COURSE GUIDE

ENT 202
INTRODUCTION TO ENTREPRENEURIAL VENTURES

Course Team Dr. Cletus Akenbor – (Course Writer)
Department of Business Administration
Faculty of Management Sciences
Federal University, Otuoke

Prof. Bello Sabo - (Course Editor)
Department of Business Administration
Faculty of Administration
Ahmadu Bello University, Zaria

Dr. Lawal Kamaldeen A.A (H.O.D)
Department of Entrepreneurial Studies
Faculty of Management Sciences
National Open University of Nigeria

Dr. Timothy Ishola (Dean)
Faculty of Management Sciences
National Open University of Nigeria

NATIONAL OPEN UNIVERSITY OF NIGERIA

National Open University of Nigeria
Headquarters
University Village
Plot 91 Cadastral Zone
Nnamdi Azikiwe Expressway
Jabi, Abuja.

Lagos Office
14/16 Ahmadu Bello Way
Victoria Island, Lagos

e-mail: centralinfo@noun.edu.ng
URL: www.noun.edu.ng

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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 and tutor-marked questions.

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
- Assignment Guide

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 tutor-marked assignments.

THE MODULES

The course is divided into four modules.

ASSIGNMENT

Each unit consists of at least one assignment which you are expected to do.

ASSIGNMENT

TUTOR-MARKED ASSIGNMENT

You are expected to apply what you have learnt in the contents of the study unit to do the assignments and send them to your tutor for grading.

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

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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

CONTENTS

1.0 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.

2.0 OBJECTIVES

At the end of this unit, 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

3.0 MAIN CONTENTS

3.1 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 distinguishing characteristic of the social venture versus the business venture is the primacy of their objective to solve social problems and provide social benefits. The social venture may generate profits, but that is not its focus. Rather profits are a possible means to achieve sustainability in providing a social benefit. The problems addressed by social ventures cover the range of social issues, including poverty, inequality, education, the environment, and economic development. The context in which social ventures operate is very complex as they are trying to bring about solutions where markets or governments may have failed or actually impede solutions. Further, these ventures are trying to provide solutions where money is usually in short supply—often these ventures have little assurance that their services can be paid for by those they seek to serve (Martin and Osberg, 2007). These conditions necessitate that the social entrepreneur be creative, adaptable, and determined in finding new solutions to problems.

3.2 Scope of Business/ Social Ventures

The scope of business or social venture 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 two 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:

3.2.1 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, brides, 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.

3.2.2 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.

3.2.3 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. 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 us covered by insurance.

Warehousing: Warehousing is a kind of storeroom. Nowadays most of the goods are produce 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.

4.0 CONCLUSION

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 while 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. Whether as a business or a social venture the scope of activities is well defined. This scope involves the industrial sector, commercial sector, and service sector.

5.0 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).

6.0 TUTOR-MARKED ASSIGNMENT

1. Differentiate between business and social venture
2. Explain the scope of business/social venture

7.0 REFERENCES/ FURTHER READING

Elkington, J. & Hartigan, P. (2007). The power of unreasonable people: How Social Entrepreneurs Create Markets that Change the World. Boston, MA: Harvard Business School Press.

Martin, R. & Osberg, S. (2007). Social entrepreneurship: The Case for Definition. Stanford Social Innovation Review, Spring:28-39.

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UNIT 2 CHARACTER OF VENTURES

CONTENTS

1.0 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.

2.0 OBJECTIVE

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

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

3.0 MAIN CONTENT

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. Entrepreneurial influence diminished and ventures all seem to have suffered from the inability of the primary entrepreneurs to nurture them on a full-time or long-run basis. In most other cases, however, where entrepreneurs were able to concentrate their attentions on their ventures over a substantial period, the enterprises struggled much less and remained truer to original purposes. 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.

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 resemble independents but are somewhat less reliable in terms of 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.

The long-term commitment to a venture's initial rationale or mission, compared with its economic well-being, provides a contrast not only between the believer and the architect, but also among other types as well. In particular, the independent and the controller will strive to maintain economic viability, showing flexibility of mission where necessary. To the contrary, conservers may resemble believers somewhat in their commitment to original purpose; conservers are strongly concerned about the maintenance of both mission and economic stability.

