economy, fueling further growth.
- v. Production often drives innovation and technological advancements as companies seek more efficient methods to produce goods and services.
- vi. Efficient production processes optimize the use of natural and human resources, minimizing waste and maximizing productivity.
- vii. Effective production strategies can provide a competitive edge in the marketplace, allowing businesses to offer better quality or lower-priced products.

#### 2.5.1 Factors Affecting Production

Factors affecting production are:

- i. Fluctuations in the prices of raw materials can impact production costs. Higher material costs can lead to increased production expenses and affect profitability.
- ii. Wages and salaries of workers impact production costs. Increases in labor costs can raise overall production expenses.

- iii. Access to financial resources for investment in machinery, technology, and facilities is crucial. Limited capital can restrict production capacity and efficiency.
- iv. The level of consumer demand for products influences production levels. High demand may lead to increased production, while low demand may result in reduced output.
- v. The adoption of new technologies can enhance production efficiency, quality, and speed. Technological advancements can lead to improved processes and reduced costs.
- vi. Efficient production planning and scheduling ensure optimal use of resources, minimize downtime, and meet delivery deadlines.
- vii. Implementing robust quality control measures ensures that production meets the required standards and reduces defects.
- viii. Adequate infrastructure, including facilities, machinery, and logistics, is essential for smooth production operations.
- ix. Effective management of the supply chain ensures timely availability of raw materials and components, minimizing production delays.
- x. Proper inventory management helps in balancing supply and demand, reducing holding costs, and avoiding stock outs or overproduction.
- xi. Adhering to industry-specific regulations, safety standards, and labor laws affects production processes and practices.

### **2.5.2 Case Study**

The Toyota Production System exemplifies the transformative impact of effective production strategies on a company's operational performance. By focusing on efficiency, quality, and continuous improvement, Toyota has maintained its position as a leading global automobile manufacturer. The principles of TPS continue to influence production systems across various industries, demonstrating the universal applicability of its core concepts.

### Self-Assessment Exercises 3

Question 1:

How does production contribute to the economic growth of a country?

Question 2: What factors can impact production costs and efficiency?



### 2.6 SUMMARY

You have learnt in this unit about production function with particular emphasis on elements of production, objectives of production, methods of production, production planning and control, and selection of plant location. Production involves turning inputs into finished goods using people and machines. It brings together resources like people, plants, and materials to create products for sale. Key challenges are input supply and output demand. Production managers must ensure a steady supply of inputs and collaborate with marketing to meet customer demand for final products.



### 2.7 REFERENCES/FURTHER READINGS/WEB RESOURCES

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## 2.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT

### SAE 1

Question 1:

**What are the three basic elements of production?**

**Answer:** The three basic elements of production are:

1. **Inputs:** These include resources such as men, money, and materials that are fed into the production system.
2. **Transformation:** This is the process where inputs are converted into outputs, involving machines, facilities, and technology.
3. **Output:** The final product or service that results from the transformation of inputs.

Question 2:

**What are two examples of short-term production objectives?**

**Answer:** Two examples of short-term production objectives are:

1. **Establishing product characteristics:** Defining the specific features and quality of the product to meet immediate market needs.
2. **Delivering the required service to the customer:** Producing the correct quantity of goods to meet expected demand and ensuring timely delivery as specified by customers.



## SAE 2

### Question 1:

**What is the difference between job production and batch production?**

**Answer:**

- **Job Production:** This method involves producing one or a small number of custom-made products to meet specific customer specifications. It is characterized by high variety and low volume.
- **Batch Production:** This method involves producing a set quantity of goods in groups or batches. Each batch goes through all the required operations before being transferred to the next work station. It is suited for producing a predetermined quantity of products.

### Question 2:

**What are the key stages in production planning and control?**

**Answer:** The key stages in production planning and control are:

1. **Routing:** Determining the steps and tasks needed to produce each product.
2. **Scheduling:** Planning what to produce, in what quantity, and when, creating a timetable for production stages.
3. **Dispatching:** Issuing orders for materials and resources to ensure schedules are met.
4. **Expediting:** Monitoring progress and taking corrective actions to adhere to schedules.
5. **Inspection:** Ensuring the quality of work by comparing it with standards at various stages or by using random sampling techniques.

### SAE 3

#### Question 1:

**How does production contribute to the economic growth of a country?**

**Answer:** Production contributes to economic growth by increasing the output of goods and services, which supports overall economic development. It creates jobs, reduces unemployment, and improves the standard of living. Additionally, it ensures a steady supply of goods and services to meet consumer needs, drives innovation, and enhances productivity, all of which contribute to a stronger economy.

#### Question 2:

**What factors can impact production costs and efficiency?**

**Answer:** Several factors can impact production costs and efficiency, including:

- **Fluctuations in raw material prices:** Higher costs can increase production expenses.
- **Wages and salaries:** Increases in labor costs can raise overall production costs.
- **Access to financial resources:** Limited capital can restrict investment in technology and facilities.
- **Consumer demand:** High or low demand can influence production levels.
- **Technological advancements:** New technologies can improve efficiency and reduce costs.
- **Production planning and scheduling:** Efficient planning ensures optimal resource use and minimizes downtime.
- **Quality control:** Ensures products meet standards and reduces defects.
- **Infrastructure and supply chain management:** Adequate facilities and timely availability of materials are crucial for smooth operations

## **UNIT 3      FINANCE AND ACCOUNTING FUNCTION**

### **CONTENTS**

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Financing Functions
  - 3.3.1 Financing Decisions
  - 3.3.2 Investment Decisions
- 3.4 Dividend Decision
  - 3.4.1 Accounting Functions
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- 3.5 Classifications of Accounts
  - 3.5.1 Books of Account
  - 3.5.2 Preparation of Financial Statements of a Business
- 3.6 Summary
- 3.7 References/Further Readings/Web Resources
- 3.8 Possible Answers to Self-Assessment Exercise(s) within the content



### **3.1 INTRODUCTION**

Simply put finance means funds. In a monetized economy finance plays a very significant role because without it, little or nothing can be done. Finance is the life-blood of a business because in its absence production, management, marketing, research and development activities cannot be carried out.

The financial function comprises the routine financial functions and the managerial financial functions. The routine financial functions include supervising cash receipts and payments;

safeguarding cash receipts; safeguarding documentary and material valuable; keeping adequate records relating to the above activities ; and reporting appropriately and adequately on the above one operations. The managerial financial functions includes financing decisions; investment decisions; and dividend decisions.

Our focus in this text is on the managerial financial function, which we shall now discuss in details.



## **3.2 Learning Outcomes**

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

- i. understand the financing, investment, and dividend decisions of an enterprise
- ii. analyze the difference between book-keeping and accounting
- iii. explain accounting assumptions and principles
- iv. discuss the classifications of account
- v. Demonstrate the various books of account
- vi. evaluate the components of financial statements



## **3.3.Financing Functions**

The financing function is one of the core functions of financial management within a business organization. It involves the acquisition and management of funds or financial resources needed to support the company's operations, investments, and growth initiatives. This function plays a crucial role in ensuring a company's financial stability and its ability to meet its financial obligations and objectives.

### **3.3.1 Financing Decisions**

The financing decisions of a firm are issues relating to the sources of finance, financial analysis, and management of working capital and credits.

## Sources of Finance

Finance can be obtained from both internal and external sources of the firm and from institutional and non- institutional sources.

The internal sources of finance include: plough-back profit, sales of an asset etc., while the external sources include- trade credits, bill of exchange, promissory note, debt factoring, equity shares, debentures etc.

The institutional sources of finance are commercial banks, development banks, Micro finance banks, equipment finance houses, insurance brokers, etc. The non- institutional sources are made up of relational capital, money lenders, Akawo and Esusu,

## Financial Analysis

One of the most common methods of analyzing financial statements is the ratio analysis. It is a means of relating items in the financial statements together in order to understand them.

Ratios can be classified into the following:

### (1) Liquidity Ratios

These ratios are used to help measure a company's ability to satisfy current obligations as they become due. (a) Current Ratio

i.e 
$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

(b) Quick/ Acid-Test Ratio

$$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

### (2) Leverage / Solvency Ratios

Leverage or solvency is the amount available to settle interests on borrowed funds. These ratios measure the long-term financial strength of the company. Prospective creditors often use these ratios to determine the risk involved in lending funds to loan seeker. Potential investors view them as a measure of management's effectiveness in using debts to fund operations i.e. management ability of generating earnings with borrowed funds. These include:

(a) Times Interest Earned

$$\text{i.e. } \frac{\text{Earnings before Interests/Taxes}}{\text{Interest Charges}}$$

(b) Debt-to-Equity

$$\frac{\text{Long-term Debts}}{\text{Shareholder's Equity}}$$

(c) Assets Leverage

$$\frac{\text{Total Assets}}{\text{Shareholder's Equity}}$$

(d) Financial Coverage

$$\frac{\text{Income before Taxes}}{\text{Income before tax and Interest}}$$

(e) Ratio of Earnings to Fixed Charges

$$\frac{\text{Income before taxes interest and other fixed charges}}{\text{Annual interest and other fixed charges}}$$

(f) Debt service coverage

$$\frac{\text{Net income, interest, depreciation and other cash charges}}{\text{Annual principal and interest payments}}$$

### (3) Activity Ratios

These ratios measure how effective a firm uses its available resources. Activity ratios can be used to measure such things as the length of time required for conversion of certain current assets into cash and the average payment period of accounts payable. These ratios relate to sales.

(a) Current Asset Turnover

i.e  $\frac{\text{Revenue/ Turnover}}{\text{Current Assets}}$

(b) Asset Turnover

$$\frac{\text{Net Revenue}}{\text{Total Assets}}$$

(c) Inventory Turnover

$$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Where average Inventory =  $\frac{\text{Inventory}}{360}$

(d) Average Age of Inventory

$$\frac{\text{360 days}}{\text{Inventory Turnover}}$$

(e) Accounts Receivable Turnover

$$\frac{\text{Net Revenue}}{\text{Average Account Receivable}}$$

(f) Average Collection Period

$$\frac{\text{Receivables} \times 360}{\text{Revenue}}$$

(g) Average Payment Period

$$\frac{\text{360 days} \times \text{Average Account Payable}}{\text{Annual Purchase of Goods and Services}}$$

#### **(4) Profitability Ratios**

These ratios measure changes or trends in profitability

(a) Gross Margin

$$\frac{\text{Gross Profit}}{\text{Net Revenue}}$$

(b) Operating Profit Margin

$$\frac{\text{Income before Taxes and Interest}}{\text{Net Revenue}}$$



Net Revenue

(c) Net Profit Margin

Net Income

Net Revenue

(d) Operating Return on Assets Income before Interest

Shareholders' Equity

### **Working Capital and Credit Management**

This aspect of the finance function deals with the management of cash, accounts receivables and account payables. Working capital refers to the difference between current assets and current liabilities necessary for the day-to-day operations of a business. It includes cash, short-term securities, accounts receivables and inventories. Credit on the other hand refers to deferred payment allowed in an exchange process as a way of smoothening fluctuations in the liquidity position of individuals or business. Let us take a look at some specific issues or tasks involved in working capital and credit management.

In the area of cash management, the tasks involved include:

- (i) Holding cash sufficient to maintain a desirable level of liquidity (transaction motive), exploit favourable business opportunities (speculative motive) and meet emergencies (precautionary motive).
- (ii) Taking advantage of cash discounts from suppliers and providing same to purchasers to enhance the day-to-day operation of the business;
- (iii) Understanding the cash cycle and flow to be able to know when, where, why and how funds are required and responding promptly.
- (iv) Determining credit sales and collection policies as a way of controlling the level of receivables.

- (v) Maintaining a cash inventory to minimize the sum of the costs of —stockinll and stockoutll of cash.

In the area of credit administration, the task involved can be divided into two as shown below.

#### **Foundation of Credit Policies:**

- (a) Determination of credit
- (b) Specification of credit objectives
- (c) Specification of office responsible for credit
- (d) Definition of lines of responsibilities for credit administration.

#### **Control of credit policies**

- (a) Determination of credit practices in the business community.
- (b) Comparison of credit received and granted
- (c) Specification of credit terms (size, amortization period, initial payment, interest etc).
- (d) Evaluation of costs of credit administration (debtors, personnel, servicing, space and equipment, recovery and bad debts) and
- (e) Determination of credit worthiness (reliability capacity and management.

### **3.3.2 Investment Decisions**

One of the responsibilities of a financial manager is to have a feasible selection of investment proposals. Investment decision is therefore concerned with the allocation of capital. It is a decision where cash is committed into a meaningful and profitable project.

#### **Types of Investment**

Investment can be broadly classified into three. These are discussed below:

(1) **Cost-reduction Investment:** This is the investment made in order to reduce cost. The most common example of this investment is the replacement decision when an old machine is scrapped and the modern version is bought. The old machine will be operating at residual efficiency but the new machine will almost invariably be an improved version of the old one.

(2) **Revenue-increasing Investment:** This takes the form of plant expansion to produce a greater output of existing products or to produce new products. It has been suggested that one expenditure on advertising should be treated as capital expenditure and would fall under this heading, though this runs counter to accepted practice.

(3) **Imposed Investment:** This may be cost increasing without any direct compensatory, revenue. Local and central government regulations and laws may compel such investment. Obvious examples of this type are measures to protect life safety/ and health of those engaged in business, Of increasing importance at the present time is investment to protect the environment by way of anti-pollution measure such as the social responsibility project of a business. Although these investments do not produce revenue directly, to regard them as unproductive is to take an over-narrow view of the interest of the business.

### **Methods of Investment Appraisal**

There are three different approaches to investment appraisal. These are the classical approach, the modern port-folio theory and the capital asset pricing model. The classical approach assumes that investment decisions could be made with every degree of uncertainty, while the modern portfolio and the capital asset pricing models consider risk in their analysis. The classical approach of investment analysis can be broadly categorized into two. These are the non discounted cash flow method and the discounted cash flow method.

#### **(1) Non-Discounted Cash Flow Method**

This is the investment technique which has no consideration for the time value of money. Examples are the pay-back method and the accounting rate of returns method.

(a) **Pay-Back Method:** This is the time period required to generate sufficient incremental profits to recover the initial capital outlay. Objectively, project with short pay- back period is

considered most viable. It should be noted that the pay-back method does not consider cash inflows. After the capital recovery period, so it may not be appropriate for big projects.

(b) **Accounting rate of Returns Method:** This method chooses the investment with the highest rate of returns it is calculated by dividing the total cash inflow by the number of years to get the average annual profit, which is multiplied by 100 and divided by the capital outlay.

$$= \frac{\text{Average Annual Profit} \times 100}{\text{Capital Outlay}}$$

## (2) Discounted Cash Flow Methods

These are the investment analysis methods that take into consideration the time value of money thereby discounting future earnings to their present values. This method includes the net present value method, internal rates of returns method, and profitability index method.

(a) **Net Present Value (NPV):** This is the technique of computing the present value of cash flows of an investment proposal, using the cost of capital as the discount rate, and finding the net present value (NPV) by subtracting the present value of cash out flows from the presented value of cash inflows. A project with a positive NPV is considered viable.

$$\text{Net Present Value (NPV)} = \sum FS (1+r)^{-n} - C$$

Where FS= future sum (Estimated cash inflow)

r = discount rate

n = no of years

c = capital

invested.

(b) **Internal Rate of Returns (IRR):** This is the discount rate that will equate the present values of a project to zero. It is the rate discount in which discounted cash inflows are

balanced. In other words, IRR is the maximum rate of interest a firm can afford to pay if a project is to be financed with borrowed funds and the cash inflows are to be used to repay the loan. If the IRR exceeds the prevailing rate, the project is considered viable. These include the trial and error method, the present value profile, and modern method developed by Institute of Chartered Accountants (1955) as enunciated by Patel (2000).

© **Profitability Index:** This is also a discounted cash flow method that is determined by the ratio of sum of present value of cash inflows to the capital outlay. The project is said to be viable if the profitability index is greater than one.

$$\frac{\sum Cf(1+r)^{-n}}{C_0}$$

### 3. **Modern Portfolio Theory**

This theory argues that investors are economically rational and risk their investment decisions. The theory focus on the investor's choice among risky securities to form an efficient portfolio. There are three types of investor's attitude to risk. These are risk loving, risk neutral, and risk averse. The risk loving is the behavior of those investors who seek for risk. They believe in —no venture no successl. The risk neutral is the behavior of those investors who are indifferent. They are neither risk seekers nor risk averters. The risk averse is the behavior of those investors that dislike risk.

### 4. **Capital Assets Pricing Model**

This theory focuses on a situation where investment is made up of a combination of risky and risk-free assets. It is based on the following assumptions:

- All investors have the same securities expectations in terms of risks and returns
- All investors can lend and borrow at a risk-free rate of interest
- All investors' decisions are based on a time frame
- Investors prefer the highest expected returns for a given level of risk
- Capital market efficiency reveal all necessary information

- No transaction costs and taxes.

### **Self-Assessment Exercises 1**

Question 1: What are the primary sources of finance for a business?

Question 2: What are the different methods of investment appraisal?

### **3.4 Dividend Decisions**

Dividend is the return on investment. It is the reward a shareholder receives for investing his funds into a business. Dividend could be in the form of cash, asset, or other form. Therefore dividend decisions are concerned with the issues that establish a relationship between the amount of earnings to be distributed to shareholders and the amount to be retained by the firm. In other words, it is the relationship between pay-out ratio and retention ratio.

This finance function is concerned with the following;

- (i) Allocation of profit between dividend and shareholders.
- (ii) Permanent capitalization, or otherwise, of part of the revenue reserve through the issue of bonus or script shares (script or capitalization issue) to shareholders prorata.
- (iii) Operation of a twice a year or once a year payment of dividend.
- (iv) Payment of gross or net dividend per ordinary share.
- (v) Payment of high or low dividend pay-outs depending on the rate of growth, age and size, control of cash position, stability of earnings and target dividend level of the business.

### **3.4.1 Accounting Function**

The accounting function within a business organization refers to the systematic process of recording, summarizing, analyzing, and reporting financial transactions and information. It plays a fundamental role in financial management and provides crucial insights into a company's financial health and performance.

#### **Book-keeping and Accounting**

Accounting is the systematic recording, analysis, classification and interpretation of financial data for business use. It is concerned with issues, relating to the concepts and principles of accounting, when to debit and credit, what to debit and credit, where to debit and credit, how to debit and credit, preparation of financial statements, etc. Although the two terms book-keeping and accounting are related, there exists a sharp line of demarcation between them. While bookkeeping is a clerical duty which involves recording data of financial character only, accounting is concerned with how to make the financial data already recorded more meaningful. Thus, the difference is that book-keeping is the art of recording financial transactions only, while accounting is the interpretation and reporting of financial transaction to users.

Accounting performs a number of functions for the economic development of a nation. Among other functions include:

- (i) Accounting helps to ascertain the financial position of a business. Without accounting, management cannot appraise the financial status of the business to know the amount of working capital available, and if there is need to obtain loan to meet certain financial obligations. Accounting also enables management to evaluate the business profit or loss for a given period.
- (ii) Accounting information is used for decision-making. No business decision is made without finance playing a prominent role. Hence, accounting information gives management a sense of direction.

- (iii) Accounting inflation aids investors in making intelligent investments.‘ Investors analyses the financial reports of the business to know whether or not an investment is profitable.
- (iv) Shareholders require the performance report of business to know whether management has judiciously used their resources invested into the business. Accounting information informs shareholders to withdraw their investment or increase their investment when the need arises.
- (v) Accounting provides information for tax purpose. Without accounting report, a firm may be over-paying or under-paying the tax due to it. This information enables tax agents know how much tax is due to a firm.
- (vi) Without accounting information, lenders and bankers would find it difficult to assess the financial capacity of a business seeking for loan. Accounting provides information as to whether the business is credit worthy or not.
- (vii) Suppliers of goods to a firm need accounting information to appraise the ability of a firm paying for goods as at when due.
- (viii) Accounting information assists other firms in the same industry (competitors) to make comparison of their performance reports.
- (ix) The accounting information provided by a firm enables financial analysts, stockbrokers, and lawyers offer intelligent advice to their clients.
- (x) Trade Unions also use accounting information as a base for their claims.

### **3.4.2 Accounting Assumptions and Principles**

In accounting, there are frameworks of ideas, which serve as the background regulating its practices. These concepts can be seen as assumptions and principles.

- (1) **Single-Entity:** In reporting accounting information, the business firm should be separated from its owners. The business and the owners‘ should be seen as two different bodies.



(2) **Periodicity:** For accounting information to be useful for decision-making, it should be reported within a given time frame of twelve months., however, accounting information can be reported other than twelve months if and only if the business is undergoing liquidation, and if there is a change in accounting date.

(3) **Continuity:** This assumption recognizes that a business must continue to exist without liquidation in the near future. It must have perpetual existence.

(4) **Unit of Measurement:** Accounting information is reported in monetary units. The monetary units should be the currency denomination of the country where the report is made. This assumption is of the fact that the value of money should be constant over-time.

(5) **Accrual Concept:** This principle is of the opinion that revenue of a business is realized when: (a) The earning process is complete or virtually complete; (b) Exchange has taken place:

Hence, whether cash has been received or not, revenue can be realized.

(6) **Objectivity:** In reporting accounting information, accountants should be devoid of all bias. The material fact of the financial transaction should be reported. The truth, the whole truth and nothing but the truth of the transactions should be reported.

(7) **Historical Cost:** In reporting accounting information relating to tangible assets of a business, the assets should be reported in the account book using the purchase cost of the asset. The current cost or the market value of the asset, which could be seen as the appropriate method of reporting the value of assets is full of biases because management can play games with it.

(8) **Conservatism:** To be prudent in reporting events where the most appropriate accounting system is uncertain, this principle states that the system, which understates income, should be used instead of the system, which over states income. The reason is that when income is understated and the figure is later raised, there might be little or no question from owners. But where income is over stated and later it is reduced, owners see management to be funny and such is questionable.

(9) **Consistency:** There are different methods of reporting accounting information. . This principle states that a business must continue with a particular method of reporting without a

change unless there is a good reason for a change. The principle however, suggests two process of change:

- (i) Change from unacceptable method to acceptable method.
- (ii) Change from acceptable method to an industry-wide method, to be able to make good comparison.

**(10) Matching:** In reporting accounting information, all expenses incurred and all revenues generated during the period should be compared to evaluate the net profit or loss of the business.

**(11) Materiality:** This principle states that it is not compulsory to adhere strictly to any accounting principle where such adherence has no material effect. Accounting information is material where the financial statement becomes unreliable when the inflation is included or omitted from it.

**(12) Duality:** This principle states that every financial transaction should be recorded in doubleentry form as advocated in 1494 by Monk, Luca Pacioli the father of double- entry bookkeeping. Monk advocated that every financial transaction should be recorded in two forms- debit and credit. He recognized that in every financial transaction, a value is increased at one end while a value is reduced at the other end. The lost of a value is a credit while the gain of a value is a debit. In a nutshell, every debit entry must have a corresponding credit entry.

**(13) Full Disclosure:** In reporting accounting information for the understanding of all and sundries, a foot-not of some transactions which cannot be appeared in the accounts should be provided with the reported information for details.

**(14) Substance over Form:** In recording financial transactions, the economic substance or realities should take supremacy over the legal requirements.

## Self-Assessment Exercises 2

Question 1: Question 1:

What are the key aspects of dividend decisions in a business?

Question 2: What are some fundamental accounting principles and assumptions?

### 3.5 Classification of Account

Financial transactions are classified into different accounts in their recording. These are personal account and impersonal account.

**Personal Accounts:** These are accounts of individuals and firms having dealing, with a business. These entities either buy from the business or sell to the business. Personal accounts are usually known as accounts of debtors and creditors.

**Impersonal Accounts:** these are not accounts of people. They are accounts, which take care of all other items of a business other than debtors and creditors. The impersonal accounts are sub classified into two—real account and nominal account.

(i) **Real Account:** The real account is the account of the assets of a business, such as building, machinery, vehicles, land, stock, cash, bank, etc.

(ii) **Nominal Account:** This is the account category for and revenues of a business. Examples are rent, wages and salaries, discount allowed, insurance, rates etc. Common examples of revenues are discount received, interest on deposit, commission received etc.

#### 3.5.1 Books of Account

The books of—account are classified into journals and ledgers. Journals are books of original entries, while ledgers are books of permanent entries. Examples of journals are:

- (I) Purchase Journal: Used for recording credit purchases of goods only.
- (ii) Revenue Journal: Used for recording credit sales of goods only.
- (iii) Returns Outwards Journal: Used for recording returns of goods by the firm to suppliers
- (iv) Returns Inwards Journal: Used for recording goods returned by our customers.
- (v) Cash Book: Used for recording all major cash and bank transactions.
- (vi) Petty Cash Book: Used for recording minor cash expenses.
- (vii) General Journal: Used for recording all other transactions that cannot be recorded in other journals.

Examples of ledger are:

- (i) Purchase Ledger — Used for recording accounts of creditors or payables.
- (ii) Revenue Ledger-Used for recording accounts of debtors or receivables.
- (iii) General Leger — Used for recording private and nominal accounts.

### **3.5.2 Preparation of Financial Statements of a Business**

A business is expected to prepare financial statements at the end of the financial year to measure the financial performance of the business. Such statements that are common to a sole trader are statement of profit or loss and statement of financial position.

#### **Statement of Profit or Loss**

The statement of profit or loss formerly called shows the trading affairs as well as the income and operating expenses incurred by a business undertaken in order to determine whether profit was made or loss was incurred. The accounts contained in this statement are:

**Inventory:** These are goods which are used for running a business. They could be finished goods bought for resale, raw materials for production, or component parts, hence, there are three types of inventory. These are opening inventory, work- in progress inventory and closing inventory. Opening inventory are those that are available at the beginning of the accounting year, work – in progress are semi-finished goods and closing inventory are the unsold or unused inventory at the end of the year.

**Purchases:** These refer to those merchandize that are bought for the purpose of resale. They are usually added opening inventory.

**Carriage Inwards:** This is the cost incurred in carrying purchased goods from the market to the company warehouse.

**Carriage Outwards:** These are cost incurred for assisting a customer to deliver the goods bought from us to his warehouse.

**Return Outwards:** These refer to the total value of goods that are returned to a seller by a company as a result of defects of the goods or that the goods do not meet specification.

**Revenue:** These refer to the total value of goods sold within a given period of time.

**Returns Inward:** These are the total value of goods that are returned by a buyer as a result of the problem or otherwise associated with the goods.

**Discount:** This is a reduction in the monetary value of a product, which is offered by a seller to a buyer. The discount offered by the company is called discount allowed which is an expense to the firm while the discount given to the firm is called discount received which is an income to the business.

**Accruals:** These are expenses due not yet paid or income due not yet received.

**Prepayments:** These are expenses paid in advance or income received in advance.

**Bad Debts:** These refer to the amount of money owned by customers to a business but the tendency of repayment is very low or zero. Bad debt could be as a result of death, insolvency, insanity etc, of the customer. Therefore a businessman will quietly write it off from his book of account. This is known as bad debt written off.

In the same way the firm who sells on credit could forecast that some customers may not pay their debts, and therefore make provision for such debt. This is known as provision for bad debt.

It is also an expense to the firm.

### **Statement of Financial Position**

Statement of financial position formerly called the balance sheet is a financial statement, which shows the financial position of a business. In it, all the assets and liabilities of the business are declared including owner's equity. The accounts used in the preparation of statement of financial position include the following:

**Capital:** These are the private resources used in starting a business. When net profit/loss from the statement of profit or loss are added or subtracted and drawings are deducted, the final amount is known as owner's equity.

**Assets:** These are the economic benefits or property owned by the firm. Such assets could be non-current or current assets. Non-current assets are those business properties that are not easily converted into cash and they are used for the generation of income e.g. land/ building, motor

van, plant and equipment, furniture, etc. Current assets are those assets of a business that are cash like. They are called liquid assets because they are easily converted into cash. Examples of current assets of a business are: inventory, cash in hand, cash at bank, receivables or debtors prepayments, etc.

**Liabilities:** These are the debts or obligations owed by a business. Liability could be current or long-term. Current liabilities are the debts owed by a business for a short period of time e.g payables, creditors, accruals, one-year loan etc while long-term liabilities are those debts that are owed by a firm whose maturity period exceeds one year e.g. mortgage loan.

### Self-Assessment Exercises 3

Question 1: What is the key difference between bookkeeping and accounting?

Question 2: What are the main categories of accounts used to classify financial transactions, and can you provide examples of each?



### 3.6 SUMMARY

You have learnt in this unit about financing, investment, and dividend decisions, the difference between book-keeping and accounting, accounting assumptions and principles, classifications of account, books of account, and financial statements. Finance and accounting are integral components of effective enterprise management. These functions encompass various critical aspects, such as managing the acquisition and allocation of funds, overseeing cash inflows and outflows, safeguarding financial assets, maintaining comprehensive records of all transactions, and delivering comprehensive and timely financial statements to stakeholders.



### 3.7 REFERENCES/FURTHER READINGS/WEB RESOURCES

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### 3.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT

#### Answers to Self-Assessment Exercise 1

**What are the primary sources of finance for a business?**

**Answer:** The primary sources of finance for a business include:

- **Internal Sources:** Profits retained in the business (plough-back), and sales of assets.
- **External Sources:** Trade credits, bills of exchange, promissory notes, debt factoring, equity shares, and debentures.
- **Institutional Sources:** Commercial banks, development banks, microfinance banks, equipment finance houses, and insurance brokers.
- **Non-Institutional Sources:** Relational capital, money lenders, Akawo, and Esusu.



## Question 2:

### What are the different methods of investment appraisal?

**Answer:** The methods of investment appraisal include:

- **Non-Discounted Cash Flow Methods:**
  - **Pay-Back Method:** Measures the time required to recover the initial capital outlay.
  - **Accounting Rate of Returns Method:** Calculates the return on investment by dividing the average annual profit by the capital outlay.
- **Discounted Cash Flow Methods:**
  - **Net Present Value (NPV):** Computes the present value of future cash flows, subtracting the initial investment. A positive NPV indicates a viable project.
  - **Internal Rate of Return (IRR):** The discount rate that makes the net present value of a project zero. If IRR exceeds the cost of capital, the project is considered viable.
  - **Profitability Index:** The ratio of the present value of cash inflows to the capital outlay. A profitability index greater than one suggests a viable project.
- **Modern Portfolio Theory:** Focuses on creating an efficient portfolio by balancing risk and return.
- **Capital Asset Pricing Model (CAPM):** Evaluates investments based on the risk-free rate, market risk, and expected returns, assuming market efficiency and no transaction costs.

## Answers to Self-Assessment Exercise 2

Question 1:

**What are the key aspects of dividend decisions in a business?**

**Answer:** The key aspects of dividend decisions include:

- **Allocation of Profit:** Deciding how much profit should be distributed to shareholders as dividends versus retained within the company.
- **Permanent Capitalization:** Issuing bonus or script shares (capitalization issue) to shareholders on a prorata basis.
- **Payment Frequency:** Deciding whether dividends will be paid once a year or twice a year.
- **Gross or Net Dividend:** Determining whether to pay dividends as gross amounts or net amounts after taxes.
- **Dividend Pay-Out Ratio:** Adjusting the dividend pay-out based on factors like growth rate, company size, cash position, earnings stability, and target dividend levels.

Question 2:

**What are some fundamental accounting principles and assumptions?**

**Answer:** Some fundamental accounting principles and assumptions include:

- **Single-Entity:** Separates the business entity from its owners for reporting purposes.
- **Periodicity:** Financial information should be reported within a defined period, usually twelve months.
- **Continuity:** Assumes that the business will continue to operate in the foreseeable future.
- **Unit of Measurement:** Financial information is reported in monetary units, assuming a stable currency value.
- **Accrual Concept:** Revenue is recognized when earned, regardless of cash receipt.
- **Objectivity:** Financial reporting should be unbiased and factual.

- **Historical Cost:** Assets are recorded at their purchase cost rather than current market value.
- **Conservatism:** Prefers underestimating income rather than overestimating to avoid misleading reports.
- **Consistency:** Consistent methods should be used for reporting unless a change is justified.
- **Matching:** Expenses and revenues should be matched in the period they occur to determine net profit or loss.
- **Materiality:** Allows flexibility in adherence to principles when it does not significantly impact financial statements.
- **Duality:** Every transaction is recorded with a corresponding debit and credit entry.
- **Full Disclosure:** All relevant information should be disclosed to provide a complete understanding of the financial statements.
- **Substance over Form:** The economic reality of transactions should take precedence over their legal form.

### Answers to Self-Assessment Exercise 3

Question 1:

**What are the main types of accounts in accounting, and how are they classified?**

**Answer:** Accounts in accounting are classified into two main types:

1. **Personal Accounts:** These are accounts of individuals or firms that have transactions with the business, such as debtors and creditors.
2. **Impersonal Accounts:** These are not related to individuals or firms but deal with other business items. Impersonal accounts are further classified into:

**Real Accounts:** These account for the assets of the business, such as buildings, machinery, and cash.

**Nominal Accounts:** These account for income and expenses of the business, such as rent, wages, and discount received.

Question 2:

**What are the key components of the financial statements prepared at the end of the financial year?**

**Answer:** The key components of financial statements are:

**1. Statement of Profit or Loss:**

- i. **Inventory:** Goods used for running the business, including opening inventory, work-in-progress, and closing inventory.
- ii. **Purchases:** Merchandise bought for resale.
- iii. **Carriage Inwards:** Cost of transporting goods to the warehouse.
- iv. **Carriage Outwards:** Cost of delivering goods to customers.
- v. **Return Outwards:** Value of goods returned to suppliers.
- vi. **Revenue:** Total value of goods sold.
- vii. **Returns Inwards:** Value of goods returned by customers.
- viii. **Discount:** Reduction in the price of products offered by the seller.
- ix. **Accruals:** Expenses due but not yet paid, or income due but not yet received.
- x. **Prepayments:** Expenses or income paid/received in advance.
- xi. **Bad Debts:** Amounts owed by customers that are unlikely to be collected.

**2. Statement of Financial Position (Balance Sheet):**

- **Capital:** Owner's equity, including initial investment and adjusted by profit/loss and drawings.
- **Assets:** Economic benefits owned by the business, classified into:
  - **Non-Current Assets:** Long-term assets like land, buildings, and machinery.
  - **Current Assets:** Short-term assets like cash, inventory, and receivables.
- **Liabilities:** Debts or obligations of the business, classified into:
  - **Current Liabilities:** Short-term debts like payables and accruals.
  - **Long-Term Liabilities:** Long-term debts like mortgage loans.

## **UNIT 4 HUMAN RESOURCE FUNCTION**

### **CONTENTS**

4.1 Introduction

4.2 Learning Outcomes

4.3 Approaches to Management of Human Resources

4.3.1 Procurement of Personnel

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4.5.2 Maintenance

4.6 Summary

4.7 References/Further Readings/Web Resources

4.8 Possible Answers to Self-Assessment Exercise(s) within the content



## 4.1 INTRODUCTION

This is the business activity that is concerned with the efficient utilization of people (men) to achieve both the objective of the organization and the satisfaction and development of the employees. Flipp (1984) defined human resources management as the planning, organizing, directing and procurement, development, compensation, integration, maintenance and separation of human resources to the end that individual, organizational and societal objectives are accomplished. Implicit from this definition is that it's of two dimensions. The first aspect deals with the common management functions of planning, organizing etc. The second dimension focuses on the technical elements of the human resource function. The logic underlying the integration of the two is that the general management functions are fundamental to the effective performance of the human resource function. The human resource expert must plan, organize, direct and control the human resource function in order to achieve the underlying objectives.

## 4.2 Learning Outcomes

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

- i. understand the two approaches to management of human resources
- ii. explain the three dimensions of procurement of personnel
- iii. discuss the two types and sources of recruitment
- iv. evaluate the meaning of integration of personnel



## 4.3 Approaches to the Management of Human Resources

Human Resource Management (HRM) is the strategic approach to managing an organization's most valuable asset—its human capital. It encompasses the practices, policies, and processes that deal with recruitment, development, performance management, and overall employee well-being ( Dessler, 2021) . Human Resource Management (HRM) is the integrated set of activities and processes aimed at effectively acquiring, developing, utilizing, and retaining an

organization's human capital to achieve its strategic goals and objectives (Lussier & Hendon, 2020). HRM focuses on creating a supportive and inclusive work environment, enhancing employee skills and motivation, and aligning HR practices with the overall business strategy (Cascio & Aguinis, 2021). There are two basic approaches to the management of human resources. These approaches differ in terms of management's underlying philosophy towards labour. They are mechanical and paternalism approaches.

(a) **Mechanical:** The mechanical approach of the management of human resources can be traced back to the work of F.W. Taylor in the scientific management. This approach sees a labour as a commodity that must be obtained as cheaply as possible and put to maximum usage. It does not consider a labour as a human being -with emotions rather it sees a labour as a machine that must be used for maximum productivity.

(b) **Paternalism:** This approach recognizes the fact that workers are human beings with feelings and emotions. Therefore, it requires the human resource experts to assume fatherly and protective role in relation to their subordinates. Workers needs should be provided for in the workplace and suitable working conditions should be created for them to contribute their maximum quota.

#### **4.3.1 Procurement of Personnel**

This is the human resources function that is concerned with obtaining the required personnel. It deals with the questions of why, when, where and how do we obtain the necessary personnel. This involves manpower planning, recruitment, selection and induction.

##### **(1) Manpower Planning**

This involves translating the organizational objective into manpower requirements and comparing the estimated requirements with the workforce currently in existence. When this comparison is made between manpower requirements and the current work-force towards the realization of organizational objective, any deviation will result to action-oriented programme, such as employment of new workers, career re-orientation, retrenchment, retirement etc. In other words, if the manpower required for the

**Job Description:** This is a written statement that out the duties and responsibilities of a job. It usually includes the purpose of tie job, the title, the title of the immediate superior, the tool to be used for the job etc.

**Job Specification:** This is a written statement that spells out the qualifications of a person that is required to perform a given job. The content includes— educational qualification, work experience, skills and physical requirements.

## **(2) Recruitment**

Recruitment is the process of seeking and attracting job applicants with the requisite skills and abilities needed for the actualization of the organizational goals. It is usually described as a positive or additive activity because it focuses on attracting as many applicants as possible. It starts with the confirmation of vacancies and ends with assembling persons who have applied to fill the vacancies. There are basically two sources of recruitment: These are internal and external sources.

**Internal Sources:** A firm may recruit its personnel from within by asking employees to help recruit their friends or relatives. The firm may also encourage its employees to fill openings above their present position. This may be done by putting list of job openings on bulletin boards in company's news letter. Those who are interested apply and bid for the job:

**External Sources:** The external sources of recruitment include universities and polytechnics, employment agencies, un-solicited applications, labour unions, and professional organizations, It should be noted however that. recruitment is a means through which n organization relates with the labour market.

## **(3) Selection**

As soon as the job candidates have been recruited, manned with job description and job specification, the next task in the procurement process is to carry out selection. Selection means picking out or choosing the best candidates for the job by way of short- listing, makes them candidates for the job through some assessment processes and brings those who pass the



assessment into the organization by offering them appointment: It is a negative or subtractive activity. There are several tools for selection. These are:

**Application Blank:** The application blank is a form designed to elicit information about the applicant's educational background, work history, and character references. It is mainly used to obtain information on the applicant's past records.

**Interviews:** This is a face-to-face interaction between the interviewer who is an organizational member, and the job candidate. It is used in discovering the candidate's mental and verbal and his personalities. Interview the oldest means of selection may be used to verify the data on the application blank, to obtain further information about what an individual can do and will do, and to provide information about available jobs and the values of being affiliated with organization

**Tests:** This is another means of selection which may be used in conjunction with interviews. The tests include the following:

**Aptitude Test:** This is designed to predict future potentialities of an applicant such as verbal, quantitative and manual skills. It measures intelligent quotient.

**Personality Test:** This reveals the personal traits that may affect the success of the individual as he adjusts to his work.

**Proficiency Test:** This measures the attained skills in a task in which the applicant has past training or experience

**Physical Examination:** This reveals any physical disabilities of the candidate.

#### **4. Induction**

This is an orientation course, which introduces the selected candidate (new employee) to the firm as a whole, the jobs, his immediate superiors and subordinates and work group. Stoner, et al (1996) identified different types of information the organization provides the new employees; general information about duty work routine, review of the organization's history, purpose operations and products how the employee's job would contribute to the organization

needs, and detailed presentation of the organization's policies, work rules and employees benefits.

### 4.3.2 Training and Development

One of the human resources functions is that which is concerned with- increase in productivity as a result of improvement in manpower skills required for the job. It is learning and teaching process whereby desired employees obtain the required skills for efficient and effective job performance -

The purpose of training and development include to increase productivity, reduction in supervision cost, improvement in employee morale, preparation for advancement etc., This programme is not conducted haphazardly there must be the need for it. Hence the human resource training and development can be determined through any of the following.

- (1) **Job Analysis:** This is a careful study and examination of the duties and responsibilities of a job that are to be performed by an employee in order to determine if there is need for training.
- (2) **Organizational Analysis:** This has to do with having detailed explanation and examination of the organization's paradigms for the purpose of determining training need
- (3) **Employee Survey:** This is concerned with examining the general condition of an employee to determine if he has the need for training.
- (4) **Performance Appraisal:** This is concerned with the evaluation and measurement of the job performance level of an employee to see if such level conforms to standard. When: there are deviations as a result of the employee's inefficiency, thus there could be need for training. - .

#### Self-Assessment Exercises 1

Question 1:

What is the mechanical approach to the management of human resources?

Question 2:

What is the paternalism approach to the management of human resources?

## 4.4 Types of Training Method

There are basically two forms of training methods. These are on the job training and off-the-job training.

**On the-job Training:** This is the training given to an employee while he is right there doing the job. Examples are job instruction coaching, job rotation, and apprenticeship training.

**Off-the-Job Training:** This is the training given to an employee while he is outside the job. It is equally called vestibule training; examples are classroom lectures, workshops and seminars, films and television, programme instructions etc.

### 4.4.1 Compensation

Compensation is the task involved whereby the contribution of an employee in the organization is adequately rewarded. Often at times, compensation represents the main reason why an employee accepted a job, therefore standard procedures and rules are adopted in matters of compensation.

### 4.4.2 Methods of Making Payment

In general terms one might distinguish three basic methods of making payment for work done within the firm. These are fixed rate, time rate and piece rate.

(1) **Fixed Rate:** Employees could be compensated in terms of a fixed sum p.er month or per annum for the job, which has to be done. Although a normal working day or working week may e specified, this may be of subordinate importance. The job has to be done; if at times this involves working l6ng hours, the employee is expected to work them without looking for extra payment. On the other hand, in si ck periods, the number of hours worked may be less than normal. The payment has become a fixed cost analogous to that of a piece of equipment.

(2) **Time Rate:** Employees should be rewarded on the basis of time worked, a standard working day and working week being prescribed. If additional time is spent outside the normal

working hours then it is paid for at agreed special rates. If time is lost deduction may be made at the appropriate hourly rate.

(3) **Piece Rate:** Another method of compensating an employee is that which is related to output. By this, an employee is being rewarded on the basis of units produced, There will, however, be some form of protection for the employee in cases where work is not available for him to do in‘ the course of the working week.

It should be understood that compensation can be of three types, viz; basic pay, variable pay and fringe benefits. Basic pay refers to a worker‘ s core salary, which is determined through job evaluation. Variable pay refers to incentive payments such as production bonus and commission. Fringe benefits are those rewards to an employee, which may not be earned by cash. Examples are free transport, accommodation, and possibly pension.

#### Self-Assessment Exercises 2

Question 1: What are the two basic forms of training methods?

Question 2: What are the three basic methods of making payment for work done within a firm?

### 4.5 Mobility of Labour

This is the movement of labour from one geographical location to another or from one job position to the other. It could be used for career re-orientation and to sustain employee‘ s interest in the job. It could equally b used as a disciplinary measure for desired employees. Mobility of personnel brings about promotion, transfers, demotion and separation.

(1) **Promotion:** Promotion is an upliftment progression. It provides opportunities or advancement and superior performance. It is sustain employee‘ s interest in the job.

(2) **Transfer:** This is the movement of personnel that provides opportunities to broaden employee's job experiences. It could be used for career re-orientation or as a form of penalty for desired personnel.

(3) **Demotion:** Demotion is a backward movement in job progression. It is an employee, disciplinary measure, which is usually taken after warning, reprimand, probation, suspension, and other measures fail to yield result.

(4.) **Separation:** This is a deliberate disengagement of an employee from the organization on grounds of dwindling performance, disloyalty, age, or redundancy etc. Separation may be positive or negative. A positive separation may be in the form of retirement and contracting staff while negative separation may take the form of retrenchment, termination and outplacement.

#### **4.5.1 Integration**

An employee joins an organization to make ends meet, while an organization hires an employee to contribute his quota for the attainment of organizational objective. In most cases, there is divergent of interest between the employer and the employee. In order to create goal congruous, there must be reconciliation. The process of doing this is called integration.

Some of the issues that come under integration are industrial relations, employee discipline and grievance procedure.

#### **4.5.2 Maintenance**

Maintenance is the human resource function that is concerned with creating enabling working environment for the workers: This is achieved through health, safety and security (HSS) programmes. If the work environment is not suitable for workers, it constitutes a serious impediment to employee's job performance.

The issue of employee safety in the work place is a longstanding matter that has legal, social, and economic implications. Legally, safety standards as embodied in the Factory Act (1987) are required to be observed by employers. Socially, the employer is duty-bound to protect the

workers from physical harm or danger. The economic dimension is even more competing in that every industrial accident whether minor or fatal has multiple negative effect on the firm's performance

Examples of health and safety measures for include medical services, insurance, provision facilities such as helmet, boot, cover-all etc. employees of safety facilities such as helmet, boot, cover-all etc.

### **Self-Assessment Exercises 3**

Question 1: What are the four types of labor mobility within an organization?

Question 2: What are the key differences between the mechanical and paternalism approaches to human resource management?



### **4.6 SUMMARY**

In this unit, you have learnt about human resource function in an organization with particular reference to manpower procurement, training and development, integration, maintenance. Human beings are the most difficult resource to be managed in an organization. This is because they are not robots like other resources that can easily be manipulated. They have conscience and emotion, and can reason on their own. They came to the organization with different ideologies, hence the need to manage this important asset of the organization to achieve a common goal.

Human resource function is the management function through which managers recruit, select, train and develop members of the organization towards the realization of corporate goal. It is an ongoing process that tries to keep the organization supplied with the right people in the right positions. There are two basic approaches to the management of human resources. These are mechanical and paternalism approaches. The paternalism approach seems to be a better approach in modern management.



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#### **4.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT**

##### **SAE 1**

Question 1:

What is the mechanical approach to the management of human resources?

Answer 1:

The mechanical approach to the management of human resources, rooted in F.W. Taylor's scientific management, views labor as a commodity to be obtained as cheaply as possible and

used for maximum productivity. This approach treats labor as a machine, ignoring human emotions and focusing solely on efficiency and output.

Question 2:

What is the paternalism approach to the management of human resources?

Answer 2:

The paternalism approach to the management of human resources acknowledges that workers are human beings with feelings and emotions. It requires human resource experts to take on a fatherly and protective role towards their subordinates, ensuring that workers' needs are met and creating suitable working conditions for them to contribute maximally to the organization.

## SAE 2

### Question 1:

What are the two basic forms of training methods?

#### Answer 1:

The two basic forms of training methods are on-the-job training and off-the-job training. On-the-job training involves training an employee while they are performing their job duties, such as job instruction coaching, job rotation, and apprenticeship training. Off-the-job training occurs outside the job environment and includes methods like classroom lectures, workshops, seminars, films, and television.

### Question 2:

What are the three basic methods of making payment for work done within a firm?

#### Answer 2:

The three basic methods of making payment for work done within a firm are:

1. **Fixed Rate:** Compensation is a fixed sum per month or per annum, regardless of the actual hours worked.
2. **Time Rate:** Compensation is based on the time worked, with standard working hours and special rates for additional time worked.



3. **Piece Rate:** Compensation is based on the number of units produced, with some protection for the employee when work is not available.

### SAE 3

Question 1:

What are the four types of labor mobility within an organization?

Answer 1:

The four types of labor mobility within an organization are:

1. **Promotion:** An upliftment or progression in job position, providing opportunities for advancement and superior performance.
2. **Transfer:** The movement of personnel to broaden job experiences, used for career re-orientation or as a form of penalty.
3. **Demotion:** A backward movement in job progression, used as a disciplinary measure after other measures fail.
4. **Separation:** The deliberate disengagement of an employee from the organization, which can be positive (retirement, contracting) or negative (retrenchment, termination, outplacement).

Question 2:

What is the maintenance function in human resource management?

Answer 2:

The maintenance function in human resource management is concerned with creating an enabling working environment for workers. This is achieved through health, safety, and security (HSS) programs. The maintenance function ensures that the work environment is suitable for employees, addressing legal, social, and economic implications of workplace safety. Examples include providing medical services, insurance, and safety facilities like helmets, boots, and coveralls.

## MODULE 3

### UNIT 1 GOVERNMENT AND BUSINESS

#### CONTENTS

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Relationship between Government and Business
  - 1.3.1 How Government Influence Business
  - 1.3.2 How Business Influence Government
- 1.4 Role of Government in Business
  - 1.4.1 Government Authority in Business
    - 1.4.2 Regulatory Frameworks and Compliance Requirements**
- 1.5 Government as a Facilitator
  - 1.5.1 Government as a Business Partner
  - 1.5.2 Benefits of the Relationship between Government and Business
- 1.6 Summary
- 1.7 References/Further Readings/Web Resources
- 1.8 Possible Answers to Self-Assessment Exercise(s) within the content



## **1.1 INTRODUCTION**

Government is the administrative machinery of a state. In other words, it is a system by which a state is governed. The administrative division of a country into Federal, State, and Local government creates multiple authorities, with which business must interact, enjoying multiple opportunities or suffering multiple constraints. Changes in government sometimes come with political instabilities and unstable government policies and programmes, posing challenges to business. The role of government in business refers to the extent and nature of government intervention in the economy and its impact on various aspects of business operations. It can include regulations, policies, incentives, and support provided by the government to influence economic activities (Hillman et al., 2020).



## **1.2 Learning Outcomes**

By the end of this unit, you will be able to;

- i. discuss the relationship between government and business
- ii. analyze how business influences government
- iii. demonstrate an understanding into how government influences business.
- iv. evaluate four roles of government to business.



## **1.3 Relationship between Government and Business**

Government and business institutions in a country in many ways are interrelated and interdependent on each other. In today's global economy, the businessmen and entrepreneurs are the driving forces of the economy.

In planned economy or even in market economy government holds control of shaping the business activities of a country. For maintaining a steady and upward economic growth, the government must try to make the environment for business organizations suitable. And the

organizations must follow the laws of governments' to run the businesses smoothly and making sure there is a level playing field.

The main goal of businesses is to make profit and governments' goal is to ensure economic stability and growth. Both of them are different but very co-dependent.

For this, the government and organizations or businesses always try to influence and persuade each other in many ways for various matters. A balanced relationship between the government and businesses is required for the welfare of the economy and the nation.

### **1.3.1 How Government Influences Business**

The government attempts to shape the business practices directly and indirectly through implementing rules and regulations.

The government most often directly influences organizations through establishing regulations, laws, and rules that dictate what organizations can and cannot do.

To implement legislation, the government generally creates special agencies to monitor and control certain aspects of business activity. In Nigeria, examples of government agencies that regulate businesses are Environmental Protection Agency (EPA), Central Bank of Nigeria (CBN), National Food, Drug Administration and Control (NAFDAC), Labor Commission (LC), Securities, and Exchange Commission (SEC) and much more. These agencies directly create, implements laws and monitor its application in the organization.

Governments sometimes take an indirect approach to shaping the activities of business organizations. These are also done by implementing laws or regulations but they are not always mandatory. For instance, the government sometimes tries to change organizations policies by their tax codes. The government could give tax incentives to companies that have an environment-friendly waste management system in production factory or, tax incentives could be provided to companies that have established its production facilities in a less developed region in the country. As a result, more often the businesses would probably do so. However, these regulations and its implementation must be to an optimal degree.

### **1.3.2 How Business Influences Government**

Businesses try to force the government to act in ways that benefit the business activities. Of course, for that, a business must go through in a legitimate way. But sometimes we see that businesses try to go over the line. The common methods used by businesses to influence government and its policies and programmes include the following.

#### **Forming Trade Unions and Chamber of Commerce**

Trade unions and chamber of commerce are associations of business organizations with a common interest. They work to find the common issues of organizations and present reports, holds dialogue to discuss on them with government bodies.

#### **Political Action Committees**

In 2012 during the US elections, the term —super PACs‖ was a common topic in many discussions. Political action committees (PACs) are special organizations formed to solicit money and distribute to political candidates. Most times the rich executives donate money to the political candidates whose political views are similar to them.

#### **Personal Conducts and Lobbying**

The corporate executives and political leaders and government officials are in the same social class. This creates a personal relationship between both parties. Also, organizations formally form group to present its issues to government bodies.

#### **Large Investment**

The companies if can make a very large investment in industries or projects, they could somehow effect the government policies. We see these very often in developing countries where foreign corporations want to invest in these countries. These work in another way around where the government tries to implement the policy to attract foreign investment.

## Self-Assessment Exercises 1

Question 1: How does the government influence business?

Question 2: How do businesses influence government?

### 1.4 Role of Government in Business

The role of government in business encompasses the regulatory and policy framework within which businesses operate, aiming to create an environment that fosters economic growth, competition, and social well-being. Governments may intervene through legislation, taxation, subsidies, trade policies, and various support programs to influence business behavior, protect consumer interests, and promote national economic objectives" (Baron, 2020) . The government has an important role to play in the business world. President Coolidge once said the chief business of the American people is business. Indeed, the private sector is the country's chief economic force, but it needs government regulation. In Nigeria the government's role in business is as old as the country itself; the Constitution gives the government the power to regulate some commerce. Though the government's role has increased over time, the business community still enjoys considerable freedom. The government exercises its authority in several ways.

#### 1.4.1 Government Authority in Business

The government exercises its authority in several ways:

##### **Permission**

Most businesses need to register with a government agency to operate. Corporations need a charter, and other forms of businesses, such as limited liability companies or partnerships, need other forms of registration. The function of this registration is usually to define the financial liability the owners of the company have. It limits their risk to the amount they have invested in that particular organization. Registration also allows the government to monitor companies to execute its other functions in the business world.