3.2 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? The answer is no, the entrepreneurial types may be characterized according to their degrees of short-term commitment for a given venture. However, this venture-specific notion must be distinguished from general commitment to enterprising.

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. Such ventures are kept relatively small and controlled, studied intently, described at professional conferences, and written up in the literature. Given the changing currents of disciplinary thinking, however, a particular venture is unlikely to command professional attention for very long. New schools of thought or innovative ideas gradually but continually emerge, requiring the professional to move on to new forms of experimentation within a relatively short time.

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. Professionals will also behave this way, to a more limited extent, preferring to establish, oversee, contemplate, evaluate, and publicize ventures rather than directly administer them. As a result, programs and agencies established by poets or professionals will tend to lose their initial flavor after a while. Such ventures will either founder after their entrepreneurs move on or they will shed their innovative, experimental tone as more conventional management assumes long-term responsibility.

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.

4.0 CONCLUSION

Organizations that attract entrepreneurs of the believer, independent, controller, conserver, or architect varieties are likely to exhibit long-term behavior consistent with original

entrepreneurial motivations. This behavior will consist of: agencies exhibiting long-term, relatively rigid mission orientations (believers); small to moderately sized (or decentralized) groups of stable, insulated agencies (independents and controllers); conservative, old-line, stable agencies (conservers); growing, expansive, dynamic agencies with multiple programs adaptive to the current economic environment (architects). But organizations that attract income seekers, players, poets, and professionals will exhibit more dynamic short-run behavior but less consistency and stability over the long run than organizations that attract other types. Specifically, organizations that attract income seekers and players will be faster to respond to economic opportunities, but also faster to modify and abandon ventures as the external structure of opportunities changes. Hence agencies in organizations with these types of entrepreneurs are likely to undergo substantial fluctuations of both nominal purpose and economic well-being.
Organizations that attract professionals and poets will be fast to shape and develop new ideas and translate them into working programs. However, such sectors are not likely to exhibit very long-term commitments to such programs, but rather will move slowly from one set of ideas to another over time.

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 on the profit sector. However, this overall pattern is by no means rigid.

5.0 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.

6.0 TUTOR- MARKED ASSIGNMENT

1. What character of venture is common in business enterprises?
2. Explain the major factor that determines the character of an entrepreneur?
3. Explain what you understand about the following characters of ventures:

- Independents
- Believers
- Conservers
- Architects
- Controllers
- Income seekers and players
- Professional
- Poets
- Searcher

7.0 REFERNCES/FURTHER READING

Kimberly, J.R. (1979). Issues in the creation of organizations: Initiation, Innovation and Institutionalization, Academy of Management Journal, December

Drucker, P.F (1973). Managing the public service institution. The Public Interest, Fall.

Cornuelle, R.C. (1964). Reclaiming the American dream. Westminster Md.: Random House.

UNIT 3 FORMS OF BUSINESS OWNERSHIP

CONTENTS

1.0 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.

2.0 OBJECTIVES

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

- understand the forms of business ownership

- differentiate between corporate and non corporate business

- understand the contents of a partnership deed or article of partnership

- explain the process of company's formation

- know the different forms of share capital

3.0 MAIN CONTENT

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.

3.1.1 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 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 looses 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.

3.1.2 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 l4days 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 hot 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 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 shade in the partnership assets when the is terminated.

10. The liability of a partner ea n 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.

3.2 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.

3.2.1 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 loose 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 les 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.

3.2.2 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 organisation 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.
vii. 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.

3.3 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.

3.3.1 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.

3.3.2 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.

3.3.3 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 share holding 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 concern 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.

3.3.4 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.

3.4 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 Affair 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 capita.

3. Called — Up Capita: 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 celled reserve capital. The subscribers are made to pay the balance according to the requirement of the firm.

3.5 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.

4.0 CONCLUSION

In setting up a business, it is important to establish clearly and precisely who the legal owner of the business is in order to determine who is to benefit or suffer from the activities of the business. On this note, the forms of business ownership are broadly classified as non corporate business and corporate business. The non corporate business includes sole proprietorship and partnership while the corporate business is made up of private corporation and public corporation. The private corporation is formed and owned by individuals or group of individuals but public corporation is owned by the government. The choice of the form of business ownership is one of the basic decisions the entrepreneur must make, which is subject to different government regulations and tax provisions.