## **Contract Enforcement**

Businesses contract with other businesses. These contracts may be complex, such as mergers, or they may be as simple as a warranty on supplies purchased. The government enforces these contracts. Companies bring one another to court just as individuals do. An oral agreement can constitute a contract, but usually only a written agreement is provable. If one party fails or refuses to meet its obligation under a contract, a company will turn to the legal system for enforcement.

## **Consumer Protection**

The government's role in business includes protecting the consumer or customer. When a vendor fails to honor the guarantee, the purchaser has recourse in the law. Likewise, when a product causes harm to an individual, the courts may hold the vendor or manufacturer responsible. Labeling is another requirement the government imposes on marketers. Many foods, for example, must display nutritional content on the packaging. The Nigerian Government has been making advances in consumer rights for decades. The consumer protection agency still needs considerable development to protect the public.

## **Employee Protection**

Many state and federal agencies work to protect the rights of employees. The Occupational Health and Safety Administration, for example, is an agency under the Department of Labor. Its mission is to ensure a safe and healthful work environment. The Equal Opportunity Commission protects employees from discrimination.

## **Environmental Protection**

When a marketing transaction impacts a third party--others besides the marketer and purchaser--the effect is called an externality. The third party is often the environment. Thus, it is the government's role to regulate industry and thereby protect the public from environmental externalities.

## **Taxation**

Governments at all levels tax businesses, and the resulting revenue is an important part of government budgets. Some revenue is taxed at the corporate level, then taxed as personal

income when distributed as dividends. This is in no way inappropriate, since it balances the tax burden between the company and individual and allows the government to tax more equitably.

### **Investor Protection**

Government mandates that companies make financial information public, thereby protecting the rights of investors and facilitating further investment. This is generally done through filings with the Securities and Exchange Commission.

In a nutshell, the business of business is business and the goal of business is to earn a profit in the provision of goods and services. The business of government is service -- well managed, one hopes, and not wasteful, but never at a profit. There is no such thing as government money. Governments have no money; they have only what they take from their citizens, either in taxes or by inflation. And if government accrues profit it can only have done so by taxing too much or eroding the value of the citizens' income and savings -- in either case doing harm, not good, to the people who have created it for the advantages such a common effort is presumed to bestow. Businesses seek maximum efficiency; governments seek sufficient efficiency. We might well save a considerable amount of money by delegating our national security to mercenary armies drawn from other countries (as opposed to keeping a high-cost standing army and paying U.S. wages to private combat zone contractors), thus erasing the need to maintain a perpetual and costly military infrastructure.

#### **4.4.2 Regulatory Frameworks and Compliance Requirements**

Governments influence business operations through the establishment and enforcement of regulatory frameworks. These regulations are designed to ensure fair competition, protect consumers, safeguard the environment, and promote ethical business practices. Compliance with these regulations is mandatory for businesses, and failure to adhere to them can result in legal penalties, fines, and reputational damage.



## Key Areas of Influence:

1. **Antitrust Laws:** These laws prevent monopolistic practices and promote competition, ensuring that no single entity can dominate the market to the detriment of consumers and other businesses.
2. **Environmental Regulations:** Governments impose standards to minimize environmental impact, such as limits on emissions, waste management protocols, and conservation requirements.
3. **Consumer Protection Laws:** These laws safeguard consumers from fraudulent, deceptive, or harmful business practices, ensuring product safety, truth in advertising, and fair treatment.
4. **Labor Laws:** Regulations regarding minimum wage, working conditions, employee rights, and workplace safety protect workers and maintain fair labor practices.
5. **Taxation Policies:** Governments levy taxes on business profits, sales, and property, influencing business decisions regarding investment, pricing, and expansion.
6. **Trade Policies:** Tariffs, import/export restrictions, and trade agreements affect how businesses engage in international commerce, impacting supply chains and market access.

## Self-Assessment Exercises 2

Question 1: What are some ways the government influences business?

Question 2: How do businesses influence government policies?

## 5.5 Government as a Facilitator

The government facilitates business operations and growth through various initiatives and support mechanisms:

- **Infrastructure Development:** Investment in infrastructure such as roads, ports, and communication networks to create a conducive environment for business operations.

- **Financial Support and Incentives:** Provision of grants, subsidies, and tax incentives to encourage business investment, research and development, and job creation.
- **Trade Policies and Agreements:** Establishment of trade policies and negotiation of trade agreements to expand market access and reduce barriers for businesses.

### 5.5.1 Government as a Business Partner

The government can also act as a business partner through various forms of collaboration:

- **Public-Private Partnerships (PPPs):** Collaborative projects where the government and private sector jointly invest in and manage infrastructure projects, public services, or other initiatives.
- **Government Contracts and Procurement:** Businesses can engage in providing goods and services to the government through contracts and tenders, creating significant business opportunities.
- **Research and Innovation Collaboration:** Partnerships between government research institutions and businesses to drive innovation, technological advancement, and commercialization of new technologies.

### 5.5.2 Benefits of the Relationship between Government and Business

- i. **Job Creation:** Government policies and incentives can lead to business expansion and the creation of new job opportunities, reducing unemployment rates and improving living standards.
- ii. **Investment Attraction:** A stable and supportive regulatory environment attracts both domestic and foreign investments, fueling economic development and innovation.
- iii. **Market Confidence:** Clear and consistent government policies foster confidence among investors and businesses, leading to sustained economic growth and stability.

- iv. **Infrastructure Development:** Public-private partnerships (PPPs) result in the development of essential infrastructure, such as transportation networks, utilities, and communication systems, which are critical for business operations and economic activities.
- v. **Enhanced Public Services:** Collaboration between government and businesses leads to better quality and accessibility of public services, including healthcare, education, and social services, benefiting society as a whole.
- vi. **Technological Advancements:** Government support for research and development, combined with business innovation, leads to technological advancements that enhance productivity and competitiveness.
- vii. **Consumer Protection:** Businesses that comply with government regulations ensure product safety, fair pricing, and truthful advertising, protecting consumers and enhancing trust in the market.
- viii. **Environmental Sustainability:** Government regulations and incentives encourage businesses to adopt environmentally sustainable practices, reducing their ecological footprint and contributing to global sustainability efforts.
- ix. **Corporate Social Responsibility (CSR):** Government policies and frameworks promote corporate social responsibility, encouraging businesses to engage in activities that benefit society, such as community development, philanthropy, and ethical business practices.
- x. **Research and Development (R&D):** Government funding and support for R&D activities enable businesses to innovate and develop new technologies, products, and services, increasing their competitiveness in the global market.

- xi. **Skills Development:** Government-business collaborations in education and training programs enhance the skills and competencies of the workforce, ensuring that businesses have access to a pool of talented and qualified employees.
- xii. **Market Expansion:** Trade agreements and policies negotiated by the government open up new markets for businesses, allowing them to expand their operations and reach a broader customer base.
- xiii. **Public Welfare:** Government initiatives, supported by businesses, improve public welfare through better healthcare, education, and social services, leading to a higher quality of life for citizens.
- xiv. **Community Engagement:** Businesses engage in community development projects, supported by government policies, which enhance local infrastructure, create jobs, and promote social cohesion.
- xv. **Economic Inclusion:** Government policies aimed at economic inclusion ensure that marginalized and disadvantaged groups have access to economic opportunities, reducing inequality and promoting social stability.

### **Self-Assessment Exercises 3**

**Question 1:** How does the government support business operations through infrastructure development?

**Question 2:** In what ways does the government act as a business partner through public-private partnerships (PPPs)?



## 1.6 SUMMARY

In this unit you have learnt about government and business. You have seen the influence of government in business in the areas of permission, contract enforcement, consumer protection, employee protection, environmental protection, investors' protection, and taxation; as well as the influence of business in government in the areas of trade union, political action, personal conduct and lobbying, and making large investment. Government and business institutions in a country are in many ways interrelated and interdependent on each other. Government holds control of shaping the business activities of a country. For maintaining a steady and upward economic growth, the government must try to make the environment for business organizations suitable. And the organizations must follow the laws of governments' to run the businesses smoothly and making sure there is a level playing field.



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## **1.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT**

### **SAE 1**

#### **Question 1: How does the government influence business?**

**Answer:** The government influences business directly and indirectly through the implementation of regulations, laws, and policies. Direct influence comes from establishing agencies like the Environmental Protection Agency (EPA) and the Central Bank of Nigeria (CBN) to monitor and control business activities. Indirect influence includes using tax incentives to encourage businesses to adopt practices such as environmentally friendly waste management or establishing production facilities in less developed regions.

#### **Question 2: How do businesses influence government?**

**Answer:** Businesses influence government through various methods, including forming trade unions and chambers of commerce to present common issues and engage in dialogue with government bodies. Political Action Committees (PACs) are used to solicit and distribute money to political candidates, often aligning with business interests. Personal relationships between corporate executives and government officials, lobbying, and large investments in industries or projects also help businesses affect government policies and decisions.

### **SAE 2**

#### **Question 1: What are some ways the government influences business?**

**Answer:** The government influences business through the establishment of regulations, laws, and policies. This includes requiring business registration, enforcing contracts, protecting consumers and employees, regulating environmental impact, imposing taxation, and mandating transparency for investor protection. These measures ensure that businesses operate within a legal framework that promotes economic stability, fairness, and social well-being.

#### **Question 2: How do businesses influence government policies?**

**Answer:** Businesses influence government policies by forming trade unions and chambers of commerce to represent common interests and engage in dialogue with government bodies. They also utilize Political Action Committees (PACs) to financially support political candidates aligned with their interests, engage in lobbying to present their issues to policymakers, and make large investments that can impact government decisions, especially in developing countries seeking foreign investment.

### **SAE 3**

**Question 1:** How does the government support business operations through infrastructure development?

**Answer 1:** The government supports business operations by investing in infrastructure such as roads, ports, and communication networks. This investment creates a conducive environment for business activities, making it easier for companies to transport goods, communicate effectively, and access markets, ultimately boosting business efficiency and growth.

**Question 2:** In what ways does the government act as a business partner through public-private partnerships (PPPs)?

**Answer 2:** The government acts as a business partner through public-private partnerships (PPPs) by collaborating with private sector entities on projects such as infrastructure development and public services. In these partnerships, both parties invest jointly and manage the projects, which helps in sharing risks and benefits while improving the quality and efficiency of public services and infrastructure.

## **UNIT 2 THE SOCIAL RESPONSIBILITY OF BUSINESS**

### **CONTENTS**

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2.5.2 Case Study Social Responsibility of Business

2.6 Summary

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## 2.1 INTRODUCTION

In the course of operating a business, the interaction of the business with the society has led to series of changes occurring throughout the social system. Although businesses have contributed to the development of the society by providing the society with goods and services, it has also caused some environmental problems to the immediate community. If these problems are not diagnosed the community may become hostile to the business. Therefore, the obligation, which a business owes to the society as a kind of compensation for environmental problems such as pollution and promotional noise, caused to the society by its operation, is called social responsibility.

In the past decades, the sole goal of a business was economic. But in recent times, there have been pronounced changes in the views of many businesses about their social responsibilities which have paralleled and partly reflected the managing priorities and expectations of society about business social function. This is because business relies on the society for the provision of its resources, such as money, raw materials, labours, equipment, and information.



## 2.2 Learning Outcomes

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

- i. Demonstrate the areas a business should be made to be socially responsible
- ii. understand four arguments between the social ethic and the profit ethic
- iii. explain three factors responsible for the neglect of social responsibility by the Nigerian business.



## 2.3 Social Responsibility of Business

The social responsibility of business, often referred to as corporate social responsibility (CSR), is the concept that companies should go beyond their primary goal of making profits and also consider their impact on society and the environment.

### 2.3.1 Areas of Social Responsibility

Nigerian businesses are now required to address themselves the issue of social responsibility. Therefore, the areas of social responsibility of business include:

- Provision of social amenities such as good road network, pipe-borne water, and electricity.
- Offer of employment opportunities to members of the immediate community.
- Making available financial and leadership support for civil programmes and charities
- Building or improving low-income housing
- Building shopping centres and donating them to the community
- Improving the transportation system of the community
- Engaging in noise control and pollution abatement
- Provision of financial assistance to community schools such as donation of text books and other teaching aids.
- Provision of scholarship awards to deserving members of the community -  
Aiding in counseling and remedial education of community members.

### 2.3.2 Global Social Responsibility

**Respecting Human Rights:** Ensuring business operations do not violate human rights, including labor rights and anti-discrimination measures.

**Fair Trade Practices:** Supporting fair trade principles to benefit producers in developing countries.

**Global Environmental Initiatives:** Participating in international efforts to address global environmental challenges.

### **Self-Assessment Exercises 1**

1. What is the primary goal of businesses in the context of social responsibility?
2. 2. What are some key areas where businesses can demonstrate social responsibility?

### **2.3 Arguments against Social Responsibility of Business**

#### **Profit Ethic**

One of the most notable proponents of the profit ethic is Milton Friedman. His view is that business managers have one responsibility, i.e to maximize profits for owners. The proponents of this view posit that social matters are not the concern of business people and that these problems should be resolved by the unfettered working of the free market system.

The following arguments have been advanced why a business should not be socially responsible.

1. The business profit is not management's own money but the shareholders returns. Managers are only agents of the shareholders and therefore have no legal right to spend the money on social responsibility projects, notwithstanding the desired ends of such projects. Funds committed on social responsibility reduce the returns to shareholders.

2. Social responsibility increases the firm's cost of operation. In order to recover cost, the firm may charge higher prices on products and services, which the customer may not be able to cope with easily.
3. Social responsibility concentrates too much power in the hands of management. It paves way for management to play games with business funds meant for the project, hence shareholders will disallow it.
4. If a business firm embarks on social responsibility project while its competitors do not, this increases the cost of the socially responsible firm. If the firm raises its price in order to break-even or realize profit, demand will fall, while the demand for competitors product will increase.
5. Managers are not government officials or politicians; hence they lack the competent knowledge at judging which of the social projects is more desirable by the society. They may undertake a project that does not give maximum satisfaction to the society.
6. Business involvement in social responsibility can create a weakened international balance of payment situation. The cost of social programme, would have to be added to the price of the product. Thus, Nigerian companies, with substantial social costs, and selling in the international markets would be at a disadvantage when competing in other countries which do not have much social cost to bear.
7. Business people lack the social skills to deal with the problems of the society. Their training, experience, and exposure concern economic matters and their skills may not be pertinent to social problems.

#### **2.4.1. Arguments in favor of Social Responsibility of Business**

##### **Social Ethic**

The proponents of the social ethic are of the opinion that profit maximization should not be the sole objective of a business. They maintain that some profits could be diverted to social projects

in the short-run. Social responsibility brings about improvements in the society, which will make it easier for the firm to survive and enjoy satisfactory long-run profits.

The following reasons are advanced for social responsibility.

1. Times have changed. People are now more enlightened and expect business institutions to be socially responsible. Those that refuse may not survive the wrath of customers and the public.
2. Social responsibility discourages additional government regulation and intervention. Regulation is costly to a business and restricts its flexibility in decision making. Avoidance of government regulation results to greater freedom and more flexibility in decision making of business.
3. As businesses have grown in economic power, so also have they grown in social power. Thus their social responsibilities have grown well. Social power and social responsibility form an equation that must be balanced. When an institution's power grows, its responsibility grows accordingly.
4. A business involvement in social responsibility creates a favourable public image for the business. Good public image enables the business to attract more customers, investors, and better and qualified employees.
5. If a business is socially responsible, the society gains better neighbourhoods and employment opportunities. A cleaner and safer neighbourhoods on one hand mean a more stable community in which to operate. Fewer unemployed persons in the community, reduces the chance of social unrest and provide additional income to purchase the firms products or services. Better educated members of the society provide a more attractive labour pool from which to draw the business work force.

6. A business that aspires for survival and continuity must temper the profit ethic with social responsibility because it is better to prevent social problems through business social involvement than to cure them. It may be cheaper to be socially responsible than having a disrupted business operations.
7. It is generally believed that businesses have valuable resources which could be applied to social problems. It is assumed that it has the financial resources to do so.
8. Social responsibility may be in the interest of the shareholders. This is because their enterprise has favourable public image and is subject to less government control.

#### **2.4.2 Factors Responsible for the Neglect of Social Responsibility by Nigerian Businesses**

The non-challant attitude of Nigerian businesses to social matters is often to the dismay and disappointment of well-meaning Nigerians. Some of the major reasons responsible for this neglect by Nigerian businesses include:

1. The main goal of every business concern is profit maximization. But the way Nigerian businesses go about this objective had left much to be desired. For example, Nigerian companies engage in a lot of labour malpractices like underpaying workers (despite the existence of the Minimum Wage Act and rising inflation), and refusal to employ handicapped persons. A lot of them do not make provisions for recreational facilities for their employees, and there is lack of decisive accommodation policies. Yet most of them do not have adequate transport, safety and health allowances for workers. They do not take training and development of their employees serious.

Other malpractices of Nigeria business organizations as listed by Onuoha (1987) include; declaring low profits to avoid taxes, inflating production and business expenses in order to reduce published profits, making large provision for bad and doubtful debts (our financial institutions, mostly banks, are the major culprits in this regard), and teleguiding of external auditors (sometimes bribing them) to avoid exposure of certain accounting and financial irregularities, some business enterprises in the drive for excessive profits engage

in certain anti-social/commercial practices, such as false and mendacious advertising, adulteration of goods, misbranding of products and the sale of dangerous and harmful goods. Often companies stock pile (hoard) products to create artificial scarcity, particularly dealers on petroleum products which enable them to make exorbitant profits. Finally, some companies, especially multinational corporations lobby and bribe government officials to secure their personnel appointments to government ministries, commissions, panels, and tribunals, and getting contracts.

2. Apart from the subsidiaries of multinational corporations in Nigeria, most other big organisations are owned by government. For example, the government owns major transport network- air, rail and port facilities, broadcasting (radio and television), health and postal services, production and distribution of coal and electricity, iron and steel complexes, oil drilling, refining and distribution . The assumption is that since these large organizations belong to the society, that they are socially responsible, more so, when profit is not their pro-occupation. Instead of catering for the citizens' welfare, however, most of these organizations have been earmarked for either privatization or commercialization.

3. Majority of Nigerian businesses are in the small scale category. As a matter of fact, small business is the dominant form of business enterprise in any economy whether developed or developing. The small nature of these businesses can readily be observed from their (i) number of employees (ii) sales volume, (iii) financial strength, (iv) initial capital outlay etc. Poor financial position makes it economically unwise for them to add social costs to their operations. On the other hand, the so-called large enterprises that have the financial resources are not very keen on the issue of social responsibility. This is because many of the big businesses in Nigeria are subsidiaries of foreign multinational corporations. Therefore, they are financed, managed and controlled by their parent companies whose primary preoccupation is profit maximization. These organizations assume and see social actions as patriotic and nationalistic activities that should only be undertaken by indigenous business people. Again, some of the foreign businesses operating in Nigeria come from countries, for example, Britain, India, Lebanon, Far East,

etc., where the consciousness and campaign for business social responsibilities are at best in their formative stage (Nwachukwu, 1988).

4. The Nigerian management style to a great extent lacks professionalism. Many Nigerian managers do not believe that social responsibility is very relevant area of organizational management. It should however be noted that their training and experience had not exposed them to the sensitive nature of social responsibility. They should be made to realize that the society's expectations about business have changed towards business getting actively involved in certain social actions. And these actions should purposely be carried out to benefit the members of the society.

1. From all indications, the Nigerian society expects little by way of social responsibility of business. For example, most laws in Nigeria promulgated to control and regulate business activities are not seriously enforced. To obtain compliance, Government in most cases use persuasion. This might account for the reason why the Central Bank of Nigeria - (CBN) has moral suasion as one of the tools for getting financial institutions in the country to comply with its monetary policies.

### **Self-Assessment Exercises 2**

1. What are some arguments against the social responsibility of business according to the profit ethic?
2. Why might some argue that businesses should focus solely on profit maximization rather than social responsibility?

### **2.5 Benefit of Corporate Social responsibility of Business**

Here are five benefits of corporate social responsibility (CSR) for businesses:

1. **Enhanced Brand Reputation:** CSR initiatives can significantly improve a company's public image and reputation. Businesses known for their commitment to social and



environmental issues are often perceived more positively by consumers, which can lead to increased brand loyalty and a competitive advantage.

2. **Attraction and Retention of Talent:** Companies with strong CSR practices are often more attractive to potential employees, particularly those who value ethical and socially responsible work environments. This can help in attracting top talent and retaining employees, reducing turnover rates.
3. **Increased Customer Loyalty:** Customers are increasingly choosing to support businesses that align with their values and demonstrate a commitment to social and environmental issues. CSR efforts can lead to higher customer satisfaction and loyalty, which can translate into repeat business and positive word-of-mouth referrals.
4. **Improved Risk Management:** Engaging in CSR can help businesses identify and mitigate potential risks associated with environmental, social, and governance issues. By addressing these concerns proactively, companies can avoid legal issues, regulatory fines, and damage to their reputation.
5. **Access to New Markets and Investment Opportunities:** CSR initiatives can open up new market opportunities and attract investment from socially responsible investors. Companies that demonstrate a commitment to sustainable practices and ethical behavior may gain access to funding and partnerships that are not available to businesses lacking in these areas.

## 2.5.1 Theories of Social Responsibility of Business

### 1. Stakeholder Theory

**Overview:** Stakeholder Theory posits that businesses have a responsibility to a wide range of stakeholders beyond just shareholders. This includes employees, customers, suppliers, the community, and the environment. The theory argues that businesses should make decisions that consider the interests and well-being of all stakeholders, not just focus on maximizing profits for shareholders.

#### **Key Points:**

- Businesses should balance the needs and interests of various stakeholders.

- Ethical considerations and long-term impacts on all stakeholders are important.
- By addressing stakeholder concerns, businesses can build trust, enhance their reputation, and ensure long-term success.

## **2. Corporate Social Responsibility (CSR) Theory**

**Overview:** CSR Theory emphasizes that businesses have a duty to contribute positively to society and the environment beyond their economic and legal obligations. This theory suggests that businesses should engage in activities that promote social good, such as environmental sustainability, ethical labor practices, and community support, to enhance their corporate image and contribute to societal well-being.

### **Key Points:**

- CSR goes beyond compliance with laws and regulations to actively improving societal conditions.
- It involves voluntary actions that address social, environmental, and ethical issues.
- Effective CSR can lead to benefits like improved brand reputation, customer loyalty, and competitive advantage.

### **2.5.2 Case Study**

Patagonia, founded by Yvon Chouinard, exemplifies corporate social responsibility (CSR) with its focus on environmental sustainability, ethical production, and community engagement. The company prioritizes eco-friendly materials like organic cotton and recycled polyester, and promotes product longevity through its Worn Wear Program, encouraging repairs over replacements. Patagonia donates 1% of sales to environmental causes and supports Fair Trade certification to ensure fair labor practices. Transparent about its supply chain, Patagonia also offers robust employee benefits and encourages environmental activism. These efforts not only boost Patagonia's brand loyalty and market position but also set a high standard for integrating CSR into business practices.

### **Self-Assessment Exercises 3**

1. What is one major benefit of Corporate Social Responsibility (CSR) for businesses?
2. How does CSR contribute to attracting and retaining employees?



## 2.6 SUMMARY

In this unit, you've learned about several key aspects of social responsibility in business, including the areas where businesses should demonstrate social responsibility. There's an ongoing debate between the "social ethic" and the "profit ethic" regarding whether businesses should prioritize societal well-being or profit maximization. Factors contributing to the neglect of social responsibility by Nigerian businesses have been discussed. The concept of social responsibility has evolved alongside changes in the social contract. While businesses have contributed to society by providing goods and services, they've also generated environmental issues in local communities. Consequently, many groups advocate for increased social responsibility from businesses. However, the classical view, represented by Milton Friedman, contends that social issues should not be a business's immediate concern and should be resolved through the free market system.



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## **2.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT**

### **SAE 1**

#### **1. What is the primary goal of businesses in the context of social responsibility?**

The primary goal of businesses in the context of social responsibility is to balance profit-making with considering their impact on society and the environment. This involves engaging in practices that go beyond earning profits, such as contributing to social amenities, supporting community initiatives, and reducing environmental harm.

#### **2. What are some key areas where businesses can demonstrate social responsibility?**

Businesses can demonstrate social responsibility in several key areas, including providing social amenities like infrastructure and utilities, offering employment opportunities to local communities, supporting civil programs and charities, building low-income housing, and contributing to educational initiatives through scholarships and donations.

### **SAE 2**

#### **1. What are some arguments against the social responsibility of business according to the profit ethic?**

Arguments against the social responsibility of business include the belief that funds used for social projects reduce returns to shareholders, that social responsibility increases operational costs which may lead to higher prices for consumers, and that it concentrates too much power in management, potentially leading to misuse of funds. Additionally, businesses may face competitive disadvantages if they incur higher costs compared to competitors who do not engage in social responsibility.

## **2. Why might some argue that businesses should focus solely on profit maximization rather than social responsibility?**

Some argue that businesses should focus solely on profit maximization because social responsibility projects are seen as reducing shareholder returns, increasing operational costs, and concentrating power in management, which can lead to inefficient or inappropriate social investments. Additionally, they believe that social issues should be addressed by the free market or government rather than by businesses, which should prioritize generating profits for their shareholders.

### **SAE 3**

#### **1. What is one major benefit of Corporate Social Responsibility (CSR) for businesses?**

**Answer:** One major benefit of CSR is **Enhanced Brand Reputation**. CSR initiatives improve a company's public image and reputation. Companies known for their commitment to social and environmental issues are often viewed more positively by consumers, leading to increased brand loyalty and a competitive edge in the market.

#### **2. How does CSR contribute to attracting and retaining employees?**

**Answer:** CSR contributes to **Attraction and Retention of Talent**. Companies with strong CSR practices are more appealing to potential employees, especially those who value ethical and socially responsible work environments. This helps in attracting top talent and retaining employees, which reduces turnover rates and creates a more stable workforce.

## **UNIT 3      INTERNATIONAL BUSINESS**

### **CONTENTS**

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Evolution of International Business
  - 3.3.1 Reasons for International Business
  - 3.3.2 Methods of International Business
  - 3.4 Principles of World Trade and Investment
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    - 3.5.1 Government Trade Policies
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- 3.6 Summary
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- 3.8 Possible Answers to Self-Assessment Exercise(s) within the content



### **3.1 INTRODUCTION**

Harris and Morgan (1996) have shown that, there are over 160 countries in the world today. These countries come in all shapes and sizes. There are large countries with large populations (China, India, Nigeria) and large countries with small populations (Australia, Canada). There are small countries with large populations (Japan) and small countries with small populations (Fiji, Luxembourg). Irrespective of the differences in size and shape, there are certain characteristics that are common to all. One of such characteristics is that no one country is self-reliant. Businesses are conducted among the different countries of the world. Therefore, where business transaction among individuals, firms, or other entities (both private and public) occurs

across national boundaries, it is called international business. According to Asheghian and Ebranhani (1990) international business can be defined as those activities including the movement of goods, that is, the importing and exporting of commodities the transaction services such as human resources- management, accounting, marketing, finance, and legal services. It also includes the investment of capital in tangible assets such as manufacturing, agriculture, mining, petroleum production, transportation, and the communications media.

International business can also be defined as institutional arrangements and practices that facilitate the exchange of commodities, services, technology, and managerial ideas across national frontiers. It is a business whose activities involve the crossing of national borders. Some institutions engaged in this form of business have often been described as Multinational Enterprises (MNEs). The MNE is an organization, which sources its factors of production, produces and markets in multiple countries for the purpose of furthering overall organization benefit. An MNE is generally considered to be having production and/or marketing facilities in many countries, enjoying world-wide access to capital, depending on foreign income, and global managerial perspective. They are linked by ties of common ownership, draw on a common pool of resources, such as- money, credit, information systems, trade names and patents, and respond to some common strategy, except where one is specifically formulated for an area of operations.



### **3.2 Learning Outcomes**

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

- i. discuss the meaning of international business
- ii. understand the evolution of international business
- iii. explain four reasons for international business
- iv. identify methods of international business
- v. understand principles of international trade
- vi. explain the meaning of balance of trade and balance of payment
- vii. explain the strategy for international business

- viii. understand government trade policy and the instruments that are used in trade policy



### 3.3 Evolution of International Business

Countries engage in international trade because the distribution of economic resources - natural, human, and man-made - among the nations of the world is quite uneven; nations are substantially different in their endowments of economic resources. By engaging in international trade, countries specialize in those products or services they are best qualified to produce at competitive prices. Also, the efficient production of various goods requires different technologies or combinations of resources.

International business was initially carried out through economic activities referred to as export and import. By export transactions we mean when a business located in one country sell goods to consumers in another country. On the other hand, import transactions signify a situation where consumers purchase goods from a business located in another country. The index of their openness is a measure of the importance of international business to an economy, calculated as the ratio of exports over total domestic production.

International business is not a new aspect of business. There is evidence that before the time of Christ, merchants were sending representatives abroad to sell their goods. The English trading firms, East Indian Companies, chartered in the seventeenth century, established foreign branches as did a number of American colonial traders in the eighteenth century. However, early examples of Nigeria's direct involvement in international business were the investment in slaves, cocoa, palm produce and cotton, and of late in petroleum products. The foreign situation clearly illustrated that international business of a sort existed well before World War I.



### **3.3.1 Reasons for International Business**

One may ask, what are the reasons for international business? The answer to the question cannot be far-fetched. Four factors are responsible for interest in international business: explosive growth of participants in international business, explosive increase in income, closer central control through improved communication network, and host community reactions. These are discussed below.

#### **Explosive Growth**

One striking difference is the explosive growth in both size and quantity of multinational concerns and indigenous enterprises involved in international business in the last few decades. Ball and McCulloch (1996) reveal that an estimate of the total accumulated foreign investment by the industrially developed countries range from 350 to 400 trillion US dollars. According to recent survey by the European Community, there are now over 10,000 multinational enterprises in existence worldwide.

#### **Explosive Increase in Income**

The size of the Income generated by enterprises in international business is much higher than those generated in the domestic market. The most interesting fact here is that, while the income generation rate of enterprises in international business is galloping growing at a geometric progression, those of the domestic enterprises is trotting at an arithmetic progression. The implication of this is that international business has become increasingly important in the industrial and economic life of many nations. Further, the increasing importance of the international business in the local economy of developing countries has caused a number of their governments to view this change as a threat to their autonomy. Critics of large multinational enterprises cite statistics to —provel that host governments, especially, those of the industrially less developed countries are powerless before the multinationals ( Jaja, 1995). For instance, some multinationals are known to have total sales, which are greater than the Gross National Products of many host nations. It is reported that the total sales of largest multinationals surpass the sum, of the Gross National Products of 43 African countries put together (World Bank Report 1991).

## **Closer Central Control**

A third important factor, which has attracted the attention of researchers and practitioners in international business, has been the much closer control now exercised by headquarters of the multinational enterprises. Though the subsidiaries may be scattered over the globe, management in the home office coordinates and integrate their activities.

The ability to exercise central control has come about because of fast air travel and the ability to transmit, and analyse rapidly large amounts of information by means of improved technology in communication network. This improved information technology is in the areas of the telephone, telex, computers, fax and e-mail. This is in contrast to the days when overseas travel was by sea and primarily letter-handled communications. Once the information arrived in the home office, several days were required for processing before top management could act on it. Small International Business Management wonders that the local subsidiaries were given considerable independence, and there was little success in coordination of foreign operations. In addition, poor transportation facilities between countries, and the presence of tariff and non-tariff trade barriers made it difficult for a firm in one country to market its products in another. This meant that there was less need for close integration and thus each subsidiary tended to operate in its own domestic market. Thanks to the global orientation, which has made both the host and home country governments to apply caution in their behavior in international business.

## **Host Community Reaction**

Host nation governments as early as 1950s began to realize that the establishment of an increasing number of businesses controlled by management outside their jurisdiction was resulting in proliferation of subsidiaries that could pursue objectives in conflict with their own. This they believed would weaken national sovereignty. For instance, if government executives believed it is necessary to implant a tight monetary policy, and therefore restrict the amount of capital available for industrial expansion; they may fear that foreign-owned subsidiaries might upset their plans by bringing in capital from abroad. If they attempted to raise taxes to reduce purchasing power, absentee owners might shift production elsewhere and sources of employment would be lost.

Similarly, as governments strove to provide more infrastructures such as highways, educational facilities, housing, and all the myriad elements of a higher standard of living, they required more foreign exchange. Anything, which reduced its availability‘ such as fees, paid to outsiders for management services, and technological assistance or rules by home offices prohibiting subsidiaries from exporting or buying lower-priced raw materials in the open markets rather than from the parent company, would weaken these efforts.

It must be emphasized that, enterprises in international business satisfy different groups in the course of their operations. These groups include employees, customers, competitors, stockholders, and the government of the home and host countries. Because the objectives of these different groups are necessarily not compatible with those of the business, and sometimes with each other, conflicts in international business are bound to arise. This is because, the satisfaction of these groups is a cost on business, and entrepreneurs involved in international, business will always want to minimize cost, and maximize profit. The pursuit of profit maximization leads the enterprise in international business to:

1. Choose the mode of operation that best suits its own objectives.
2. Improve efficiency by allocating its resources within the corporate family, and
3. Keep as much of its profit as possible as retained earnings.

Economically, speaking there are few conflicts between the goals of an enterprise in international business and the objectives of home countries. Conflicts do arise, however, if an enterprise closes its factory at home and invests money abroad, leading to higher unemployment at home. The conflicts between the enterprises in international business and its home country can also arise from non-economic goals that are set by the government in the home country. Conflicts may arise over exports and over the licensing and production of certain products in host countries. Conflicts may also arise over environmental issues.

The major factors that determine the intensity of reactions of a host country to international business operations are the perceived degree of foreign domination and control. The other is the extent to which the activities of enterprises in international business are subsidized by the government of the host country. Further suspicions concerning the presence of some foreigners have led some countries to go so far as to confiscate foreign enterprises in their country. For example, after the downfall of the Shah of Iran, the new Islamic Republic Government of that

country confiscated All-American business organizations . Some other countries however, have been Indecisive about the presence of enterprises in international business and have gone from one extreme to another. Some countries have developed different policy measures that have the intention of lessening the effect of ‘foreign direct investment’ (FDI) on their economic systems without banning FDI altogether. It is hoped that such policies would provide them with the benefits of FDI - technology, managerial know-how, labour training, the needed capital, and access to foreign markets — without forcing them to yield completely to foreign ownership and control.

Some major policies employed by host countries in dealing with firms in international business require joint venture arrangements. Another set demands controlling entries and takeovers, excluding foreigners from specific business activities. Others involve controlling the domestic capital market, debt-equity requirements, dis-investment, controlling remittances, rates and fees, and taking the foreign investment apart, which means buying the needed technology, management, and capital separately, rather than acquiring them in one package in the form of international business investment (Michael 1996; Hall 1997). This must have influenced Jonas 1997) to contend that policies used by host countries in securing some of the benefits in international business, i.e investments require that entrepreneurs should engage in labour training. It seems this will ensure that persons occupying certain key positions in host countries would not suffer from the prohibition of foreign enterprises engaging in technologically stagnant industries. This can be achieved through the engagement in manpower research and development in the host countries.

One thing is clear, many host countries believe that there are gains to be made from the operations of firm’s international business within their borders and they continue to receive these enterprises with open arms. This is especially true for countries with market economies. For example, Brazil offers a number of incentives to attract foreign investments. These include tax rebates for firms that invest corporate earnings, convertibility of earnings into dollar, fiscal incentives, and free repatriation of corporate earnings up to 12 percent of the invested capital (Asheghian & Ebrahimi 1990).

### **3.3.2 Methods of International Business**

Business firms engage in foreign operations through a number of methods. These methods include exporting, licensing arrangement, manufacturing and distribution activities, joint venture, contract manufacturing, management contracting, and assembly operations.

#### **Exporting**

Exporting may include the sending of services as well as goods to other countries. This is a relatively low-risk method of entering the foreign markets.

At the most basic level, the exporting firm may sell its products to an export/import merchant, who is essentially a wholesaler. The merchant assumes all the risks of product ownership, distribution, and sale. He may even purchase goods in a producer's home country and assumes responsibility for exporting the goods.

The exporting firm may ship its products to an export/import agent, who arranges the sale of the products to foreign intermediaries for a commission or fee. The agent is an independent firm - like other agents - that sells and may perform other marketing functions for the exporter.<sup>9</sup> The exporter, however, retains the title to the products during shipment and until they are sold.<sup>10</sup>

Some exporting firms have also been seen to have established their own sales offices or branches in foreign countries. This is another method by which they can do business abroad. Under this arrangement, the firm maintains control over sales, and so gains both experience and knowledge of foreign markets.

#### **Licensing Arrangement**

Under a licensing arrangement a firm enters into a contractual agreement with a foreign company to manufacture and distribute one - or more of its products, using its brand name in return for a royalty or other compensation.

The advantage of a licensing arrangement is that it provides a simple method of expanding into a foreign market with little or no investment. The disadvantage, however, is that —if the licensee does not maintain the licensor's product standards, the product's image may be damaged. Also, this arrangement does not provide the original producer with foreign marketing experience.

### **Manufacturing and Distribution**

The decision to manufacture abroad usually marks a decisive step in the company's thinking. In doing this, large investment must be put on line people must be selected and trained for overseas manufacturing operations.

A firm may establish a branch office abroad to market and service its products. To an increasing extent big business firms in developed and developing countries are establishing manufacturing as well as distribution facilities abroad. Often large amounts of capital are involved in such operations.

### **Joint Venture**

This is an enterprise in which the ownership and control are shared by a foreign firm and a domestic firm. A joint venture may be started by forming a new company, by investing in an existing local company, or by a local company acquiring an interest in an existing operation of the foreign company. The central feature of the joint venture is that ownership and control are shared. Many companies are forced into joint venture arrangements because of the prevailing conditions in the overseas market. These conditions may include local government policies, nationalistic feelings of intense competitive pressures, and so on. There, are hosts of other companies that select this approach voluntarily, because it is more profitable in the long run than other approaches.

The following are some advantages associated with a joint venture arrangement:

1. A joint venture requires very little capital and manpower resources to enter the foreign market.

2. Business risk is minimized because of the resource savings and the potential ability to enter more markets.
3. Business risk is also minimized because management skills and experience from a local partner allow easier adaptation to the particular dangers of an unfamiliar environment.<sup>4</sup>
4. Risks are reduced because the project is generally less subject to the danger of adverse action by that government.
5. Because a joint venture operation may be looked upon with favour by nationalistic-oriented consumers more than would be the case if it were considered a foreign operation, sales and profits of this would be greater than those of a wholly owned subsidiary.

While there are a number of advantages associated with the joint venture approach, there are also some limitations.

1. The profit potential may be less, because all profits must be shared.
2. Disagreements can occur between the partners, as a result of dispute over differences in management philosophies or dividend policies.

### **Contract Manufacturing**

A contract manufacturing arrangement involves contracting for the manufacturing or assembly of products by manufacturers established in foreign markets, while still retaining the responsibility for marketing. With this type of arrangement, a firm can break into international marketing without making the final commitment to setting up complete manufacturing and selling operations. Since the company has already shown its presence in the foreign market through manufacturing, marketing of the product may be much easier.

### **Management Contracting**

In management contracting a local investor in a foreign market provides the capital for an enterprise, while a company from —outside provides the necessary know-how to manage the

company. The advantages of this type of arrangement are that it allows a company to manage another company without equity control or legal responsibility. There is guaranteed minimum income and quick return. Also exchange or other types of remittance controls are avoided.

### **Assembly Operations**

This arrangement represents a cross between exporting and overseas manufacturing. Under this arrangement, the manufacturer exports all or most of his products as components or parts. At the overseas assembly site these parts are then put together to form the complete product. The Peugeot car plant at Kaduna is an example of this type of arrangement.

The advantage of this method is that the manufacturer is able to save costs in terms of freight charges, various government fees, and custom duties for certain products.

### **Self-Assessment Exercises 1**

Question 1. Why is international business important for countries with uneven economic resource distribution?

Question 2 . What has driven the explosive growth in multinational enterprises in recent decades?

## **3.4 Principles of World Trade and Investment**

There is a basic principle that underlies international trade between nations. This is specialization. Each country specializes in what it can do best. Nigeria specializes in the production of crude oil and petroleum products, Jamaica in sugar, and Brazil in coffee. Each of these countries is said to have an absolute advantage with regard to a particular product.

### **Absolute Advantage and Comparative Advantage**



The principle of absolute advantage recognizes that costs of producing goods and services differ from country to country. This difference may be due to such factors as a cheap skill labour force, modern and efficient production facilities, favourable climate and an abundance of certain resources.

According to this principle, a nation should specialize in an article or service for which its, production costs are lower than those of other nations. It is the ability of a country to produce a product at absolutely lower cost, measured in terms of factors of inputs, than its trading partners.

**Table 1: Labour Hours per Tonne of Output in Nigeria and Brazil.**

	<b>Nigeria</b>	<b>Brazil</b>
Rubber	2	5
Coffee	4	5

Source: Baridam, D.M (1995) Business: A Management Approach. Port Harcourt, Paragraphics.

The figures in the above table show the number of labour hours required to produce each tonne of rubber and coffee in Nigeria and Brazil. Nigeria has an absolute advantage in the production of both products. However, there are differences in the opportunity costs between the two countries. In Brazil producing a tonne of rubber means foregoing the opportunity to use 5 labour hours in the fields. A tonne of rubber thus has an opportunity cost of 1 tonne of coffee there. In Nigeria, producing 1 tonne of rubber means giving up the opportunity to produce 0.5 tonne of coffee. In terms of opportunity costs, then rubber is cheaper in Nigeria than in Brazil. On the other hand, in terms of opportunity cost, coffee is cheaper in Brazil - where 1 tonne of coffee requires giving up 1 tonne of rubber - than in Nigeria, where 1 tonne of coffee costs 2 tonnes of rubber. The country in which the opportunity cost of a product is lower is said to have a comparative advantage in producing that product. Indeed, the principle of comparative advantage states that two countries will trade, provided that each has a comparative advantage - lower comparative costs - in the products it exports.

### **3.4.1 Balance of Trade and Balance of Payments**

The variety of transactions which the residents of Nigeria take with other countries - exports and imports of goods and service, cash payments and receipts, gold flows, gifts, loans and investments and other transactions together comprise the international trade and payments of the country. Balance of trade is a factor in a country's balance of payments. A balance of trade is the difference between a nation's exports and imports in a given period. A country is said to have a favourable balance of trade if the value of exports exceeds the value of its imports. The country's balance of trade is unfavourable when the value of its imports exceeds the value of its exports. It should be pointed out that a country can have a favourable balance of trade and still have an unsatisfactory balance of trade. This can occur if the value of exported goods is not large enough to offset the value of imported goods and other expenditures, such as grants, loans, gifts, and military expenses abroad.

Exports and imports are important elements in a country's gross national expenditure. Balance of payments is a record of all economic transactions between one country and other countries in a given year. A balance of payments has three main accounts - the current account, the capital account and the official settlement account. The current account shows the flow of goods, services and transfer payments. The capital account shows the international flow of investment and loans & official reserve account shows the change in a country liabilities to foreign official holders and the change in that country's official reserves assets during the year. In other words, the account includes the net foreign transactions of the CBN, the federal stabilization agency that collectively constitute the monetary authorities of the nation. These authorities hold the nation's official international reserves of gold and foreign exchange, and they intervene in the foreign exchange market to stabilize the rate of exchange.

The balance is in surplus when receipts in the current and capital accounts exceed total payments to foreigners. It is in deficit when such receipts are less than total payments. A current account is that account whose transactions include the importation and exportation of goods and services plus international unilateral transfer payment. A capital account, on the other hand,

is that account whose transactions include all international borrowing and lending and all international purchases and sales of assets for investment purposes.

### **4.3.2 International Business Strategy**

Whether the firm that has gone international should push itself towards adaptation to the diversity of local-environments (fragmentation) or toward standardization (unification) is a basic operational policy. Thus the central issue which emerges from examination of an assortment of specific aspect of MNE strategy is the conflict between unification and fragmentation; a close - knit operational strategy with-similar foreign units versus a loosely related highly variegated family of activities (Fayer- weather, 1969). An MNE pursuing a policy of fragmentation tailors operations in each country to its unique combination of economic, cultural, socio- cultural and other characteristics.: In other words, such an operational process favours localism rather than global unity, in the sense of significant adaptation to the conditions in each --county.

The core strategy exemplifies the fundamental reason for the multinational enterprise's existence. It capitalizes on the diverse capabilities residing within the parent company, particularly its technological expertise, managerial proficiency, and productive infrastructure. These competencies are optimally leveraged to enhance the performance of foreign subsidiaries when their operations align with a similar framework. Operating under the premise of substantial interaction among the parent company's units and a considerable degree of consistency, the unification strategy treats distinct countries as components of a single integrated market. Fragmentation - unification or modification- standardization) considerations- play a vital part in determining product policy for international business. Differences in income levels, cultural characteristics of consumers, climate and other market factors constantly pull in the direction of products specialized according to individual countries. Parent firm capabilities such as technological, productive and managerial and benefit derived from the interchange of knowledge among the various units around the world are persuasive arguments for holding to worldwide standardization of product lines.

## Self-Assessment Exercises 2

1. What is the principle of absolute advantage in international trade?
2. How do the balance of trade and balance of payments differ? Question 3 : Briefly state the reasons for international business?

### 3.5 Multinational Logistic Plans

A multinational enterprise logistic plan is the system of production units and flows of products by which it supplies its markets. One logistic scheme is- the case where instead of having the parent company and each foreign affiliate produce full product lines, the parent company managers achieve a pattern of specialization among them, taking into account the scale of operations and the mix of factor services available at each of the country locations (including the home country), the logistical costs of storage, handling, and transportation and the constraints imposed by various trade restrictions. The transfer of finished product lines among affiliates and between affiliates and the parent company enables: the MNE system to offer full product lines in each country market at lower and/or higher quality levels than would be possible if those lines were entirely produced by each affiliate. Furthermore, the parent company and each affiliate may be assigned regional market which they are best prepared to serve.

There is also a pattern of intra-enterprise product transfers that results from vertical integration in production. The parent company (p) transfers product inputs to affiliates A2, A3 and A4 for use in their production. At the same time, A1 manufactures a component which is transferred to A4, while A2 and A3 also manufacture inputs for A4. Subsequently A4 uses all these inputs to manufacture the final product, which is then sold to worldwide markets.

### 3.5.1 Government Trade Policies

The dominant goal of government policy makers in the developing countries is economic development, which is too often viewed as industrialization rather than self-sustaining economic growth. Broadly conceived, government trade policy includes all of the activities of a government that bear directly or indirectly upon the composition, direction and magnitude of international trade and factor flows. This conception of trade policy covers not such obvious examples as tariff policy but also non-tariff barriers and export promotion programmes.

There are several ways to classify the goals that nations may seek to achieve in their trade policies.

**Economic Welfare:** Governments see international trade as an opportunity to reap the gains of international specialization. Foreign trade policy in which the objective of economic policy plays a leading role seeks to expand international trade and investment by lowering or eliminating tariffs and other barriers to the free exchange of goods, services and factors.

**Autarky or National Self-Sufficiency:** A full autarkic policy aims to rid the nation of dependence on international trade and investment because this dependence is feared for economic, political, or military reasons. Autarky is clearly inconsistent with the continuance of economic relations with other countries: the political counterpart of autarky is isolationism. Autarky is a policy that is hardly fully implemented in practice, so that a qualified autarkic policy is one that seeks self-sufficiency in only certain items of trade.

**Protectionism:** Here, government protects domestic producers against the free competition of imports by regulating their volume through tariffs; quotas and the like, identification of a specific foreign economic policy as protectionist is sometimes difficult, since any policy that restricts imports has protectionist effects regardless of its

**Economic Development:** Economic development is a multifaceted process characterized by the expansion of an economy's productive capacity, the diversification of economic activities, and the improvement of social and economic conditions for its citizens. It involves fostering

sustainable economic growth, creating jobs, reducing income inequality, and enhancing the overall quality of life within a region or nation (Todaro & Smith, 2019). The pressing concern of developed nations with the goal of economic development has led to their governments to regard international trade as an instrument to achieve such development. Thus tariffs and other restrictive devices are employed to protect —infant industries‖ or to keep out —nonessential‖ consumer goods. On the other hand, capital goods and other —essential‖ imports are encouraged through subsidies or favourable exchange

quotas.

### 3.5.2 Instruments of Trade Policy

**The Tariff Systems:** Simply stated, a tariff (or customs duty) is a tax imposed by a government on physical goods as they move into or out of a country. There are two kinds of customs duties

-  
Ad valorem‖ and specific. Ad valorem duty is stated in terms of a percentage of the value of an imported article, such as 10 or 20 percent ad valorem. A specific duty is expressed in terms of an amount of money per quantity of goods, such as 20 percent per pound or per gallon. A combination of an ad valorem and a specific duty is called a compound duty.

Ad valorem duties generally lend themselves more satisfactorily to manufactured products,

While specific duties are more adaptable to standardized and staple products. Ad valorem duties on higher priced manufactured goods are considered more effective than specific duties because a single ad valorem rate can usually maintain a certain degree of protection, especially under conditions of rising prices. A specific rate, on the other hand, has the advantage of being more protective in a declining market or in a business recession when cheaper goods are favoured.

Moreover, a specific duty will discourage imports of the cheaper goods within a class of products as compared to mere expensive variety. For example, a specific rate, of N2 per pair

of shoes will discourage imports valued at N10 a pair to a greater extent than the one valued at N25 a pair.

Compound duties frequently apply to manufactured goods, containing raw materials that are on the dutiable list. In such cases the specific portion of the duty that grants protection to the raw material industry, while the ad valorem portion of the duty affords protection to the finished goods industry.

**Quantitative Restrictions:** Quantitative measures of restriction are used to regulate trade in commodities to afford protection to domestic producers and are to bring about adjustment to a disturbed balance of payments. Quantitative restriction ordinarily takes the form of import quotas that are administered by the issuance of import licenses to individual traders.

**Import Quotas:** Three major types of import quotas are in use worldwide: unilateral quotas negotiated bilateral or multilateral quotas and tariff quotas. All of them impose absolute limits in value or quantity on imports of a specific product or product group during a given period of time.

The unilateral quota is a fixed quota that is adopted without prior consultation or negotiation with other countries. It is imposed and administered solely by the importing country. A unilateral quota may be global or allocated. A global quota restricts the total volume without reference to countries of origin or to established importers and exporters engaged in the trade.

Under the system of a negotiated or multilateral quota, the importing country negotiates with supplying countries, or with groups of exporters in those countries, before deciding the allotment of the quota by definite shares.

Under a tariff quota a specified quantity of a product is permitted to enter the country at a given rate of duty or even duty free. Any additional quantity that may be imported however must pay higher duty. Thus, a tariff quota combines the features of both a tariff and a quota

**Export Quotas:** Exports may also be subjected to quantitative restrictions by government action. Quantitative export controls are intended to accomplish one or more of the following objectives:

- a) To prevent strategic goods from reaching unfriendly countries
- b) To assure all or a significant proportion of certain products in short supply for the home market. A good example is the Nigerian government's ban on the further export of major food staples.
- c) To prevent surpluses on national or on international basis to achieve production and price stability.

### **Self-Assessment Exercises 3**

- 1 What is the role of logistics in a multinational enterprise (MNE) strategy?
- 2 What are some common government trade policies and their objectives?



### **3.6 SUMMARY**

In this unit, you have learnt about international business with particular emphases on the reasons for international business, methods of doing business abroad, principle of absolute and comparative advantage, strategies used in international business, the system of production units and flows of products by which the firm supplies its markets, government trade policy and the instruments in use.





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### **3.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT**

#### **SAE 1**

##### **1. Why is international business important for countries with uneven economic resource distribution?**

**Answer:** International business is important for countries with uneven economic resource distribution because it allows them to specialize in producing goods or services they are best equipped to produce at competitive prices. By engaging in international trade, countries can compensate for their resource limitations by importing what they lack and exporting what they produce efficiently.

##### **2. What has driven the explosive growth in multinational enterprises in recent decades?**

**Answer:** The explosive growth in multinational enterprises has been driven by several factors, including the dramatic increase in foreign investment, improved communication and transportation technologies, and the ability of multinational firms to exercise closer central control over their global operations. These developments have enabled companies to expand their reach and manage international operations more effectively.

#### **SAE 2**

##### **1. What is the principle of absolute advantage in international trade?**

**Answer:** The principle of absolute advantage suggests that a country should specialize in producing goods or services for which it has the lowest production costs compared to other countries. This advantage can arise from factors like cheaper labor, efficient production technology, favorable climate, or abundant resources. For example, Nigeria has an absolute advantage in producing rubber and coffee because it requires fewer labor hours compared to Brazil.

## **2. How do the balance of trade and balance of payments differ?**

**Answer:** The balance of trade refers specifically to the difference between a country's exports and imports of goods and services over a given period. A favorable balance of trade occurs when exports exceed imports, while an unfavorable balance occurs when imports exceed exports. On the other hand, the balance of payments is a broader record that includes all economic transactions between a country and the rest of the world, encompassing the balance of trade, as well as capital flows, investment, loans, and official reserve transactions. It is divided into three main accounts: the current account (goods, services, and transfer payments), the capital account (investment and loans), and the official settlement account (changes in official reserves).

### **SAE 3**

#### **1. What is the role of logistics in a multinational enterprise (MNE) strategy?**

**Answer:** In a multinational enterprise (MNE) strategy, logistics involves managing the production units and flow of products across different countries. It aims to optimize operations by specializing production in various locations based on factors like scale of operations, factor services, logistical costs, and trade restrictions. This approach allows the MNE to offer full product lines in each market at competitive quality and cost levels by transferring finished products and components among affiliates and between affiliates and the parent company.

#### **2. What are some common government trade policies and their objectives?**

**Answer:** Common government trade policies include:

- **Economic Welfare:** Aimed at expanding international trade by reducing tariffs and barriers to benefit from international specialization.
- **Autarky:** Seeks to minimize reliance on international trade to achieve self-sufficiency in certain goods, often due to economic or political reasons.
- **Protectionism:** Protects domestic industries from foreign competition through tariffs, quotas, and other measures.

- **Economic Development:** Uses trade policies to foster economic growth by protecting "infant industries" or encouraging essential imports while restricting non-essential goods.

## **UNIT 4      PROBLEMS OF NIGERIAN ENTERPRISES**

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## **4.1 INTRODUCTION**

Nigeria is the most populous nation in Africa, with an estimated population of 150 million people. Over the last few years the Nigerian economy has grown at a steady pace, as shown by the recent GDP rebasing of the economy which has led to more than 80% growth in the economy. Nigeria is a country blessed with human, mineral and natural resources, making her a viable hub for various business activities as well as investment, thus making her the toast of every entrepreneur and investor all over the world.