5.0 SUMMARY

In this unit, you have learnt about different forms of business ownership including their merits and demerits, how they are formed and managed, and how they are amalgamated.

6.0 TUTOR-MARKED ASSIGNMENT

1. Differentiate between corporate and non corporate business.

2. List the contents of a partnership deed or article of partnership

3. Explain the process of company's formation

4. What is share capital? Explain the different forms of share capital

5. Explain what you understand by company amalgamation

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UNIT 4: ORGANIZATION AND MANAGEMENT

CONTENTS

1.0 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.

2.0 OBJECTIVE

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

- understand the development of organization

- know why we study organization and management

- explain time and human relation management

- explain the management process

3.0 MAIN CONTENT

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.

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.

3.3 Why Study Organizations and Management

In a world where organizations are everywhere, there are three compelling reasons for studying them and the practice of management. In each case—involving the past, present, and future—the effects of people collaborating as an organization, under the guidance of managers, can be far-reaching.

Living in the Present

Organizations contribute to the present standards of living of people worldwide. We rely on organizations daily for food, shelter, clothing, medical care, communications, amusement, and employment. The Red Cross, for example, is an organization that is particularly focused on the present as it offers assistance to specific groups of people in times of need.

Building the Future

Organizations build toward a desirable future and help individuals do the same. New products and practices are developed as a result of the creative power that can emerge when people work together in organizations. Organizations have an impact—positive or negative—on the future status of our natural environment, on the prevention and treatment of disease, and on war around the globe. In this text we will 'discuss a number of organizations that are addressing concerns about the future in their products and practices, such as Tom's of Maine, which produces a line of all-natural personal-care products with environmentally sensitive packaging.

Remembering the Past

Organizations help connect people to their pasts. Organizations can be thought of as patterns of human relationships. Every day that we work with others adds to the history of the organization and to our own history. We often define ourselves in terms of the organizations we have been a part of—whether schools, teams, political groups, or businesses. In addition, organizations maintain records and value their own history, keeping traditions alive in our minds. Often it is through the records and history of organizations that we know about the past.

3.4 Time and Human Relationships 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.

3.5 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. In the rest of this section, we will briefly describe these four main management activities and how they involve relationships and time.

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 customers' needs is a primary concern.

Relationships and time are central to controlling activities. The reason managers must worry about control is that, over time, the results of organized relationships do not always work out as planned.

4.0 CONCLUSION

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. It consists of people with a purpose; people interacting in groups; people using knowledge and techniques; and people working together in patterned relationships. Management on other hand involves the coordination of human and material resources toward objective accomplishment. It is a mental work performed by people in an organization.

The study of organization and management contribute to the present standards of living of people worldwide. It builds toward a desirable future and help individuals do the same and it helps connect people to their pasts. Management as a process is a systematic way of doing things. It entails planning, organizing, directing, and controlling.

5.0 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.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain how organization develops
2. Explain the relationship between organization and Management
3. Why do we study organization and management
4. Explain the management process
5. What is the nexus between time and human relations management?

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MODULE 2

UNIT 1 THE MARKETING FUNCTION

CONTENTS

1.0 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 Drunker 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.

2.0 OBJECTIVE

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

- know the difference between market research and marketing research
- explain the marketing concept
- understand the marketing mix variables

3.0 MAIN CONTENT

3.1 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.

Therefore, the marketing activity that is concern 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. Marketing research on the other hand is concerned with product and customer's analysis. It encompasses the analysis of product quality, price, promotion, distribution and information on customers.

3.2 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 lie 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 objec1tive.

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.

3.3 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 naira. 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 mad 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

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.