Despite the growth of the economy and the potential of great business opportunities, Nigeria still has some challenges that can affect entrepreneurs or investors who are doing business in the country.



## **4.2 Learning Outcomes**

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

- i. analyze the common problems faced by Nigerian enterprises.
- ii. understand the Nigerian business environment, including its economic, political, and social factors that influence enterprises.
- iii. evaluate strategies for mitigating the challenges faced by Nigerian enterprises.



## **4.3 Problems of Nigerian Enterprises**

Below are the various problems or challenges that an entrepreneur or investor who is doing business in Nigeria could face.

The Nigerian business environment lacks basic amenities and infrastructure that aids and helps business development and survival. Inadequate, inefficient, and non-functional infrastructure, leads to escalating cost of operation. For example, if an investor intends to start or set up a production firm, he or she will find out that they need to provide their building, water supply, logistics and other amenities needed. This leads to more money being spent on the business and increase the time frame needed to start. In the long run cost of operation is made high.

- i. A major problem facing even established companies and organizations in Nigeria. So far, government has not been able to find a lasting solution to the power situation in the country which affects the big organizations including the multinationals down to the one man business such as the barbers or tailors who depend on power to run their business.
- ii. The solution to this is to get solar plants or a generator which in turn leads to a lot of money spent by the business for their purchase, even before any sale or production has been done. This not only affects the business as money that could have been spent to improve the other areas of the business are spent on generator and fuel, but also the end product of whatever the business produces becomes more expensive to the final consumer as the business has to make sure they cover costs for profit.
- iii. Most organizations and companies locate their businesses near their source of materials or market to help save cost and time. But in cases where this is not possible, the problem of transportation comes up. Nigeria does not have a good transport network, most roads are not in good shape and the railways and waterways have not been fully established. The problem a company faces is getting their goods from their warehouse to their consumers.
- iv. There have been incidents where products of companies have been stuck on the roads for days because of bad roads that have either made it difficult for the goods to get to their destinations or have damaged the carriers of the goods. This can lead to great losses to companies as perishable goods are affected in such situations.
- v. Finance and funding is a major aspect of starting or setting up a business. Money is needed to buy materials, suppliers, equipment, pay staff and lots more. In Nigeria, funding is a major problem especially if an entrepreneur does not have enough money to kick start the business. The banks that should help investors are not willing to give

businesses loans particularly startups firms because they do not believe in them or feel they have no experience and do not trust them. Where such startup companies or entrepreneur is fortunate to get a financial institution to assist and support them, there is the issue of high interest rate or collateral challenge to contend with.

- vi. Banks usually place high interest rates on loans they want to give their customers. Another problem is that the payback period is usually short which will make it almost difficult for the business to pay back within the stipulated time.
- vii. Often, people have complained of government not doing enough to help startup businesses or entrepreneurs in general. To start a business, one need to register the business and provide all information of the business. People have often complained of the cost of such registration and the administrative bottlenecks involved in registering the business, which leads to a delay in the business starting on time. There are also the problems of high taxes and duties placed on the business.
- viii. There are a lot of bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government.
- ix. The Nigerian economy is characterized by dumping and importation of sub-standard products by unscrupulous business people. This situation is currently being aggravated by the effect of globalization and trade liberalization.
- x. Volatility in both the product market (local and foreign) and the foreign exchange market can have devastating implications on enterprise performance and survival. The collapse of a large number of coffee exporters since 1996 is largely attributable to the above factors. Agriculture in Nigeria is dependent on natural weather conditions. Both drought and excessive rain affect farmers and related industries. There has been no significant effort to mitigate the risk of doing business in Nigeria.
- xi. This is the complacency lack of initiative and inability to take risk in a competitive and liberalized environment, enterprises with this problem are sure to fail. The very high use of cash as a means of payment even with the campaign on cash-less policy, imposes heavy burden on the entrepreneur to move large amount of cash and store large cash balance, This increases security costs and consequently higher cost of doing business.



xii. **Poor Accounting Records and Auditing**

xiii. The issue of record keeping is particularly important to success of any business. The prevailing corrupt tendencies in our society and the business world in particular, which has permeated the entire fabric of our nation, has prevented business owners from keeping adequate and appropriate records in a bid to avoid paying taxes to the relevant authorities. Creative accounting has become the order of the day. Auditors of companies that supposed to be the accounting watch-dogs are equally not be honest with their audit work.

xiv. **Militancy, Religious Crises and Social Unrests**

xv. Civil disturbances and violence affect businesses by increasing the level of risk. Militancy kidnapping, boko haram insurgency, farmers-herdsmen clashes, etc have become a regular phenomenon in our society thereby slowing down production and business activities. Some companies try to manage the situation by increasing their security costs, and some have closed down completely and relocated to other countries.

#### 4.3.1 Problems of Nigerian Public Enterprise

a. **Inefficiency and Poor Performance**

Public enterprises often suffer from inefficiency due to lack of competition and accountability. Ineffective management and outdated practices contribute to subpar performance.

b. **Corruption and Mismanagement**

Corruption and mismanagement are significant issues, leading to the misallocation of resources and embezzlement of funds.

c. **Overstaffing and Labor Issues**

Many public enterprises are overstaffed, leading to high wage bills and reduced productivity. Labor issues, including strikes and poor working conditions, further hamper performance.

d. **Lack of Innovation**

Public enterprises frequently lack innovation due to rigid structures and resistance to change, affecting their ability to adapt to market demands and technological advancements.

## 5. Financial Dependence on Government

Heavy reliance on government funding creates financial instability and limits the ability of public enterprises to operate independently and sustainably.

### 4.3.2 Problems of Nigerian Private Enterprises

#### a. Inadequate Infrastructure

Private enterprises face significant challenges due to poor infrastructure, including unreliable electricity, poor road networks, and limited access to water.

#### b. Access to Finance

Difficulty in obtaining affordable and accessible finance restricts growth and expansion for private enterprises. High-interest rates and stringent loan requirements are major barriers.

#### c. Regulatory and Bureaucratic Hurdles

Complex regulations and bureaucratic inefficiencies pose obstacles, increasing the cost and time required to comply with legal and administrative requirements.

#### d. Political and Economic Instability

Uncertainty in political and economic environments creates risks for private enterprises, affecting investment decisions and long-term planning.

#### e. Skills Shortage

A mismatch between the skills available in the labor market and those required by businesses hinders productivity and growth.

### Self-Assessment Exercises 1

Question 1: What is one major challenge faced by Nigerian public enterprises?

Question 2: What is a significant problem encountered by private enterprises in Nigeria regarding finance?

#### 4.4 Importance of Nigerian Enterprises

##### i. Economic Growth

1. Nigerian enterprises contribute significantly to the GDP, driving economic growth through production, innovation, and trade.

##### ii. Employment Generation

They create job opportunities, helping to reduce unemployment and underemployment in the country.

##### iii. Wealth Creation

By generating revenue and profits, Nigerian enterprises contribute to wealth creation and improve standards of living.

##### iv. Regional Development

Enterprises help in the development of different regions by stimulating local economies and investing in infrastructure and social services.

##### v. Technological Advancement

They play a role in technological innovation and the adoption of new technologies, which can enhance productivity and competitiveness.

#### 4.4.1 Benefits of Nigerian Enterprises

##### i. Economic Diversification

Private and public enterprises contribute to diversifying the economy beyond oil and gas, fostering growth in various sectors such as agriculture, manufacturing, and services.

##### ii. Community Development

Enterprises invest in local communities through corporate social responsibility initiatives, improving living conditions and supporting local projects.

##### iii. Export Potential

Nigerian enterprises contribute to export earnings by producing goods and

services for international markets, enhancing the country's foreign exchange reserves.

iv. Innovation and Entrepreneurship

They drive innovation and entrepreneurship, leading to new business models, products, and services that can boost economic development.

v. Improved Standard of Living

By providing goods and services that meet local needs, enterprises help improve the quality of life for Nigerians.

#### 4.4.2 Solution to problems in the Nigerian Enterprises

a. Infrastructure Development

Investing in and improving infrastructure, such as power, transport, and water, to support business operations.

b. Financial Reforms

Enhancing access to finance by reducing interest rates, providing credit guarantees, and improving financial inclusion.

c. Regulatory Simplification

Streamlining regulations and reducing bureaucratic processes to make it easier for businesses to operate and comply with legal requirements.

d. Anti-Corruption Measures

Implementing stricter anti-corruption policies and promoting transparency to reduce corruption and mismanagement.

e. Skill Development Programs

Investing in education and training programs to address the skills gap and improve the quality of the workforce.

#### Self-Assessment Exercises 2

Question 1: How do Nigerian enterprises contribute to economic growth?

Question 2: What benefits do Nigerian enterprises provide to local communities?

#### 4.5 Government Past Efforts in Solving Problems in the Nigerian Enterprises

i. Policy Reforms

Governments have introduced various policies aimed at improving the business environment, such as tax incentives, deregulation, and investment in infrastructure.

ii. Support Programs

Initiatives like the Industrial Training Fund (ITF) and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) have been established to support enterprises with training and resources.

iii. Anti-Corruption Agencies

The establishment of agencies like the Economic and Financial Crimes Commission (EFCC) to combat corruption and promote transparency in both public and private sectors.

iv. Infrastructure Projects

Government investments in major infrastructure projects, such as the construction of roads, power plants, and water supply systems, to support business operations.

v. Trade and Investment Promotion

Efforts to promote trade and investment through trade agreements, export incentives, and investment promotion agencies.

##### 4.5.1 Nigerian Case Study

###### **The Nigerian Oil and Gas Industry**

Examines how the government's efforts in regulating and supporting the oil and gas sector have led to both successes and challenges, including issues related to mismanagement and corruption.

###### **2. The Industrial Training Fund (ITF)**

Analyzes the impact of the ITF on vocational training and skills development for Nigerian enterprises, and how it has addressed workforce skill shortages.

## 4.5.2 Global Case Study

### 1. The Asian Tigers' Economic Policies

Explores how countries like South Korea, Taiwan, and Singapore tackled similar issues of infrastructure and regulatory hurdles to achieve rapid economic growth and development.

### 2. The European Union's Regional Development Initiatives

Examines how the EU's regional development funds and policies have supported enterprise growth and infrastructure development in less economically developed member states.

These lecture notes cover a range of issues related to Nigerian enterprises and offer insights into solutions and case studies that can provide valuable context for understanding the broader challenges and opportunities.

### Self-Assessment Exercises 3

Question 1: What have been some of the government's past efforts to support Nigerian enterprises?

Question 2: How have global case studies, such as those of the Asian Tigers and the European Union, informed efforts to solve enterprise problems in Nigeria?



## 4.6 SUMMARY

In this unit, you have learnt about the problems of Nigerian enterprises. Some of which are environmental, political, economic, technological and managerial.



#### **4.7 REFERENCES/FURTHER READINGS/WEB RESOURCES**

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#### **4.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT**

##### **SAE 1**

**Q1: What is one major challenge faced by Nigerian public enterprises?**

**A1:** One major challenge faced by Nigerian public enterprises is inefficiency and poor performance. This is often due to a lack of competition and accountability, ineffective management, and outdated practices that contribute to subpar performance.

**Q2: What is a significant problem encountered by private enterprises in Nigeria regarding finance?**

**A2:** A significant problem encountered by private enterprises in Nigeria regarding finance is the difficulty in obtaining affordable and accessible funding. High-interest rates and stringent loan requirements from banks restrict growth and expansion for many businesses.

## **SAE 2**

### **1. How do Nigerian enterprises contribute to economic growth?**

Nigerian enterprises significantly contribute to economic growth by driving production, innovation, and trade. They play a key role in boosting the GDP, which helps stimulate broader economic development and stability.

### **2. What benefits do Nigerian enterprises provide to local communities?**

Nigerian enterprises benefit local communities through various initiatives, including community development programs and corporate social responsibility projects. They improve living conditions, support local projects, and help foster economic growth by creating job opportunities and contributing to regional development.

## **SAE 3**

### **What have been some of the government's past efforts to support Nigerian enterprises?**

The Nigerian government has implemented various measures to support enterprises, including policy reforms such as tax incentives and deregulation, and investments in infrastructure. Support programs like the Industrial Training Fund (ITF) and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) provide training and resources. Additionally, anti-corruption agencies like the Economic and Financial Crimes Commission (EFCC) have been established to combat corruption and promote transparency.



**2. How have global case studies, such as those of the Asian Tigers and the European Union, informed efforts to solve enterprise problems in Nigeria?**

Global case studies offer valuable lessons for Nigeria. For instance, the Asian Tigers' focus on infrastructure development and regulatory reform led to rapid economic growth, while the European Union's regional development initiatives have successfully supported enterprise growth and infrastructure development in less economically developed areas. These examples highlight the importance of targeted investment and policy reform in overcoming similar challenges faced by Nigerian enterprises.

## **MODULE 4**

### **UNIT 1 THE CONCEPT OF SOCIAL GOODS**

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## 1.1 INTRODUCTION

A good or service that benefits the largest number of people in the largest possible way is called social good. It is any action that provides some sort of benefit to the general public. Is it making a donation to charity? Is it a random act of kindness? Is it volunteering? Is it advocating for a worthy cause? Some classic examples of social goods are clean air, clean water and literacy; in addition, many economic proponents include access to services such as healthcare in their definition of the social or "common good". Social good is used interchangeably with public good.

However, new media innovations and the explosion of online communities have added new meaning to the term. Social good is now about global citizens uniting to unlock the potential of individuals, technology and collaboration to create positive societal impact. Today, social good is about getting people to engage in pro-social actions that benefit society, often by harnessing the power of technology and social media in particular. It is about engagement, share-ability and bringing people together to change the world for the better. Gone are the days when governments, multinationals and large NGOs were the only institutions with the reach and resources to initiative change.

It should be noted however, that government is involved in producing social good but not all social goods are necessarily provided by the public sector or the government. Social goods may be available naturally, e.g clear air.



## 1.2 Learning Outcomes

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

- i. Understand three characteristics of social goods
- ii. Analyze the relationship between social good and market failure
- iii. Evaluate the free rider situation

iv. Evaluate the Challenges and Solutions in Providing Social Goods



### 1.3 Social Goods

Social goods are a category of goods in economics and public policy that have distinct characteristics and are typically provided by the government or nonprofit organizations rather than the private sector. These goods are characterized by two key features:

**Non-excludability:** Social goods are non-excludable, which means that it is difficult or impossible to exclude individuals or groups from benefiting from the good once it is provided. In other words, if a social good is made available to one person, it is usually available to all members of society. For example, if a city provides clean air, street lighting, or national defense, it is challenging to exclude any specific person from enjoying these benefits.

**Non-rivalrous consumption:** Social goods are non-rivalrous in consumption, meaning that one person's consumption of the good does not reduce the availability or consumption opportunities for others. In contrast, rivalrous goods, like a loaf of bread or a car, are consumed by one person and become less available for others. Social goods, however, can be consumed by one person without diminishing their availability to others. For instance, the enjoyment of a public park or national security does not decrease for others when one person benefits from them.

Examples of social goods include:

**Clean air and water:** Environmental resources that benefit everyone and are challenging to exclude people from enjoying.

**National defense:** The protection of a country and its citizens benefits all residents, regardless of whether they directly contribute to its provision.

**Public parks and recreational facilities:** These spaces are open to all members of the community and can be enjoyed by multiple individuals simultaneously.

**Street lighting:** Well-lit streets enhance safety and security for everyone in a community.

Education: Public education systems are designed to provide educational opportunities to all children within a jurisdiction.

Basic healthcare: Access to healthcare services is often considered a social good in many countries.

### 1.3.1 Importance of Social Goods

Social goods, also known as public goods, are goods and services that benefit society as a whole. Their importance includes:

1. **Non-Excludability:** Social goods are available to all members of society, ensuring everyone can benefit regardless of their ability to pay (e.g., clean air, public parks).
2. **Non-Rivalry:** One person's use of a social good does not diminish its availability to others, promoting shared access and collective well-being (e.g., national defense, street lighting).
3. **Positive Externalities:** Social goods often provide benefits that extend beyond the individual consumer to the broader community, enhancing overall social welfare (e.g., education, public health initiatives).
4. **Equity and Social Justice:** Provision of social goods helps reduce inequalities and ensures a more equitable distribution of resources and opportunities within society (e.g., public education, social security).
5. **Economic Efficiency:** Government provision of social goods can address market failures, ensuring that essential services are available and that resources are allocated more efficiently (e.g., infrastructure, environmental protection).

### 1.3.2 Characteristics of Social Goods

Certain social products may be classified as public or collective goods. Examples are national defense, law and order, the administration of justice, air traffic control, and public safety. These products have three common characteristics. These are:

1. **Inclusiveness** — The benefits of a social good are indivisible: they cannot be denied any one, regardless of whether he pays for them or not. This is not the case with non-public

goods — that is, a private good like food or clothing or certain social goods such as toll highways or National parks — since someone who does not pay can conceivably be excluded from their use. Hence, a non- social good is subject to, what is technically known as the exclusion principle whereas a social good is not.

**2. Zero Increment or Marginal Costs** — There is no increase in the cost of a social good if it is provided to one more consumer. Hence we say that the additional or incremental cost — commonly called —marginal cost<sup>ll</sup> — of the commodity is zero. Thus the, cost of National Defense, Law and Order, or any other commodity mentioned above does not increase with unitary increases in the population. However, this characteristic is also true of many private as well as other social goods. For example, there are no significant incremental or marginal costs to a movie theatre or to a public library resulting from the admittance of one more patron.

**3. Spill-over Effects** — A social good creates spillover — external benefits or costs resulting from activities for which no compensation is made. For example, air traffic control at busy airport reduces noise for some nearby resident while increasing it for others. This is an unpaid — for benefit to the former group and, an uncompensated —cost<sup>ll</sup> to the latter. Similarly, in the private sector of the economy a factory may provoke income and employment benefits to the community while at the same time polluting its environment. Thus spillover effects, like zero incremental costs, are not a unique property of social goods. In summary, social goods are non-rival in the nature of access; consumption does not diminish its benefit from another use. They are not traded in a marketplace, and one can't sell social goods in units. For instance, fire services are consumed but are still available for others in the public, while if someone consumes a gallon of milk, no one else can directly benefit from the milk. With private goods, there is the precondition of ownership that doesn't really exist for social goods. You can't internalize the costs of privately produced.

## Self-Assessment Exercises 1

### Question 1:

What are the two key characteristics of social goods?

### Question 2:

Can you provide examples of social goods and explain why they are considered as such?

## 1.4 Social Goods and Market Failure

Social goods are those goods and services provided by the government because a market failure has occurred and the market has not provided them. Sometimes it is in our benefit not to allow for a market provision. In the case of police, national defense and public education it can be argued that private provision of these services would be less desirable for a variety of reasons.

Proponents of government intervention in production argue that there is market inadequacy and sums their argument in the following illustration. Imagine that there is some good X that is valuable to say about 1,000 people. And if this good X is produced, each of these 1000 will be able to benefit from it, whether or not they contributed to its production. The question here then is what will be your reaction if you were among these 1,000 persons and asked to contribute?

According to the Samuelsonian theory of public goods, you are likely to reason as follows: —Either the other 999 are going to raise a sufficient amount of money to fund the good X, or they aren't suppose they do raise enough, then good X will be funded whether you pay or not, so you might as well not pay, so you can take advantage of the benefits without paying the costs. This is what is referred to as the Free Rider problem. If too many consumers decide to free-ride, private costs exceed private benefits and the incentive to provide the good or service through the market disappears. The market thus falls to provide a good or service for which there is a need. On the other hand, if they fail to raise enough money to fund the production of the good X, then the good won't be funded even if you do contribute, so there's no point in throwing your money away. This is what is known as the Assurance problem. The chance that your contribution or not will make the decisive difference to the funding of good X or not is so completely insignificant as to be quite properly ignored. So either way, regardless

of what others do, it is in your interest not to contribute. So you will not and you completely refuse to do so.

The problem is that the other 999 people in the group are reasoning the same way, and so good X never gets funded - despite the fact that everyone would be better off - by their own standards - if good X were funded. It is in everybody's collective interest to cooperate, but in everyone's individual interest to defect; and since it is individuals, not collectives, who make decisions, the result is that no one cooperates and the public good is never produced. The market system of voluntary cooperation appears to have failed. This is where we say the market system has failed.

Here the scenario is that the individuals' pursuit of pure self-interest leads to results that are not efficient or that can be improved upon from the societal point-of-view. In other words, there exists another conceivable outcome where a market participant may be made better-off without making someone else worse-off. The outcome is not Pareto optimal or Pareto efficient.

This phenomenon, market failure, exists when the system fails to function properly and the following conditions exist:

- 1. Non-Competitive Markets** — This is when adequate competition does not exist. In an age where mergers are all too common, the result has been an increase in larger and fewer firms in many industries. In extreme cases, this results in a monopoly. The greatest threat that a monopoly poses is that it denies consumers the benefit of choice and competition. Because a monopoly occupies the top spot in its market, it can use its position to impede competition and restrict production. Thus in the end there are artificial shortages and higher prices.
- 2. Information Asymmetries** - Buyers and sellers are not well informed. In order to efficiently allocate resources, consumers, business people, and government officials must have adequate information about market conditions. Without information uneducated decisions are made. This leads to mistakes and thus, market failure.
- 3. Resource Immobility** — When resources are not free to move from one industry to another the market do not function properly. The efficient allocation of resources



requires that the factors of production like land, labour, capital and entrepreneurs be free to move to markets where returns are the highest. The consequence of the move is a reason that may hamper the corporation from taking its business elsewhere. Resource mobility is considered ideal in the competitive market economy, but is actually much more difficult to accomplish.

**4. Unreasonable Prices** - Prices do not reasonably reflect the costs of production. This represents a problem because then wealth is being redistributed unfairly and prices are too high goods.

### 1.4.1 Challenges in Providing Social Goods

Challenges in providing social goods include:

1. **Free-Rider Problem:** Individuals may benefit from social goods without contributing to their provision, leading to underfunding and potential shortages.
2. **Funding and Resource Allocation:** Ensuring sufficient and sustainable funding can be difficult, as social goods often rely on government budgets, which may face competing demands and constraints.
3. **Political and Bureaucratic Constraints:** The process of decision-making and implementation can be slow and influenced by political interests, potentially leading to inefficiencies and misallocation of resources.
4. **Measurement of Benefits:** Quantifying the benefits of social goods can be challenging, making it difficult to justify and prioritize investments.
5. **Maintenance and Quality Control:** Ensuring the ongoing quality and maintenance of social goods requires consistent effort and resources, which can be difficult to manage over time.
6. **Equity in Distribution:** Ensuring equitable access to social goods across different regions and demographics can be challenging, leading to disparities in availability and quality.
7. **Coordination and Collaboration:** Providing social goods often requires coordination among multiple stakeholders, including different levels of government, private sector, and community organizations, which can be complex and challenging.

### 1.4.2 Solutions to the Challenges in Providing Social Goods

To address the challenges in providing social goods, the following solutions can be implemented:

1. **Addressing the Free-Rider Problem:** Implement policies that encourage contribution through taxes, user fees for certain services, or public awareness campaigns to highlight the importance of collective responsibility.
2. **Ensuring Sustainable Funding:** Diversify funding sources by leveraging public-private partnerships, grants, and international aid. Governments can also create dedicated funds or use progressive taxation to ensure sustainable financial support.
3. **Improving Political and Bureaucratic Processes:** Streamline decision-making processes by reducing bureaucratic red tape and enhancing transparency. Encourage stakeholder participation and use evidence-based policy-making to improve efficiency.
4. **Quantifying Benefits:** Develop robust methodologies to measure the social and economic benefits of social goods. Use cost-benefit analysis, social impact assessments, and other tools to justify investments and prioritize projects.
5. **Maintaining Quality and Standards:** Establish clear standards and regular monitoring systems to ensure the quality and maintenance of social goods. Use technology and data analytics to track performance and identify areas for improvement.
6. **Promoting Equitable Distribution:** Design policies that target underserved areas and populations. Use data to identify disparities and allocate resources to ensure equitable access to social goods across different regions and demographics.
7. **Enhancing Coordination and Collaboration:** Foster collaboration among government agencies, private sector, and community organizations through joint initiatives, shared goals, and clear communication channels. Establish inter-agency task forces or working groups to coordinate efforts.
8. **Encouraging Public Participation:** Involve citizens in the planning and decision-making processes through public consultations, participatory budgeting, and community engagement initiatives. This can help ensure that social goods meet the actual needs of the population.

9. **Leveraging Technology:** Utilize digital platforms and technologies to improve the delivery and accessibility of social goods. For example, e-governance can streamline service delivery, and data analytics can enhance decision-making.
10. **Innovative Policy Solutions:** Explore innovative policy solutions such as social impact bonds, which tie funding to outcomes, and use market mechanisms to incentivize the private sector to contribute to the provision of social goods.

## Self-Assessment Exercises 2

### Question 1:

What are social goods, and why might private provision of these goods be less desirable than government provision?

### Question 2:

How does the free rider problem contribute to market failure in the context of social goods?

## 1.5 The Free Rider Situation

Free riding refers to a problem where under production of goods or services provided by the public sector lead to Pareto inefficiency or where there is an excessive use of the social goods. It is relevant in the case where non-excludability and non-rivalry in consumption of social good by the consumer will establish the consumption of the goods without contributing towards its production. This leads to underproduction of social goods and gives rise to free riding. Potential users may wait for the good to be supplied and then consume the good for free. For example National Housing Scheme (NHS) is non-rivalry in consumption and non-excludable as nonpayers can take a free ride and enjoy the benefits of consumption (free riders). This creates market failure as smaller amount of money is being regenerated into the health service. Thus there is less money for the government to invest into the health services. This results in hospitals having out dated equipment, decrease in hospital beds and cuts in hospital jobs.

To solve the problems of such free riders we can look at following three issues as identified by McMillian: The first issue is that consumer may not be willing to pay for the good such as NHS. For example to solve this issue government can collect taxes for the provision of social goods and the problem might disappear by further restricting the deals with free rider problem

. The second issue; what is the optimal level of production that requires information on individual demand for social good. People can give false information about their taste as consumer might be hoping to bring about a non-Pareto optimal equilibrium that gives them higher utility. That is caused by lack of information as observed by Samuelson. It causes particular problems in the case of Non-rival good consumption aspect of social goods that leads to "Demand Revelation" problems, as consumer might not reveal their true marginal rate of substitution. Each person's marginal rate of substitution is different which is required to establish welfare maximization. This can lead to excessive supply of funds and inefficiently allocation of the goods as most social goods and services are financed through a process of taxation, having no choice. Optimal levels of expenditures are difficult to be established. In a nutshell, the provision of social goods can easily be over-financed or under-financed.

The demand revelation problem in the absence of perfect information can be solved by relying on potential competition in the market in a way to minimize adverse impact of collusion or coalition. Tideman and Tullock (1976) pointed out that Demand revelation is a superior for making choices. Principle person is given a choice of accepting a decision made without his participation or changing to whatever he wants by paying for it and having it done otherwise" Furthermore government could simply make an estimate of the optimum output distribution of tax and permit them to do better. The "advantage of this approach is that it would provide the market with information that is otherwise not available to government." They can also use mechanism that has been designed to induce true preferences revelation under specific condition to attain efficient provision of public goods.