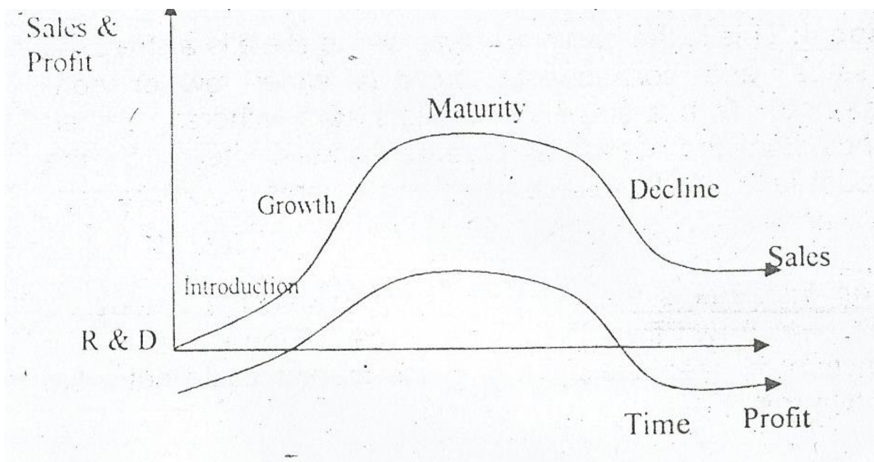
Formal Product: The formal product is the physical nature of a product upon which competition is made. The attributes of the formal product include — designs, brand name, packaging, quality and features. A manufacturer could use any of these features to differentiate his product from competitors. Product 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.

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, Still and Govoni (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.

3.4 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 biding 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 sellers product. This is also known as trade discount.

3.5 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-1o-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 4argeted 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.

3.5 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 hard 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.

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.

4.0 CONCLUSION

Marketing is the identification of the needs and wants of the consumers and satisfying them profitably. It is a fundamental function of a business because it detects the way production and other functions should follow. 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. The tools that are to be used to achieve marketing objectives are analysis of the product, price, place, and promotion. These tools are commonly described as the four ps of marketing.

5.0 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.

6.0 TUTOR – MARKED ASSIGNMENT

1. Explain the difference between market research and marketing research
2. What do you understand by the marketing concept?
3. Every promotion programme is aimed at achieving certain objectives. Discuss
4. Briefly explain the evolution of marketing

5. What do you understand by the marketing mix variables?

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UNIT2 PRODUCTION FUNCTION

CONTENTS

1.0 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.

2.0 OBJECTIVE

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

- know the elements of production
- understand the objectives of production
- know and understand the production methods
- identify the stages of production planning and control
- understand the factors influencing selection of plant location

3.0 MAIN CONTENT

3.1 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.

3.2 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.

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.

3.3 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 an 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.

3.4 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.

3.5 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.

4.0 CONCLUSION

Production is the transformation of inputs into finished goods through the configuration of men and machines. The essential features of the production function 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.

5.0 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.

6.0 TUTOR-MARKED ASSIGNMENT

1. Mention and explain the elements of production
2. Explain the various methods of production
3. What is production planning and control? Highlight the stages of production
4. What are the determinants of plant location?

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UNIT 3 FINANCE AND ACCOUNTING FUNCTION

CONTENTS

1.0 INTRODUCTION

Simply put finance means funds. In a monetarized 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.

2.0 OBJECTIVE

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

- understand the financing, investment, and dividend decisions of an enterprise

- know the difference between book-keeping and accounting

- explain accounting assumptions and principles

- understand the classification of account

- know the various books of account

- know the components of financial statements

3.0 MAIN CONTENT

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

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

(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

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

(b) Debt-to-Equity

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

(c) Assets Leverage

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

(d) Financial Coverage

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

(e) Ratio of Earnings to Fixed Charges

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

(f) Debt service coverage

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

(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 $\dfrac{\text{Revenue/ Turnover}}{\text{Current Assets}}$

(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 = $\dfrac{\text{lnventory}}{360}$

(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

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

(g) Average Payment Period

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

(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

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

(c) Net Profit Margin

$$\frac{\text{Net Income}}{\text{Net Revenue}}$$

(d) Operating Return on Assets

$$\frac{\text{Income before Interest}}{\text{Shareholders' Equity}}$$

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 "stockin" and stockout" 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.

3.2 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.

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

(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.

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.

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

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 a 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 success". 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.

3.3 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 divided.

(iv) Payment of gross or net divided 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 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 debt 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 book-keeping 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.

3.5 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 state s 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 managem3nt.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 double-entry form as advocated in 1494 by Monk, Luca Pacioli the father of double- entry book-keeping. 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.

3.6 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 of' are rent, wages and salaries, discount allowed, insurance, rates etc. Common examples of revenues are discount received, interest on deposit, commission received etc.

3.7 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.

3.8 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.

4.0 CONCLUSION

Finance and accounting play a very significant role in the management of an enterprise. The finance and accounting function include sources and application of fund, supervising cash receipts and payments; safeguarding cash receipts; safeguarding documentary and material valuable; ensuring that appropriate books of account are maintained, keeping adequate records of all transactions ; and reporting appropriately and adequately through financial statements to interested parties.

5.0 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.

7.0 TUTOR-MARKED ASSIGNMENT

1. Explain the financing and investment ethics of finance function
2. What is the nexus between finance and accounting
3. Explain the modern portfolio theory and capital asset pricing model of investment decision.
4. Mention users of accounting information and categorize them into internal and external users.
5. Discuss the components of financial statements

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UNIT 4 HUMAN RESOURCE FUNCTION

CONTENTS

1.0 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.

2.0 OBJECTIVE

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

- understand the approaches to management of human resources
- explain the procurement of personnel
- discuss the training and development of personnel
- know the meaning of integration of personnel
- explain the maintenance of personnel

3.0 MAIN CONTENT

3.1 Approaches to the Management of Human Resources

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.

3.2 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. Hence Cole (1996) described recruitment as the marketing role of personnel.

(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 number, and the job candidate. It is used in discovering tile 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.

3.3 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 n 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 1ob 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. - .

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.

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.

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.

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 uplift- ment 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.

3.4 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.

3.5 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.

4.0 CONCLUSION

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.

5.0 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.

6.0 TUTOR-MARKED ASSIGNMENT

1. What is the nexus between recruitment and selection in manpower planning?
2. Discuss the positive and negative mobility of labour.
3. What is training and development? Explain the types of training known to you.
4. What is integration and how can managers integrate employees into the organization?

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MODULE 3

UNIT 1 GOVERNMENT AND BUSINESS

CONTENTS

1.0 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.

2.0 OBJECTIVE

3.0 MAIN CONTENT

3.1 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.

3.2 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.

3.3 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, them 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.

3.4 Role of Government in Business

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.

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 agenc 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.

4.0 CONCLUSION

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.

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. 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.

5.0 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.

6.0 TUTOR- MARKED ASSIGNMENT

1. Explain the relationship between government and business with particular emphasis on their roles.
2. In what ways can the government exercise its authority over a business?

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UNIT 2 THE SOCIAL RESPONSIBILITY OF BUSINESS

CONTENTS

1.0 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.

2.0 OBJECTIVE

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

- know the areas a business should be made to be socially responsible

- understand the argument between the social ethic and the profit ethic

- explain the factors responsible for the neglect of social responsibility by the Nigerian business.

3.0 MAIN CONTENT

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.

3.2 Profit and Social Ethics of Social Responsibility

Different scholars have expressed divergent views on the concept of social responsibility. Some argued that a business should not be socially responsible while others posit the need for business to be socially responsible. Those who take the view that a business should be socially responsible are motivated by what they called the profit ethic, while those that argue that a business should be socially responsible are motivated by the social ethic.

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.

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.

3.4 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 pre-occupation 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.

4.0 CONCLUSION

The notion of social responsibility has grown out of the alternations that have taken place in the social contract. 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. It is because of these problems that most groups are calling on businesses to be socially responsible. But the classical view led by Milton Friedman argues that social issues are not the immediate concern of a business and that these problems should be resolved by the unfettered workings of the free market system.

5.0 SUMMARY

In this unit, you have learnt about the areas a business should be made to be socially responsible**,** argument between the social ethic and the profit ethic**,** and the factors responsible for the neglect of social responsibility by the Nigerian business.

6.0 TUTOR – MARKED ASSIGNMENT

1. What area (s) can a business be socially responsible to the society?

2. What factors the influence social responsibility of Nigerian businesses?

3. Which ethic of social responsibility would you support as a manager in the Nigerian business environment?

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UNIT 3 INTERNATIONAL BUSINESS

CONTENTS

1.0 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, Niger a) 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 Ebranhami (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.