The third issue of free riding concern is as to what happens if the number of people grows larger in the economy. The issue can lead to under provision of services and goods. For example, problems like congestion costs arise, due to increase in number of users thus reducing the benefits to each individual. For example, the NHS, where the demand for healthcare is greater than supply; and in the absence of the price mechanism, demand is rationed through waiting lists. That waiting list reduces the benefits of individuals due to overcrowding as fewer resources like beds or doctors are available.

The Coasian solution could also be used to solve free rider problem, where theorem, suggests the idea that a legal system would be unnecessary for the regulation of externalities in a world

without transaction. It is where beneficiaries come to an agreement that satisfies both parties, thus reaching a Pareto effect allocation of resources. For example a farmer's cattle are consuming the protective plants at the edge of another farmer field, which reduces his output. This is not necessary for the government to step in and force parties to act properly. It is in their own interest to come to an agreement, as costs of implementation could be higher for both parties. Therefore, they will be able to find an agreement that is Pareto efficient. Since long transaction costs will be too high. In Nigeria, farmers and herdsmen have not been able to come to such as agreement, hence the prevailing clashes in recent times.

Societies have dealt with government provision of social goods and services in different ways. That could include where a representative could be elected and represent people preferences. Voting is a common way to decide the allocation of problems. Whether people vote on public issues or elected representatives decide the social goods and their provision. Under majority voting, maximum spending will be based on median voter that might not be an efficient level. The main issue of public good is that an individual is paying for someone else's consumption and sometime people don't pay enough.

### **1.5.1 Types of Free Rider**

A free rider situation occurs when individuals or entities benefit from a service or good without directly paying for it or contributing to its cost. This situation is commonly associated with public goods and can lead to underfunding or overuse of these goods. Here are the main types of free rider situations:

A free rider situation occurs when individuals or entities benefit from a service or good without directly paying for it or contributing to its cost. This situation is commonly associated with public goods and can lead to underfunding or overuse of these goods. Here are the main types of free rider situations:

#### **1. Public Goods Free Rider**

Definition: Public goods are non-excludable and non-rivalrous, meaning that once they are provided, no one can be excluded from using them, and one person's use does not reduce their availability to others.

Example: National defense is a classic example. Everyone benefits from the protection provided by the military, regardless of whether they contribute to its funding through taxes.

Underfunding: If too many people rely on others to fund public goods, there might be insufficient resources to maintain them.

Overuse: Public goods can become overused or depleted if they are not managed properly.

## 2. Environmental Free Rider

Definition: This occurs when individuals or businesses benefit from a healthy environment without contributing to its preservation.

Example: Clean air and water are environmental public goods. If a factory pollutes the environment, it can affect everyone, but the factory itself might not bear the full cost of the damage.

Environmental Degradation: Overexploitation and pollution can lead to long-term damage.

Lack of Incentives: Businesses may not invest in environmentally friendly practices if they believe others will address the problem.

## 3. Social Service Free Rider

Definition: Individuals or organizations benefit from social services or programs without paying for them or contributing to their development.

Example: Public education systems offer free education to all children. Families who do not pay taxes or contribute to school funding still benefit from the education system.

Funding Shortages: If not enough people or entities contribute, there may be insufficient funds to maintain and improve the services.

Quality of Services: Insufficient funding can lead to a decline in the quality of services provided.

#### 4. Health Care Free Rider

Definition: This occurs when individuals benefit from health care services without directly paying for them or contributing to the system that provides them.

Example: In countries with universal health care, individuals may receive medical services funded by taxpayers even if they do not contribute to the funding.

### 1.5.2 Case Study

#### The Provision of Public Health Services in Rwanda

**Background:** Rwanda, a country in East Africa, faced significant challenges in providing public health services after the 1994 genocide. The health infrastructure was devastated, and there was a critical shortage of healthcare professionals and resources.

#### Challenges:

1. **Free-Rider Problem:** Many citizens were unable to pay for healthcare services, leading to an over-reliance on free public health services.
2. **Funding and Resource Allocation:** The government faced severe budget constraints and had limited resources to rebuild the health sector.
3. **Political and Bureaucratic Constraints:** Post-genocide, the political environment was unstable, and bureaucratic processes were inefficient.
4. **Measurement of Benefits:** It was challenging to quantify the immediate benefits of investing in health services amidst numerous urgent needs.
5. **Maintenance and Quality Control:** Ensuring consistent quality and maintenance of healthcare facilities was difficult due to a lack of trained personnel.
6. **Equity in Distribution:** Rural areas were particularly underserved, with limited access to healthcare compared to urban regions.
7. **Coordination and Collaboration:** Coordinating efforts between the government, international donors, and NGOs was complex and required effective collaboration.

### **Solutions Implemented:**

1. **Community-Based Health Insurance (CBHI):** Rwanda introduced a CBHI scheme, where citizens pay a small annual premium to access healthcare services. This helped address the free-rider problem by ensuring broader participation and funding.
2. **International Aid and Partnerships:** The government leveraged international aid and formed partnerships with organizations like the Global Fund, WHO, and NGOs to secure funding and technical support.
3. **Political Commitment and Reforms:** Strong political commitment from the government led to reforms in the health sector, prioritizing healthcare in national policies and improving bureaucratic efficiency.
4. **Health Management Information Systems:** Rwanda implemented health management information systems to collect data and measure the impact of health interventions, facilitating evidence-based decision-making.
5. **Training and Capacity Building:** The government invested in training healthcare professionals and improving the quality of healthcare services through regular monitoring and quality control mechanisms.
6. **Equitable Access:** Special programs were launched to improve healthcare access in rural areas, including mobile clinics and health posts staffed by community health workers.
7. **Coordination Frameworks:** Effective coordination frameworks were established, involving all stakeholders in regular planning and review meetings to ensure aligned efforts and resource allocation.

### **Self-Assessment Exercises 3**

Question 1: What is the free rider problem, and how does it lead to Pareto inefficiency in the provision of public goods such as the National Health Service (NHS)?

Question 2: What are the key issues identified by McMillan in solving the free rider problem, and what solutions can be implemented to address these issues?





## **1.6 SUMMARY**

In this unit, you have learnt about: the characteristics of social goods, the social good and market failure, and the free rider situation. Social goods, also known as public goods, play a crucial role in the functioning of society. They are characterized by their non-excludability and non-rivalrous consumption, meaning that once provided, it is difficult to exclude anyone from benefiting from them, and one person's use does not diminish the availability for others. Examples of social goods include clean air, national defense, public parks, and education. The importance, characteristics, and the challenges of providing these goods, as well as the solutions and issues related to the free rider problem, are essential to understand their role and the complexities involved in their provision.



## **1.7 REFERENCES/FURTHER READINGS/WEB RESOURCES**

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## 1.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT

### SAE 1

#### Question 1:

What are the two key characteristics of social goods?

#### Answer:

The two key characteristics of social goods are:

1. **Non-excludability:** It is difficult or impossible to exclude individuals from benefiting from the good once it is provided.
2. **Non-rivalrous consumption:** One person's consumption of the good does not reduce the availability or consumption opportunities for others.

#### Question 2:

Can you provide examples of social goods and explain why they are considered as such?

#### Answer:

Examples of social goods include:

- **Clean air and water:** They benefit everyone and it is challenging to exclude people from enjoying them.
- **National defense:** It protects all residents of a country, regardless of individual contribution.
- **Public parks and recreational facilities:** These spaces are available to all community members simultaneously.
- **Street lighting:** Enhances safety and security for everyone in a community.
- **Education:** Public education systems provide educational opportunities to all children within a jurisdiction.
- **Basic healthcare:** Access to healthcare services benefits the entire community.

## SAE 2

Question 1:

What are social goods, and why might private provision of these goods be less desirable than government provision?

Answer:

Social goods are goods and services provided by the government because of market failures, where the market does not provide them adequately. Private provision of social goods, such as police, national defense, and public education, might be less desirable because private entities may not ensure equitable access or maintain the necessary quality and coverage. Government provision ensures that these goods are available to all, regardless of individual contribution, addressing issues of non-excludability and non-rivalry.

Question 2:

How does the free rider problem contribute to market failure in the context of social goods?

Answer:

The free rider problem occurs when individuals benefit from a social good without contributing to its cost. This leads to underfunding, as people rely on others to pay, resulting in insufficient resources to maintain or produce the good. In the context of social goods, such as the NHS, this problem means fewer funds for essential services, leading to outdated equipment, reduced capacity, and ultimately market failure, as the market fails to provide the good despite a clear need.

## SAE 3

**Question 1:**

**What is the free rider problem, and how does it lead to Pareto inefficiency in the provision of public goods such as the National Health Service (NHS)?**

**Answer:** The free rider problem occurs when individuals benefit from a public good without contributing to its cost. Public goods are characterized by non-excludability (no one can be

excluded from using them) and non-rivalry (one person's use does not reduce availability to others). This situation leads to underproduction and overuse of the good. In the case of the NHS, individuals who do not pay taxes can still access healthcare services. This results in less funding for the NHS, leading to outdated equipment, fewer hospital beds, and job cuts, ultimately causing Pareto inefficiency where resources are not allocated to maximize societal welfare.

### **Question 2:**

**What are the key issues identified by McMillan in solving the free rider problem, and what solutions can be implemented to address these issues?**

**Answer:** McMillan identifies three key issues in solving the free rider problem:

1. **Consumer Unwillingness to Pay:** To address this, governments can collect taxes to fund public goods like the NHS, ensuring everyone contributes and mitigating the free rider problem.
2. **Optimal Level of Production:** Determining the optimal production level is challenging due to false information about individual demand. Governments can use methods like demand revelation mechanisms, competition in the market, or making estimates based on available data to improve efficiency and avoid over- or under-financing public goods.
3. **Growing Population:** An increasing number of users can lead to under-provision and congestion, reducing individual benefits. Solutions include implementing the Coasian solution, where parties come to mutually beneficial agreements without government intervention, or improving resource allocation through representative voting and decision-making processes to manage public good provision efficiently.

## **UNIT 2      THE CREATION OF SOCIAL NETWORKS**

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2.6 Summary

2.7 References/Further Readings/Web Resources

2.8 Possible Answers to Self-Assessment Exercise(s) within the content



## 2.1 INTRODUCTION

A term social network also known as virtual community or profile site was coined in 1954 by J.

A. Barnes. It is a website that brings people together to talk, share ideas and interests, or make new friends. In other words, it represents relationships and flows between people, groups, organizations, or other information/knowledge processing entities. This type of collaboration and sharing is known as social media. Unlike traditional media that is typically created by no more than ten people, social media sites contain content created by hundreds or even millions of different people. A study reveals that India has recorded world's largest growth in terms of social media users in 2013. A 2013 survey found that 73% of U.S. adults use social networking sites.



## 2.2 Learning Outcomes

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

- i. analyze the historical development of social network
- ii. evaluate the features of social network
- iii. analyze the types of social network services
- iv. identify common social media sites
- v. demonstrate four uses of social network



## 2.3 Social Network

A social network is a structured representation of the connections and relationships between individuals or entities. These connections can be based on various factors such as personal relationships, shared interests, professional affiliations, or any other form of interaction. Social networks can exist in both physical and digital spaces, but in contemporary discussions, the term is often associated with online platforms designed to facilitate social interactions and connections.

### 2.3.1 Historical Development of Social Net Works

Early social networking on the World Wide Web began in the form of generalized online communities such as [Theglobe.com](#) (1995), [Geocities](#) (1994) and [Tripod.com](#) (1995). Many of these early communities focused on bringing people together to interact with each other through chat rooms, and encouraged users to share personal information and ideas via personal webpages by providing easy-to-use publishing tools and free or inexpensive webspace. Some communities – such as [Classmates.com](#) – took a different approach by simply having people link to each other via email addresses. [PlanetAll](#) started in 1996.

In the late 1990s, [user profiles](#) became a central feature of social networking sites, allowing users to compile lists of "[friends](#)" and search for other users with similar interests. New social networking methods were developed by the end of the 1990s, and many sites began to develop more advanced features for users to find and manage friends. This newer generation of social networking sites began to flourish with the emergence of [SixDegrees.com](#) in 1997, followed by [Makeoutclub](#) in 2000, [Hub Culture](#) and [Friendster](#) in 2002, and soon became part of the Internet mainstream.

However, thanks to the nation's high Internet penetration rate, the first mass social networking site was the South Korean service, [Cyworld](#), launched as a blog-based site in 1999 and social networking features added in 2001. It also became one of the first companies to profit from the sale of virtual goods. Friendster was followed by [MySpace](#) and [LinkedIn](#) a year later, and eventually [Bebo](#). Friendster became very popular in the Pacific Islands.

Attesting to the rapid increase in social networking sites' popularity, by 2005, it was reported that [Myspace](#) was getting more page views than [Google](#). [Facebook](#), launched in 2004, became the largest social networking site in the world in early 2009. Facebook was first introduced as a Harvard social networking site, expanding to other universities. The term social media was introduced and soon became widespread.

### 2.3.2 Features of Social Networking Services

A social networking service (also social networking site, SNS or social media) is an online platform that is used by people to build [social networks](#) or [social relations](#) with other people who share similar personal or career interests, activities, backgrounds or real-life connections. The variety of stand-alone and built-in social networking services currently available in the online space introduces challenges of definition. However, some common features are:

Social networking services are Web 2.0 internet-based applications

User-generated content (UGC) is the lifeblood of SNS organisms

Users create service-specific profiles for the site or applications that are designed and maintained by the SNS organization and

Social networking services facilitate the development of online social networks by connecting a user's profile with those of other individuals and/or groups. Most social network services are [web-based](#) and provide means for users to interact over the Internet, such as by [e-mail](#) and [instant messaging](#) and [online forums](#).

#### Self-Assessment Exercises 2

**Question 1:** What was one of the earliest forms of social networking on the World Wide Web, and what did it focus on?

**Question 2:** What are some common features of social networking services (SNS)?



## 2.4 Types of Social Networking Services

Social networking sites are varied and they incorporate a range of new information and communication tools such as availability on desktop and laptops, mobile devices such as tablet computers and smartphones, digital photo/video/sharing and "web logging" diary entries online (blogging). Online community services are sometimes considered a social network service, though in a broader sense, social network service usually means an individual-centered service whereas online community services are group-centered. Social networking sites allow users to share ideas, digital photos and videos, posts, and inform others about online or real world activities and events with people in their network. While in-person social networking, such as gathering in a village market to talk about events has existed since the earliest developments of towns, the Web enables people to connect with others who live in different locations, ranging from across a city to across the world. Depending on the social media platform, members may be able to contact any other member. In other cases, members can contact anyone they have a connection to, and subsequently anyone that contact has a connection to, and so on. LinkedIn, a career social networking service, generally requires that a member personally know another member in real life before they contact them online. Some services require members to have a preexisting connection to contact other members.

Social network services can be split into three types:

- (1) **Socializing Social Network:** Socializing social network services are primarily for socializing with existing friends (e.g., Facebook);
- (2) **Networking Social Network:** Networking social network services are primarily for non-social interpersonal communication (e.g., LinkedIn, a career and employment-oriented site).
- (3) **Social Navigation Social Networking:** The social navigation social network services are primarily for helping users to find specific information or resources (e.g., Goodreads for books).

### 2.4.1 Social Media Sites

- **Bebo** ( <http://www.bebo.com/> ) - A popular social networking site where users can share photo's, stories, their journal, and more with friends and family privately or publicly on the Internet.
- **Classmates** ( <http://www.classmates.com/> ) - One of the largest and most used websites for connecting people who graduated from a high school and allows you to keep in touch with them and any future reunions.
- **Facebook** ( <http://www.facebook.com/> ) - The most popular social networking websites on the Internet. Facebook is a popular destination for users to set up personal space and connect with friends, share pictures, share movies, talk about what you're doing, etc.
- **Friendster** ( <http://www.friendster.com/> ) - A popular social network that brings together friends, family, and allows you to meet new people who share similar interests to you from all over the world.
- **Google+** ( <http://plus.google.com/> ) - The latest social networking service from Google.
- **Instagram** ( <https://www.instagram.com/> ) - A mobile photo sharing service and application available for the iPhone, Android, and Windows Phone platforms.
- **LinkedIn** ( <http://www.linkedin.com/> ) - One of the best if not the best locations to connect with current and past co-workers and potentially future employers.
- **MySpace** ( <http://www.myspace.com/> ) - Once one of the most popular social networks and viewed website on the Internet. See the MySpace definition for further information about this service.
- **Orkut** ( <http://www.orkut.com/> ) - A popular service from Google that provides you a location to socialize with your friends and family, and meet new acquaintances from all around the world.

- **Path** ( <http://path.com/> ) - A mobile-only social network that allows you to keep in contact with your closest friends and family.
- **Pinterest** ( <http://www.pinterest.com/> ) - A popular picture and sharing service that allows anyone to share pictures, create collections, and more.
- **Reddit** ( <http://www.reddit.com/> ) - Community of registered users (redditors) submits content that is up voted by the community. Reddit has a subreddit (board) for almost every category.
- **StumbleUpon** ( <http://www.stumbleupon.com/> ) - Another very popular community of Internet users who vote for web pages they like and dislike and allows users to create their own personal page of interesting sites they come across. See the StumbleUpon definition for additional information about this service.
- **Tumblr** ( <https://www.tumblr.com/> ) - A microblogging platform with social networking capabilities.
- **Twitter** ( <http://www.twitter.com/> ) - Another fantastic service that allows users to post 140 character long posts from their phones and on the Internet. A fantastic way to get the pulse of what's going on around the world.
- **Yik Yak** - Smartphone social network that connects users who are in close to each other.
- **YouTube** ( <http://www.youtube.com/> ) - An excellent network of users posting video blogs or Vlog's and other fun and exciting videos.

#### 2.4.2 Uses of Social Network

According to the communication theory of uses and gratifications, an increasing amount of individuals are looking to the Internet and social media to fulfill cognitive, affective, personal integrative, social integrative, and tension free needs. With Internet technology as a supplement to fulfill needs, it is in turn affecting everyday life, including relationships, school, church, entertainment, and family. Companies are using social media as a way to learn about potential

employees' personalities and behavior. In numerous situations a candidate who might otherwise have been hired has been rejected due to offensive or otherwise unseemly photos or comments posted to social networks or appearing on a newsfeed.

## **Social Interaction**

People use social networking sites for meeting new friends, finding old friends, or locating people who have the same problems or interests they have, called niche networking. More and more relationships and friendships are being formed online and then carried to an offline setting. Psychologist and University of Hamburg professor Erich H. Witte says that relationships which start online are much more likely to succeed. In this regard, there are studies which predict tie strength among the friends on social networking websites. Witte has said that in less than 10 years, online dating will be the predominant way for people to start a relationship. One online dating site claims that 2% of all marriages begin at its site, the equivalent of 236 marriages a day. Other sites claim one in five relationships begin online. Users do not necessarily share with others the content which is of most interest to them, but rather that which projects a good impression of themselves. While everyone agrees that social networking has had a significant impact on social interaction, there remains a substantial disagreement as to whether the nature of this impact is completely positive. A number of scholars have done research on the negative effects of Internet communication as well. These researchers have contended that this form of communication is an impoverished version of conventional face-to-face social interactions, and therefore produce negative outcomes such as loneliness and depression for users who rely on social networking entirely. By engaging solely in online communication, interactions between communities, families, and other social groups are weakened.

Research has provided us with mixed results as to whether or not people's involvement in social networking can affect their feelings of loneliness. Studies have indicated that how a person chooses to use social networking can change their feelings of loneliness in either a negative or positive way. Some companies with mobile workers have encouraged their workers to use social networking to feel connected, educators are using it to keep connected with their students and

individuals are benefiting from social networking to keep connect with already close relationships that they've developed under circumstances that would otherwise make it difficult to do so.

## **Employment**

A rise in social network use is being driven by college students using the services to network with professionals for internship and job opportunities. Many studies have been done on the effectiveness of networking online in a college setting, and one notable one is by Phipps Arabie and Yoram Wind published in *Advances in Social Network Analysis*. Many schools have implemented online alumni directories which serve as makeshift social networks that current and former students can turn to for career advice. However, these alumni directories tend to suffer from an oversupply of advice-seekers and an undersupply of advice providers. One new social networking service, Ask-a-peer, aims to solve this problem by enabling advice seekers to offer modest compensation to advisers for their time. LinkedIn is also another great resource. It helps alumni, students and unemployed individuals look for work. They are also able to connect with others professionally and network with companies.

## **Trading Networks**

A social trade network is a service that allows traders of financial derivatives such as contracts for difference or foreign exchange contracts to share their trading activity via trading profiles online. These services are created by financial brokers.

## **Grassroots Movement**

Social networks are being used by activists as a means of low-cost grassroots movement. Extensive use of an array of social networking sites enabled organizers of the 2009 National Equality March to mobilize an estimated 200,000 participants to march on Washington with a cost savings of up to 85% per participant over previous methods. The August 2011 England riots were similarly considered to have escalated and been fuelled by this type of grassroots organization.

## **Business Model**

Few social networks charge money for membership. In part, this may be because social networking is a relatively new service, and the value of using them has not been firmly established in customers' minds. Companies such as Myspace and Facebook sell online advertising on their site. Their business model is based upon large membership count, and charging for membership would be counterproductive. Some believe that the deeper information that the sites have on each user will allow much better targeted advertising than any other site can currently provide. In recent times, Apple has been critical of the Google and Facebook model, in which users are defined as product and a commodity, and their data being sold for marketing revenue. Social networks operate under an autonomous business model, in which a social network's members serve dual roles as both the suppliers and the consumers of content. This is in contrast to a traditional business model, where the suppliers and consumers are distinct agents. Revenue is typically gained in the autonomous business model via advertisements, but subscription-based revenue is possible when membership and content levels are sufficiently high.

## **Hosting Service**

A social network hosting service is a web hosting service that specifically hosts the user creation of web-based social networking services, alongside related applications.

## **Science**

One other use that is being discussed is the use of social networks in the science communities. Julia Porter Liebeskind et al. have published a study on how new biotechnology firms are using social networking sites to share exchanges in scientific knowledge. They state in their study that by sharing information and knowledge with one another, they are able to "increase both their learning and their flexibility in ways that would not be possible within a self-contained hierarchical organization." Social networking is allowing scientific groups to expand their knowledge base and share ideas, and without these new means of communicating their theories might become "isolated and irrelevant". Researchers use social networks frequently to maintain and develop professional relationships. They are interested in consolidating social ties and professional contact, keeping in

touch with friends and colleagues and seeing what their own contacts are doing. This can be related to their need to keep updated on the activities and events of their friends and colleagues in order to establish collaborations on common fields of interest and knowledge sharing. Social Networks are used also to communicate scientists research results and as a public communication tool and to connect people who share the same professional interests, their benefits can vary according to the discipline. The most interesting aspects of social networks for professional purposes are their potentialities in terms of dissemination of information and the ability to reach and multiply professional contacts exponentially. Social networks like Academia.edu, LinkedIn, Facebook, and ResearchGate give the possibility to join professional groups and pages, to share papers and results, publicize events, to discuss issues and create debates. Academia.edu is extensively used by researchers, where they follow a combination of social networking and scholarly norms. ResearchGate is also widely used by researchers, especially to disseminate and discuss their publications, where it seems to attract an audience that is wider than just other scientists.

#### Self-Assessment Exercises 2

**Question 1:** What are the three main types of social networking services?

**Question 2:** How do social networking services generally generate revenue?

### 2.5 Emerging Trends in Social Networks

While the popularity of social networking consistently rises, new uses for the technology are frequently being observed. At the forefront of emerging trends in social networking sites is the concept of "real-time web" and "location-based." Real-time web allows users to contribute contents, which is then broadcast as it is being uploaded - the concept is analogous to live radio and television broadcasts. Twitter set the trend for "real-time" services, wherein users can

broadcast to the world what they are doing, or what is on their minds within a 140-character limit. Facebook followed suit with their "Live Feed" where users' activities are streamed as soon as it happens. While Twitter focuses on words, Clixtr, another real-time service, focuses on group photo sharing wherein users can update their photo streams with photos while at an event. Facebook, however, remains the largest photo sharing site - Facebook application and photo aggregator Pixable estimates that Facebook will have 100 billion photos by Summer 2012. In April, 2012, the image-based social media network Pinterest had become the third largest social network in the United States.

Companies have begun to merge business technologies and solutions, such as cloud computing, with social networking concepts. Instead of connecting individuals based on social interest, companies are developing interactive communities that connect individuals based on shared business needs or experiences. Many provide specialized networking tools and applications that can be accessed via their websites, such as LinkedIn. Others companies, such as Monster.com, have been steadily developing a more "socialized" feel to their career center sites to harness some of the power of social networking sites. These more business related sites have their own nomenclature for the most part but the most common naming conventions are "Vocational Networking Sites" or "Vocational Media Networks", with the former more closely tied to individual networking relationships based on social networking principles. Foursquare gained popularity as it allowed for users to "check-in" to places that they are frequenting at that moment. Gowalla is another such service that functions in much the same way that Foursquare does, leveraging the GPS in phones to create a location-based user experience. Clixtr, though in the real-time space, is also a location-based social networking site, since events created by users are automatically geotagged, and users can view events occurring nearby through the Clixtr iPhone app. Recently, Yelp announced its entrance into the location-based social networking space through check-ins with their mobile app; whether or not this becomes detrimental to Foursquare or Gowalla is yet to be seen, as it is still considered a new space in the Internet technology industry.

One popular use for this new technology is social networking between businesses. Companies have found that social networking sites such as Facebook and Twitter are great ways to build their brand image. According to Jody Nimetz, author of Marketing Jive, there are five major uses for of social



media by businesses: to create brand awareness, as an online reputation management tool, for recruiting, to learn about new technologies and competitors, and as a lead generation tool to intercept potential prospects.

### **2.5.1 Social Networks Areas of Application**

#### **Government**

Social networking is more recently being used by various government agencies. Social networking tools serve as a quick and easy way for the government to get the opinion of the public and to keep the public updated on their activity, however this comes with a significant risk of abuse, for example to cultivate a culture of fear.

#### **Business**

The use of social networking services in an enterprise context presents the potential of having a major impact on the world of business and work (Fraser & Dutta 2008). Social networks connect people at low cost; this can be beneficial for entrepreneurs and small businesses looking to expand their contact bases. These networks often act as a customer relationship management tool for companies selling products and services. Companies can also use social networks for advertising in the form of banners and text ads. Since businesses operate globally, social networks can make it easier to keep in touch with contacts around the world. Applications for social networking sites have extended toward businesses and brands are creating their own, high functioning sites, a sector known as brand networking. It is the idea that a brand can build its consumer relationship by connecting their consumers to the brand image on a platform that provides them relative content, elements of participation, and a ranking or score system. Brand networking is a new way to capitalize on social trends as a marketing tool. The power of social networks is beginning to permeate into internal culture of businesses where they are finding uses for collaboration, file sharing and knowledge transfer. The term "enterprise social software" is becoming increasingly popular for these types of applications.

## **Dating**

Many social networks provide an online environment for people to communicate and exchange personal information for dating purposes. Intentions can vary from looking for a one time date, short-term relationships, and long-term relationships. Most of these social networks, just like online dating services, require users to give out certain pieces of information. This usually includes a user's age, gender, location, interests, and perhaps a picture. Releasing very personal information is usually discouraged for safety reasons. This allows other users to search or be searched by some sort of criteria, but at the same time people can maintain a degree of anonymity similar to most online dating services. Online dating sites are similar to social networks in the sense that users create profiles to meet and communicate with others, but their activities on such sites are for the sole purpose of finding a person of interest to date. Social networks do not necessarily have to be for dating; many users simply use it for keeping in touch with friends, and colleagues.