2.0 OBJECTIVE

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

- know the meaning of international business
- understand the evolution of international business
- know the reasons for international business
- identify methods of international business
- understand principles of international trade
- explain the meaning of balance of trade and balance of payment
- explain the strategy for international business
- understand government trade policy and the instruments that are used in trade policy

3.0 MAIN CONTENT

3.1 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.

3.2 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 "prove" 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 I950s 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 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.9 The exporter, however, retains the title to the products during shipment and until they are sold.1°

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.'4

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.

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.

	Nigeria	**Brazil**
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.

3.5 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.

3.6 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 unifying strategy epitomizes the basic rationale for the existence of the MNE in the first place. There is the strength embodied in the various capabilities available within the parent company, notably its technological competence, its managerial know-how, and its productive facilities. These capabilities are most effectively drawn up to strengthen the operations of overseas units when the activities of these units fall into the same pattern. On the assumption of substantial interchange among the units of the parent company and a high degree of uniformity, the unification strategy treats the different countries as one modular 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.

3.7 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, Al 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.

3.8 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.

Aukarky or National Self-Sufficiency: A full autarkic policy aims to rid the nation fall 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 ha protectionist effects regardless of its

Economic Development: 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.

3.8 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 and 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 of import quota 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 6ne 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 hr: staples.

c) To prevent surpluses on national or on international basis to achieve production and price stability.

4.0 CONCLUSION

No nation is self-sufficient. It must depend on other nations for its survival. One way of achieving this is international business, which involves all business activities between citizens, companies, and governments of two or more countries. It may include goods, services, investments and monetary transactions. A company engages in international business when it buys any of the inputs for the production of its goods or services from, or sells some portion of its output to, another country. Various methods are available in doing business abroad, such as exporting, licensing arrangement, manufacturing and distribution, joint venturing, contract manufacturing, management contract, and assembly operation. The basic principle that underlies international business is specialization. This must be taken into consideration in going global.

5.0 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.

6.0 TUTOR MARKED ASSIGNMENT

1. Identify and discuss methods of international business operation

2. Explain with illustrations, what you understand by the principle of absolute and comparative advantage.

3. What factors determine the fragmentation or unification of operational policy in international business?

4. What is government trade policy? Identify the instruments of trade policy and mention the goals that government may achieve with its trade policy.

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UNIT 4 PROBLEMS OF NIGERIAN ENTERPRISES

CONTENTS

1.0 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 investments, 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.

2.0 OBJECTIVE

At the end of this unit, you should be able to enumerate and explain the problems of Nigerian enterprises.

3.0 MAIN CONTENT

3.1 Problems of Nigerian Enterprises

Below are the various problems or challenges that an entrepreneur or investor who is doing business in Nigeria could face.

1. Lack of Enabling Environment and Infrastructure

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.

2. Poor Power Supply

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.

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.

3. Poor Transportation Network

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.

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.

4. Lack of Access to Funds

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.

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.

5. Inadequate Government Support

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.

6. Bureaucracy in Government Services

There are a lot of bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government.

7. Unfair Trade Practices

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.

8. Foreign Exchange Rate Fluctuation and Unfavourable Weather Conditions

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.

9. Lack of Entrepreneurial Skills and Cash Economy

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.

10. Poor Accounting Records and Auditing

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.

11. Militancy, Religious Crises and Social Unrests

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.

4.0 CONCLUSION

Entrepreneurship is the engine of growth in any economy. In Nigeria, the growth of enterprises are stunted as a result of certain problems, which include lack of enabling environment and infrastructure, poor power supply, poor transportation network, lack of access to funds, inadequate government support, bureaucracy in government services, unfair trade practices, foreign exchange rate fluctuation and unfavourable weather condition, lack of entrepreneurial skills and cash economy, poor accounting records and auditing, and militancy, religious crises, and social unrests.

5.0 SUMMARY

In this unit, you have learnt about the problems of Nigerian enterprises. Some of which are environmental, political, economic, technological and managerial.

5.0 TUTOR - MARKED ASSIGNMENT

1. Enumerate and explain the problems of the Nigerian enterprises?

2. The major problem of Nigerian enterprises is poor power supply. Discuss.

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MODULE 4

UNIT 1 THE CONCEPT OF SOCIAL GOODS

CONTENTS

1.0 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.

2.0 OBJECTIVE

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

- understand the characteristics of social goods
- explain the relationship between social good and market failure
- explain the free rider situation

3.0 MAIN CONTENT

3.1 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" — 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" 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 goods.

3.2 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.

3.3 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 non-payers 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 Samuleson. 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 relaying on potential competition in the market in a way to minimise 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.

4.0 CONCLUSION

Social good is that good which once produced, can be consumed by an additional consumer at no additional cost while the consumers cannot be excluded from consuming the social good once it is produced. Examples of social goods include free-to-air television, fresh air, knowledge, national security, flood control systems and street lighting. Social goods possess three major characteristics, which are inclusiveness, zero increment or marginal costs, and spill-over effects. They are produced by the government because a market failure has occurred. Market failure, exists when the system fails to function properly and the following conditions exist: non-competitive markets, information asymmetries, resource immobility, and prices do not reasonably reflect the costs of production. 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.

5.0 SUMMARY

In this unit, you have learnt about: the characteristics of social goods, the social good and market failure, and the free rider situation.

6.0 TUTOR - MARKED ASSIGNMENT

1. Explain the concepts of social good and market failure
2. What are the conditions responsible for market failure?
3. What do you understand by free rider situation?

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UNIT 2 THE CREATION OF SOCIAL NETWORKS

CONTENTS

1.0 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.

According to Boyd and Ellison's (2007) article, "Why Youth (Heart) Social Network Sites: The Role of Networked Publics in Teenage Social Life", social networking sites share a variety of technical features that allow individuals to: construct a public/semi-public profile, articulate a list of other users that they share a connection with, and view their list of connections within the system. The most basic of these are visible profiles with a list of "friends" who are also users of the site. In an article entitled "Social Network Sites: Definition, History, and Scholarship," Boyd and Ellison adopt Sunden's (2003) description of profiles as unique pages where one can "type oneself into being". A profile is generated from answers to questions, such as age, location, interests, etc. Some sites allow users to upload pictures, add multimedia content or modify the look and feel of the profile. Others, e.g., Facebook, allow users to enhance their profile by adding modules or "Applications". Many sites allow users to post blog entries, search for others with similar interests and compile and share lists of contacts. User profiles often have a section dedicated to comments from friends and other users. To protect user privacy, social networks typically have controls that allow users to choose who can view their profile, contact them, add them to their list of contacts, and so on.

There is a trend towards more interoperability between social networks led by technologies such as OpenID and OpenSocial. In most mobile communities, mobile phone users can now create their own profiles, make friends, participate in chat rooms, create chat rooms, hold private conversations, share photos and videos, and share blogs by using their mobile phone. Some companies provide wireless services that allow their customers to build their own mobile community and brand it; one of the most popular wireless services for social network is Facebook Mobile.

2.0 OBJECTIVE

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

- know the historical development of social network
- understand the features of social network
- know the types of social network services
- identify common social media sites
- understand the uses of social network
- explain the emerging trend in social network
- understand the social networks areas of application
- discuss the issues and challenges of social networks
- explain the platforms for creation of social network

3.0 MAIN CONTENT

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. Orkut became the first popular social networking service in Brazil (although most of its very first users were from the United States) and quickly grew in popularity in India (Madhavan, 2007). 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.

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:

2. Social networking services are Web 2.0 internet-based applications
3. User-generated content (UGC) is the lifeblood of SNS organisms
4. Users create service-specific profiles for the site or applications that are designed and maintained by the SNS organization and
5. 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.

3.3 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 Net work: 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).

3.4 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.

3.5 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 Analysi. 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. There 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 it wider than just other scientists.

3.6 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.

3.7 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 it 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.[186]

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).

3.8 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)[123] 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 moment".

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".

3.9 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 "popular" 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 network-specific 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 tenatively 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 Messanger.

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.