However, an important difference between social networks and online dating services is the fact that online dating sites usually require a fee, where social networks are free. This difference is one of the reasons the online dating industry is seeing a massive decrease in revenue due to many users opting to use social networking services instead. Many popular online dating services such as Match.com, Yahoo Personals, and eHarmony.com are seeing a decrease in users, where social networks like MySpace and Facebook are experiencing an increase in users.

## **Finance**

The use of virtual currency systems inside social networks create new opportunities for global finance. Hub Culture operates a virtual currency Ven used for global transactions among members, product sales and financial trades in commodities and carbon credits. In May 2010, carbon pricing contracts were introduced to the weighted basket of currencies and commodities that determine the floating exchange value of Ven. The introduction of carbon to the calculation price of the currency made Ven the first and only currency that is linked to the environment.<sup>[186]</sup>

## **Medical and Health**

Social networks are beginning to be adopted by healthcare professionals as a means to manage institutional knowledge, disseminate peer to peer knowledge and to highlight individual physicians and institutions. The advantage of using a dedicated medical social networking site is that all the members are screened against the state licensing board list of practitioners. A new trend is emerging with social networks created to help its members with various physical and mental ailments. For people suffering from life altering diseases, PatientsLikeMe offers its members the chance to connect with others dealing with similar issues and research patient data related to their condition. For alcoholics and addicts, SoberCircle gives people in recovery the ability to communicate with one another and strengthen their recovery through the encouragement of others who can relate to their situation. DailyStrength is also a website that offers support groups for a wide array of topics and conditions, including the support topics offered by PatientsLikeMe and SoberCircle. Some social networks aim to encourage healthy lifestyles in their users. SparkPeople offers community and social networking tools for peer support during weight loss. Fitocracy and QUENTIQ are focused on exercise, enabling users to share their own workouts and comment on those of other users.

## **Social and Political**

Social networking sites have recently showed a value in social and political movements. In the Egyptian revolution, Facebook and Twitter both played an allegedly pivotal role in keeping people connected to the revolt. Egyptian activists have credited social networking sites with providing a platform for planning protest and sharing news from Tahrir Square in real time. By presenting a platform for thousands of people to instantaneously share videos of mainly events featuring brutality, social networking can be a vital tool in revolutions. On the flip side, social networks enable government authorities to easily identify, and repress, protestors and dissidents. Another thing that social media helps with in political applications is getting the younger generations involved in politics and ongoing political issues.

Perhaps the most significant political application of social media is Donald Trump's presidential electoral campaign, 2016. It was the first of its kind, as it successfully incorporated social media into its campaign winning strategy, evolving the way of political campaigns forever more in the ever-changing technological world we find ourselves in today. His campaign won by engaging everyday people and empowering volunteers, donors and advocates, through social networks, text messaging, email messaging and online videos. Dan Pfeiffer, Obama's former digital and social media guru, commented that Donald Trump is "way better at the internet than anyone else which is partly why he won the US election".

### **Investigations**

Social networking services are increasingly being used in legal and criminal investigations. Information posted on sites such as MySpace and Facebook has been used by police (forensic profiling), probation, and university officials to prosecute users of said sites. In some situations, content posted on MySpace has been used in court.

Facebook is increasingly being used by school administrations and law enforcement agencies as a source of evidence against student users. This site being the number one online destination for college students, allows users to create profile pages with personal details. These pages can be viewed by other registered users from the same school, which often include resident assistants and campus police who have signed up for the service. One UK police force has sifted pictures from Facebook and arrested some people who had been photographed in a public place holding a weapon such as a knife (having a weapon in a public place is illegal).

## **2.5.2 Issues and Challenges of Social Networks**

### **Privacy**

Privacy concerns with social networking services have been raised growing concerns among users on the dangers of giving out too much personal information and the threat of sexual predators. Users of these services also need to be aware of data theft or viruses. However, large services, such

as Myspace and Netlog, often work with law enforcement to try to prevent such incidents. In addition, there is a perceived privacy threat in relation to placing too much personal information in the hands of large corporations or governmental bodies, allowing a profile to be produced on an individual's behavior on which decisions, detrimental to an individual, may be taken.

Privacy on social networking sites can be undermined by many factors. For example, users may disclose personal information, sites may not take adequate steps to protect user privacy, and third parties frequently use information posted on social networks for a variety of purposes.

### **Data Mining**

Through data mining, companies are able to improve their sales and profitability. With this data, companies create customer profiles that contain customer demographics and online behavior. A recent strategy has been the purchase and production of "network analysis software". This software is able to sort out through the influx of social networking data for any specific company. Facebook has been especially important to marketing strategists. Facebook's controversial "Social Ads" program gives companies access to the millions of profiles in order to tailor their ads to a Facebook user's own interests and hobbies. However, rather than sell actual user information, Facebook sells tracked "social actions". That is, they track the websites a user uses outside of Facebook through a program called Facebook Beacon.

### **Spamming**

Spamming on online social networks is quite prevalent. Primary motivation to spam arises from the fact that user advertising a brand would like others to see them and they typically publicize their brand over social network. Detecting such spamming activity has been well studied by developing a semi-automated model to detect spams.

## **Notifications**

There has been a trend for social networking sites to send out only "positive" notifications to users. For example, sites such as Bebo, Facebook, and MySpace will not send notifications to users when they are removed from a person's friends list. Likewise, Bebo will send out a notification if a user is moved to the top of another user's friends list but no notification is sent if they are moved down the list. This allows users to purge undesirables from their list extremely easily and often without confrontation since a user will rarely notice if one person disappears from their friends list. It also enforces the general positive atmosphere of the website without drawing attention to unpleasant happenings such as friends falling out, rejection and failed relationships.

## **Access to Information**

Many social networking services, such as Facebook, provide the user with a choice of who can view their profile. This is supposed to prevent unauthorized users from accessing their information. Parents who want to access their child's MySpace or Facebook account have become a big problem for teenagers who do not want their profile seen by their parents. By making their profile private, teens can select who may see their page, allowing only people added as "friends" to view their profile and preventing unwanted viewing of the profile by parents. Most teens are constantly trying to create a structural barrier between their private life and their parents. To edit information on a certain social networking service account, the social networking sites require you to log in or provide a password. This is designed to prevent unauthorized users from adding, changing, or removing personal information, pictures, or other data.

## **Trolling**

Social networking sites such as Facebook are occasionally used to emotionally abuse, harass or bully individuals, either by posting defamatory statements or by forwarding private digital photos or videos that can have an adverse impact on the individuals depicted in the videos. Such actions are often referred to as "trolling". Confrontations in the real world can also be transferred to the online world. Trolling can occur in many different forms, such as (but not limited to) defacement of deceased person(s) tribute pages, name-calling, playing online pranks on individuals and

making controversial or inflammatory comments with the intention to cause anger and cause arguments. Individuals troll for many reasons. The psychology behind why people troll according to Psychology Today is due to anonymity, perceived obscurity, and a perceived lack of consequences for online misbehavior. Trolls may also do their activities due to a perceived majority status, social identity salience and due to a sense by the troll that she or he is surrounded by online 'friends'. Trolls may also engage in harmful acts due to desensitization or negative personality traits (Fox, 2014).

### **Impact on Employability**

Social networking sites have created issues among getting hired for jobs and losing jobs because of exposing inappropriate content, posting photos of embarrassing situations or posting comments that contain potentially offensive comments (e.g., racist, homophobic or defamatory comments), or even political comments that are contrary to those of the employer. There are works which recommend friends to social networking users based on their political opinions. Many people use social networking sites to express their personal opinions about current events and news issues to their friends. If a potential applicant expresses personal opinions on political issues or makes potentially embarrassing posts online on a publicly-available social networking platform, employers can access their employees' and applicants' profiles, and judge them based on their social behavior or political views. According to Silicon Republic's statistics, 17,000 young people in six countries were interviewed in a survey. 1 in 10 people aged 16 to 34 have been rejected for a job because of comments made on an online profile. This shows the effects that social networks have had on people's lives. There have been numerous cases where employees have lost jobs because their opinions represented their companies negatively.

### **Risk for Child Safety**

Citizens and governments have been concerned with misuse of social networking services by children and teenagers, in particular in relation to online sexual predators. For instance, there is a study which suggests the children are not too far from inappropriate content on YouTube. Overuse of social networking may also make children more susceptible to depression and anxiety.

Governments are taking action to better understand the problem and find some solutions. In May 2010, a child pornography social networking site with hundreds of members was dismantled by law enforcement. It was deemed "the largest crimes against children case brought anywhere by anyone". Many parents of teenage girls worry about their safety online because of the many manipulations there are online and on social networking sites.

Social networking can also be a risk to child safety in another way; parents can get addicted to games and neglect their children. One instance in South Korea resulted in the death of a child from starvation.

### **Potential for Misuse**

The relative freedom afforded by social networking services has caused concern regarding the potential of its misuse by individual patrons. In October 2006, a fake MySpace profile created in the name of Josh Evans by Lori Janine Drew led to the suicide of Megan Meier. The event incited global concern regarding the use of social networking services for bullying purposes. In July 2008, a Briton and a former friend was ordered to pay a total of GBP £22,000 (about USD \$44,000) for libel and breach of privacy. He had posted a fake page on Facebook purporting to be that of a former school friend Matthew Firsht, with whom he had fallen out in 2000. The page falsely claimed that Firsht was homosexual and that he was dishonest.

Online social networks have also become a platform for spread of rumors, one such study has analyzed rumors in retrospect. One of the approaches to detect rumors (or misinformation)<sup>[123]</sup> is to compare the spread of topic over social network (say Twitter) with those spread by reliable and authorized news agencies. It was recently reported by social media that President Muhammadu Buhari is dead, but this is not true.



## **Unauthorized Access**

There are different forms where user data in social networks are accessed and updated without a user's permission. One study highlighted that the most common incidents included inappropriate comments posted on social networking sites (43%), messages sent to contacts that were never authored (25%) and change of personal details (24%). The most incidents are carried out by the victim's friends (36%) or partners (21%) and one in ten victims say their ex-partner has logged into their account without prior consent. The survey found that online social network accounts had been subject to unauthorized access in 60 million cases in 2011.

With some famous people gaining an influx of negative comments and slue of abuse from trolls it causes them to 'quit' social media. One prime example of a celebrity quitting social media is Stephen Fry. He left Twitter due to "too much aggression and unkindness around" emphasizing how trolls can negatively impact people's lives.

## **Online Bullying**

Online bullying, also called cyberbullying, is a relatively common occurrence and it can often result in emotional trauma for the victim. Depending on the networking outlet, up to 39% of users admit to being "cyber-bullied". In her article, "Why Youth (Heart) Social Network Sites", Danah Boyd, a researcher of social networks, quotes a teenager. The teenager expresses frustration towards networking sites like MySpace because it causes drama and too much emotional stress. There are not many limitations as to what individuals can post when online. Individuals are given the power to post offensive remarks or pictures that could potentially cause a great amount of emotional pain for another individual.

## **Interpersonal Communication**

Interpersonal communication has been a growing issue as more and more people have turned to social networking as a means of communication. "Benniger (1987) describes how mass media has gradually replaced interpersonal communication as a socializing force. Further, social networking

sites have become popular sites for youth culture to explore themselves, relationships, and share cultural artifacts". Many teens and social networking users may be harming their interpersonal communication by using sites such as Facebook and MySpace. Stated by Baroness Greenfield, an Oxford University neuroscientist, "My fear is that these technologies are infantilizing the brain into the state of small children who are attracted by buzzing noises and bright lights, who have a small attention span and who live for the momentl.

The convenience that social network sites give users to communicate with one another can also damage their interpersonal communication. Furthermore, social network sites can create insincere friendships, Turkle also noted, "They nurture friendships on social-networking sites and then wonder if they are among friends. They become confused about companionship".

### **Platforms for the Creation of Social Net Work**

The platforms for setting up social networks are numerous. These include the following: **Ning** Ning currently provides by a wide margin the best platform for setting up fully functional and visually appealing social networks from scratch. While Ning attempts to provide essentially the same out-of-the-box service as GoingOn, Me.com, PeopleAggregator, and ONEsite, none of its competitors can yet match the professionalism of its product. The company's superior execution has so far earned it 76,000 hosted networks (although, browse Ning's list of —popularl networks and one gets the strong sense that the vast majority of these networks were set up by tire kickers and promptly abandoned).

The standard Ning package allows affiliates to build at no cost an ad-supported network with all of the features that they offer. This entails a point-and-click setup process in which an affiliate chooses a theme, tweaks appearances, and loads features such as photos, videos, groups, and blogging. Within minutes, the affiliate has created an impressive, fully-featured (albeit rather

cookie-cutter) network that is ready to accept its first batch of members, which can be invited by email or Ning ID.

For most affiliates, the ease in which you can set up a solid network will be the selling point. However, Ning also has offerings for more advanced affiliates that allow networks to partially break out of the standard Ning format. Affiliates can disable ads or run their own ads for \$20 per month, and they can mask their networks' URLs for only \$5 per month. Furthermore, they have access to Ning's comprehensive Developer Documentation and an API for when they desire advanced customization. Effectively, their API allows developers to take the standard Ning network and retool it, whereas KickApps (discussed below) encourages advanced customization by providing developers with a bare foundation on which to build.

While the Ning platform can be made almost entirely invisible by removing the top Ning toolbar and masking the URL, all networks hosted by Ning share the same user base. When a user joins your Ning network as a member, he or she obtains a Ning ID that works with all other Ning networks. On the one hand, this system facilitates the process by which users sign up for more than one network. On the other, it serves as a constant reminder that the network is actually hosted by a white label social networking platform. Many affiliates will not mind this system at all, but others who want to completely brand their community will consider this as detraction.

## **KickApps**

Whereas Ning holds your hand from start to finish as you construct your social network, KickApps is targeted more at web developers (and companies with web developers on staff) who want to incorporate social networking features into their existing websites without going through the hassle of coding and maintaining those features on their own. As such, when you begin to construct your social network with KickApps, you will be presented with a pretty bland, default template that you then must mould to create anything decently attractive. Ning helps you customize your network with premade templates, but KickApps gives developers more immediate control over header and footer code and CSS styling. Consequently, it takes more time and expertise to get a KickApps

network looking good, but in the end it may very well look more seamless and professional than any network hosted on Ning.

Other features provided by KickApps emphasize the intention for its social network components to integrate nicely into an existing site. The company allows you to customize your network's URL for free so users don't feel as though they are leaving a main site. Also free of charge: unlimited storage and bandwidth for all that multimedia content (video, audio, photos, etc.) you want your users to upload. Furthermore, each network is given its own user base so that members feel as though they are signing up for a particular network, not a platform (as is the case with the Ning's universal ID system). To top it off, the company is willing to work individually with affiliates to make their platform as invisible as possible (by removing all references to KickApps, etc).

KickApps's advertising scheme is particularly unique. Whereas other platforms charge a flat rate to turn off the advertising that supports their free service, KickApps follows a pay per performance model in which affiliates who opt to turn off or run their own advertising only pay

KickApps in amounts proportional to their networks' traffic. With the free platform package, all but a single skyscraper area of an affiliate's network are controlled by KickApps. However, once an affiliate decides that it wants to control advertising it pays roughly \$2-5 for every thousand pageviews to its network, with rates decreasing as traffic grows.

KickApps also provides the most robust set of widget creation tools, which is intended to help affiliates promote their networks through viral marketing. The widgets that affiliates create with an easy-to-use control panel display content shared or produced on a particular network and can be embedded on other websites or social networks. These widgets drive traffic to one's network by channeling anyone who interacts with a widget back to the network from which it comes.

## **CrowdVine**

CrowdVine may not be pretty or intricate but it's not meant to be. Until recently a one-man show embodied by Tony Stubblebine, CrowdVine provides the simplest, most basic solution for those looking to set up their own social network.

The main features of CrowdVine are member profiles, blog posts, and public messaging. You won't find any rich media sharing capabilities, such as photo and video, in the basic package because Tony intended CrowdVine to be all about connecting people and not about sharing their forms of self-expression. As such, the platform has appealed mainly to conference organizers and attendees, alumni (of businesses and schools), intranet users, and professionals. The lack of control over the look and feel of one's social network corroborates the idea of CrowdVine as a utility provider. So does the fairly unique feature of having all members respond to networkspecific questions, the answers of which become tags that facilitate the browsing of members by criteria. For example, new members to the PodCamp Atlanta network are asked about their interests and expertise, and their answers become linked tags on the homepage of the network that enable visitors to view members, for example, by their interest in —blogging‡ or expertise in —video production‡.

While Tony is not rushing to add features to CrowdVine, he is happy to work with affiliates to add functionality to their networks. The Foo Camp network has taken advantage of the Tony's accessibility by integrating calendar and wiki support as well as color coding of members. Tony is also willing to work with affiliates to set up custom URLs and deactivate ads (for a fee of course), thereby achieving more of a —white label‡ result.

## **GoingOn**

Representatives for GoingOn (still in beta) admit that their site is ugly (and, I should add, quite disorganized), but appearances tend to mask the potential of this company's platform, which is intended to straddle the divide between those of Ning and KickApps. Built on top of Drupal,

GoingOn provides easy network setup a la Ning, but the company is also partnering with media companies (with results such as Forbes Office Pranks and the American Superstar Mag Lounge) to integrate social networks into existing websites a la KickApps. Currently, GoingOn executes neither of these services as well as Ning or KickApps. However, its platform does provide a wider range of features than either of these two companies (unfortunately, most of these features, or —modules, are currently half-baked). If you demand features that neither Ning nor KickApps currently provides, it may very well be worth dealing with all of the imperfections that come along with GoingOn's beta status.

There are structural and strategic aspects of GoingOn that make it worth tracking over the coming year. Since it is based on Drupal, the company claims that it can more readily deploy open source software packages on its platform. This translates into even more features over time, which may help it maintain its feature lead on its major competitors. Its Drupal heritage also facilitates the creation of a Drupalesque API, which the company tentatively plans to roll towards the end of the year.

GoingOn, the self-described —network of networks, maintains a shared user base for its hosted networks. Unlike Ning, however, it explicitly plans to take advantage of this shared authentication system by providing networks within networks. For example, teachers at one point may be able to join a nation-wide network that contains sub-networks for the country's school districts. The possibility of nesting networks may give GoingOn the edge with hierarchical organizations.

## **CollectiveX**

CollectiveX is a borderline white label social network platform. Its questionability arises from its orientation around exclusive groups (—groupsite being its word for —network) and from its very narrow range of customization options. Additionally, members of a CollectiveX group cannot friend each other, so it lacks a basic feature of virtually every social network (apparently, it is presumed that everyone within a group knows each other).

However, beyond these idiosyncracies, CollectiveX provides an impressively refined way for people to share information and content within a controlled, social network environment. The main features of a CollectiveX site include a calendar, forum, and file area (for general uploads and photos in particular). These offerings are not extensive, but the mantra —quality over quantity— certainly applies.

The uniqueness of CollectiveX is the ability of a network's members to list personal objectives and to declare any —key connections— (read: relationships) they have with particular individuals. These features reinforce the feeling that groupsites are meant primarily for business professionals who are looking to network (in the business sense of the word) in addition to collaborating online with associates. While CollectiveX's free package is supported by advertisements as with other platforms, the company's strategy seems to be particularly focused on earning money through selling premium features.

## **Me.com**

Me.com, which runs on top of software called SNAPP, is the MySpace of white label social networking platforms (and I mean that derogatorily). The idea, as with Ning, is to set up a network in a minimal number of steps. However, each of Me.com's themes is an eyesore and, worse, the organization of elements throughout the default network is horrible. If you like this MySpace approach to user interface design, then you'll be right at home. I, for one, get a headache just looking at the thing. Style considerations aside, Me.com provides an abundance of features, although many of them are poorly implemented. The audio and video sections, for example, don't support file uploads; you actually have to record the media directly into the browser using a webcam or similar device.

The most bizarre feature is the cars section in which you can actually list the cars you own/once owned/want to own/dream about, etc. Criticisms aside, Me.com does integrate a pretty slick chat applet into each network and the same can't be said for most of the other platforms.

Network packages on Me.com come in three flavors, which are conveniently compared to one another in a features chart. The biggest differences, of course, are between the free, ad-supported package and the other two. For a minimum (!) of \$199 per month, affiliates can control advertising, customize their URL, and implement basic site branding (color schemes, logos, etc.).

## **PeopleAggregator**

Broadband Mechanics' PeopleAggregator is an experiment in building social networks around open standards so that people can easily move between networks, whether or not those networks are run by the same owners or contain the same features. If the social networking world were run the way Broadband Mechanics' CEO Marc Canter envisions, Facebook users would easily be able to carry their identity (including all the information they owned on Facebook) over to MySpace, Orkut, and Friendster. Then any changes to their identities on those networks could be brought back over to Facebook.

As a model for this sort of interoperability, PeopleAggregator (which comes in both hosted and downloadable versions) implements the OpenID authentication system and strives to support all open standard identity schemes. Broadband Mechanics also provides an API that is meant to enable the import and export of data to or from a PeopleAggregator network. As a long run strategy, the company entreats web service providers to embrace open standards that facilitate interfacing between social networks and non-social networks such as Google Calendar, YouTube, and Yahoo Messenger.

Few years from now, we may look back on PeopleAggregator and consider it a pioneering product. However, in its present condition the platform is clunky and unsatisfying. Others seem to agree: the largest network on PeopleAggregator, Poker Players Alliance, with 499 members gave up on PeopleAggregator and moved its operations to an old school, phpBB forum.

PeopleAggregator could be improved in a number of obvious ways. For starters, the company could and should promptly clean up the platform's landing page, which is littered with nonsensical text that doesn't exactly create a stellar first impression. More substantially, the company ought to



allow for at least some management of advertisements and to permit more control over the structure and styling of networks. Unless you are banking on open standards as the way of the future, there's not much for you here.

## **Haystack**

Haystack, a Cerado product, is a social networking utility that is even more stripped down than CrowdVine. Networks (or —haystacks) built on this platform are very simple, both visually and functionally. The main features consist only of profiles and group blogging.

Haystacks are so plain because their intention is fundamentally different from those of most social networks. While we generally think of social networks as ways for people to interact with one another within a network, haystacks are more outwardly focused as they are meant to provide visitors with detailed information about people in a particular organization. According to Christopher Carfi of Cerado, the initial idea for Haystack was to enable organizations, and particularly businesses, to present interactive information about externally-facing individuals (such as those in sales and support).

Like CrowdVine, Haystack makes good use of tagging as a way to find people according to criteria. Members across all hosted haystacks can search for each other by the tags they have assigned to themselves, and there is even a handy Google Maps integration that shows you where the people in your search results are located across the globe.

Recognizing that the default haystack layout may cramp some people's styles, Cerado provides an API that can be used by developers to take advantage of the haystack data structure and create applications on one's own sites.

## ONEsite

ONEsite, a subsidiary of the hosting company Catalog.com, provides a hybrid social networking/website hosting solution. They allow you to mask your social network's URL so that it meshes with an existing website, but they won't offer you their free social networking solution unless you buy a domain with them. In the limited time of this study, we weren't able to set up a network of our own.

Browsing the showcased networks, however, gives one the sense that ONEsite's platform is not half bad. Some of the networks (such as the CEO's Crull Zone) follow a standard, ONEsite template with simple customizations while others (such as iVillage connect) are more fully integrated into existing websites. However, it is unclear whether the more fully customized networks are designed by the ONEsite team under the expensive, \$2,500-per-month Enterprise package or created by affiliates themselves with ready-made tools. I suspect that the former is the case. Regardless of the platform's quality, ONEsite's offerings are steeply priced and their user limits are a bit draconian.

### Self-Assessment Exercises 3

1. How is Facebook used in legal and criminal investigations?
2. What are some privacy concerns associated with social networking services?



### 2.6 SUMMARY

In this unit, you have learnt about the historical development of social network; features of social network, types of social network services, social media sites, uses of social network, emerging trend in social network, social networks areas of application, issues and challenges of social networks, and platforms for creation of social network.



### 2.7 REFERENCES/FURTHER READINGS/WEB RESOURCES

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## **2.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT**

### **SAE 1**

**Question 1:** What was one of the earliest forms of social networking on the World Wide Web, and what did it focus on?

**Answer:** One of the earliest forms of social networking on the World Wide Web included online communities like Geocities (1994) and Theglobe.com (1995). These platforms focused on bringing people together through chat rooms and personal webpages, encouraging users to share information and ideas.

**Question 2:** What are some common features of social networking services (SNS)?

**Answer:** Common features of social networking services (SNS) include being Web 2.0 internet-based applications, relying on user-generated content (UGC), allowing users to create and maintain

service-specific profiles, and facilitating online social networks by connecting user profiles with others.

## **SAE 2**

**Question 1:** What are the three main types of social networking services?

**Answer:** The three main types of social networking services are:

1. **Socializing Social Networks** - Primarily for socializing with existing friends, e.g., Facebook.
2. **Networking Social Networks** - Focused on non-social interpersonal communication, such as career networking, e.g., LinkedIn.
3. **Social Navigation Social Networks** - Designed to help users find specific information or resources, e.g., Goodreads.

**Question 2:** How do social networking services generally generate revenue?

**Answer:** Social networking services typically generate revenue through advertisements. They use the extensive data they collect about users to provide targeted advertising. Although some social networks might offer subscription-based models, most rely on ad revenue due to their large membership bases.

## **SAE 3**

**1. How is Facebook used in legal and criminal investigations?**

**Answer:** Facebook is used by school administrations and law enforcement agencies as a source of evidence against student users. For example, campus police and other officials can view profile pages to gather information. In some cases, photos posted on Facebook have been used in court as

evidence, such as when a UK police force arrested individuals photographed holding illegal weapons in public.

**2. What are some privacy concerns associated with social networking services?**

**Answer:** Privacy concerns with social networking services include the risk of disclosing too much personal information, which can be exploited by sexual predators or lead to data theft and viruses. Additionally, there is a threat of large corporations or governmental bodies using personal data to create profiles and make decisions that could be detrimental to individuals. Privacy can be compromised if users do not adequately protect their information, or if third parties misuse data posted on these networks.

**UNIT 3 NON-GOVERNMENTAL ORGANIZATIONS AND PRACTICE IN  
EVOLVING NON-PROFIT ORGANIZATIONS**

**CONTENTS**

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Non-Governmental organizations
  - 3.3.1 Classification of NGOs
  - 3.3.2 Legal Forms of NGOs
- 3.4 Operational and Advocacy Activities of NGOs
  - 3.4.1 The Roles of NGOs
  - 3.4.2 Corporate Structure of NGOs
- 3.5 History of International Non – Governmental Organization
  - 3.5.1 Influence of NGOs upon World Affairs
  - 3.5.2 World NGO Day
- 3.6 Summary
- 3.7 References/Further Readings/Web Resources
- 3.8 Possible Answers to Self-Assessment Exercise(s) within the content



### **3.1 INTRODUCTION**

A non-governmental organization (NGO) is difficult to define, and the term 'NGO' is not always used consistently. In some countries the term NGO is applied to an organization that in another country would be called an NPO (nonprofit organization), and vice versa. However, we see (NGO) as a not-for-profit organization that is independent from states and international governmental organizations. They are usually funded by donations but some avoid formal funding altogether and are run primarily by volunteers. The term "non-governmental organization" was first coined in 1945, when the United Nations (UN) was created. The UN, itself an intergovernmental organization, made it possible for certain approved specialized international non-state agencies — i.e., non-governmental organizations — to be awarded observer status at its assemblies and some of its meetings. Later the term became used more widely. Today, according to the UN, any kind of private organization that is independent from government control can be termed an "NGO", provided it is not-for-profit, no prevention, but not simply an opposition political party.



### **3.2 Learning Outcomes**

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

- I. explain the classification of NGOs
- II. understand the legal forms of NGOs
- III. analyze the operational and advocacy activities of NGOs
- IV. discuss the roles of NGOs
- V. evaluate the corporate structure of NGOs
- VI. discuss the history of International Non – Governmental Organization



### **3.3 Non-Governmental organizations**

Non-Governmental Organizations (NGOs) are private, non-profit, and independent entities formed by individuals or groups with a common interest or goal. They operate independently of government control and are not driven by profit motives. Key concepts related to NGOs include:

**Mission and Purpose:** NGOs are founded with specific missions or objectives that address social, environmental, humanitarian, or community-related issues. Their purpose can range from providing healthcare and education to advocating for human rights and environmental conservation.

**Non-Profit Nature:** NGOs do not aim to generate profits for shareholders or owners. Instead, they rely on donations, grants, membership fees, and volunteer efforts to fund their activities and further their causes.

**Independence:** NGOs operate independently of government influence, allowing them to freely address issues, advocate for change, and provide services without political interference. However, they often collaborate with governments, international organizations, and other NGOs to achieve their goals.

**Volunteer and Professional Staff:** NGOs typically consist of a mix of volunteers and paid professionals. Volunteers often contribute their time and expertise, while professionals handle administrative tasks and program management.

**Advocacy and Activism:** Many NGOs engage in advocacy and activism to influence policies, raise awareness, and promote social change. They may lobby governments, organize protests, and run campaigns to advance their causes.



**Types and Focus Areas:** NGOs cover a broad spectrum of issues, including health, education, poverty alleviation, human rights, environmental conservation, disaster relief, and more. Some NGOs have a global reach, while others work at the local or regional level.

**Transparency and Accountability:** To maintain public trust and secure funding, NGOs often emphasize transparency in their operations. They are accountable to donors, supporters, and the communities they serve, regularly reporting on their activities and financial management.

**Funding Sources:** NGOs source funding from various channels, including government grants, private donations, philanthropic foundations, corporate partnerships, and international aid organizations. Diversifying funding sources helps ensure financial stability.

**International NGOs:** Some NGOs operate internationally, addressing global issues and often working in multiple countries. These organizations, such as Amnesty International and Doctors Without Borders, tackle issues that transcend national borders.

**Local NGOs:** Local NGOs are often focused on addressing specific community or regional concerns. They play a vital role in addressing grassroots issues and have an in-depth understanding of local challenges and needs.

### **3.3.1 Classifications of NGOs**

There are many different classifications of NGO in use. The most common focus is on "orientation" and "level of operation".

#### **Orientation**

An NGO's orientation refers to the type of activities it takes on. These activities might include human rights, environmental, improving health, or development work.

- Charitable orientation often involves a top-down paternalistic effort with little participation by the "beneficiaries". It includes NGOs with activities directed toward meeting the needs of the poor people.
- Service orientation includes NGOs with activities such as the provision of health, family planning or education services in which the programme is designed by the NGO and people are expected to participate in its implementation and in receiving the service.
- Participatory orientation is characterized by self-help projects where local people are involved particularly in the implementation of a project by contributing cash, tools, land, materials, labour etc. In the classical community development project, participation begins with the need definition and continues into the planning and implementation stages.
- Empowering orientation aims to help poor people develop a clearer understanding of the social, political and economic factors affecting their lives, and to strengthen their awareness of their own potential power to control their lives. There is maximum involvement of the beneficiaries with NGOs acting as facilitators.

### **Level of Operation**

An NGO's level of operation indicates the scale at which an organization works, such as local, regional, national, or international.

- Community-based organizations (CBOs) arise out of people's own initiatives. They can be responsible for raising the consciousness of the urban poor, helping them to understand their rights in accessing needed services, and providing such services.
- City-wide organizations include organizations such as chambers of commerce and industry, coalitions of business, ethnic or educational groups, and associations of community organizations.
- National NGOs include national organizations such as, professional associations and similar groups. Some have state and city branches and assist local NGOs.
- International NGOs range from secular agencies such as Ducer Foundation and Save the Children organizations, SOS Children's Villages, OXFAM, CARE, Ford Foundation, and

Rockefeller Foundation to religiously motivated groups. They can be responsible for funding local NGOs, institutions and projects and implementing projects.

Other classifications of NGOs, according to the World Bank are operational and advocacy.

### **Operational**

Operational NGOs seek to "achieve small-scale change directly through projects". They mobilize financial resources, materials, and volunteers to create localized programs. They hold large-scale fundraising events and may apply to governments and organizations for grants or contracts to raise money for projects. They often operate in a hierarchical structure; a main headquarters being staffed by professionals who plan projects, create budgets, keep accounts, and report and communicate with operational fieldworkers who work directly on projects. Operational NGOs deal with a wide range of issues, but are most often associated with the delivery of services or environmental issues, emergency relief, and public welfare. Operational NGOs can be further categorized by the division into relief-oriented versus development-oriented organizations; according to whether they stress service delivery or participation; whether they are religious or secular; and whether they are more public or private oriented. Although operational NGOs can be community-based, many are national or international. The defining activity of operational NGOs is the implementation of projects.

### **Advocacy**

Advocacy or campaigning NGOs seek to "achieve large-scale change promoted indirectly through influence of the political system". Campaigning NGOs need an efficient and effective group of professional members who are able to keep supporters informed, and motivated. They must plan and host demonstrations and events that will keep their cause in the media. They must maintain a large informed network of supporters who can be mobilized for events to garner media attention and influence policy changes. The defining activity of campaigning NGOs is holding demonstrations. Campaigning NGOs often deal with this issues relating to human rights, women's rights, children's rights. The primary purpose of an Advocacy NGO is to defend or promote a

specific cause. As opposed to operational project management, these organizations typically try to raise awareness, acceptance and knowledge by lobbying, press work and activist event.

Apart from "NGO", there are alternative or overlapping terms in use, including: third sector organization (TSO), non-profit organization (NPO), voluntary organization (VO), civil society organization (CSO), grassroots organization (GO), social movement organization (SMO), private voluntary organization (PVO), self-help organization (SHO) and non-state actors (NSAs).

### **3.3.2 Legal Forms of NGOs**

The legal form of NGOs is diverse and depends upon homegrown variations in each country's laws and practices. However, four main family groups of NGOs can be found worldwide:

- Unincorporated and voluntary association
- Trusts, charities and foundations
- Companies not just for profit
- Entities formed or registered under special NGO or nonprofit laws

The Council of Europe in Strasbourg drafted the European Convention on the Recognition of the Legal Personality of International Non-Governmental Organizations in 1986, which sets a common legal basis for the existence and work of NGOs in Europe. Article 11 of the European Convention on Human Rights protects the right to freedom of association, which is also a fundamental norm for NGOs.

#### **Self-Assessment Exercises 1**

1. What are the main orientations of NGOs, and how do they differ?
2. What are the different levels at which NGOs operate, and what characterizes each level?

### **3.4. Operational and Advocacy Activities of NGOs**

However, it is not uncommon for NGOs to make use of both operational and advocacy activities. Many times, operational NGOs will use advocacy techniques if they continually face the same issues in the field that could be remedied through policy changes. At the same time, advocacy NGOs, like human rights organizations often have programs that assist the individual victims they are trying to help through their advocacy work.

#### **Public Relations**

Non-governmental organizations need healthy relationships with the public to meet their goals. Foundations and charities use sophisticated public relations campaigns to raise funds and employ standard lobbying techniques with governments. Interest groups may be of political importance because of their ability to influence social and political outcomes. A code of ethics was established in 2002 by The World Association of Non Governmental Organizations.

#### **Project Management**

There is an increasing awareness that management techniques are crucial to project success in non-governmental organizations. Generally, non-governmental organizations that are private have either a community or environmental focus. They address varieties of issues such as religion, emergency aid, or humanitarian affairs. They mobilize public support and voluntary contributions for aid; they often have strong links with community groups in developing countries, and they often work in areas where government-to-government aid is not possible. NGOs are accepted as a part of the international relations landscape, and while they influence national and multilateral policy-making, increasingly they are more directly involved in local action.

#### **3.4.1 The Roles of NGOs**

Generally, NGO's act as implementers, catalysts and partners. Firstly, NGO's act as implementers in that they mobilize resources in order to provide goods and services to people who are suffering

due to a man-made disaster or a natural disaster. Secondly, NGO's act as catalysts in that they drive change. They have the ability to 'inspire, facilitate or contribute to improved thinking and action to promote change'. Lastly, NGO's often act as partners alongside other organizations in order to tackle problems and address human needs more effectively. NGOs vary in their methods. Some act primarily as lobbyists, while others primarily conduct programmes and activities. For instance, an NGO such as Oxfam, concerned with poverty alleviation, might provide needy people with the equipment and skills to find food and clean drinking water, whereas an NGO like the FFDA helps through investigation and documentation of human rights violations and provides legal assistance to victims of human rights abuses. Others, such as Afghanistan Information Management Services, provide specialized technical products and services to support development activities implemented on the ground by other organizations.

### **3.4.2 Corporate Structure**

#### **Staffing**

Some NGOs are highly professionalized and rely mainly on paid staff. Others are based around voluntary labour and are less formalized. Not all people working for non-governmental organizations are volunteers.

Many NGOs are associated with the use of international staff working in 'developing' countries, but there are many NGOs in both North and South who rely on local employees or volunteers. There is some dispute as to whether expatriates should be sent to developing countries. Frequently this type of personnel is employed to satisfy a donor who wants to see the supported project managed by someone from an industrialized country. However, the expertise of these employees or volunteers may be counterbalanced by a number of factors: the cost of foreigners is typically higher, they have no grassroot connections in the country they are sent to, and local expertise is often undervalued.

The NGO sector is an essential employer in terms of numbers. For example, by the end of 1995, CONCERN worldwide, an international Northern NGO working against poverty, employed 174 expatriates and just over 5,000 national staff working in ten developing countries in Africa and Asia, and in Haiti.

### **Funding**

Whether the NGOs are small or large, various NGOs need budgets to operate. The amount of budget that they need would differ from NGOs to NGOs. Unlike small NGOs, large NGOs may have annual budgets in the hundreds of millions or billions of dollars. For instance, the budget of the American Association of Retired Persons (AARP) was over US\$540 million in 1999. Financing such large budgets demands significant fundraising efforts on the part of most NGOs. Major sources of NGO funding are membership dues, the sale of goods and services, grants from international institutions or national governments, and private donations. Several EU-grants provide funds accessible to NGOs.

Even though the term "non-governmental organization" implies independence from governments, many NGOs depend heavily on governments for their funding. A quarter of the US\$162 million income in 1998 of the famine-relief organization Oxfam was donated by the British government and the EU. The Christian relief and development organization World Vision United States collected US\$55 million worth of goods in 1998 from the American government.

Government funding of NGOs is controversial, since, according to David Rieff, writing in *The New Republic*, "the whole point of humanitarian intervention was precisely that NGOs and civil society had both a right and an obligation to respond with acts of aid and solidarity to people in need or being subjected to repression or want by the forces that controlled them, whatever the governments concerned might think about the matter." Some NGOs, such as Greenpeace do not accept funding from governments or intergovernmental organizations.

### **Overhead Costs**

Overhead is the amount of money that is spent on running an NGO rather than on projects. This includes office expenses, salaries, banking and bookkeeping costs. What percentage of overall

budget is spent on overhead is often used to judge an NGO with less than 4% being viewed as good. The World Association of Non-Governmental Organizations states that ideally more than 86% should be spent on programs (less than 20% on overhead). The Global Fund to Fight AIDS, Tuberculosis and Malaria has specific guidelines on how high overhead can be to receive funding based on how the money is to be spent with overhead often needing to be less than 57%. While the World Bank typically allows 37%. A high percentage of overhead to total expenditures can make it more difficult to generate funds. High overhead costs may also generate criticism with some claiming the certain NGOs with high overhead are being run simply to benefit the people working for them.

### **Monitoring and Control**

In the March 2000 report on United Nations Reform priorities, former U.N. Secretary General Kofi Annan wrote in favor of international humanitarian intervention, arguing that the international community has a "right to protect" citizens of the world against ethnic cleansing, genocide, and crimes against humanity. On the heels of the report, the Canadian government launched the Responsibility to Protect (R2P) project, outlining the issue of humanitarian intervention. While the R2P doctrine has wide applications, among the more controversial has been the Canadian government's use of R2P to justify its intervention and support of the coup in Haiti. Years after R2P, the World Federalist Movement, an organization which supports "the creation of democratic global structures accountable to the citizens of the world and call for the division of international authority among separate agencies", has launched Responsibility to Protect – Engaging Civil Society (R2PCS). A collaboration between the WFM and the Canadian government, this project aims to bring NGOs into lockstep with the principles outlined under the original R2P project.

The governments of the countries an NGO works or is registered in may require reporting or other monitoring and oversight. Funders generally require reporting and assessment, such information is not necessarily publicly available. There may also be associations and watchdog organizations that research and publish details on the actions of NGOs working in particular geographic or program areas. In recent years, many large corporations have increased their corporate social



responsibility departments in an attempt to preempt NGO campaigns against certain corporate practices. As the logic goes, if corporations work with NGOs, NGOs will not work against corporations. Greater collaboration between corporations and NGOs creates inherent risks of co-optation for the weaker partner, typically the nonprofit involved.

### **Self-Assessment Exercises 2**

Question 1: How do operational and advocacy activities intersect in NGOs?

Question 2. What are some challenges related to the funding and management of NGOs?

### **3.5 History of International Non-Governmental Organizations**

International non-governmental organizations have a history dating back to at least the late eighteenth century. It has been estimated that by 1914, there were 1083 NGOs. International NGOs were important in the anti-slavery movement and the movement for women's suffrage, and reached a peak at the time of the World Disarmament Conference. However, the phrase "non-governmental organization" only came into popular use with the establishment of the United Nations Organization in 1945 with provisions in Article 71 of Chapter 10 of the United Nations Charter for a consultative role for organizations which are neither governments nor member states. The definition of "international NGO" (INGO) is first given in resolution 288 (X) of ECOSOC on February 27, 1950: it is defined as "any international organization that is not founded by an international treaty". The vital role of NGOs and other "major groups" in sustainable development was recognized in Chapter 27 of Agenda 21, leading to intense arrangements for a consultative relationship between the United Nations and non-governmental organizations. It has been observed that the number of INGO founded or dissolved matches the general "state of the world", rising in periods of growth and declining in periods of crisis.

Rapid development of the non-governmental sector occurred in western countries as a result of the processes of restructuring of the welfare state. Further globalization of that process occurred after the fall of the communist system and was an important part of the Washington consensus.

Globalization during the 20th century gave rise to the importance of NGOs. Many problems could not be solved within a nation. International treaties and international organizations such as the World Trade Organization were centered mainly on the interests of capitalist enterprises. In an attempt to counterbalance this trend, NGOs have developed to emphasize humanitarian issues, developmental aid and sustainable development. A prominent example of this is the World Social Forum, which is a rival convention to the World Economic Forum held annually in January in Davos, Switzerland. The fifth World Social Forum in Porto Alegre, Brazil, in January 2005 was attended by representatives from more than 1,000 NGOs. In terms of environmental issues and sustainable development, the Earth Summit in Rio in 1992 was the first to show the power of international NGOs, when about 2,400 representatives of NGOs came to play a central role in deliberations. Some have argued that in forums like these, NGOs take the place of what should belong to popular movements of the poor. Whatever the case, NGO transnational networking is now extensive.

Another issue which has brought NGOs to develop further is the inefficiency of some top-heavy, global structures. For instance, in 1994, former UN envoy to Somalia Mohamed Sahnoun published a book entitled "Somalia: The Missed Opportunities", in which he clearly shows that when the United Nations tried to provide humanitarian assistance, they were totally outperformed by NGOs, whose competence and dedication sharply contrasted with the United Nations' excessive caution and bureaucratic inefficiencies, their main Somalia envoys operating from the safety of their desks in Nairobi. The refusal of Boutros Boutros-Ghali, then UN Secretary General to accept this criticism led to the early end of Mohamed Sahnoun's mission in Somalia.

### **3.5.1 Influence of NGOs upon World Affairs**

It has been argued that NGOs have great influence and power in global affairs. Service-delivery NGOs provide public goods and services that governments from developing countries are unable to provide to society, due to lack of resources. Service-delivery NGOs can serve as contractors or collaborate with democratized government agencies to reduce cost associated with public goods. Capacity-building NGOs influence global affairs differently, in the sense that the incorporation of accountability measures in Southern NGOs affects "culture, structure, projects and daily

operations". Advocacy and public education NGOs affect global affairs in its ability to modify behavior through the use of ideas. Communication is the weapon of choice used by advocacy and public-education NGOs in order to change people's actions and behaviors. They strategically construct messages to not only shape behavior, but to also socially mobilize communities in promoting social, political, or environmental changes.

### **3.5.2 World NGO Day**

World NGO Day is observed annually on 27 February. It was officially recognised and declared on 17 April 2010 by 12 countries of the IX Baltic Sea NGO Forum to the 8th Summit of the Baltic Sea States in Vilnius, Lithuania. The World NGO Day was internationally marked and recognised on 27 February 2014 in Helsinki, Finland by Helen Clark, Administrator of the United Nations Development Programme (UNDP) and Former Prime Minister of New Zealand who congratulated with the World NGO Day and highlighted the importance of NGO sector for the UN through her speech.

### **Critiques on NGOs**

Issa G. Shivji is one of Africa's leading experts on law and development issues as an author and academic. His critique on NGOs is found in two essays: "Silences in NGO discourse: The role and future of NGOs in Africa" and "Reflections on NGOs in Tanzania: What we are, what we are not and what we ought to be". Shivji argues that despite the good intentions of NGO leaders and activists, he is critical of the "objective effects of actions, regardless of their intentions". Shivji argues also that the sudden rise of NGOs is part of a neoliberal paradigm rather than pure altruistic motivations. He is critical of the current manifestations of NGOs wanting to change the world without understanding it, and that the imperial relationship continues today with the rise of NGOs.

James Pfeiffer, in his case study of NGO involvement in Mozambique, speaks to the negative effects that NGO's have had on areas of health within the country. He argues that over the last decade, NGO's in Mozambique have "fragmented the local health system, undermined local control of health programs, and contributed to growing local social inequality". He notes further that NGO's can be uncoordinated, creating parallel projects among different organizations, that

pull health service workers away from their routine duties in order to serve the interests of the NGO's. This ultimately undermines local primary health care efforts, and takes away the governments' ability to maintain agency over their own health sector. J. Pfeiffer suggested a new model of collaboration between the NGO and the DPS (the Mozambique Provincial Health Directorate). He mentioned the NGO should be 'formally held to standard and adherence within the host country', for example reduce 'showcase' projects and parallel programs that proves to be unsustainable.

Another criticism of NGOs is that they are being designed and used as extensions of the normal foreign-policy instruments of certain Western countries and groups of countries. Russian President Vladimir Putin made this accusation at the 43rd Munich Conference on Security Policy in 2007, concluding that these NGOs "are formally independent but they are purposefully financed and therefore under control". Also, Michael Bond wrote "Most large NGOs, such as Oxfam, the Red Cross, Cafod and Action Aid, are striving to make their aid provision more sustainable. But some, mostly in the US, are still exporting the ideologies of their backers." China has recently introduced legal measures to regulate and reduce the influence of foreign NGOs operating in China.

NGOs have also been accused of using white lies or misinformed advice to enact their campaigns, i.e., accusations that NGOs have been ignorant about critical issues because, as chief scientist at Greenpeace Doug Parr said, these organizations appear to have lost their efforts in being truly scientific and now seem to be more self-interested. Rather than operating through science so as to be rationally and effectively practical, NGOs have been accused of abusing the utilization of science to gain their own advantages. In the beginning, as Parr indicated, there was "a tendency among our critics to say that science is the only decision-making tool ... but political and commercial interests are using science as a cover for getting their way." At the same time, NGOs can appear to not be cooperative with other groups, according to the previous policymaker for the German branch of Friends of the Earth, Jens Katjek. "If NGOs want the best for the environment", he says, "they have to learn to compromise."

### **Challenges to Legitimacy of NGOs**

The issue of the legitimacy of NGOs raises a series of important questions. This is one of the most important assets possessed by an NGO, it is gained through a perception that they are an —independent voice|. Their representation also emerges as an important question. Who bestows responsibilities to NGOs or INGOs and how do they gain the representation of citizens and civil society is still not scrutinized thoroughly. For instance, in the article, it is stated, "To put the point starkly: are the citizens of countries of the South and their needs represented in global civil society, or are citizens as well as their needs constructed by practices of representation? And when we realize that INGOs hardly ever come face to face with the people whose interests and problems they represent, or that they are not accountable to the people they represent, matters become even more troublesome."

The origin of funding can have serious implications for the legitimacy of NGOs. In recent decades NGOs have increased their numbers and range of activities to a level where they have become increasingly dependent on a limited number of donors. Consequently, competition has increased for funding, as have the expectations of the donors themselves. This runs the risk of donors adding conditions which can threaten the independence of NGOs; for example, an overdependence on official aid has the potential to dilute —the willingness of NGOs to speak out on issues which are unpopular with governments|. In these situations NGOs are being held accountable by their donors, which can erode rather than enhance their legitimacy, a difficult challenge to overcome. Some commentators have also argued that the changes in NGO funding sources have ultimately altered their functions.

NGOs have also been challenged on the grounds that they do not necessarily represent the needs of the developing world, through diminishing the so-called —Southern Voice|. Some postulate that the North–South divide exists in the arena of NGOs. They question the equality of the relationships between Northern and Southern parts of the same NGOs as well as the relationships between Southern and Northern NGOs working in partnerships. This suggests a division of labour may develop, with the North taking the lead in advocacy and resource mobilisation whilst the South engages in service delivery in the developing world. The potential implications of this may mean the needs of the developing world are not addressed appropriately as Northern NGOs do not

properly consult or participate in partnerships. The real danger in this situation is that western views may take the front seat and assign unrepresentative priorities.

The flood of NGOs has also been accused of damaging the public sector in multiple developing countries, e.g. accusations that NGO mismanagement has resulted in the breakdown of public health care systems. Instead of promoting equity and alleviating poverty, NGOs have been under scrutiny for contributing to socioeconomic inequality and disempowering services in the public sector of third world countries.

The scale and variety of activities in which NGOs participate has grown rapidly since the 1980s, witnessing particular expansion in the 1990s. This has presented NGOs with a need to balance the pressures of centralization and decentralization. By centralizing NGOs, particularly those that operate at an international level, they can assign a common theme or set of goals. Conversely it may also be advantageous to decentralize as this can increase the chances of an NGO responding more flexibly and effectively to localized issues by implementing projects which are modest in scale, easily monitored, produce immediate benefits and where all involved know that corruption will be punished.

### **Self-Assessment Exercises 3**

Question 1: What is the historical significance of NGOs and their evolution?

Question 2: How do NGOs influence global affairs?



### 3.6 SUMMARY

In this unit, you have learnt about non-governmental organizations (NGOs) with particular reference to the classification of NGOs, legal forms of NGOs, operational and advocacy activities of NGOs, the roles of NGOs, corporate structure of NGOs, history of international non – governmental organization, influence of NGOs upon World Affairs, World NGO Day critiques on NGOs, and challenges of legitimacy of NGOs.



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### **3.8 POSSIBLE ANSWERS TO SELF-ASSESSMENT EXERCISE(S) WITHIN THE CONTENT**

#### **SAE 1**

##### **1. What are the main orientations of NGOs, and how do they differ?**

**Answer:** NGOs can have different orientations based on their activities:

- **Charitable Orientation:** Focuses on providing aid to the poor with little input from beneficiaries. It is often top-down and paternalistic.
- **Service Orientation:** Provides services like health or education designed by the NGO, with beneficiaries expected to participate in receiving these services.
- **Participatory Orientation:** Involves local people in self-help projects, with beneficiaries actively participating in the planning and implementation stages.



- **Empowering Orientation:** Aims to help people understand and influence the social, political, and economic factors affecting their lives, with a high level of beneficiary involvement and NGOs acting as facilitators.

## 2. What are the different levels at which NGOs operate, and what characterizes each level?

**Answer:** NGOs operate at various levels:

- **Community-Based Organizations (CBOs):** Arise from local initiatives to address community-specific issues and provide services.
- **City-Wide Organizations:** Include broader coalitions and associations, such as chambers of commerce or city-based groups.
- **National NGOs:** Operate across an entire country and may have state or city branches, assisting local NGOs.
- **International NGOs:** Work on global issues and operate across multiple countries, such as organizations like Save the Children and Oxfam. They often fund and implement projects internationally.

## SAE 2

### 1. How do operational and advocacy activities intersect in NGOs?

**Answer:** Many NGOs use a combination of operational and advocacy activities to achieve their goals. Operational NGOs might engage in advocacy to address recurring issues they encounter in their fieldwork, aiming to influence policy changes. Conversely, advocacy NGOs, such as those focused on human rights, often have programs that directly assist individuals affected by the issues they advocate for. This dual approach helps NGOs address immediate needs while working toward broader systemic changes.

### 2. What are some challenges related to the funding and management of NGOs?

**Answer:** NGOs face several challenges related to funding and management:

- **Funding:** NGOs often rely on a mix of membership dues, private donations, grants, and government funding. While government funding can be substantial, it may also lead to concerns about the organization's independence. Large NGOs, such as the American Association of Retired Persons (AARP), may have budgets in the hundreds of millions, requiring significant fundraising efforts.
- **Overhead Costs:** High overhead costs, including office expenses and salaries, can lead to criticism and make it harder to attract funding. Ideally, NGOs should spend a large portion of their budget on programs rather than overhead. For example, the World Association of Non-Governmental Organizations suggests that more than 86% of funds should go towards programs, with less than 20% on overhead.
- **Monitoring and Control:** NGOs must adhere to various monitoring and reporting requirements from governments and funders. Additionally, the collaboration between NGOs and corporations can lead to potential conflicts of interest and risks of co-optation. Ensuring transparency and accountability is crucial for maintaining trust and effectiveness.

### SAE 3

#### 1. What is the historical significance of NGOs and their evolution?

**Answer:** International NGOs have a history dating back to the late 18th century and were pivotal in movements such as anti-slavery and women's suffrage. The term "non-governmental organization" gained prominence with the establishment of the United Nations in 1945, which included provisions for consultative roles for such organizations. The definition of "international NGO" was formalized in 1950 by ECOSOC. The influence of NGOs grew with the rise of globalization and the need for international cooperation on humanitarian and developmental issues. Notable events, like the Earth Summit in 1992 and the World Social Forum, highlighted their role in global discussions. The NGO sector expanded rapidly due to the inadequacies of traditional global structures and has since been instrumental in addressing issues that cross national boundaries.

## 2. How do NGOs influence global affairs?

**Answer:** NGOs exert influence in several ways:

- **Service Delivery NGOs:** Provide essential services and public goods in areas where governments lack resources, sometimes collaborating with local government agencies to reduce costs.
- **Capacity-Building NGOs:** Improve accountability and effectiveness in Southern NGOs, impacting organizational culture, structure, and operations.
- **Advocacy and Public Education NGOs:** Use strategic communication to shape behaviors and mobilize communities for social, political, or environmental change.