4.0 CONCLUSION

Social networks are complex systems consisting of nodes that can interact with each other and based on these activities the social relations are defined. The dynamics and evolution of social networks are very interesting but at the same time very challenging areas of research. Social networks are known to feature high clustering coefficient and friend-of-a-friend phenomenon. In online social network, although the clustering coefficient grows over time, it is lower than expected. Also the friend-of-a-friend phenomenon is missing. On the other hand, the length of the shortest paths is small starting from the beginning of the network existence so the small-world phenomenon is present. The data, from which the online social network were extracted, represents interactions between users from the beginning of the social networking site existence. The system, from which the data was obtained, enables users to interact using different communication channels and it gives additional opportunity to investigate multi-relational character of human relations.

5.0 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

6.0 TUTOR - MARKED ASSIGNMENT

1. What is social network? And what are its uses?
2. Highlight the issues and challenges of social networks
3. Explain the application of social network in government, business and social relationships.

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UNIT 3 NON-GOVERNMENTAL ORGANIZATIONS AND PRACTICE IN EVOLVING NON-PROFIT ORGANIZATIONS

CONTENTS

1.0 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, nonprevention, but not simply an opposition political party.

2.0 OBJECTIVE

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

- explain the classification of NGOs

- know the legal forms of NGOs

- understand the operational and advocacy activities of NGOs

- discuss the roles of NGOs

- know the corporate structure of NGOs

- know the history of International Non – Governmental Organization

- explain the influence of NGOs upon World Affairs

-know the significance of the World NGO Day

- discuss the critiques on NGOs

- identify the challenges of legitimacy of NGOs

3.0 MAIN CONTENT

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 Ducere 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).

3.2 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.

3.3 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 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.

3.5 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 5-7%. 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.

3.6 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 27of 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.

3.7 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.

3.8 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.

3.9 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.

Jessica Mathews wrote in Foreign Affairs in 1997: "For all their strengths, NGOs are special interests. The best of them … often suffer from tunnel vision, judging every public act by how it affects their particular interest". Since NGOs do not have to worry about policy trade-offs, the overall impact of their cause might bring more harm to society.

Vijay Prashad argues that from the 1970s "The World Bank, under Robert McNamara, championed the NGO as an alternative to the state, leaving intact global and regional relations of power and production."

Others argue that NGOs are often imperialists in nature, that they sometimes operate in a racialized manner in third world countries, and that they fulfill a similar function to that of the clergy during the high colonial era. The philosopher Peter Hallward argues that they are an aristocratic form of politics. He also points to the fact that NGOs like Action Aid and Christian Aid "effectively condoned the 2004 US backed coup" against an elected government in Haiti and argues that they are the "humanitarian face of imperialism". Popular movements in the global South such as the Western Cape Anti-Eviction Campaign in South Africa have sometimes refused to work with NGOs arguing that this will compromise their autonomy. It has also been argued that NGOs often disempower people by allowing funders to push for stability over social justice.

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 advise 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 policy-maker 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."

3.10 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 over-dependence 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.

4.0 CONCLUSION

A non-governmental organization (NGO) is 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. NGOs are highly diverse groups of organizations engaged in a wide range of activities, and take different forms in different parts of the world. Some may have charitable status, while others may be registered for tax exemption based on recognition of social purposes. Others may be fronts for political, religious, or other interests. NGOs are highly diverse groups of organizations engaged in a wide range of activities, and take different forms in different parts of the world. Some may have charitable status, while others may be registered for tax exemption based on recognition of social purposes. Others may be fronts for political, religious, or other interests. The number of NGOs worldwide is estimated to be 3.7 million.

One characteristic these diverse organizations share is that their non-profit status means they are not hindered by short-term financial objectives. Accordingly, they are able to devote themselves to issues which occur across longer time horizons, such as climate change, malaria prevention, or a global ban on landmines. Public surveys reveal that NGOs often enjoy a high degree of public trust, which can make them a useful – but not always sufficient – proxy for the concerns of society and stakeholders.

5.0 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.

6.0 TUTOR MARKED ASSIGNMENT

1. Discuss the classifications of NGO
2. What are the roles of NGOs?
3. Explain the challenges of NGOs in the Nigerian context.

7.0 REFERENCES/FURTHER READING

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